

Chapter 11

Closed-ended investment funds: requirements for listing and continuing obligations

11.2 Requirements for listing

- 11.2.1

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To be *listed*, an *applicant* must comply with:

(1) the following provisions of ■ UKLR 5 (*Equity shares (commercial companies)*): requirements for admission to listing), modified so that references to the *equity shares (commercial companies)* category are to the *closed-ended investment funds* category:

 - UKLR 5.4.1R(1);
 - UKLR 5.4.2R to ■ UKLR 5.4.4G;
 - UKLR 5.4.7R;
 - UKLR 5.5.1R to ■ UKLR 5.5.4G; and
 - UKLR 5.6.1R; and

(2) ■ UKLR 11.2.3R to ■ UKLR 11.2.15R.
- 11.2.2

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Shares of a third country applicant

The *FCA* will not admit *shares* of an *applicant* incorporated in a *third country* that are not listed either in its country of incorporation or in the country in which a majority of its *shares* are held, unless the *FCA* is satisfied that the absence of the listing is not due to the need to protect investors.
- 11.2.3

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Investment activity

An *applicant* must invest and manage its assets in a way which is consistent with its object of spreading investment risk.
- 11.2.4

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(1) An *applicant* and its *subsidiary undertakings* must not conduct any trading activity which is significant in the context of its *group* as a whole.

(2) This *rule* does not prevent the businesses forming part of the investment portfolio of the *applicant* from conducting trading activities themselves.
- 11.2.5

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Although there is no restriction on an *applicant* taking a controlling stake in an investee company, to ensure a spread of investment risk an *applicant* should avoid:

- (1) cross-financing between the businesses forming part of its investment portfolio including, for example, through the provision of undertakings or security for borrowings by such businesses for the benefit of another; and
- (2) the operation of common treasury functions as between the *applicant* and investee companies.

Cross-holdings

- 11.2.6** R
- (1) No more than 10%, in aggregate, of the value of the total assets of an *applicant* at admission may be invested in other *listed closed-ended investment funds*.
 - (2) The restriction in (1) does not apply to investments in *closed-ended investment funds* which themselves have published investment policies to invest no more than 15% of their total assets in other *listed closed-ended investment funds*.

Feeder funds

- 11.2.7** R
- (1) If an *applicant* principally invests its funds in another *company* or fund that invests in a portfolio of *investments* (a 'master fund'), the *applicant* must ensure that:
 - (a) the master fund's investment policies are consistent with the *applicant's* published investment policy and provide for spreading investment risk; and
 - (b) the master fund in fact invests and manages its investments in a way that is consistent with the *applicant's* published investment policy and spreads investment risk.
 - (2) Paragraph (1) applies whether the *applicant* invests its funds in the master fund directly or indirectly through other intermediaries.
 - (3) Where the *applicant* invests in the master fund through a chain of intermediaries between the *applicant* and the master fund, the *applicant* must ensure that each intermediary in the chain complies with paragraphs (1)(a) and (b).

Investment policy

- 11.2.8** R
- An *applicant* must have a published investment policy that contains information about the policies which the *closed-ended investment fund* will follow relating to asset allocation, risk diversification, and gearing, and that includes maximum exposures.

- 11.2.9** G
- The information in the investment policy, including quantitative information concerning the exposures mentioned in ■ UKLR 11.2.8R, should be sufficiently precise and clear as to enable an investor to:

- (1) assess the investment opportunity;

		<p>(2) identify how the objective of risk spreading is to be achieved; and</p> <p>(3) assess the significance of any proposed change of investment policy.</p>
		<p>Independence</p>
11.2.10	R	<p>The board of <i>directors</i> or equivalent body of the <i>applicant</i> must be able to act independently:</p> <p>(1) of any <i>investment manager</i> appointed to manage <i>investments</i> of the <i>applicant</i>; and</p> <p>(2) if the <i>applicant</i> (either directly or through other intermediaries) has an investment policy of principally investing its funds in another <i>company</i> or fund that invests in a portfolio of investments (a 'master fund'), of the master fund and of any <i>investment manager</i> of the master fund.</p>
11.2.11	R	<p>■ UKLR 11.2.10R(2) does not apply if the <i>company</i> or fund which invests its funds in another <i>company</i> or fund is a <i>subsidiary undertaking</i> of the <i>applicant</i>.</p>
11.2.12	R	<p>For the purposes of ■ UKLR 11.2.10R:</p> <p>(1) the chair of the board or equivalent body of the <i>applicant</i> must be independent; and</p> <p>(2) a majority of the board or equivalent body of the <i>applicant</i> must be independent (the chair may be included within that majority).</p>
11.2.13	R	<p>For the purposes of ■ UKLR 11.2.10R and ■ UKLR 11.2.12R, the following are not independent:</p> <p>(1) <i>directors, employees, partners, officers or professional advisers</i> of or to:</p> <p>(a) an <i>investment manager</i> of the <i>applicant</i>;</p> <p>(b) a master fund or <i>investment manager</i> referred to in ■ UKLR 11.2.10R(2); or</p> <p>(c) any other <i>company</i> in the same <i>group</i> as the <i>investment manager</i> of the <i>applicant</i>; or</p> <p>(2) (subject to ■ UKLR 11.2.14R) <i>directors, employees or professional advisers</i> of or to other investment <i>companies</i> or funds that are:</p> <p>(a) managed by the same <i>investment manager</i> as the <i>investment manager</i> to the <i>applicant</i>; or</p> <p>(b) managed by any other <i>company</i> in the same <i>group</i> as the <i>investment manager</i> to the <i>applicant</i>.</p>
11.2.14	R	<p>(1) This <i>rule</i> applies where a <i>closed-ended investment fund</i> has an <i>external AIFM</i> which has delegated portfolio management to another</p>

investment manager who is not in the same *group* as the *external AIFM*.

- (2) Where this *rule* applies, the fact that a *director* of the *closed-ended investment fund* is also the *director* of another *investment company* or fund that is managed by the same *external AIFM* (or another *company* in the same *group* as the *external AIFM*) does not prevent that *director* from being regarded as independent for the purposes of ■ UKLR 11.2.10R and ■ UKLR 11.2.12R.

11.2.15 **R** A person referred to in ■ UKLR 11.2.13R(1) or ■ (2) who is a *director* of the *applicant* must be subject to annual re-election by the *applicant's* shareholders, unless they are independent in accordance with ■ UKLR 11.2.14R.

11.2.16 **R** The board of *directors* or equivalent body of the *applicant* must be in a position to effectively monitor and manage the performance of its key service providers, including any *investment manager* of the *applicant*.