



The WAY Group

Have FAIF in the future?

FSA publishes proposals for new 'alternative' investment vehicles.

The increasing acceptance of alternatives and London's pre-eminent position in the global markets has finally led to the FSA publishing its long-awaited proposals for a new variety of NURS (non-UCITS retail schemes) able to invest 100% of assets into unregulated funds. The proposals came into effect on 6 March 2010 and we are all waiting to see how they will work in practice.

The new vehicles, called FAIFs (funds of alternative investment funds), will be able to access the full range of approved, but unregulated funds, to a full 100% rather than the old NURS limit of 20%. The limit into unapproved investments (e.g. securities, which includes closed-ended funds listed on exchanges not on the list of eligible markets for the FAIF) does, however, remain at 20%. In spite of this new flexibility, these funds will offer the UK retail marketplace an exciting new opportunity to offer funds of hedge funds, and their like, which are marketable to the person in the street with full access to the standard UK compensation scheme. Moreover, the new rules also

permit a FAIF to act as a 'feeder' fund whereby up to 100% can be invested into another scheme (or 'master scheme'), including an unregulated fund based in the UK or offshore.

If this all sounds a little too good to be true, there is a catch! There are extensive new responsibilities placed on both the investment manager and particularly, the ACD, to carry out far more and far more detailed 'due diligence' at every stage of the investment and ongoing valuation processes. This may sound obvious given that all of the underlying investments can be unregulated, but the new rules are very prescriptive and propositions which do not specify adequate and convincing due diligence measures are likely to be declined.

Due diligence requirements fall into three main categories:

Custody – The manager (ACD) will be required to carry out initial and ongoing due diligence on the independent custody of assets, such that there is reassurance that all of the assets of underlying funds are held by appropriate custodians completely independently of their managers.

Valuation – The manager will be required to carry out initial and ongoing due diligence on the detailed valuation processes and accounting procedures for each underlying fund held, ensuring robust valuation processes and complete independence from their managers.

Liquidity – The manager will also have to consider dealing arrangements, liquidity issues and redemption policies for all underlying funds to ensure that the main fund is always able to meet its obligations in respect of redemptions.

In effect the new rules are making the manager of the FAIF responsible for all of the overriding requirements, which are considered a 'given' when dealing with investment into regulated funds. This will place a very onerous burden on FAIF managers who, in turn, will need to price their services accordingly. Watch this space . . . !



Vince Hoare
Technical Director of
WAY Fund Managers Limited



Distribution of Retail Investments (DIFs and RDR continued . . .)



The focus within the imposition of new rules following the RDR are very firmly on removing the payment of commissions and provision of soft commissions by product providers to advisers who are 'selling' financial products to their 'advised' clients.

The new regime does not deal with the creation, investment management or distribution of financial products other than in respect of remuneration to 'advisers'. This is a key issue, some might say an FSA obsession, and we must avoid any temptation to make assumptions regarding issues on which the new rules are silent. The main thrust is that from 31 December 2012 there are radical changes to the way Financial Advisers may be remunerated.

Advisers/adviser firms must then operate in accordance with published charging structures which are entirely product neutral and focus on the level and quality of service provided to clients and the likely outcomes those services can deliver. In doing so advisers will not be prevented from basing their tariff on a combination of one or more of work done and/or sum of money invested. Ongoing (regular) charges must reflect ongoing responsibilities and service levels. These charges are payable directly by the client and product providers are prohibited from offering financial incentives of any kind to advisers.

Impact on DIFs or own-branded fund offerings

There is no focus within the rules on DIFs but they are mentioned. It would seem that the person/firm recommending a DIF will be unable to charge a greater fee for recommending a DIF than any other competing investment. Moreover there should be no other direct or indirect financial incentive to recommend a DIF over any other substitutable product. A DIF can therefore only be recommended where it is both suitable for and in the best interests of the particular client and where the charge levied is the adviser's/adviser firm's standard charge. This is simple and clearly does not preclude the appropriate use of DIFs going forwards.

Where a firm can be described as a 'vertically integrated' firm which creates, manages, distributes (effectively on a wholesale basis) and then 'sells' (on a retail basis) its own products/funds then it should clearly separate its product charges/costs and its advice charges to customers. In this instance the product costs must not include any remuneration or incentive to the adviser placing clients' investments.

