



HM Treasury

# The UK Investment Management Strategy II

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December 2017



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# Foreword

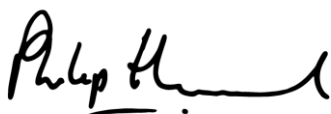
The UK asset management industry is the largest in Europe, with £8.1 trillion assets under management and millions of clients around the world. In generating around 1% of the UK's Gross Domestic Product, the industry makes an invaluable contribution to the UK economy that must be recognised and built upon in the years ahead.

In 2013, the government launched the Investment Management Strategy, which aimed to enhance the UK's share of fund domicile. Four years on, and having delivered the policy initiatives that the Strategy promised, this is a natural point at which to revisit our objectives and our plan for achieving them.

Through a renewed approach, the Investment Management Strategy II, the government, in collaboration with industry, intends to create an environment in which firms can deliver the best possible outcomes for investors, businesses and the UK economy. In doing so, we aim to strengthen the UK's brand for asset management, enabling firms to respond effectively to the UK's withdrawal from the European Union and capitalise upon future trading opportunities.

To achieve these aims, we will look to enhance the government, regulator and industry dialogue and work collaboratively to enable asset managers to take advantage of emerging opportunities in skill development, FinTech solutions, innovative investment strategies and global trade.

This document therefore sets out a comprehensive strategy that builds on the competitiveness of the UK asset management industry and a long-term, principled approach that will inform government policy in the coming years.



The Rt Hon Philip Hammond  
Chancellor of the Exchequer

# Chapter 1

## Introduction

### The UK, a leading global asset management hub

- 1.1 UK asset management firms manage the savings and pensions of millions of people. They raise capital from investors, which range from individuals and corporates to pension funds, and allocate investments efficiently across global capital markets.
- 1.2 The UK is the largest centre for asset management in Europe and second largest globally, with around £8.1 trillion assets under management servicing funds and clients located in the UK, European Union and around the world. Asset management is a key part of the wider financial ecosystem reflecting the UK's strength in all the major financial services sectors (from banking to asset management to insurance).
- 1.3 This success is based on a regulatory framework that puts the interests of investors first and strikes the right balance between stability and competition, a legal system known for its fair treatment of all, and the inherent advantages of time zone and the English language. The asset management sector contributes £5-7 billion in tax revenue<sup>1</sup> and generates around 1% of the UK's Gross Domestic Product (GDP).
- 1.4 The asset management industry is a major source of high value employment across the UK, employing approximately 38,000 people working directly for asset management firms. A further 56,000 people are employed indirectly in outsourced and other services.<sup>2</sup>
- 1.5 This is an industry with national importance. The City of London has a deep, global capital market. Scotland has also long been an established centre for asset management with Edinburgh and Glasgow playing a key role in the industry<sup>3</sup> and globally recognised firms managing over £800 billion in assets from Scotland alone. There are also hubs elsewhere in the UK, with significant employment in other UK cities, such as Leeds and Birmingham. All of this has helped to make the UK a world class centre for asset management.

### Benefits to investors, business and the economy

- 1.6 Asset managers seek to ensure that investors achieve their investment goals by channelling capital across the economy through a variety of financial

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<sup>1</sup> 'The Impact of the UK's Exit from the EU on the UK-based Financial Services Sector', Oliver Wyman, 2016

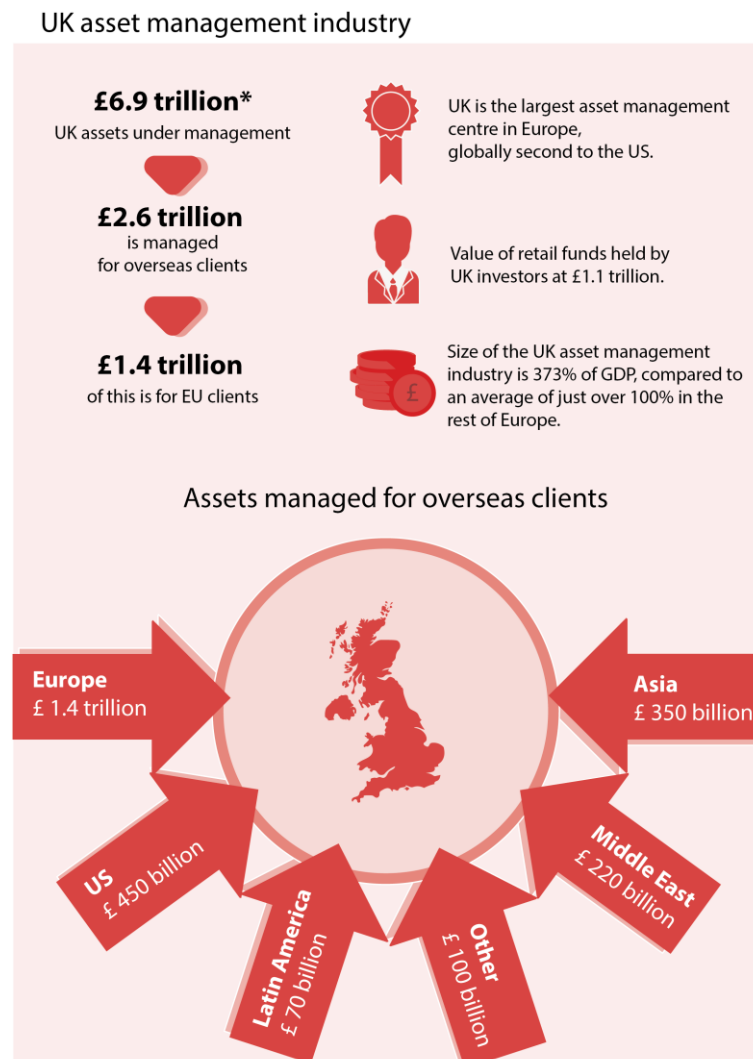
<sup>2</sup> Figures are based on those provided by members of the Investment Association, one of the trade associations that represents UK investment managers.

<sup>3</sup> Analysis provided by Scotland Office



instruments and markets. They are an essential link in the global financial market chain. Through their investments, asset management firms play an important role in market-based financing, providing funding to businesses at all stages of the life cycle, whether that be a start-up, scale-up, or corporate.

- 1.7 Through taking a stake in companies, investment managers play an important role in holding company boards to account. They also have a key role to play in ensuring that the companies they finance perform sustainably over the long term.



\*This figure only refers to Investment Association members.

## Long-term strategic approach

- 1.8 The government is determined to maintain and build on the UK's competitive position and recognises that the success of the UK asset management industry cannot be taken for granted. As the UK withdraws from the European Union, the government believes that now is the right time to renew the 2013 Investment Management Strategy, and broaden its scope beyond fund domicile.

- 1.9 It is imperative that action is taken to ensure that the sector is best able to respond to the challenges ahead and has the flexibility to take advantage of the new opportunities that arise. The government believes that with a stable, responsive and innovative business environment, the UK asset management sector will continue to thrive in the coming years, delivering the best outcomes for consumers and business.
- 1.10 This document sets out the government's long-term strategy, to be delivered in collaboration with industry, for ensuring that the UK remains a globally competitive location for asset management.

## Chapter 2

# Renewing the Investment Management Strategy

- 2.1 In 2013, the government published the Investment Management Strategy, which consisted of a package of measures to address the competitiveness of the UK asset management industry. It focused in particular on enhancing the UK's attractiveness as a centre for fund domicile.<sup>1</sup> Detail of the 2013 Strategy and progress in delivering it are set out in Annex A.
- 2.2 The government is committed to maintaining and enhancing the UK's status as a competitive global centre for asset management. This document sets out the package of measures for an Investment Management Strategy II. The new strategy builds upon the forward looking principled approach adopted in the 2013 Investment Management Strategy and identifies further areas for improvement. It provides the foundation for a long-term, strategic approach to the sector and outlines the direction of travel that the government is determined to pursue, in collaboration with industry.
- 2.3 The government's overarching objective is to ensure that the UK asset management industry continues to deliver the best possible outcomes for all consumers and businesses, and to further develop the industry's global brand and world-class reputation.

