



Association of British Insurers

Harmonising the IMA Managed Sectors and the ABI Mixed Investment Sectors

November 2011

Introduction

A group of IMA and ABI representatives have been undertaking work to harmonise the IMA Managed sectors and the ABI Mixed Investment sectors.

This paper sets out the conclusions of the group and the decisions made.

Summary

Based on a range of work previously undertaken by both organisations (including consumer research and consultation with members and data providers), the group agreed a set of harmonised sector names and definitions.

Sector Names

Both sets of sectors will now be called:

- Mixed Investment 0-35% Shares
- Mixed Investment 20-60% Shares (formerly IMA Cautious Managed)
- Mixed Investment 40-85% Shares (formerly IMA Balanced Managed)
- Flexible Investment (formerly IMA Active Managed and ABI Mixed Investment 60-100% Shares)

Sector parameters

To achieve harmonised definitions, the following key changes have been agreed:

- Introduction of a fourth IMA sector - Mixed Investment 0-35% Shares. As IMA does not have this sector currently, changes relate to the ABI definition. These include the introduction of a fixed interest and cash parameter with minimum credit quality applying, and adjusted currency requirements.
- Harmonised fixed interest and cash parameters in the Mixed Investment 20-60% Shares sectors.
- Harmonised equity minima in the Mixed Investment 20-60% Shares and Mixed Investment 40-85% Shares sectors.
- Harmonised currency requirements for Mixed Investment 20-60% Shares and Mixed Investment 40-85% Shares sectors.
- Removal of the 60% equity minimum from the old ABI Mixed Investment 60-100% Shares sector (Flexible Investment).
- Removal of minimum currency requirement from the old ABI Mixed Investment 60-100% Shares sector (Flexible Investment).

Changes to the names and definitions of the IMA and ABI sectors will apply from **1 January 2012**. Firms will have until the end of April 2012 to make the necessary changes to their funds.

The sub-group of the IMA's Sectors Committee and the ABI's Investment Classification Committee will review the Mixed Investment sectors on an annual basis. However, the group have agreed not to make changes to the sector definitions for a minimum of two years, unless circumstances arise which would make this necessary.

Background

The group considered a range of issues and options in the course of its discussions on harmonisation of the Managed and Mixed Investment sectors. The work drew on the findings of consumer research undertaken by both the IMA and the ABI, feedback to previous consultations and analysis undertaken by data providers.

At the outset, the group concluded that the broad framework for the Managed/Mixed Investment sectors remains fit for purpose and is not in need of major revision. However, a number of changes will need to be made to both sets of sectors. To ensure that changes were not made unnecessarily, the group were mindful of a number of factors including:

- the potential impact on users of the sectors;
- improving consumer understanding and minimising detriment; and
- whether there existed a strong, long-term argument for change

The changes agreed should have limited impact on funds within the sectors while improving outcomes for users (in particular, consumers) by improving clarity and consistency across both sets of sectors.

Naming

In April 2011, the ABI changed the names of their sectors to the “*Mixed Investment x-y% Shares*” format in response to concerns about the use of risk adjectives within the old titles. IMA proposed different names (“*Managed A-D*”) but there was little support for these. To improve clarity for users, the group felt it was important for the industry to have consistent names across both sets of sectors and therefore agreed the following format:

- Mixed Investment 0-35% Shares
- Mixed Investment 20-60% Shares (formerly IMA Cautious Managed)
- Mixed Investment 40-85% Shares (formerly IMA Balanced Managed)
- Flexible Investment (formerly IMA Active Managed and ABI Mixed Investment 60-100% Shares)

The Flexible Investment sector accords fund managers a significant degree of discretion over asset allocation (since it has no equity, fixed income/cash or currency requirements). Given that the sector has no parameters which effectively force managers to invest in a mixture of assets, the group felt that the term “Flexible Investment” better reflected the nature of the sector. The group also felt this term would make clearer to consumers the degree of discretion afforded the fund manager.

