

## ABI Fund Sectors Consultation on ABI Property Sector

### 1. Summary

The ABI Fund Sectors are a set of defined fund categories designed to group together unit-linked life and pension funds that are similar, so that they can be compared on a like-for-like basis. The sectors are not designed to reflect the relative risk of funds. The ABI sectors are similar but not identical to the sectors used by the Investment Association (IA) for classification of Collective Investment Schemes.

To ensure that the ABI Fund Sectors remain up to date and relevant, the ABI convenes a committee of ABI members (the ABI Sectors Panel) at least twice a year to review the Sectors and their definitions and make updates as relevant.

As part of this remit and in recognition of the benefit to all sector users of a close alignment between the ABI and IA Sector systems, the ABI Sectors Panel is consulting on a proposal to align the ABI Property Sectors with the [IA Property Sectors](#).

### 2. Proposal for consultation

There are currently three property sectors defined within the ABI Sectors:

- **UK Direct Property.** This is defined as real estate located within the UK
- **UK Property Securities.** Property securities include real estate investment trusts, shares issued by companies that own, develop or manage direct property and Property Index Certificates.
- **Global Property.** These funds invest a minimum 50% in non-UK assets, with at least 80% of assets in direct property and property securities.

Following analysis of these three ABI Property sectors, fund data revealed that at October 2019 the ABI UK Direct Property sector had an aggregate fund value of GBP21.77billion in life and pension schemes, whereas the ABI UK Property Securities and ABI Global Property sectors had a significantly lower life and pension fund universe, with an aggregate fund value of GBP149.8 million and GBP316.1million respectively.

The ABI Sectors Panel is therefore proposing to retain the UK Direct Property sector and to merge the UK Property Securities and Global Property sectors into one “Property Other” sector.

In recognition of the benefit to all sector users of a close alignment between the ABI and IA Sector systems, it is proposed that the definitions of these sectors will be as close as possible to those of the [IA Property Sectors](#).

### 3. Questions for response

1. Do you agree with the proposal to merge the existing three ABI Property sectors into two sectors: UK Direct Property and Property Other? If not, please specify any issues.
2. Do you have any comments or concerns on the proposal to merge the UK Property Securities and Global Property sectors into one sector?
3. Do you agree with the proposed definitions? If not, please provide any specific comments or details.
4. Do you agree with the definitions of the balanced and specialist strategy? If not, please provide any specific comments or details.
5. The definitions of the proposed new sectors require funds to invest an average of at least 70% of their assets directly in property over 5 year rolling periods. Is 70% an appropriate figure? If not, please provide any comments or suggestions for a more appropriate figure.
6. Do you believe that consumers and financial advisers would benefit from alignment of ABI Property sector and IA Property sector definitions? If so, in what way? If not, please provide reasons.
7. Are there any specific unit-linked fund characteristics that should be taken into account in the definitions?
8. Are there any alternatives to the proposal that you believe would work better? Please provide any comments or details.
9. Are there any issues that you would like to raise as part of this review?

#### **4. How to respond**

The consultation runs from 15 April to 15 June 2020. We welcome views from all stakeholders including financial advisers, consumers, consumer representatives, fund providers and data vendors. Please send comments to [Lucy.ashton@abi.org.uk](mailto:Lucy.ashton@abi.org.uk) by close of business 15 June 2020.

We will consider your responses and publish our next steps by 15 July 2020.

## **Appendix: Proposed ABI definitions**

### **ABI UK Direct Property**

Funds which invest an average of at least 70% of their assets directly in UK property over 5 year rolling periods.

Notes:

1. UK property is defined as real estate located within the UK.
2. Funds investing directly in UK property should be balanced<sup>[1]</sup> funds which generally hold a wide mix of property assets, diversified by type and location. Specialist property funds which focus on specific types of property or on properties within particular geographic regions will be included in the Property Other sector.
3. Investment in property bricks and mortar can be less liquid than in other asset classes. Investors should satisfy themselves that they understand what any given fund is doing and take account of any liquidity risks set out in a fund's literature.
4. If regulation does not set out rules, the ABI expects that member firms will follow industry practice when using techniques to value property assets.
5. Derivative usage should be within the spirit of the sector restrictions and not lead to the economic exposure of the fund being outside the set limits of its sector.
6. The "spirit" of the sector restrictions may be considered as being whether a fund's investments or strategy tends towards the achievement of the overall sector scheme objective of allowing like-for-like comparisons to be made between funds. Managers should note that the user group for sectors should be assumed to be consumers and their advisers. Funds should not rely in making their case on applying a narrow, legalistic or unusual interpretation to what are, in practice, broad definitions.
7. Newly launched property funds which are intending to invest directly in physical property will be permitted a period of 12 months to come into compliance with the sector definition. The funds will be asked to make an appropriate commitment at the outset to Refinitiv when asking to be classified.

[1] Funds are deemed to be either balanced or specialist depending mainly on their investor mandates but also with regard to the current composition of their portfolios. In general,

- a. funds will be deemed as balanced providing that their holdings of either office, retail, industrial or 'other property' account for no more than 70% of their portfolio, and
- b. they are also diversified geographically so that no more than 70% of their portfolio is located in any one of the following regions: Central London (comprising the City, mid-town and the West End), Inner London, Outer London, South East, South West, Eastern, East Midlands, West Midlands, Yorkshire & Humberside, North East, North West, Scotland, Wales, Northern Ireland, Offshore UK (Channel Islands & Isle of Man).

“Portfolio” means the gross asset value of the fund, including cash and other investments.

### **ABI Property Other**

Funds which predominantly invest in property and do not meet the requirements of the UK Direct Property sector. To invest "predominantly" in property that is not UK direct property, funds must:

- invest an average of at least 70% of their assets directly in property over 5 year rolling periods but do not meet the requirements of the UK Direct Property sector; or
- invest at least 80% of their assets in property securities; or
- invest at least 80% in a mixture of direct property and property securities.

Notes:

1. Direct property funds should invest 70% of their assets directly in property over rolling 5-year periods.
2. Where a fund invests in property via holdings in another fund or funds, there will be a look through to the underlying fund holdings for the purpose of sector classification.
3. Property securities are admissible assets within the investment limits indicated if included in an appropriate, independently constructed index.
4. Property securities held within the 80% limit are intended to be equities.
5. Newly launched property funds which are intending to invest directly in physical property will be permitted a period of 12 months to come into compliance with the sector definition. The funds will be asked to make an appropriate commitment at the outset to Refinitiv.
6. The sector includes a wide range of funds which may be investing directly or indirectly in property. For this reason, performance comparisons across the whole sector are inappropriate.