### Guiding principles

- 2.4 The government's approach to the 2013 Investment Management Strategy was underpinned by six core principles. The government has reviewed these principles and while they remain the right ones for the renewed Investment Management Strategy, they have been updated so that they remain relevant to the current economic context:
- **a long-term approach** – the government is committed to providing a stable environment to reinforce both the strength of the sector and the UK's status as a global centre for asset management
  - **support innovation** – the government will look to support innovation within the asset management industry at every opportunity to create an environment that drives economic growth and continues to deliver the best possible outcomes for consumers and businesses
  - **taking the tough decisions** – the government is prepared to take the tough decisions necessary to ensure that the asset management industry thrives in the years to come

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<sup>1</sup>'The UK investment management strategy', HM Treasury, 2013

- **resourcing** – the government will allocate sufficient resources to support the competitiveness of the UK asset management industry, including strategic ministerial engagement
- **close collaboration across government** – HM Treasury is committed to working collaboratively with HM Revenue & Customs (HMRC), the Department for International Trade and other government departments to ensure that the strategy succeeds
- **working closely in partnership with industry** – the government recognises that collaboration with industry is crucial for the long-term success of the sector and will look to industry to deliver many of the core components of this strategic approach, with the support of government where necessary

## Objectives

2.5 In developing this Strategy, the government is committed to delivering changes to enhance the asset management industry in the following areas:

- **enhancing the government, regulator, industry dialogue** – the government is committed to strengthening its communication and collaboration with the asset management industry and the regulator to meet shared goals, including through the new Asset Management Taskforce, chaired by the Economic Secretary to the Treasury
- **promoting the UK's competitive and stable tax and regulatory environment** – the government recognises the importance of tax and regulation in generating an environment that facilitates innovation and growth, and intends to promote the competitiveness of the UK regime in this area
- **strengthening the domestic investment management skills pipeline** – the government sees the need to enhance the development of talent, enabling the industry to continue to recruit the brightest and the best from a diverse range of backgrounds from within the UK and around the world
- **advancing the development of asset management FinTech solutions** – the government is determined for the asset management sector to capitalise on the UK's world-leading status in FinTech to develop innovative solutions to increase cost efficiencies and rapid response mechanisms that can respond to, for example, cyber threats
- **supporting UK asset managers to be global leaders in innovative investment strategies** – the government recognises the opportunity for the UK asset management industry to lead the way in mainstreaming innovative investment strategies to meet changing investor demands and will support the promotion of these initiatives to lay the foundations for long-term growth within the industry
- **continuing a coordinated international engagement and trade promotion programme** – the government is committed to ensuring that the UK maintains its global pre-eminence for asset management and will continue to work with industry to attract overseas firms to locate in the UK and promote UK firms overseas

2.6 The following Chapters will address each of these areas in turn.

## Chapter 3

# The Asset Management Taskforce: enhancing the government, regulator and industry dialogue

- 3.1 In October 2017, the government launched the Asset Management Taskforce. This was in recognition that communication and collaboration between the government, the Financial Conduct Authority (FCA), industry and investors are vital factors in ensuring the UK asset management industry continues to deliver for consumers and the wider economy.

### Remit and objectives

- 3.2 The Asset Management Taskforce is chaired by the Economic Secretary to the Treasury and is comprised of CEOs of a diverse cross-section of the asset management industry, senior representatives of investor groups and the FCA. The first meeting of the Taskforce took place on 18 October 2017 and it will continue to meet on a quarterly basis until October 2019, after which its future will be reviewed.
- 3.3 Through Taskforce meetings, the government will seek to gauge thoughts from across the asset management industry, investors and the regulator in order to develop a long-term approach to the sector. These discussions will enable the government to explore the perspectives of market participants on both immediate issues facing the asset management industry and long-term areas for consideration. While the Taskforce is not a decision-making body, it will create an invaluable channel of communication between government, the regulator and the sector that will inform effective policy development.
- 3.4 Providing a diversity of thought forms a core component of the remit of the Taskforce. Discussion will be led by the participants in the Taskforce, who will rotate periodically to ensure that a wide range of views are represented. The presence of investor representatives will also provide a challenge function to the forum and ensure that the discussions reflect the interests of consumers as well as the asset management industry. HM Treasury will also work closely with other government departments, including the Department for International Trade, the Department for Work and Pensions, the Department for Education, and the Department for Digital, Culture, Media and Sport, to ensure that the ideas raised in this forum are shared and acted upon in a collaborative manner across government. Where necessary, HM Treasury will also invite other relevant government departments to attend Taskforce meetings to support this collaboration.

- 3.5 Priorities for discussion include, but are not limited to, facilitating the asset management industry to:
- respond effectively to the UK's withdrawal from the European Union and capitalise upon global trading opportunities
  - engage with domestic investors and encourage a savings culture within the UK
  - encourage long-termism within investment practices
  - enhance the sector's contributions to the UK economy through stewardship and investment
  - take advantage of technological developments and innovation to drive growth
  - successfully implement regulatory change while ensuring business continuity
- 3.6 The government sees promoting and fostering innovation as a particular priority for the discussions of the Taskforce. If the sector is to continue to thrive, it is vital that the UK remains at the cutting edge of innovation in what is a highly competitive global market place. In particular, it will be vital that the sector embraces the challenges and opportunities afforded by technological change, and remains at the forefront of delivering innovative investment strategies to meet the needs of an increasingly diverse global market place. These issues are discussed in more detail later in this document.
- 3.7 Importantly, the Taskforce will also provide oversight on progress that is made in taking forward the objectives of this Strategy and as such the core themes of this Strategy will form recurring agenda items. Taskforce discussions are expected to propel the government and industry's work beyond the initial package of policies outlined in this document.

#### Box 3.A: Summary of outputs

- The government will host quarterly meetings of the Asset Management Taskforce to enhance communication and collaboration between government, the FCA, industry and investors
- The government will use the Asset Management Taskforce to identify opportunities to enhance the UK's competitiveness as a global centre for asset management and oversee the delivery of this Strategy

# Chapter 4

## Tax and Regulatory Regimes

- 4.1 Tax and regulation are important factors that asset management firms take into consideration when deciding where to locate globally. Maintaining a competitive tax regime for UK domiciled funds has been the approach of successive governments and was an integral part of the 2013 Investment Management Strategy (see Annex A for more details on specific reforms). As part of its long-term approach, the government remains committed to delivering a stable and responsive tax and regulatory environment that is proportionate to risks and responsive to new innovations.

### A stable and attractive tax regime

- 4.2 The UK offers an attractive tax regime for its domiciled funds. The set of reliefs and deductions available for UK funds mean little or no tax is generally paid at fund level, ensuring that individual investors are taxed in the same way as if they had invested in the fund's underlying assets directly. This prevents double taxation and ensures that exempt investors are not disadvantaged by investing through a UK fund. There is also no requirement on UK funds to deduct withholding tax on interest and dividend payments, except for property income distributions.
- 4.3 The UK has an extensive network of bilateral tax treaties with 129 countries and territories, which helps to relieve the burden of double taxation of income received by a UK fund and provide a regulated framework for cross-border trade. These treaties help UK funds by providing certainty about the withholding tax imposed by another country on the payment of interest or dividends. They also signal to investors that the UK plays by the international rules for taxation and that it is open for business.
- 4.4 In addition to this, the UK provides an attractive tax regime for fund management. That includes the Investment Manager Exemption which enables non-resident investors to appoint UK-based investment managers without creating a risk of UK taxation for themselves. More broadly, the government has cut the rate of corporation tax from 28% in 2010 to 19% today, delivering the lowest rate in the G20. The government has legislated to further reduce the rate of corporation tax to 17% in 2020.