WAY interprets this as indicating that all the normal costs of creating, managing and distributing a fund can be met from within the charging structure

applying to that fund – so long as there are no means by which any of these 'costs' can find their way to the adviser. By the same token WAY does not believe the rules are intended to prohibit the adviser from benefitting from the increase in value of any investment/shareholding he/she may have in a fund management firm whose products are being recommended to clients (such as Fidelity for example). It would, however, be wise for an adviser to disclose any such interest if it could be considered **material**.

Going forward it would therefore seem clear that a separate corporate/legal entity which may be wholly/partly owned by an adviser/adviser firm and which is responsible for creating, managing and distributing financial products, **but does not offer client advice**, is not directly impacted by the new RDR rules. It would, however, seem prudent for such an entity to ensure:

- No individuals/firms are remunerated both for distribution and for advising retail clients on a DIF – there must be a clear degree of separation.
- Any advisers within the 'group' who are advising retail clients regarding a DIF must be operating within the new rules and must have justified that the DIF is not only suitable for but is in the best interests of the client.

WAY will be discussing its interpretation of the new rules with the FSA. We then hope to be in a position to advise Elite clients on any measures which may need to be put in place to comply with the new regime well ahead of December 2012.

Andrew Stevens

Elite Fund Administration

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The WAY Fund Hosting Service

WAY Group has successfully been hosting funds since the establishment of WAY Fund Managers in 2001 and is now a major player within this market in the UK. We like to think that WAY's success is based on several factors, only one of which is reasonable costs.

WAY is one of the UK's largest providers of fund hosting services to the wealth management sector...

Read the brochure: [The WAY Fund Hosting Service](#)

The main features which make WAY's service attractive to clients are:

Quality – WAY delivers a comprehensive service which includes accuracy, efficient communications, high quality documentation and a wide range of products and facilities. We compete on quality not on

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Stay up to date with developments at WAY

We are pleased to announce that our website(s) now have a section relating to Elite's fund hosting services. It is now extremely easy for investment professionals interested in setting up or transferring funds to gain a quick view of what is on offer from WAY Fund Managers.

The site contains all sorts of goodies including:

- An introductory video with one or two guest appearances from clients
- A nascent Q&A section which attempts to answer popular questions
- Testimonials from some of our clients

I would like to invite you to have a look at the site and, if you feel motivated, to make your own contributions. In particular we would appreciate further questions for the Q&A section and any unsolicited but glowing testimonials. Suggestions for improvement are also welcome. Any contributions which make it to the website will prompt the despatch of a decent bottle of bubbly!

www.elitefa.co.uk
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Going for Gold

A great opportunity for Elite 'Fund of Funds' managers to access an exciting new Gold Fund at preferential rates.



Ian Williams

Any WAY or Elite fund holding the new WAY Charteris Gold Fund benefits from a major discount of ongoing charges in line with FSA guidelines. This makes owning this new fund even more compelling than simply the overriding investment case for doing so.

Ian Williams, manager of the new fund and CEO of Charteris Treasury Portfolio Managers is much in demand for his knowledge of this most enduring of asset classes (his reputation precedes him across most investment sectors – since launch in December 2006, his City Financial Gilt Fund is the best performing UK Gilt fund in its sector and the highly competitive Elite Charteris Premium Growth Fund is currently 4 star rated by Morningstar and A-rated by Citywire and pretty much at the head of the UK Equity Income sector over 3 years).

But the case for gold is quite clear

Everyone denies that inflation is poised for take-off but all the indicators are that the massive QE

campaigns (more dollars printed in the last 18 months than in the previous 25 years) around the world have been stoking inflation into a delayed but roaring inferno. Oil and iron ore are up around 100% since January 2009 whilst many other commodities are up 50% or more (butter, rubber and so on). With QE currencies being devalued in this way and Chinese surpluses chasing increasingly debased western government debt there is a clear trend towards gold becoming a reserve 'currency' of choice.

This demand cannot be satisfied from gold production which is both modest and finite whilst most central governments have turned from being net sellers of gold (following Gordon Brown's disastrous sale at the bottom of the market) to being net buyers.

Relative to oil, relative to equities, relative to inflation the gold price has the potential to hit \$5,000 over the next 7-8 years (Ian thinks at least \$2,000). The exciting aspect of Ian's fund is that he is a gold mining enthusiast who searches out the best of

the mining companies to back ahead of this trend really taking off. Gold miners are inexplicably trailing the gold price which means that there is plenty of room for a geared return compared with the gold price PLUS this will probably be enhanced by the inevitable takeover activity which will ensue in the goldrush. Interestingly one of Ian's early holdings has already had a substantial price boost resulting from a takeover story.

