

UCITS IV - Master-feeder structures

Master-feeder structures enable strategies in view of pooling funds' assets and achieving economies of scales. The use of such structures in Luxembourg was always possible for Part II funds or SIFs, but was prohibited for UCITS funds. This changes with UCITS IV and the introduction of rules regarding master-feeder structures into the UCITS framework.

Quick Reference Guide

Master-feeder in a nutshell

In a master-feeder structure, the feeder is the “collection fund” in the target distribution country in which retail and/or institutional investors may be allowed to invest. The feeder invests the cash received from its own investors in the master, becoming its unitholder.

UCITS IV master-feeder structures

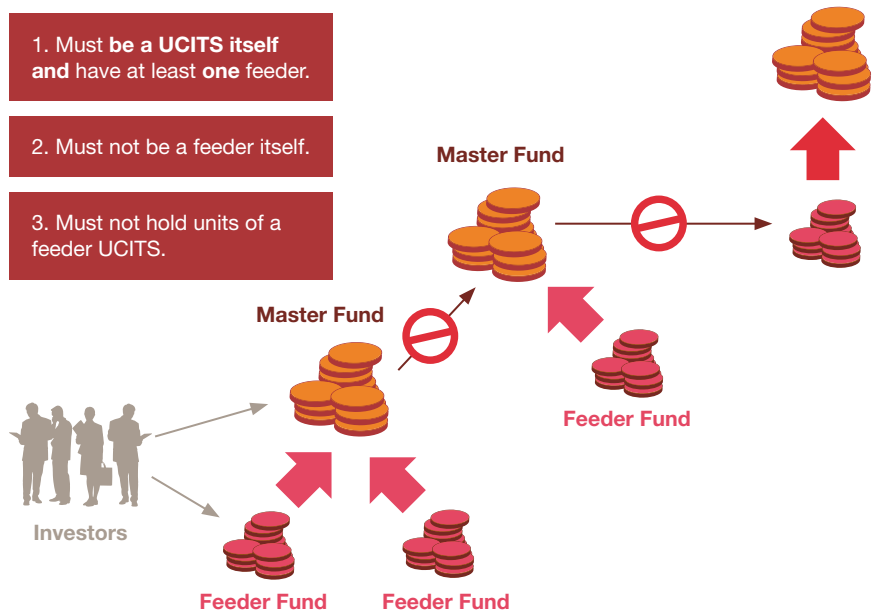
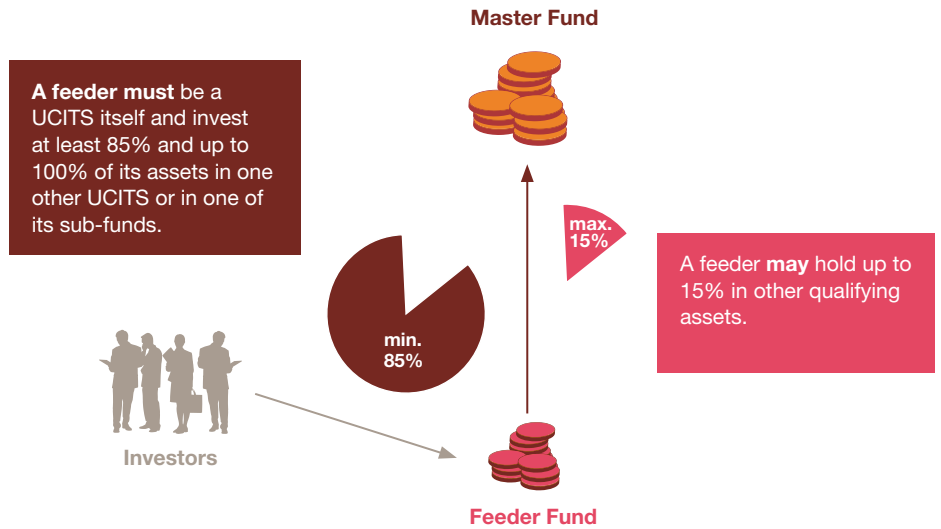
Any UCITS (FCP or SICAV/SICAF) or any investment compartment thereof is permitted to adopt a master-feeder investment policy. A feeder UCITS derogates, by law, from the usual UCITS diversification limits in order to be allowed to invest up to 100% of its assets in only one target UCITS. However, UCITS master-feeder structures are only allowed between European-domiciled coordinated UCITS, meaning that both the feeder and the master must be subject to the European UCITS Directive. At the level of the master UCITS, besides the feeder's investment, other investors could be present: institutional or retail investors, other funds of funds and even other feeders.