### Further enhancements to UK tax regime

- 4.5 Engagement with industry has revealed that employees who work in a foreign branch of a UK-based firm who make short business visits to the UK are taxed on their earnings for the time spent working here, while employees from firms with foreign subsidiaries who make similar short visits are exempt from tax on their earnings under the UK's network of double tax treaties. This creates an administrative burden for the UK company, which has to account for Pay As You Earn on foreign-paid earnings for the period of time

spent working here. The government understands industry views on the burden that these rules create, and will consider the issues that have been raised by industry groups. The government will come to a view, in spring, on whether to consult on making changes to the short term visitors rules in this area.

## **An effective, fair and principled regulatory environment**

- 4.6 The UK has a robust and resilient legal and regulatory regime that delivers for both investors and asset management firms operating in the UK. The UK offers a range of fund vehicles and structures, accommodating the needs of different investors and facilitating exposure to a diverse range of assets. This includes the Private Fund Limited Partnership, designed to be used by investment funds such as private equity and venture capital funds, introduced in April 2017.
- 4.7 In June 2017, the FCA published the final report from its Asset Management Market Study<sup>1</sup>, looking at competition in the market. As a result, the FCA is implementing a package of remedies to make competition work better in this market, and to protect investors. The FCA believes its remedies, taken together, will lead to the UK asset management industry being a more attractive place for investors. This should improve the relative competitiveness of the UK market as a whole. Driving value for investors should be at the heart of protecting and developing the UK's reputation as a global hub for asset management.
- 4.8 The government has been clear that it remains committed to strong international rules and standards, and that the UK is ready to continue to work closely with the European Union in relation to developing common values and standards in asset management.

### **Box 4.A: The Financial Conduct Authority**

The FCA is committed to upholding the highest standards of investor protection in a market where effective competition drives better outcomes for all investors. In its recent market study the FCA has proposed a package of remedies to make competition work better in the asset management market. This will increase efficiency, lead to the UK asset management industry being a more attractive place for investors and so improve the relative competitiveness of the UK market. In addition, the FCA focuses on providing firms with the speed and certainty needed to set up funds and investment management businesses in the UK. Since 2013, the FCA has halved the length of time it takes to authorise a fund. In 2016, authorised funds, including Undertakings for Collective Investment in Transferable Securities (UCITS), were authorised in around six weeks on average, with a maximum service standard of two months.

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<sup>1</sup> 'Asset Management Market Study: Final Report', FCA, 2017



Recognising the benefits new entrants can bring in driving better outcomes for investors, the FCA has recently introduced the **Asset Management Authorisation Hub** to provide a streamlined authorisations process and clarity on information requirements for prospective new entrants. The Hub will assist firms as they move between pre-authorisation and authorisation, and on to regular supervision, providing end-to-end support for firms moving through the start-up cycle.

This follows on from the establishment of FCA Innovate<sup>2</sup> in 2014. Innovate offers a range of regulatory support to businesses looking to innovate across all sectors of financial services, including asset managers. It aims to encourage innovative applications of technologies to the financial services market in a manner that prioritises consumers' best interests.

## A UK Regime for Undertakings for Collective Investment in Transferable Securities (UCITS)

- 4.9 The long-term approach of the government will ensure that the UK asset managers will remain able to establish a fund structure based on UCITS in the UK. This means that the asset management industry will be able to continue to provide their services underpinned by a globally-renowned regulatory framework that ensures high levels of investor safeguards.

### Box 4.B: Summary of outputs

- The government will continue to ensure that the tax and regulatory environment for the asset management industry remains competitive and stable
- The government will come to a view, in spring, on whether to consult on making changes to the short term business visitors rules
- The government will look to the FCA to continue to deliver a robust and resilient legal and regulatory regime that delivers for both investors and asset management firms operating in the UK
- The government will ensure that the UK asset managers will remain able to establish a fund structure based on UCITS in the UK

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<sup>2</sup> Further information on FCA Innovate can be found at: <https://www.fca.org.uk/firms/fca-innovate>

# Chapter 5

## Skills: strengthening the talent pipeline

- 5.1 Investment activity is a main driver of economic and productivity growth. The UK asset management industry has a world class reputation of having the high-quality skills, knowledge and experience to deliver tailored and effective asset management services to investors. This reputation has been supported by the industry's ability to access top global talent.
- 5.2 The long-term approach of the government is to ensure that the industry is able to access and develop a high-quality workforce throughout its value chain. Every aspect of the value chain has to be ready to adapt innovatively to the changing economic environment and investor habits, in a timely manner. The industry must also respect the high corporate governance standards expected, while making investments, on behalf of their clients.
- 5.3 The government recognises that the sector employs a large number of highly qualified staff from the European Union. Approximately 10% of the asset management industry's workforce are EU nationals, and this rises to 20% within the alternative investment industry workforce.<sup>1</sup> As the UK leaves the European Union, the government's aim is to have **an immigration system that supports the economy so that UK industries can continue to attract the brightest and the best with respect to international talent.**
- 5.4 In parallel, the government recognises the need to develop a strong domestic skills pipeline to support the UK asset management industry, drawn from a diversity of backgrounds. It will be particularly important to ensure that those who may not have traditionally seen a career in financial services as an option are included.
- 5.5 The asset management industry already puts significant investment into skills and development. On a firm-by-firm basis, it currently provides funding to a number of academic institutions for research and specific courses, as well as providing in-house and external training for staff. The government considers that more can be done to create a combined outcome of more focussed research and a wider pipeline of talent. **Building on the government's apprenticeship reforms, as well as work to promote more work place diversity, the government is committed to supporting the industry to establish Centres of Excellence at UK universities and to support proactively the development of a talent pipeline for the UK asset management industry.**

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<sup>1</sup> 'The five big questions Brexit poses for fund managers', Financial Times, 2017

## Apprenticeships

- 5.6 The government believes that apprenticeships play a vital role in delivering the skills employers and the economy need for growth. Apprenticeships benefit employers and individuals, and by boosting the skills of the workforce they help to improve economic productivity. In October 2016,<sup>2</sup> the government set out a number of reforms to support an increase in the quantity and quality of apprenticeships, so that more individuals have the chance to pursue a successful career – whether this is their first step on the employment ladder or progression within a current employer or sector.
- 5.7 As part of these reforms, firms that hire apprentices will need to provide full-time paid employment to the apprentice, as well as purchase apprenticeship training, approved by the Institute for Apprenticeships, to form at least one day a week's training. This training could also allow apprentices to gain a full Bachelor's or Master's degrees. The government has simplified the way that apprenticeship training is funded in England, and given employers more control over designing, choosing and paying for apprenticeship training.
- 5.8 The government will work with asset managers to maximise the opportunities offered by apprenticeships, to improve productivity and raise talent levels within the sector.

### Box 5.A: Diversity in the asset management sector

Organisations that embrace diverse workforces deliver better results. For the asset management industry, diversity of perspectives is especially important to effectively engage with clients and to make the right investment decisions. By tapping into the widest talent pool, asset managers can encourage innovative thinking, respond to a wider range of clients, and develop more resilient and global business models. For example, recent research found that hedge funds managed by women outperform those managed by men, but fewer than one in twenty alternative asset management firms employ a female portfolio manager.<sup>3</sup> Organisations, including asset management firms, must do more to take full advantage of the opportunity that diverse workforces represent.

### Investment2020

The government supports the initiatives undertaken by the asset management industry in the area of apprenticeships and increasing diversity. Through the establishment of Investment2020, the industry aims to recruit 2,000 trainees by 2020. The initiative takes a proactive approach to workforce planning by seeking to attract trainees from diverse backgrounds and thus to broaden the asset management talent pool and better prepare industry to thrive in the future.

