

Primary Market Technical Note

Closed-ended investment funds with multiple share classes

The information in this note is designed to help issuers and practitioners interpret our UK Listing Rules, Prospectus Regulation Rules, Disclosure Guidance and Transparency Rules, and related legislation. The guidance notes provide answers to the most common queries we receive and represent FCA guidance as defined in section 139A FSMA

Rules

UKLR 15.2.7.11.2.8R, UKLR 15.2.811.2.9G, UKLR 15.4.111.4.4AR;
UKLR 15.4.211.4.6R, UKLR 15.4.811.4.14R

A closed-ended investment fund must, at all times, invest and manage its assets in a way that which is consistent with its objective of spreading investment risk and in accordance with its published investment policy (UKLR 15.4.211.4.64R). The investment policy required under UKLR 15.2.711.2.8R and UKLR 15.4.1A11.4.4R 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 UKLR 15.2.811.2.9G (applied on an ongoing basis by UKLR 15.4.1A11.4.4R), 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 investors to assess the significance of proposed changes of the investment policy, some of which may require their consent (UKLR 15.4.811.4.14R).

UKLR 115 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 so. 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 (usually designated as C shares) is issued which is ultimately intended to convert into an existing class, we will commonly see provision for the new money raised from the C shares to be invested in a separate pool of assets, but under the same investment policy as the existing shares. The C shares will convert when a specified level of investment of the funds attributable to the new class has been reached. Post-conversion, shareholders will be exposed to the broader portfolio and it is usually not necessary for the investment policy to have separate diversification limits for the C shares.

For VCTs with multiple share classes, the investment policy may recognise the different point of investment to take into account tax legislation. Where there are multiple share classes, for example as in some VCTs or protected cell companies, while we do not seek to be prescriptive in how the 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. We would be concerned if there are permanent share classes that invest in discrete pools of assets that are not diversified.