

Closed-ended investment funds: FCA consults on targeted changes to the Listing Rules

The FCA has published a consultation paper (CP26/21) setting out proposed changes to the UK Listing Rules (UKLR) applicable to closed-ended investment funds (investment trusts). The changes are principally designed to help strengthen the protections for minority investors against conflicts of interest, and are partly in response to recent shareholder activism in investment trusts.

The FCA acknowledges that activism plays an important role in UK markets, enabling shareholders to hold boards to account and push for improvements to performance by addressing issues such as high management fees and poor total returns, as well as issues such as persistent discounts between the share price and the net asset value of underlying investments. However, the FCA is concerned about circumstances where an activist or other significant investor seeks to become the investment manager (IM) and/or appoints one or more directors to the board in order to cause the investment trust to enter into transactions that benefit the significant investor but not necessarily other, minority investors – for example, by changing the identity or fees of the investment manager; changing the investment policy or risk tolerance of the investment trust; distributing assets; or winding up the investment trust.

To address such risks, the FCA proposes to make certain changes to the rules in UKLR 11 and related defined terms. The changes are summarised in the box to the right. More detail on the context and proposed changes is given below.

The consultation closes on 14 August 2026. The FCA is aiming to finalise the rules and publish a Policy Statement before the end of 2026.

Key proposed changes

- Any director who is not independent of a proposed investment manager (IM) would not be permitted to participate in the board's deliberations on the appointment of the proposed IM or vote on it.
- Where a director was successfully proposed for appointment by a substantial shareholder, the director would be treated as an “associate” of that substantial shareholder for the purposes of the related party transaction rules. The director would therefore themselves be a related party; and would not be permitted to participate in the board's consideration of any related party transaction with the substantial shareholder that proposed them for appointment or be allowed to vote on it.
- The special rules on “relevant related party transactions” in UKLR 11, which govern payments of fees and other remuneration to an IM, would apply not only to the incumbent IM but also to a proposed IM.
- Where a substantial shareholder or one of its associates is also the IM, the substantial shareholder would be prohibited from voting on a material change to the investment trust's investment policy. Alternative options are also being considered.

State of the investment trusts industry

According to the Consultation Paper, as of May 2026 there were 264 unique listings (unique issuers) under the closed-ended investment funds category that would fall within the scope of the FCA's proposals. The majority of these are managed by 145 investment manager firms, some of which may be part of the same group. These funds had total assets under management (AUM) of £217 billion. An average closed-ended investment fund managed £863 million, and the median value of AUM was £325 million (as at 13 May 2026). 188 of these funds invested only in equity; 13 only in fixed income; 14 only directly in property; and 49 in a combination of these (as at 13 May 2026). Typically, it is mutual funds that hold shares of the closed-ended investment funds in their portfolios.

According to FCA market intelligence on a sample of 60 closed-ended investment funds in September 2025, most of these funds are managed by an external investment manager that does not manage other funds. Only a smaller group of IMs operate multiple funds. Across the sample, fee levels were clustered in a narrow range, with most funds charging between 0.5% and 1% on a basis which is usually tied to the NAV. Fees above 1.5% were concentrated in venture capital and private equity, which the FCA notes is consistent with the resource intensity and illiquidity of those strategies and the tendency for smaller NAVs where fixed costs do not scale in the same way. Less than half of these funds had a performance fee mechanism.

Market intelligence in May 2026 also suggests that approximately 30 of the 264 closed-ended investment funds had an investor that held 20% or more of the voting rights. Most of these would likely be classified as substantial shareholders for the purposes of the FCA's related party rules.

Proposed changes to the UKLR

Directors connected to a proposed investment manager should not participate in appointment decision

Under a new rule (UKLR 11.4.13A), where an investment trust proposes to appoint a new investment manager (the proposed investment manager), any director who is not independent of the proposed investment manager would

not be permitted to participate in the board's deliberations on the appointment or to vote on the relevant board resolution.

For this purpose, a director would not be independent of the proposed investment manager if, broadly, they:

- are also a director, employee, partner, officer or professional adviser of or to the (proposed) investment manager or any other company in the same group as the (proposed) investment manager; or
- were proposed as a director by the proposed investment manager or its associates.