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<sup>2</sup> 'Apprenticeship funding: Apprenticeship funding in England from May 2017', Department for Education, 2016

<sup>3</sup> 'Hedge funds run by women outperform', Financial Times, 2017

So far, over 1,000 trainees have participated in the programme, 73% of whom have stayed on with their employers in permanent roles. Employer feedback indicates that the scheme is improving productivity as enthusiastic and diverse recruits bring new skills and approaches, such as in digital marketing and data processing, to their businesses. The scheme has been successful in bringing more diversity into the UK asset management industry, with 90% of the Investment2020 intake coming from state schools and 45% from a Black, Asian or Minority Ethnic background.

### Women in Finance Charter

In 2016, the Chancellor of the Exchequer launched the Women in Finance Charter,<sup>4</sup> which is a pledge for gender balance across financial services. This is a commitment by HM Treasury and signatory firms to work together to build a fairer and more balanced industry. Over 20 asset management firms have already committed to this Charter. The government encourages more firms to sign up and commit to:

- supporting the progression of women into senior roles in financial services
- setting firm specific targets and implementing the right strategy for the organisation
- requiring firms to publicly report on progress against these internal targets to support the transparency and accountability needed to drive change

## Asset Management Centres of Excellence

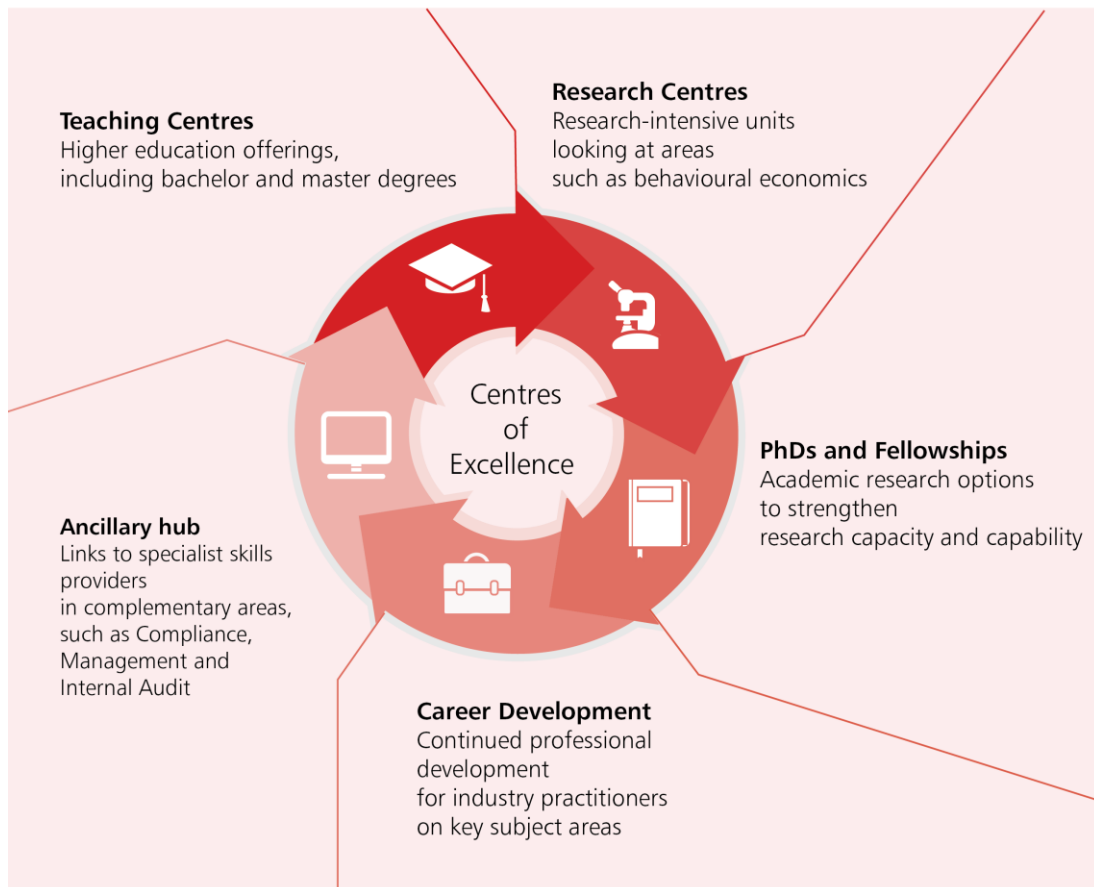
- 5.9 Building on the apprenticeship reforms, the government will also work with industry to position the UK as a world leading academic centre for asset management. The government is committed to ensure that the UK workforce is adequately skilled to meet employer's needs and helps individuals reach their full potential.
- 5.10 The industry's academic research spend is currently spread thinly across many institutions and initiatives. By consolidating the majority of existing research spend and concentrating it in a more focused way, the industry would be able to benefit from economies of scale and have a greater impact on skills. The industry, supported by the Investment Association, will seek to gather the scattered skills funding and redistribute the money into funding new **Asset Management Centres of Excellence** which will be linked to UK universities. These Centres will form the backbone of the UK's world-leading asset management capabilities and professionalism where qualifications would be universally recognised as a global standard.
- 5.11 These new Centres will create a pipeline of talent for the UK asset management industry by helping to address the current skills shortage in the

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<sup>4</sup> 'Women in Finance Charter', HM Treasury, 2017

domestic talent pool, by upskilling the domestic workforce with the necessary qualifications and specific high value skills. As well as developing entry level skills, the centres will also serve as research centres and facilitate continued professional development of the asset management industry workforce. They will also bring together academia and industry to examine the changing habits of future generations of savers and investors and draw on cutting edge insight from, for example, behavioural economics.

## Our vision



- 5.12 These centres of excellence will also focus on digital skills, and help build capabilities in FinTech. As the digital economy grows, there will be greater demand for people with specialist digital skills in financial services.
- 5.13 HM Treasury will work closely with the industry and Department for Education to support this important industry initiative.

### Box 5.B: Summary of outputs

- The government will work with asset managers to maximise the opportunities offered by the Apprenticeship Scheme, to improve productivity and raise talent levels within the sector
- HM Treasury is committed to work with firms to build a diverse talent pool, for example through the Women in Finance Charter

- The government is committed to supporting the industry to establish Asset Management Centres of Excellence

# Chapter 6

## Financial Technology (FinTech)

- 6.1 Technology is rapidly changing the way consumers interact with financial services. It has changed long-established processes and systems of the more mature financial services industries, exposing inefficiencies and lowering service costs.
- 6.2 The UK has been at the forefront of innovation, and has a world-leading digital economy. The government is keen to ensure that all financial services sectors harness financial technology (FinTech) innovation and develop solutions to enhance consumer experiences and economic outcomes. The UK FinTech sector is growing rapidly. It contributes £6.6 billion annually to the UK economy, and employs over 60,000 people in 1,600 companies. This is greater than the number of people working in the New York FinTech sector, or in the combined FinTech workforce of Singapore, Hong Kong and Australia.<sup>1</sup> The sector continues to evolve at a rapid pace, with sub-segments such as WealthTech, InsurTech and RegTech emerging and quickly gaining traction.
- 6.3 FinTech offers solutions across all parts of the asset management value chain, from reducing inefficiencies, to better allocation of capital. The government is committed to maintaining an environment in which FinTech can continue to thrive. To that end, the government is keen to see FinTech and asset management firms utilising the FCA's Project Innovate, engaging early with the regulator to gain tailored regulatory support and test innovative products in a safe place. Project Innovate is open to all FCA regulated firms and to those that wish to start up and become one.
- 6.4 Further to this, the government encourages the sector to take advantage of the FinTech bridges established between the UK to its global partners. Since 2015, the government has established four 'FinTech Bridges' – with Singapore, the Republic of Korea, China and Hong Kong. FinTech Bridges provide opportunities for firms to scale up their UK FinTech innovations, internationally. By establishing links between government, regulators and private sectors, FinTech bridges reduce the barriers to entry in a new jurisdiction and link UK FinTech firms to international investment opportunities. The UK's FinTech Bridges all contain regulatory co-operation agreements negotiated between the FCA and their regulatory counterparts.

