# Independent Investment Management Initiative (IIMI) – Written evidence (SCG0036)

As a group of over 50 specialist investment managers, predominately based in the UK, we welcome the focus of this inquiry. Led by consultation with our members, we have several constructive ideas which could help embed the objective of international competitiveness and growth. Particularly as smaller and independent managers, we fear that progress towards this objective has thus far been limited. We are hopeful that the findings of this enquiry can help address this.

**We strongly believe that small businesses, including small and specialist investment firms, are engines of growth.** However, there are significant costs and complexities of starting an asset management business in the UK. We are often compared with our US counterparts who have much lower barriers to entry and hence entrepreneurial businesses can be born with greater ease. Enabling the development and scaling of small businesses should be part of the scope of the FCA's secondary objective. **Regulatory costs disproportionately impact smaller firms, given their resource and capital constraints.** These raise barriers to entry and discourage entrepreneurs (unless they have access to significant pools of capital, which has implications for diversity as well as growth and innovation in our industry). It also reduces investment choice and feeds the ever-growing challenge of consolidation in our industry. We therefore welcome moves towards regulatory rationalisation, as well as harmonisation with international standards. This must, of course, be done in ways compatible with the FCA's objectives regarding consumer protection and market integrity. We see many ways in which they can be mutually reenforcing.

**An overarching proposal is for a Practitioner's Advisory Body (or similar) to look at regulations from a practical, commercial and competition perspective** before their implementation. This can help ensure that our regulatory framework is both rigorous and enabling of investment management. It could also help review where regulatory alignment with international practices is of benefit, and where it makes sense to differentiate. We would urge that smaller firms have a seat at the table here, as the impacts on them may be different to those on larger incumbents.

**We have several ideas for improving UK fund structures, regarding international competitiveness.** We are cognisant of efforts to address the shortcomings in the current rules around Investment Trusts, particularly regarding costs and charges and the need for a new regime. We are working with Treasury and the FCA to suggest improvements to the current regulatory treatment of Investment Trusts with a view to reducing any regulatory requirements that are not additive in terms of managing risk or protecting consumers. This is largely focused around removing them from AIFMD, reviewing their corporate governance and bolstering the UK Listing Rules to create an appropriate regime which aligns with both international rules whilst enabling growth.

Separately**, a review of the current authorization options under AIFMD is welcome as the threshold at which a manager is subject to the scope regulation is low.** We propose that fund size, complexity and risk are considered. With this in mind, we support a lighter-touch approach to LTAFs. A firm must be a full-scale AIF to be an LTAF which makes this challenging for smaller firms. We would also encourage regulators to consider other suitable UK fund structures for alternatives. The closest UK fund type to a "hedge fund" in terms of investment flexibility is a Qualified Investor Scheme (QIS). But there are multiple operational challenges with these which merit review.

**Sustainable finance is an area which we believe would benefit from a more international outlook.** Many key sustainability matters, notable climate change, and inherently global risks meriting coordinated solutions. However, we've seen notable regulatory divergence in this area, including with the FCA's approach to SDR. Currently, it is materially simpler to launch a Fund named 'Sustainable' in Europe than it is in the UK, despite newly tightened European fund naming rules. This is a potential source of competitive disadvantage, as well as confusion and complexity. We would urge for a focus on greater consistent with existing international standards and terminology. There is also need for harmonisation; it could be argued that the FCA's TCFD and SDR regulations could be consolidated.

**Consumer Duty has caused considerable challenges for our industry and is perhaps particularly impactful to smaller managers**. We responded to the FCA's Call for Input on Consumer Duty highlighting our concerns around the length and complexity of the guidance. We see many ways in which Consumer Duty might be improved to streamline the guidance and better focus on retail consumer protection. For example, we see room for clarity around which firms should be embedding the Duty and refocusing on those with retail investors. We welcome some more specific guidance around what firms must do to act in the best interests of retail customers and a review of the PRIN guidance used to explain the cross-cutting obligations which is detailed and complex but does not always provide the answers as to how a firm should act. More widely, we would argue differentiate rules, and reporting requirements, are merited for funds with and without retail investors. This would help to refocus on effective consumer protection, without creating undue burden where it is not required. The widely recognized challenges around the quality, quantity and timeliness of the data required to fulfil the duty has also added considerable regulatory burden brought about by the Consumer Duty.

**An additional way in which regulators could better support the growth of our industry is to re-frame important questions of value**. We believe that value for money, is a multidimensional concept, beyond cost. This includes consumer choice, risk management, client service, stewardship and sustainability. We see the current value for money approach for defined contribution (DC) funds, for example, as potentially narrow. This can encourage a simplistic approach to investment choices and presents a revenue challenge to specialist firms. We encourage regulatory clarity on the scope of value, moving beyond a narrow interpretation. We would also point to a body of research – including from the FCA – noting the value of active management from the perspective of systemic risk.[1]

Another challenge to growth and inhibitor of our efforts to be a world-leading asset management hub is consolidation. **Whilst the plans to consolidate local government pension schemes will enable greater investment in UK infrastructure, this may not be in the best interests of pensioners or asset managers.** The move will reduce investment choice for pensioners as there will be fewer asset managers able to accommodate large capital allocations. These smaller, specialist and more entrepreneurial asset managers will lose out.

In a similar vein, in the investment consultant universe, the last decade has been categorized by consolidation and consultancies pursuing fiduciary management often without a tender process. **We welcome a more serious review of this pattern following continued adverse effects on competition despite the 2018 Competition and Markets Authority 2018 findings.** Greater regulation of the activities of investment consultants would be encouraging.

**Finally, we recommend that fund platforms are also subject to greater regulatory oversight.** Many platforms prohibit asset managers with smaller funds claiming that they must have client demand. However, customers are less able to access a wider variety of investment choices, including smaller, specialist funds unless they are listed on platforms causing a 'chicken and egg' scenario which is currently being ignored by the regulator.

[1]'Does the growth of passive investing affect equity market performance?: A literature review', 2019, Kevin R. James, Daniel Mittendorf, Andrea Pirrone, and Claudia Robles-Garcia
https://www.fca.org.uk/publications/research/research-note-does-growth-passive-investing-affect-equity-market-performance

Overall, we strongly support efforts to review, and refocus, on the secondary objective. **We recognise the vital role of both robust and enabling regulation to the benefit of our clients, the financial ecosystem, and the UK economy.**

**Appendix**

**List of Members of the Independent Investment Management Initiative**

Alger
Amati Global Investors
Aravis Capital
Bentley Reid
Brown Advisory
Cape Ann Asset Management
Cadarn Capital
CG Asset Management
Chawton Global Investors
Chelverton Asset Management
Comgest
Cusana Capital
Downing LLP
Edgbaston Investment Partners
Evenlode Investment
Findlay Park Partners
Gemini Capital Management
Guinness Asset Management
Highclere International Investors
Hosking Partners
Independent Franchise Partners
Kennox Asset Management
Kernow Asset Management
Kiltearn Partners
Latitude Investment Management
LGT Wealth Management
Longview Partners
Marathon Asset Management
Morant Wright
NS Partners
Oakmount Capital
Oldfield Partners
Orbis Investments
Osmosis Investment Management
Pacific Asset Management
Phoenix Asset Management Partners
Polar Capital
Ranmore Funds
Rebalance Earth
Sceptre Investment Management
Silchester International Investors
Skagen Funds
Skerryvore Asset Management
Spring Capital Partners
Troy Asset Management
Variis Partners
Velox Capital
Waverton Investment Management
White Oak Capital Management
Yealand Fund Services

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