In April 2011, the ABI issued guidance to its members on fund names following the sector name changes. In light of these new changes, the ABI will update this guidance. The IMA will also issue guidance to its members.

Fixed Income and Cash

The IMA's Cautious Managed sector has a minimum requirement for 30% investment in fixed interest and cash. The objective is to force diversification of assets and ensure that part of the portfolio is held in lower risk assets. The ABI acknowledged that the diversification of funds could be enhanced by the introduction of a minimum requirement for fixed interest and cash. It was therefore agreed that one should be introduced for the ABI Mixed Investment 20-60% Shares and the Mixed Investment 0-35% Shares sectors.

To further define the assets within the Mixed Investment 0-35% Shares sector, it was agreed to introduce a requirement that the fixed income and cash assets should be investment grade.

Equity parameters

Both sets of sectors were already harmonised on equity maxima.

The ABI's Mixed Investment 20-60% Shares and Mixed Investment 40-85% Shares sectors both have equity minima. The purpose of the ABI minima is to force diversification of assets within funds. It was agreed that for the IMA sectors the ABI equity minima would be retained for both the Mixed Investment 20-60% Shares and Mixed Investment 40-85% Shares sectors, because it imposes a mixed asset requirement by rule, and in the interests of convergence.

During the course of its previous review, the ABI introduced an equity minimum for the ABI Mixed Investment 60-100% Shares sector. However, it was felt that an equity minimum would not properly reflect the unconstrained nature of this sector. It could also potentially prevent the classification of "multi asset" funds to this sector, leaving the funds without a home. It was therefore agreed that the equity minimum should be removed.

Currency requirement

The ABI has an existing minimum Sterling requirement for all four sectors. The requirement is graduated: 85% in ABI Mixed Investment 0-35% Shares, 60% in ABI Mixed Investment 20-60% Shares, 50% in Mixed Investment 40-85% Shares, and 20% in ABI Mixed Investment 60-100% Shares. The IMA have a Sterling/Euro requirement of 50% for both the Cautious Managed and Balanced Managed sectors. There is no currency requirement for the Active Managed sector.

The ABI have traditionally considered that a Sterling only requirement is in the interest of consumers since they would reasonably expect at least some of their life and pension funds to be invested in UK assets. The IMA Sterling/Euro requirement was designed to achieve a similar end within established markets, whilst also allowing funds to manage for further diversification.

When considering the currency requirements, the group wanted to ensure that there was a long-term rationale for any changes. It was accepted that there was a case for limiting the extent to which funds could be invested in less established markets, particularly for sectors which are considered to group together funds invested in a more conservative range of assets. Equally it was not felt wise to impose a high level of exposure to a single currency.

With regard to the choice of currency, the group also questioned whether it should remain restricted to Sterling, or to Sterling and Euro. Bearing in mind the objective of forcing investment within established markets (of which the UK and Eurozone are just two), the group considered it appropriate to broaden it to cover US Dollars, as well as Euros and Sterling. To permit US Dollars also gives fund managers a greater degree of flexibility going forward.

It was therefore agreed that the Mixed Investment 0-35% Shares, Mixed Investment 20-60% Shares and Mixed Investment 40-85% Shares sectors would each have a minimum established market (Sterling, Euro and US Dollars) currency requirement, with a Sterling floor in each case. This would be graduated as follows: 80/40; 60/30; 50/25.

However, a currency requirement was not considered in keeping with the nature of the Flexible Investment sector which is designed to accord the fund manager a considerable degree of control over asset allocation. The Flexible Investment sector will, therefore, have no currency requirement.

SECTOR PARAMETERS

Notes for consumers:

The following notes give some basic information about these sectors. If you require information about your fund(s), contact the fund/product provider or a financial adviser. They can give you information about what the fund is invested in, the investment strategy and about how risky the fund is.