### Opportunities in the asset management sector

- 6.5 Domestically, FinTech firms have the opportunity to disrupt ways of doing business and bring down costs associated with making an investment to the benefit of the end investor. One of the most notable emerging sub-sectors

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<sup>1</sup> 'UK FinTech on the Cutting Edge: An evaluation of the international FinTech sector', EY, 2016

of FinTech is WealthTech. Focussing on enhancing wealth management and the retail investment process, WealthTech encompasses technologies derived from wealth management firms, research tools that generate investment solutions, and platforms that support financial advisors. The most visible players in this FinTech sub-sector are online wealth managers, commonly known as robo-advisors.

#### Box 6.A: FCA Project Innovate

The UK's FCA has a global reputation for its forward-thinking approach to cutting edge technology and has a statutory objective to promote competition. The FCA's pro-innovation attitude is demonstrated by their Project Innovate Strategy, which was launched in October 2014. Project Innovate aims to provide innovators, whether large or small, with support to navigate the regulatory system, to reduce the barriers to innovation whilst maintaining the same standards of regulation and consumer protection.

Project Innovate is formed of five core initiatives:

- **Regulatory Sandbox**, providing support for innovative firms who are ready to test ideas
- **Direct FCA support**, providing tailored regulatory support for innovative firms
- **Advice Unit**, assisting firms developing automated advice and guidance models
- **RegTech**, facilitating collaboration, knowledge sharing and conversations around new technologies that support better regulation
- **Encouragement**, encouraging FinTech innovation within firms based in the UK and internationally

The government supports the regulator's work in facilitating innovation in the asset management sector. The FCA's pro-innovation approach that encourages competition continues to play a vital role in the success of the asset management sector.

- 6.6 UK millennials are keener than almost any other demographic worldwide in taking up robo-advice, with 85% of them being comfortable with the concept of robo-advisers and 80% trusting automated investment recommendations.<sup>2</sup> Robo-advisors use algorithms and artificial intelligence to evaluate investor risk appetite and identify appropriate and suitable investment products for retail investors. They typically offer low minimum investment amounts, providing everyday savers access to a broader range of professionally managed investment portfolio services, online. By providing

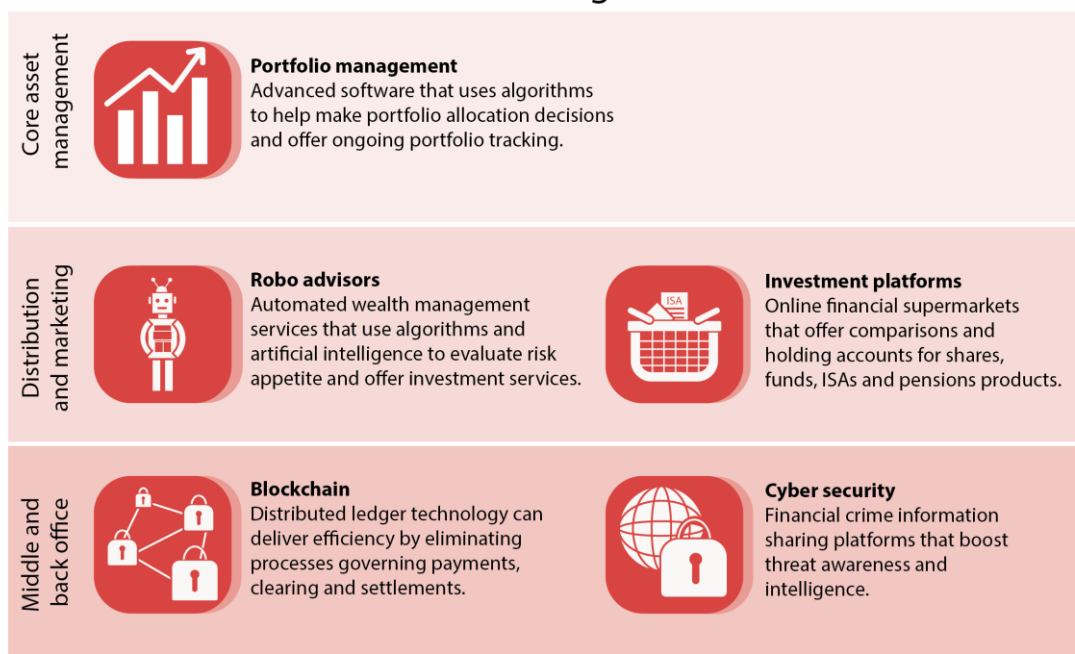
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<sup>2</sup> 'Global Investment Survey', Legg Mason, 2017



advisory services directly to consumers, with little human advisor assistance, robo-advice helps asset management firms to bring down investment management costs. Many established firms have already developed in-house digital offerings or are partnering with or buying robo-advisors.

## FinTech solutions in the asset management value chain



- 6.7 More broadly, WealthTech enables the provision of advice to mass-market segments, including those that have previously been unreachable by financial advice. The FCA estimate that this could be as many as 16 million people in the UK alone.<sup>3</sup> The industry has the opportunity to give millions of people better access to affordable financial advice that meets their needs at every stage of their lives.
- 6.8 FinTech innovations can also help asset managers reduce the number of intermediaries in an investment transaction, and therefore bring down investment related costs. At present, some parts of the asset management industry rely heavily on companies that provide necessary intermediary services before making an investment transaction on clearing and settlement infrastructure. Disintermediation is the process of streamlining these intermediaries, making the system more efficient and transparent.

## Cyber security network

- 6.9 A safe, secure and resilient cyberspace is an essential requirement for an inclusive, prosperous digital economy. The heavy reliance on the outsourcing of intermediary services in the asset management sector can give rise to vulnerabilities and means that the sector faces unique cyber-security challenges. It is now therefore more important than ever to understand and assess cyber security risks and establish robust processes that ensure that

<sup>3</sup> Financial Advice Market Review, FCA, 2016

asset managers are kept continually informed of the emerging and emerging cyber risks.

- 6.10 To secure data from threats and to keep businesses and users of FinTech protected, the Investment Association is embarking on the world's first **Asset Management Cyber Security Strategy** which includes the development of a threat intelligence network. The government strongly supports the development of this work and the Investment Association's thought leadership on this important issue. The government encourages key stakeholders to participate in this work and engage with industry to provide a new level of protection for asset management and FinTech firms.
- 6.11 Starting from 2018, industry will be taking forward this Cyber Security Strategy that will help to build capability through the value chain. The Cyber Security Strategy will encompass all asset managers and will, at a minimum, allow them to:
- understand certain existing legal obligations and an evolving regulatory focus through GCHQ accredited training
  - understand fundamental IT and technology principles
  - monitor evolving threats, technologies and attack protocols
  - appreciate the data use and information work flows of the asset management industry
  - simultaneously manage their employees' training needs, their vendor controls and investors' expectations

#### Box 6.B: Blockchain enabled digital fund

A digital fund uses blockchain distributed ledger technology to streamline back office fund administration functions (which is more commonly referred to as disintermediation), to increase speed and reduce cost while increasing resilience in their business. By reducing the number of intermediaries, a fund will make cost savings that could result in lower costs for the end investor. A blockchain enabled fund would also enable real-time clearing and settlement.

As part of its FinTech workstream, the Investment Association, together with its members, is looking to progress the creation of a fully digital fund in the UK. The Investment Association will be discussing this initiative at an Asset Management Taskforce meeting and will look for the Taskforce to agree to a framework to take this work forward.