Core requirements of UCITS IV

Investment restrictions

- A feeder UCITS has to invest at least 85% of its assets in the master UCITS and the 15% remaining assets being invested in ancillary liquid assets, derivatives for hedging purposes and movable and immovable property essential for the direct pursuit of the business (for investment companies only).
- The master UCITS is subject to the classic diversification limits as set forth in the UCITS Directive as implemented in part I of the Luxembourg Law of 2010. To avoid the creation of opaque structures, the master UCITS is not allowed to invest in another feeder or be itself a feeder.



Competent regulators

- The UCITS master-feeder structure is subject to the authorisation of the feeder's home regulator, i.e. in case of a Luxembourg UCITS feeder the CSSF.
- If the feeder and the master are domiciled in two different jurisdictions, the home regulator of the master UCITS is solely involved to officially confirm in writing that the master complies with the investment restrictions (the "Master UCITS Regulator's Attestation").

Approval of master-feeder structures

- For its creation, a Luxembourg feeder UCITS has to provide the CSSF with a set of documents, including its own prospectus and KIID, but also information related to the master UCITS (prospectus, KIID, the Master UCITS Regulator's Attestation (where applicable), the information sharing agreements put in place between master and feeder, and also between their respective auditors and depositaries).
- All documents must be transmitted to the CSSF in one of the official languages (i.e. French, German or Luxembourgish) or English.
- Approval should be granted within 15 working days following the submission of a complete file.
- In case of conversion of an existing UCITS into a feeder UCITS, the same principles apply, being however understood that the feeder has to (i) prior inform its existing unitholders who will have the right to request within 30 days the repurchase or conversion of their units without charges other than disinvestment costs and (ii) notify accordingly each regulator of the feeder host Member States in case of cross-border distribution.

Monitoring of the Master UCITS

- The feeder UCITS has to monitor the activity of the master UCITS. For that purpose, an information sharing agreement between the feeder and the master is compulsory (except in the case where both master and feeder are managed by the same company) to ensure adequate information flows are in place.
- The depositary of the master UCITS is responsible for immediately informing both its own and the feeder's regulator, the feeder UCITS itself, but also the feeder's depositary and management company (if applicable) about any irregularities detected with regard to the master.

Content of marketing information:

- The prospectus of the feeder UCITS shall contain:
 - a declaration that the feeder is a feeder of a particular master UCITS and as such permanently invests 85% or more of its assets in that master;
 - the investment objective and policy, the risk profile and the performances of the feeder and the master are identical, or to what extent and for which reasons they differ, including a description of investments made in the feeder's 15% pocket (if any);
 - a brief description of the master (organisation, investment objective and policy, risk profile, how the prospectus of the master may be obtained, etc);
 - a summary of the information sharing agreement established between the feeder and the master;
 - how the unitholders may obtain further information on the master and the information sharing agreement between feeder and master;

- a description of all charges payable by the feeder by virtue of its investment in the master and aggregate charges of the feeder and master;
- a description of the tax implications of the investment into the master for the feeder.
- The KIID of the feeder UCITS shall describe:
 - the proportion of the feeder's assets invested in the master;
 - the master's objectives and investment policy;
 - the investment returns of the feeder and master and explanations related to potential differences;
 - the SRRI of the feeder and master differ and explanations related to potential differences;
 - the combination of costs of both in the ongoing charge figure.
- A statement on the aggregate charges of the feeder UCITS and the master UCITS must be included in the annual report of the feeder as well as how the annual and the half-yearly report of the master can be obtained (also in the semi-annual report).

Main operational and business implications

- Information flows and monitoring requirements are quite heavy in particular for master-feeder structures using services providers not belonging to the same group;
- New value chain and related fee arrangements will probably need to be put in place, implying management decisions but also regulatory, tax, operational and marketing analyses;
- Potential accounting, central administration and KIID production issues should not be under-estimated, in particular in case of cross-border master-feeder structure;
- Potential tax impact and regulatory reporting requirements must be closely analysed before any restructuring decision;
- Fund promoters will lastly have to make sure that the savings envisaged by a master feeder structure will exceed the costs incurred, including marketing risks.





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