Investment Property Forum
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Consultation: Enabling investment in productive finance

The Investment Property Forum (IPF) welcomes the opportunity to respond to the above consultation.

IPF is a national membership organisation of senior professionals, all active in the property investment and finance market. The organisation has a diverse membership of around 2,000, which includes fund managers, investment agents, accountants, bankers, lawyers, researchers, academics, actuaries and other related professionals.

The IPF's Mission is to enhance the understanding and efficiency of property as an investment, including public, private, debt, equity and derivatives, for its members and other interested parties, including government. We are not a lobby organisation but one of our key priorities is to identify where legislation or regulation has, or will have, an impact on the market and to alert government and our members to any adverse or beneficial issues.

IPF Response

Q1a: Would adding performance-based fees to the list of charges which are outside the scope of the charge cap increase your capacity and appetite, as a DC scheme, to invest in assets like private equity and venture capital? Are you already investing in assets like private equity and venture capital, and if so would this change increase how much you invest? If you do not currently invest in such assets would this change make it more likely for you to, and do you have an idea of to what % of AUM that might be?

Q1b: Would adding performance-based fees from the list of charges which are outside of the scope of the charge cap incentivise private equity and venture capital managers to change their fee structures?

Q1c: If you do not believe that the proposal outlined in this consultation is the right solution to the barrier posed by the regulatory charge cap, what might be a more effective solution?

We support the government's proposals and believe that excluding performance fees from the charge cap will broaden the range of investments available to defined contribution pension schemes. We believe that carried interest and other performance-based fees should be regarded as a profit share rather than a fee. In addition to widening the choice of investments, we believe that greater access to products with fees that are based on performance will encourage trustees to pay more attention to understanding the performance of the products in which they invest.

Q2: How can we ensure members of occupational DC pension schemes invested in default funds are sufficiently protected from high charges, whilst adding the performance related element of performance fees to the list of charges outside the scope of the charge cap?

Q2a: Do you have any suggestions for how we can ensure that the regulations ensure members are only required to pay fees when genuine realised outperformance is achieved?

Fees that are only earned if higher performance is delivered is in itself a protection. A greater focus on value, rather than simply cost, should ensure a better outcome for investors. The key, in our view, is providing trustees with the tools to understand and evaluate performance and the appropriateness of performance-based fees. The IPF has previously produced 'Understanding Commercial Property Investment: A Guide for Financial Advisers' and could produce similar guidance for trustees of DC schemes in respect of real estate.

Ultimately, we believe that the market is the best way of ensuring that fees are competitive.

Q3: Which of these conditions should the Government apply to the types of performance-based fees that are excluded from the list of charges subject to the charge cap? Are there other conditions we should consider? If supported by guidance on acceptable structures would this give confidence to more schemes?

As outlined in our response to question 2, the IPF does not see the need for additional conditions to be included in the regulation.

Q4: Do you agree with our proposal to require disclosure of performance fees if they are outside the scope of the charge cap? If so, we propose this is done in a similar way to transaction costs – do you agree? Could you provide details of any new financial costs that could arise from a requirement to disclose performance fees? Please outline any one-off and ongoing costs.

The IPF agrees with the proposals.

Q5a: If we add performance fees to the list of charges which are not subject to the charge cap, do you agree that we should remove the performance fee smoothing mechanism and the pro-rating easement from the Charges and Governance Regulations 2015?

Q5b: Is there a need for transitional protection arrangements to be brought in for schemes that have decided to make use of the performance fee smoothing mechanism, and if so what do these transitional arrangements look like?

The IPF agrees that the smoothing mechanism becomes unnecessary if performance fees are excluded from the charge cap.

We are not able to comment on the need for transitional protection arrangements.

Please do contact me should you wish to discuss any of the above in more detail.

Sue Forster

Sue Forster
Chief Executive, Investment Property Forum