## Common definitions

- 6.12 The government also recognises the importance of establishing common definitions within the asset management sector to provide a framework against which Fintech firms and other innovators can come forward with creative new technologies to provide better outcomes for consumers. The establishment of such common definitions has been essential in promoting

innovation in other sectors such as banking. The government welcomes industry efforts to agree such common definitions in the asset management sector and the FCA's commitment to playing a role in helping to facilitate this work.

## FinTech conferences

- 6.13 HM Treasury and the Department for International Trade jointly hosted the inaugural International FinTech Conference in April 2017. Attended by over 800 people, the conference consolidated London's position as the world's leading FinTech hub through panel sessions and discussions on the innovative nature of the UK government's policy and the UK regulatory approach. The conference attracted over 100 UK FinTechs firms, providing an opportunity to pitch to over 250 domestic and international investors. This showcasing of the UK's FinTech sector successfully increased the value of capital investment in the UK.
- 6.14 The second International FinTech conference will be held in the first half of 2018.

### Box 6.C: Summary of outputs

- The government encourages the Investment Association to make rapid progress in seeking to establish a digital fund
- The government strongly supports the development of the Asset Management Cyber Security Strategy and the Investment Association's thought leadership on this issue
- The government welcomes the commitment of the FCA and asset management industry in developing standard definitions to facilitate the promotion of innovation in the asset management industry
- The government will host a second international FinTech Conference in 2018, building on the success of the 2017 inaugural conference

# Chapter 7

## Innovative Investment Strategies

- 7.1 Rising investor demand for productive and responsible investment, and an interest from policy makers to ensure financial products are accessible to all, presents an opportunity to bring new investment strategies to the mainstream. Governments and organisations around the world are expressing a growing interest in channelling private investment into patient capital, social and impact investments, and the financing of green technologies. Additionally, the creation and provision of an ever-expanding range of Sharia compliant products ensures that all investors are able to access competitive financial products regardless of their faith.
- 7.2 The government recognises the significant opportunities this presents to UK asset managers, and has been instrumental in bringing together policy makers and market participants to ensure a coordinated approach is taken across the public and private sector. In particular, through early consideration of the tax and regulatory treatments of these investment strategies, the government seeks to minimise the barriers to their uptake.
- 7.3 The overall long-term government aim is to bring these innovative investment strategies to scale domestically, and establish the UK as an international leader and centre of expertise in the development of new investment strategies that meet changing market financing demands, as well as providing opportunities for investors.

### Patient Capital, a form of long-term finance

- 7.4 The UK has a high proportion of firms exhibiting individual periods of high-growth and provides a fertile ground for world-leading innovation. However, some of the UK's most promising start-ups can struggle to attract the follow-on investment that they need to grow to scale.
- 7.5 The Prime Minister announced in November 2016 that HM Treasury would lead a review to strengthen the UK as a place where high-growth innovative firms can obtain the long-term 'patient' finance that they need to scale up. HM Treasury requested Sir Damon Buffini to convene a panel of industry experts to support the review, and launched a consultation on the factors affecting the supply of patient capital.
- 7.6 In response, the Budget announced an action plan to unlock £20 billion of investment to finance growth in innovative firms. The government's response to the Patient Capital Review published alongside the Autumn Budget provides further details of these measures.

## Social and Impact Investment

- 7.7 The UK has developed a successful market for repayable finance to charities and social enterprises, creating one of the most advanced social investment markets in the world. The supply of capital to the social sector has increased and the investment readiness of social enterprises has improved as a result. This is demonstrated by the 2012 establishment of Big Society Capital, the world's first independent wholesale social investment institution, which has stimulated a billion pounds of social investment as of September 2017.<sup>1</sup>
- 7.8 Tax reliefs are also in place to encourage individuals to support the things they care about through their savings and investment choices. The government introduced the social investment tax relief in 2014, which allows individuals making an eligible investment to deduct 30% of the cost of their investment from their income tax liability. The government recently expanded the size of this relief and expects to see its use grow in the next few years.
- 7.9 In recent years, there has been a broadening of the market into "impact investment", as investors increasingly seek investments that deliver a positive social or environmental impact alongside financial return. The UK impact investment market is currently valued at around £150 billion.<sup>2</sup> There is potential for this market to grow further, and an opportunity for the UK asset management industry to capitalise on its well-developed social investment offering to affirm the UK's global leadership in the wider field of impact investing. The government is committed to encourage more traditional capital flows into large-scale investments with a social purpose.
- 7.10 In investigating whether there were any regulatory barriers to enabling and supporting investments with a social purpose, the FCA, as part of their 2016 call for input on social investment, determined that there are no inappropriate regulatory barriers to the growth of the market for social and impact investment.<sup>3</sup> Similarly, in June 2017, the Law Commission concluded their call for evidence on investing pension assets in ways that contribute to the wider social good.<sup>4</sup> This found no legal or regulatory barriers to pension schemes making social and impact investments provided they are in the best interests of scheme members. Government will respond to the Law Commission's recommendations later in December 2017.
- 7.11 In this light, in 2016, the government established an advisory group to look at how a culture of social impact investment and savings in the UK can be created. The government will be giving full consideration to its report, 'Growing a culture of social impact investing in the UK', published on 14 November 2017, and will continue to work with the regulators to build capability and increase transparency in this form of investing to further encourage growth of the impact investing market.

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<sup>1</sup> 'The First Billion – We're Just Getting Started', Big Society Capital, September 2017

<sup>2</sup> '2017 Impact Investing Guidance Note', UK National Advisory Board on Impact Investing, 2017

<sup>3</sup> 'Feedback Statement – Call for Input: Regulatory Barriers to Social Investments', FCA, October 2016

<sup>4</sup> 'Pension Funds and Social Investment', Law Commission, June 2017

## Green Finance

- 7.12 The UK is an established centre for green finance and offers the world's most comprehensive specialist offering for green bonds. The London Stock Exchange launched a dedicated green bond segment across its fixed income markets in 2015, and is ranked first among major stock exchanges on the UN's Sustainable Stock Exchanges Index.
- 7.13 Green finance mobilises private capital for investment in sustainable and environmental projects and infrastructure. It includes both mobilising capital through specific 'green' financial instruments and integrating environmental risk into financial decision-making. An estimated \$93 trillion of investment will be needed over the next 15 years in infrastructure alone to finance global needs in line with low carbon transition. Green finance presents an enormous commercial opportunity for the UK asset management sector, especially the potential to tap into the markets of emerging economies.
- 7.14 **The government has commissioned the British Standards Institute to develop the world's first green finance management standards.** Harnessing the expertise of industry, academia and non-governmental organisations to help shape these standards will ensure that the UK remains at the forefront of the sector.
- 7.15 The government set up the Green Finance Taskforce in September 2017, and looks forward to its policy recommendations in on how to consolidate the UK's international position and scale up domestic green finance. This Taskforce's institutional investment workstream is considering how the government might facilitate sustainable financial decision-making of asset managers and owners, and support the industry as green finance grows globally.

## Islamic Finance

- 7.16 Islamic, or Sharia-compliant, finance is a financial system that is compatible with Islamic commercial jurisprudence which prohibits the taking or receiving of interest, speculation or extreme uncertainty, and investments related to activities such as alcohol and gambling.
- 7.17 In 2016, the global Islamic Finance industry was valued at close to \$2 trillion and is projected to reach \$3.5 trillion in 2021. Islamic funds remain an underdeveloped part of the Islamic finance landscape, forecasted to reach \$77 billion in 2019 with latent demand amounting to a potential \$185 billion.<sup>5</sup> With increasing demand for Sharia-compliant products across Muslim-majority countries, there are significant opportunities for asset managers able to supply Sharia-compliant products.
- 7.18 The UK is the leading centre for Islamic finance outside the Muslim world, providing world-class expertise, as well as a supportive and welcoming tax and regulatory environment for Islamic financial services and products. In 2014, the UK was the first country outside the majority Muslim world to

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<sup>5</sup> 'Global Islamic Asset Management Outlook Report', Thomson Reuters, 2016

issue a sovereign Sukuk (Islamic-equivalent bond). The UK is ranked higher than any other non-Muslim-majority country in terms of its overall Islamic finance offering, scoring highly on regulation and corporate governance.<sup>6</sup> The UK also hosts a large range of accounting, legal and professional service firms with specialism in supporting Sharia-compliant transactions.