As top performing manager, Angus Tulloch of First State, says "given the extent to which governments are printing money, we feel you ought to have 10% of your portfolio in something gold-related" (Money Week 2 April 2010). With BlackRock hitting the investment limits in its £2bn fund Ian Williams' fund is a 'must-buy' alternative.

Call David Williams for details of the discounts available on this fund



WAY ADMINISTRATION UPDATE




As I write this update WAY is approximately half way through the painful process of switching Fund Accounting across to Sharefunds, a subsidiary of Share plc, an AIM quoted company specialising in internet stockbroking and administration services.

All of our funds, both the WAY branded funds and our hosted Elite funds, will have been transferred by the beginning of June. Each month we have transitioned a batch of funds, commencing in February.

I would love to announce that everything has been going completely swimmingly without any glitches or disruption to normal services. In fact everything has been going pretty well and there have been no 'showstoppers' at all. No disruption? Well they do say that there is no gain without pain, no omelette-making without broken eggs, and this has been and will continue to be the case over the next few months. I am announcing this for several reasons. Firstly I want to make it clear that this change is something we have embraced because we see a number of benefits arising for our guest managers in the near future, in the form of better reporting (on-line valuations) and planned options for web-based order-placing and/or dealing. By working intimately with Sharefunds we can specify how the service will develop in the best interests of us all.

The pain involved is the volume of work in transitioning from a system with which everybody is at least familiar, if not affectionate, into one which is spluttering into life. Developing a smooth transition particularly in regards to underlying fund trades has not been 100%. To any teams that have already transitioned and have had difficulties we apologise profusely. To teams yet to transition then we apologise in advance for any difficulties you may encounter. The most important message from the team at WAY, however, is that any of these challenges should be relatively shortlived and the end result will be well worth any birthing pains.

We are aware that we must constantly develop and evolve the service we provide whilst never losing sight of our real USP – our 'uniquely special people' and the relationships we have with our clients. Remember we are here to serve. Please be assured that we will keep disruption to the minimum during these changes. However please never be backward in letting us know our faults and all of the various ways in which we can improve our service – including developing valuations/dealing reports which can be read fairly easily on a  BlackBerry.

Paul Wilcox

New Business - Newsflash:

Fitzwilliam appoint Elite to run transfer agency.

It's no fool but, from early April, Elite took over the responsibility of transfer agency work on the Elite Fitzwilliam OEIC (for which WAY is also ACD) from BNY Mellon.

Cheviot launches new Climate Asset Fund

City based discretionary boutique Cheviot Asset Management Limited launched its first 'Elite' OEIC in February, attracting around £6m during the initial offer period.

The fund targets a 3% yield from investments in a global basket of bonds, commodities and equities, across the themes of energy, food, health, resources and water.

Claudia Quiroz (formerly Hendersons) and William Buckhurst (formerly UBS Wealth) are running the fund.

WAY broadens its horizon with two new specialist funds

February saw the launch of two new funds for WAY, this time in partnership with existing Elite managers:

The WAY Green Portfolio Fund, a joint venture with Vestra Wealth LLP (manager of Elite Income Trust and Elite Balanced Trust among others), is a fund of funds investing in themes including alternative energy, clean technology, water, waste management and recycling. Duncan Carmichael-Jack (formerly UBS Wealth) and Ian Lim manage the asset allocation.

Ian Williams, of City based Charteris Treasury Portfolio Managers, is the lead manager of the WAY Charteris Gold Portfolio Fund. This fund is suitable for investment by other collectives and aims to outperform peers such as Merrill Lynch's Blackrock Gold and General Fund.

OPM appoints WAY for entire suite of funds

Norwich based OPM Fund Management, an existing Elite client, transferred its four Capita-run funds across to WAY in March. The funds, grossing over £60m, include the EFA OPM Fixed Interest Fund, EFA OPM Balanced Managed Fund, EFA OPM UK Equity Fund and EFA OPM Property Fund and, join the EFA Equity High Income Fund c£8m already operated by WAY.

Richard Carswell of Smith & Pinching Portfolio Managers, promoter of all five funds, said "We have listened to the intermediary community and taken the decision to switch our entire portfolio to WAY".

City Asset Management joins an Elite list of clients

We are delighted to announce that WAY has been appointed the ACD of choice for a forthcoming suite of funds, for London-based City Asset Management. CAM chose WAY as the best fit for its business from a beauty parade of seven third-party ACDs.

Watch this space for further details in our next edition.

David Williams

