KEYNOTE INTERVIEW

London calling for US managers

More and more US investment managers are listing funds on the London Stock Exchange. JTC's Wouter Plantenga and Simon Gordon discuss why it makes sense

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Q What attracts US managers towards a UK listing?

Wouter Plantenga: Currently there is a lot of competition for capital in their home market, which gives US managers an incentive to try to find a new pool of capital. That's a driver towards the UK, where they can get access to a relatively sophisticated institutional investor base and a financial system and equity capital market that offers the level of infrastructure that US managers are comfortable with.

British investors are also often looking to diversify portfolios away from Europe, and so there is an appetite there for US investment funds. Since 2017, over $5 billion has been listed by US-based managers on London investment fund markets.

The other element is the fact that the UK is a less regulated environment, which offers more flexibility in terms of fund structures than the US.

Simon Gordon: Often investment trusts that are listed on US exchanges go to IPO and end up trading at a discount, which is not good news for the US manager. In the UK, by contrast, closed ended investment trusts have this ability to grow from a relatively low IPO size through just issuing shares in secondary issues. In the UK, a manager can do an IPO at £150 million and grow that. Over five years it is not uncommon to grow to £1 billion-plus through more and more secondary raises and issuing more shares.

There are also tax laws in the US that force listed managers to distribute a certain amount each year, resulting in less flexibility around the ability to roll up capital for reinvestment.

Q What type of US manager is most likely to be interested in a UK listing? Does it appeal to some asset classes or types of funds more than others?

WP: If you look at the US funds that have listed vehicles over the past few years, there have been various asset classes, including energy, renewables, private equity and hedge, so it's hard to pinpoint a trend. There is certainly an argument that more energy and renewables managers are going in that direction, in part because the London Stock Exchange offers a more stable financing proposition and the investor base is more interested in sustainable finance and ESG-type investments.

SG: The underlying theme over the last few years has been yield cos, so anything that can generate income is attractive to the institutional investor market via the LSE. The LSE is open to alternatives beyond equities and bonds, and the type of manager looking at the UK is a manager who either is already investing in an asset class that generates a reasonable level of yield, or one who wants to open up a new sub-investment strategy that they have not done before.

For example, maybe they have been doing straightforward private equity investing in the energy sector and they want to start investing in renewable energy infrastructure projects. They can diversify that strategy and it is popular with investors as long as there is that underlying theme of yield.

Whether there is going to be a clamour for a greater element of growth in those funds remains to be seen – at the moment, yield and income are the attractions.

Q From your experience, are there any top tips or common pitfalls that US managers considering a listing in London should know about?

SG: The number one rule for US managers coming into this market for the first time is to speak to a London advisor as early as possible. There are lots of great brokers and legal advisors in London, and my advice would be to speak to two or three brokers early on in the process. They will be able to offer first-class advice on how attractive the proposed strategy is going to be for London's institutional investors.

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>
> **WOUTER PLANTENGA**

It is quite a small community of people, so the brokers will know who they are going to market the opportunity to. They will also be able to work with a manager to tweak the proposition and make it as attractive as possible to those investors. The pre-marketing is very important to make sure that managers meet the numbers they are looking to achieve in an IPO.

There is also a cultural difference between the US and the UK when it comes to lawyers and other service providers. They will all bill on an hourly rate basis in the US, whereas in the UK a manager will be given a fixed fee quote. Often, US managers will come here with a fear of running up bills very quickly, but that is not how advisors operate in the London market.

WP: For US managers going abroad, there is often a fear of the unknown. London offers an Anglo-Saxon framework, which is helpful, but it is also critical to connect with the right providers from a professional standpoint.

SG: In the UK, it can take months to IPO and you need to deal with regulations like AIFMD, which US managers are not familiar with. There is a danger that US managers over-egg the AIFMD pudding by thinking that they need to go for full AIFMD passporting, when actually that is rarely the case.

There is a lot of flexibility in the process and the team at the LSE is really helpful, so advisors can run a prospectus past the listing authorities and there is quite a collaborative process that goes on.

Q How do you expect the attractions of the London market to develop? What are your predictions for activity in 2020?

WP: It is obviously difficult to make predictions at the moment, but the Brexit uncertainty will eventually pass and I think we will see a very attractive environment, potentially supported by the government as it seeks to attract capital into the market again.

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> **SIMON GORDON**

SG: In 2018, there was quite a lot of interest from US managers looking to list on the London exchanges. This year, there has probably been a bit less activity, and there have not been many IPOs of funds generally. The two that we have dealt with for US managers this year have both been in the renewable energy space, but it has been slower for new listings.

The income-generating funds that are already in the market, whether they are REITs or renewables, have done extremely well on the secondary raising market and have been oversubscribed a lot of the time. So that is a clear sign that there is a lot of cash out there looking for the right products.

At the moment, due to Brexit and political uncertainty, the exchange rate for the pound against the dollar has been extremely volatile and investors are a little nervous about investing into new products. Once we have got this out of the way, hopefully early next year, then sterling should be a little less volatile and I think by the second quarter of next year we will see an uptick in the number of IPOs coming to market.

I believe we will continue to see a lot of activity around renewables, but we will also see more innovative products come through, like the music royalties fund that listed earlier this year and was very successful. ■

Wouter Plantenga is the US-based head of group client services at JTC.

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