- 7.19 The government supports market-driven innovation in Islamic finance and is committed to ensuring that there is a level playing field for Sharia-compliant financial products, by actively keeping the tax and regulatory regime under review to ensure these are treated on equal terms as conventional ones. This includes the increasing use of Fintech solutions to support the provision of Islamic finance products. The government has also announced its intention, subject to further assessment, to reissue the UK Sovereign Sukuk when it matures in July 2019.

#### Box 7.A: Summary of outputs

- In response to the government's Patient Capital Review, the Budget announced an action plan to unlock £20 billion of investment to finance growth in innovative firms
- The government will be giving full consideration to the report on 'Growing a culture of social impact investing in the UK'
- The government will continue to work with the regulators to build capability and increase transparency in social impact investing to further encourage growth of the impact investing market in the UK
- The government will work with the Green Finance Taskforce to explore how to consolidate the UK's international position on green finance and scale up domestic engagement with this initiative
- The government looks forward to the world's first green finance management standards developed by the British Standards Institute
- The government is committed to ensuring that there is a level playing field for Sharia-compliant financial products

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<sup>6</sup> 'Islamic Finance Development Report', ICD-Thomson Reuters, 2016

# Chapter 8

## International Engagement

- 8.1 The UK is a global centre for asset management, with UK-based firms sitting at the heart of global asset allocation and attracting a truly international investor base. The statistics support the UK's strengths in this area – Investment Association members manage £2.6 trillion on behalf of overseas investors, accounting for around one third of the £8.1 trillion managed by the wider UK asset management industry.<sup>1</sup>
- 8.2 The government is committed to helping the UK asset management industry build on these strengths and create an environment in which firms can act on global trading opportunities, particularly after the UK's withdrawal from the European Union. In doing so, the government aims to maintain and strengthen the marketing architecture developed under the 2013 Investment Management Strategy, which has successfully enhanced the UK asset management industry's engagement with overseas markets and encouraged overseas asset managers to set up in the UK.

### The UK's Asset Management Brand

- 8.3 The government will continue to collaborate with industry to promote the UK asset management industry's unique investment product offerings, services and skills. For example, there is significant potential for UK asset managers to position themselves at the forefront of green finance and FinTech innovation. In promoting the strengths of the UK's responsive business, tax and regulatory environment for asset management, this strategic approach will also seek to further attract overseas asset managers to set up in the UK and increase the flow of assets managed in the UK on behalf of international investors.

### Overseas marketing

- 8.4 The government recognises the UK asset management industry's desire to expand its global footprint. In renewing and building upon the marketing components of the 2013 Investment Management Strategy, the government will continue to dedicate resource to trade promotion and engage with overseas governments to enhance market access for UK firms.
- 8.5 Collaboration between government and industry will be vital to ensuring the success of this approach. HM Treasury and the Department for International Trade will continue to engage with the asset management industry to better understand firms' experiences of accessing overseas jurisdictions and their future priorities in this area. Specific fora, such as the Investment Association's practitioner-led Trade and Investment Committee, TheCityUK

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<sup>1</sup> 'Asset Management 2016-17 Survey', Investment Association, 2017



LOTIS Asset Management Group, the Financial Services Trade and Investment Board (FSTIB) and the Asset Management Taskforce, will enable the government to hear and act on industry views on how to enhance market access within target jurisdictions.

- 8.6 The trade and investment priorities of the UK asset management industry will continue to form a core component of FSTIB, as one of the seven workstreams the group oversees. Chaired by the Economic Secretary to the Treasury, FSTIB aims to increase the competitiveness of UK financial services, support the industry to export abroad and attract overseas investment into the UK. Through direct industry representation and input from the Investment Association, the views of the asset management industry will therefore remain able to guide the government's strategy.
- 8.7 Collectively, these fora can identify jurisdictions in which there are opportunities for all forms of asset management, from mainstream investment managers to hedge funds, private equity and venture capital firms. For instance, these groups can assess the opportunities for UK firms to offer solutions for institutional investors where there is a demographic trend towards an ageing population, using their already well established expertise in provisioning for such demographic change in the UK.
- 8.8 HM Treasury formally engages with overseas jurisdictions and priority markets, for example through ministerial-led Economic and Financial Dialogues and senior official led bi-lateral engagement.<sup>2</sup> These will form the centrepiece of HM Treasury's approach to promoting the UK's asset management industry overseas. Beyond this, the Department for International Trade will continue to promote the industry through its overseas network and through regular trade missions. The government will also continue to maintain strong ministerial and senior official presence at domestic and international industry events, such as FundForum International, to promote the UK industry's strengths in a public setting.
- 8.9 Promotion of the UK asset management industry will not be limited to trade, but will also seek to attract more international investment and capital into the UK economy, in the process further deepening our diverse, dynamic and thriving financial services cluster at home. The government will continue to operate the One Stop Shop,<sup>3</sup> a concierge service that streamlines processes for overseas asset managers looking to locate in the UK, which was established as part of the 2013 Investment Management Strategy.

## Enhancing the Global Reach of UK Funds

- 8.10 While the UK asset management industry has a significant global reach, barriers to market access remain, particularly at the level of the fund.

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<sup>2</sup> The government currently holds ministerial-level Economic and Financial Dialogues with Brazil, China and India. Senior officials also lead bi-lateral engagement with Hong-Kong, Korea and Singapore. HM Treasury is considering broadening this engagement to include other global jurisdictions.

<sup>3</sup> Department for International Trade's One Stop Shop can be found at: <https://invest.great.gov.uk/int/industries/financial-services/asset-management/>

- 8.11 In this light, the government sees potential benefits from Mutual Recognition of Funds (MRF) agreements with overseas jurisdictions in cases where there is clear benefit to industry and investors for such an initiative. These arrangements could, in principle, allow UK funds to benefit from a streamlined recognition process when seeking to access overseas investors, and overseas funds would benefit from a similarly streamlined regulatory approach within the existing regulatory framework when seeking to access UK investors. Through this, the government intends to increase the global reach of UK funds and provide UK consumers with access to diverse product offerings.
- 8.12 The government, with the FCA, will also explore the possibility of MRF agreements with target market jurisdictions, seeking to deliver tangible benefits to UK-based firms and the wider UK economy. Accordingly, this will be a central feature of the government's work relating to future Economic and Financial Dialogues and other international engagement opportunities.

## **The UK's Status as a Portfolio Management Hub**

- 8.13 The government understands that portfolio management expertise is a central strength of the UK asset management industry, with UK-based firms managing 36% of the assets under management in Europe.<sup>4</sup>
- 8.14 The interaction between asset managers as the 'buy-side' and investment banks representing the 'sell-side', alongside other participants and facilitators, is a defining feature of the UK's capital market structure. This ecosystem, which has developed over a significant period of time, has attracted a pool of global talent and expertise, including but not limited to portfolio management. In the context of asset management, this cluster of expertise offers benefits for investors across the globe and businesses seeking market based finance, with economies of scale driving down costs and increasing net returns.
- 8.15 The government will maintain the UK's position as a global centre for portfolio management by ensuring global regulatory coherence and preserving the ability to delegate or outsource the portfolio management of assets from one jurisdiction to another. This enables firms to source expertise from international financial centres that they might otherwise lack in-house, and benefit from proximity to the underlying assets and local financial markets.
- 8.16 Delegation of portfolio management is a well-established global norm. This system works well with appropriate oversight of delegated arrangements and regulatory cooperation. The FCA will maintain and develop cooperative relationships with regulators globally, ensuring that the delegation model remains the global norm.