1. The definition for each sector shows how much flexibility the fund manager has over the range of investments in a fund. Funds in these sectors can hold a mix of investments which typically include company shares, bonds, "cash" and commercial property. Managers may use a range of different investment strategies.
2. The sectors are not designed to reflect the risk of individual funds.
3. The names of the Mixed Investment sectors show the maximum and minimum amount that funds within each sector may invest in company shares. This includes investments that give an exposure to shares, for example, a derivative that gives exposure to the FTSE100 index.
4. The sectors group together funds that are broadly similar, in line with the definitions. The criteria for the sectors overlap, to give managers flexibility. This means that a fund may sometimes meet the requirements of more than one of the sectors.

Mixed Investment 0-35% Shares

Funds in this sector are required to have a range of different investments. Up to 35% of the fund can be invested in company shares (equities). At least 45% of the fund must be in fixed income investments (for example, corporate and Government bonds) and/or "cash" investments. "Cash" can include investments such as current account cash, short-term fixed income investments and certificates of deposit.

- Maximum 35% equity exposure (including convertibles)
- No minimum equity requirement
- Minimum 45% investment grade fixed income and cash
- Minimum 80% investment in established market currencies (US Dollar, Sterling & Euro) of which 40% must be Sterling
- Sterling requirement includes assets hedged back to Sterling

Mixed Investment 20-60% Shares

Funds in this sector are required to have a range of different investments. The fund must have between 20% and 60% invested in company shares (equities). At least 30% of the fund must be in fixed income investments (for example, corporate and Government bonds) and/or "cash" investments "Cash" can include investments such as current account cash, short-term fixed income investments and certificates of deposit.

- Maximum 60% equity exposure (including convertibles)
- Minimum 20% equity exposure
- Minimum 30% fixed income and cash
- Minimum 60% investment in established market currencies (US Dollar, Sterling & Euro) of which 30% must be Sterling

- Sterling requirement includes assets hedged back to Sterling

Mixed Investment 40-85% Shares

Funds in this sector are required to have a range of different investments. However, there is scope for funds to have a high proportion in company shares (equities). The fund must have between 40% and 85% invested in company shares.

- Maximum 85% equity exposure (including convertibles)
- Minimum 40% equity exposure
- No minimum fixed income or cash requirement
- Minimum 50% investment in established market currencies (US Dollar, Sterling & Euro) of which 25% must be Sterling
- Sterling requirement includes assets hedged back to Sterling

Flexible Investment

The funds in this sector are expected to have a range of different investments. However, the fund manager has significant flexibility over what to invest in. There is no minimum or maximum requirement for investment in company shares (equities) and there is scope for funds to have a high proportion of shares.

- The manager is accorded a significant degree of discretion over asset allocation and is allowed to invest up to 100% in equities at their discretion.
- No minimum equity requirement
- No minimum fixed income or cash requirement
- No minimum currency requirement

Notes to definitions

1. At any one time the asset allocation of a fund in these sectors (particularly the Flexible Investment sector) may mean that the fund meets the requirements of more than one sector. The fund would remain in the elected sector on these occasions, but subject to complying with these notes.
2. The “look-through” principle will apply when considering securities that are structured with the legal form of an equity (such as a listed investment trust and some listed ETFs), but manage or invest in different underlying assets such as property, commodities, etc. Where the underlying entity itself invests in equities, the holdings are classified as equities. Further details may be obtained from the monitoring company. The monitoring company’s decision is final.
3. Funds in the sectors which do not appear to comply with the “spirit” of a definition will be removed from the sector. Funds will be issued with a warning before they are removed. The “spirit” may be considered as being whether a fund’s investments or strategy tends towards the achievement of the overall sector scheme objective of allowing like-for-like comparisons to be made between funds. Managers should note that the user group for sectors should be assumed to be consumers and their advisers. Funds should not rely in making their case on applying a narrow, legalistic or unusual interpretation to what are in practice broad definitions. Decisions will be made by the ABI Investment Classification Committee or the IMA Sectors Committee and will be accepted as a peer group decision by funds in the sectors.