FCA - CP22/14: Broadening retail access to the long-term asset fund

The following is the IFoA's response to consultation CP22-14, submitted on 7 October 2022.

The IFoA is not opposed to opening LTAFs to retail investors, but we do think such investors rarely have the mindset of long-term patient investors. Any funds with significant retail holdings in them are therefore likely to need more liquidity, because those retail holdings can be very affected by market and economic news. From an institutional perspective, retail investment in one of their funds might make it less attractive.

We believe the critical issue is to create the necessary commercial incentives to get LTAFs up and running. Extending the option to retail, and how to protect those members, should be seen as a secondary issue and perhaps for a later day. Having said that, we would make the following points:

1. The original LTAF proposals represented a step towards creating fund wrappers exclusively for institutional/professional clients. If LTAF access is opened up to retail clients, we think there should be one wrapper for retail and one for institutional. This will enable the special circumstances and distribution processes of each to differentiate the content. We are concerned that having a single wrapper would dilute the purpose of setting up the LTAF in the first place.

2. We would only support individual DC scheme members having a choice to invest in LTAFs if there was a strict limit on the proportion of the member's assets which could be invested illiquidly. We note that DC schemes have faced challenges in the past by using retail funds for institutional problems. We therefore think that DC investment in LTAFs would be best managed at scheme level by incorporating illiquid assets in multi-asset wrappers such as target date funds.

3. We believe the key threats to retail consumer protection are the distribution and advisory processes. Illiquidity risks from LTAFs should be less of a concern, provided that advisers are conscientious and competent in communicating the illiquidity risks in these funds. In this context, it may be that high net worth individuals are a more natural holder of these funds, and consideration should be given to their particular advice and protection needs.