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<sup>4</sup> 'Asset Management 2016-17 Survey', Investment Association, 2017

## Deepening the UK's Trade Links

- 8.17 As noted in the Department for International Trade's policy paper, 'Preparing for our future UK trade policy', the government intends to ensure continuity of existing agreements and pursue ambitious new trade relationships across the globe.<sup>5</sup> Free Trade Agreements (FTAs) will provide a central mechanism to support the objectives set out in this Strategy by facilitating greater trade flows and providing legal certainty to businesses. A number of countries have already shown interest in deepening trading relationships with the UK through such agreements.
- 8.18 In recognising the importance of the asset management sector for the UK economy and its global reach, the government will ensure that future FTAs complement our international regulatory cooperation and reflect the priorities and concerns of UK asset managers, delivering positive outcomes for the industry.

### Box 8.A: Summary of outputs

- The government will continue to dedicate resource to trade promotion and engage with overseas governments to enhance market access for UK firms
- The government will continue to encourage overseas firms to set up in the UK through, for example, the Department for International Trade's One Stop Shop
- The government will work with the FCA to explore the possibilities to establish mutual recognition of funds agreements with target market jurisdictions
- The government is committed to ensuring global regulatory coherence and preserving the ability to delegate the portfolio management of assets from one jurisdiction to another on a global basis
- The government will seek to ensure that the UK's trade policy complements international regulatory cooperation and reflects the priorities of the UK asset management industry

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<sup>5</sup> 'Preparing for our future UK trade policy', Department for International Trade, 2017

# Annex A

## Delivery of the 2013 Investment Management Strategy

**A.1** In 2013, the coalition government published the Investment Management Strategy. This was a package of policy measures aimed at increasing the number of funds domiciled in the UK. It's three main ambitions for improving the funds domicile offering were:

- simplifying and streamlining the taxes on the sector
- creating a more responsive regulatory environment
- improving the marketing infrastructure in the UK and overseas

### Tax

**A.2** The government recognised the importance of a simple, fair and stable tax regime, and committed to a programme of action to make sure that the tax framework best met investor needs. Since 2013, the tax environment for UK domiciled funds has been substantially reformed.

**A.3** The subsequent tax reform package that has been delivered includes:

- launching, in 2013, a new tax transparent fund vehicle – the Authorised Contractual Scheme (ACS) - which independent advisors describe as the “best in class”. ACSs enable investors to benefit from the same tax treatment in respect of their income and gains as they would have done if investing directly. These typically tax-exempt institutional investors (such as pensions companies) also reap the benefits of investing in a fund rather than investing directly, such as a diverse portfolio and reduced management fees. Changes introduced in Finance (No 2) Act 2017 will reduce tax complexity for investors in ACSs
- making UK fixed income funds more attractive to overseas investors by abolishing withholding tax on income distributions from bond funds for overseas investors
- abolishing, in 2014, the ‘Schedule 19’ Stamp Duty Reserve Tax, such that two type of legal fund structures – open-ended investment companies (OEICs) and Unit Trusts – no longer pay stamp duty when the investor surrenders a share or unit in these vehicles, a charge which is typically passed on to the investor
- abolishing, in 2014, the Stamp Duty on UK-domiciled exchange traded funds (ETFs), so that stamp duty charges do not arise on the transactions in ETF units

- introducing a Stamp Duty Land Tax (SDLT) seeding relief, following a 2014 consultation, so that SDLT does not arise on the transactions in units in land and property, with the aim of encouraging the growth of property investment funds in the UK

## Regulation

- A.4 The government also undertook to engage with the industry and the FCA to ensure a responsive regulatory environment for UK domiciled funds.
- A.5 Following the launch of the Strategy, the FCA undertook a review of its fund authorisation process, which resulted in the Authority cutting, by half, the time required to authorise a fund in the UK. In 2016, UCITS funds were authorised within 6 weeks on average, with a maximum service standard of two months.
- A.6 The government also laid a Legislative Reform Order earlier this year that modernised the archaic partnership rules for investment funds. This came into effect in April 2017 and introduced a new type of Limited Partnership for investment funds - the Private Fund Limited Partnership (PFLP). This new legal structure makes it easier for investment funds to set up as a limited partnership due to reduced administrative and compliance burdens. As of October 2017, 181 funds have been established as a PFLP. 96 of these are new funds and the remainder are existing investment funds structured as Limited Partnerships that have chosen to designate as PFLPs.

## Marketing

- A.7 The government recognised that other jurisdictions had adopted a co-ordinated approach to marketing their investment management industries and undertook to ensure a co-ordinated and focused approach to marketing the UK investment management industry.
- A.8 Since the launch of the 2013 Investment Management Strategy, there has been a sustained coordinated overseas marketing campaign to promote the UK as a competitive location for asset management. Key partners in this engagement have included: the Department of International Trade, the Investment Association, TheCityUK, the Scottish Financial Enterprise (SFE), and the Lord Mayor.
- A.9 Some of the specific success that have flowed from this more co-ordinated approach include:
- overseas investment firms, funds and associations establishing in the UK as place for business. These include:
    - a) Harvest Global Investments, one of China's oldest and largest asset management companies, underlining the UK's prominence as a destination for offshore RMB asset management
    - b) Fullerton Fund Management Company Ltd, a major Singaporean investment management firm
    - c) a pensions megafund, AustralianSuper, with real estate and infrastructure expertise

- d) the International Forum of Sovereign Wealth Funds establishing its secretariat office in London, demonstrating that the UK is a leading global financial and professional services centre
- e) the China Construction Bank International launching its first UK-domiciled Renminbi ETF for qualified foreign institutional investors. The fund is listed on London Stock Exchange, targeting European institutional investors

**A.10** Additionally, international engagement has led to:

- a) the granting, at the 2015 EFD with China, of a licence to Aberdeen Asset Management (Shanghai) to operate as a Wholly Foreign Owned Enterprise in China
- b) both sides of the 2015 and 2017 Economic and Financial Dialogue (EFD) with Brazil discussing the benefits of liberalising regulations around pension fund investments. This is likely to lead to Brazilian pension funds being able to invest to a greater extent in overseas investment vehicles

**A.11** In 2013, UK Trade and Investment (UKTI), the pre-cursor to the Department for International Trade, launched the 'One Stop Shop' – a concierge service put into place by the 2013 Investment Management Strategy that streamlines processes for overseas asset managers seeking to locate in the UK.<sup>1</sup> Through this initiative and the government's broader international engagement, support has been provided to 18 asset managers to locate in the UK from a range of markets, including China, the US, Brazil, Australia and Korea. It also supported eight expansion projects from foreign asset managers with offices in the UK.

**A.12** In conjunction to this outward engagement, the government re-launched the Financial Services Trade and Investment Board in 2015, with a mandate to guide the UK government's strategy and high level priorities on financial services trade and investment. The Board is a joint government-industry partnership that reports directly to the Chancellor of the Exchequer and is chaired by HM Treasury. The Board comprises of leading member from across the financial services industry, including from the asset management industry, as well as senior civil service stakeholders.<sup>2</sup>

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<sup>1</sup> Department for International Trade's One Stop Shop can be found at: <https://invest.great.gov.uk/int/industries/financial-services/asset-management/>

<sup>2</sup> The most recent annual report of 2016-17 can be found at: <https://www.gov.uk/government/publications/financial-services-trade-and-investment-board-annual-report-2016-to-2017>

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