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Primary Market Technical Note

Master-feeder structures

The information in this note is designed to help issuers and practitioners interpret our UK Listing Rules, Prospectus Regulation Rules, Disclosure Guidance and Transparency Rules, and related legislation. The guidance notes provide answers to the most common queries we receive and represent FCA guidance as defined in section 139A FSMA

Rules

UKLR 15.2.611.2.7 R, UKLR 15.4.611.4.10 R, UKLR 15.4.6A11.4.11 G

UKLR 115 sets out specific requirements for master-feeder structures. UKLR 15.2.611.2.7 R and UKLR 15.4.611.4.10 R recognise that a feeder fund may achieve a spread of investment risk by ensuring:

- the investment policies of the underlying master fund are consistent with its own and provide for the spreading of investment risk; and
- the master fund acts in a way which is consistent with the feeder fund's investment policy and spreads investment risk

The effect of these rules is to enable feeder funds to comply with the UKLR 115 rules on spread of risk by taking into account diversification at the level of the master fund.

As set out in UKLR 15.4.6A11.4.11 G, a feeder fund should have the ability to withdraw its funds if the master fund does not spread investment risk, although we recognise that in practice this withdrawal may be after some delay – for example, because the underlying investments held by the master fund are illiquid or subject to restrictions on their realisation.

The effect of the additional rules and guidance that apply to feeder funds (UKLR 15.2.611.2.7 R, UKLR 15.4.611.4.10 R and UKLR 15.4.6A11.4.11 G) is to recognise that the board of the listed issuer will have less direct control over the underlying portfolio than it would if the funds were invested directly, as feeder funds are typically minority investors.

We have come across structures that differ from traditional master-feeder structures, either because the feeder fund also proposes to invest some funds directly (outside of the master fund), or because the feeder holds a majority percentage stake in the master fund that allows it to exercise control over the master fund.

In such scenarios, the implicit recognition that the issuer could not influence the direct investments, or the investment choices of a majority-owned master respectively, clearly does not hold. As such, the investment policy of the issuer should reflect the issuer's control of these investments by clearly describing how investments will be made by the issuer in a way that is consistent with its objective of spreading risk, rather than just referring to the master fund's policy – as would normally be the case for a feeder fund.

When considering the eligibility of a new applicant feeder fund, we expect the sponsor to be able to demonstrate that there is a genuine master-feeder relationship, as distinct from a fund that holds investments through subsidiaries or other controlled special purpose vehicles. Where the applicant has the sole economic interest in the master fund, or controls the master fund, it calls into question whether the structure is in reality a master-feeder. For the avoidance of doubt, where the applicant is the only "feeder" into a "master fund", UKLR 15.2.611.2.7 R (and UKLR 15.4.611.4.10 R on a continuing basis) will not apply to the applicant. Instead, the applicant will need to meet the full eligibility requirements for UKLR 115.

In addition, a feeder fund that proposes to make direct investments will need to consider whether it continues to meet the criteria for a

| feeder fund, given that UKLR 15.2.611.2.7 R and LR 15.4.611.4.10 R apply only where an issuer invests principally in a master fund.