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INVESTMENT WEEK

PropertyRegulation

FCA narrows focus on property fund liquidity

Follows wave of Brexit-related redemptions

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The Financial Conduct Authority (FCA) is more actively monitoring daily liquidity updates from property funds after further outflows from the sector prompted by Brexit uncertainty.

Morningstar data shows retail investors withdrew £315m from property funds in December, a comparable volume to outflows seen in each of the two months following the 2016 Brexit referendum when funds were forced to suspend trading and prevent investors from further redemptions.

FCA to probe property funds' pricing structures during post-Brexit turmoil

According to the *FT,* the FCA stepped up its monitoring of property funds available to individual investors to a daily basis late last year.

Commenting on the FCA's increased scrutiny, David Wise, co-manager of the Kames Property Income fund, said: "The FCA has learnt its lesson from 2016.

"It is carefully watching flows in and out of the big funds." He added that there had been big outflows from funds in December, coinciding with the big fall in stock markets.

"January was calmer but we certainly had hundreds of millions heading out of the door of our competitors in December. It is manageable but does mean they need to sell assets."

The redemptions seen in the wake of the referendum were a result of the illiquid nature of their holdings, despite the funds themselves offering daily trading to investors.

Adrian Benedict, investment director for real estate at Fidelity International, said: "With the no-deal Brexit deadline looming fast, any regulator is going to be thinking about ‘What was the last section of the economy that was most exposed?'

"The fact that they had outflows in the back end of last year was a signal to the regulator to monitor it.

Benedict explained the FCA also has concerns about the funds' holdings of retail properties amid a crisis for the sector, adding: "We are starting to see valuers correcting the valuations of retail assets within portfolios, and we are only part way through that journey. . . you have got a situation where values are falling, a heightened anxiety around uncertainty."

The FCA said: "As you would expect, we regularly monitor markets and funds. We are also in frequent contact with firms and continue to engage with them on a wide range of issues."

Kames' Wise added that the volume of redemption requests, together with a weak market for retail properties, mean property funds have been forced to sell assets in higher demand, such as office buildings and industrials.

He said: "Generally in stressed conditions funds have to sell some of their — not quite crown jewels — but their better assets because it's the only thing the market wants to buy."

According to *FT* sources, the FCA's increased scrutiny was initially driven by Prime Minister Theresa May's decision to cancel a parliamentary vote on her Brexit deal in December.

The following decision by parliament to reject the deal in January heightened worries of a no-deal Brexit further.

Which were the most popular funds in January?

The FCA is currently consulting on proposals to force property funds to halt trading if there is uncertainty about the value of 20% of their portfolios, and is set to hand down new rules for the sector this year.

However, in a recent review of the asset management market, the FCA said the management of liquidity "was successful and resulted in no material consumer detriment".

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Property funds have seen waves of outflows in relation to Brexit uncertainty

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