

UKLA Technical Note

Closed-ended investment funds with multiple share classes

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LR 15.2.7R,
LR 15.2.8G,
LR 15.4.1AR,
LR 15.4.2R and
LR 15.4.8R

A closed-ended investment fund must, at all times, invest and manage its assets in a way which is consistent with its objective of spreading investment risk and in accordance with its published investment policy (LR 15.4.2R). The investment policy required under LR 15.2.7R and LR 15.4.1AR is a written account of how the fund invests and manages its assets. A fund adopts self-imposed limits appropriate to its own investment strategy. The investment policy effectively acts as a risk management process, limiting and defining exposures a fund will have in relation to asset allocation, risk diversification and gearing. As set out in LR 15.2.8G (applied on an ongoing basis by LR 15.4.1AR), the published investment policy should be sufficiently precise and clear to enable an investor to assess the investment opportunity and identify how the objective of risk spreading is to be achieved. It should also enable an investor to assess the significance of proposed changes of the investment policy, some of which may require their consent (LR 15.4.8R).

LR 15 is designed to be compatible with a wide range of investment strategies and styles. As a fund can list more than one share class, an investor can invest in different classes of shares in the same fund. The investor must be able to assess the investment opportunity offered by each share class and identify how the objective of risk spreading is achieved in that share class. An investment policy that is sufficiently precise and clear should enable an investor to do this. When an investment policy is amended, a shareholder should be able to understand how that affects the particular share class invested in, if applicable.

Funds with multiple share classes vary, as do their investment policies.

For example, where a new class of shares is issued that is ultimately intended to convert into an existing class, we will commonly see investment policies that provide for conversion upon a certain level of investment of the funds attributable to the new class and include a statement that, post-conversion, shareholders will be exposed to a broader portfolio. For VCTs with multiple share classes, the investment policy may recognise the different point of investment to take into account tax legislation.

While we do not seek to be prescriptive in how a fund presents its investment policy, we would expect it to be sufficiently precise and clear to enable an investor to understand how funds are invested, and that in substance it ensures that a spread of investment risk is achieved for each share class.