

Money Marketing column – 28 January 2009

The IMA's view

Quite a lot of the press coverage on the Investment Management Association concerns the topic of sectors, especially the creation of new sectors or the abolition of small ones which no longer serve their purpose.

So what is the purpose of the IMA's sectors? What is it they set out to do?

There are over 2,500 UK authorised funds available to buy. Sectors are designed to help investors and their advisers find their way around them by sorting them into groups which can be compared on a like-for-like basis. There are a total of 33 sectors. They are categorised as Income or Growth or Specialist or Capital Protection.

The individual sectors are generally based on asset type (such as equities or bonds), industry sector (such as Technology & Telecommunications) or region (such as North America). There are a few sectors which are based on a different premise, for example Absolute Return which is based on a specific objective rather than the type of assets held. Whatever the case, every sector has a clear definition.

One point I feel should be made, as it seem to me to be very important and little understood, is that the fund management companies choose which sectors they would like their funds to appear in. Then subject to meeting the criteria, they will be placed in their chosen sector. IMA staff deal with these requests and any changes, for example when funds merge, as well as a range of enquiries. A third party company, Lipper, collects and analyses the portfolio holdings data of the funds to establish whether they comply with the sector definitions. The IMA is the enforcement agent for funds that breach the sector definitions.

The sectors work is the only area of self regulation undertaken by the IMA and we know IFAs and investors place reliance on them. Every sector is clearly and simply defined and the funds within them are monitored for compliance against the definitions.

The work of the sectors is overseen by a committee at the IMA which comprises representatives from around a dozen fund management firms who are members of the IMA, together with representatives from three data companies and relevant senior IMA staff. The Performance Category Review Committee meets regularly to consider a wide range of issues, including reviewing sectors, providing advice on developing sectors, decisions on non-routine classification and they also hear appeals. Outside the meetings they help with many individual requests.

To give an example, the IMA created the Absolute Return Sector in 2008 after a great deal of discussion at the PCRC and consultation with its member firms. The Committee has oversight as to which funds are classified in the sector. A review of the sector took place in Spring 2009 which resulted in a change to its definition. The PCRC will be carrying out a further review on the sector early in 2010, as it regularly does with all the different sectors.

Whilst the IMA is consulting with its members on issues or the PCRC is in the process of reviewing different sectors it is difficult for us to comment on certain issues – as at this stage the outcome isn't clear.

Much of the work is very technical in nature, but some is more a matter of judgement. For example, should sectors be large and general in nature, or should they be smaller and much more specialised? Should they be focused purely on describing the assets held – like UK All Companies – or should they, like Absolute Return, describe an investment objective?

All the decisions about the sectors are determined through consultation, with a great deal of analysis and informed discussion. Sometimes there are articles in the press, for example about the inclusion of Offshore Funds in the IMA sectors, which appear before the decisions are complete. But it is only once all the decisions are complete that we are in a position to explain what is going to happen.

Ginny Broad is Head of Communications at the Investment Management Association

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