Remuneration of a proposed investment manager

Under UKLR 11.5.2, the related party transaction (RPT) rules in UKLR 8 apply to an investment trust with certain modifications. In particular, the investment manager of an investment trust, and any member of the investment manager's group, is treated as a related party of the investment trust. Other persons who are treated as related parties include substantial shareholders (which broadly means a person who is, or was within the previous 12 months, entitled to exercise, or to control the exercise of, 20% or more of the votes exercisable at a general meeting of the investment trust or any of its subsidiary undertakings); directors of the investment trust or any of its subsidiary undertakings; and associates of the above.

Where an investment trust enters into a transaction or arrangement with a related party (such as a substantial shareholder or the investment manager) where any percentage ratio is at least 5%, it must:

- obtain the approval of its board for the transaction or arrangement, while ensuring any director who is, or an associate of whom is, the related party, or who is a director of the related party, is excluded from the board's consideration of the transaction and does not vote on the relevant board resolution;
- obtain a written confirmation from a sponsor that the terms of the transaction or arrangement are fair and reasonable as far as shareholders of the issuer are concerned and disclose that the directors have been so advised; and
- announce certain details of the transaction.

In addition, UKLR 11 includes special rules relating to the payment of fees or other remuneration to an investment manager (known as a “relevant RPT”). The requirements set out above apply where a relevant RPT exceeds 0.25% in any class test. Where, unusually, a relevant RPT amounts to 5% or more in a class test, or where the amount is uncapped, shareholder approval must also be obtained. The related party and its associates must not vote on such a resolution.

To ensure that these rules apply also to the payment of fees or other remuneration to a *proposed* investment manager, the FCA intends to amend the definition of a related party, and the definition of a relevant RPT, to specify that such fees or other remuneration would also be treated as a relevant RPT. Where the fee structure for a proposed investment manager is different to the fee structure for an incumbent investment manager, the entire fee payable to the proposed investment manager would have to be class tested. But where the new fee structure is comparable to that for the incumbent investment manager, only the variation in fee would have to be class tested. The relevant FCA Technical Note (TN 403) may be updated to reflect this.

Director appointed by substantial shareholder to be treated as “associated” with the shareholder

For the purposes of the RPT rules applicable to investment trusts, a director who was successfully proposed for appointment by a substantial shareholder (either acting alone or in concert with other persons) would be treated as an “associate” of that substantial shareholder, and with any associate of that substantial shareholder. They would therefore themselves be a related party. Such a director would therefore not be permitted to participate in the board’s consideration of any RPT with the substantial shareholder that proposed them for appointment or be allowed to vote on it.

Voting on material changes to an investment policy

Currently, a material change to an investment trust’s investment policy must be approved by the FCA and then by a simple majority of shareholders (UKLR 11.4.14). All shareholders are permitted to vote on such a change. However, FCA approval is not required if the changes to an investment policy are to enable the investment trust to be wound up in accordance with its constitution.

If a substantial shareholder is also the investment manager of the investment trust, there is an increased risk of the investment policy being changed to suit the substantial shareholder but not the majority of other shareholders – particularly as, under current rules, the substantial shareholder can vote on the resolution. To address this risk, the FCA proposes that where a substantial shareholder is also the investment manager, the substantial shareholder and its associates would be excluded from voting on a material change to the investment policy (new UKLR 11.4.14A). If an associate of a substantial shareholder is the investment manager, the substantial shareholder - but not its associates - would be excluded from voting on a material change to the investment policy.

However, the FCA seeks views on whether any of the following alternatives would be preferable:

- Permitting the substantial shareholder to vote, but with their voting rights capped at 20% of the total voting rights.
- Excluding the substantial shareholder from voting only where an incumbent or proposed director or directors of the board are not independent of the substantial shareholder.
- Requiring the change to the investment policy to be approved by a simple majority of both (i) all the shareholders; and (ii) the independent shareholders – i.e. excluding the substantial shareholder and its associates (a double majority requirement).

How would the proposed changes affect activism in the investment trust sector?

The proposed changes are likely to be welcomed by incumbent boards and IMs who have faced activism in recent times. The changes will not stop all activism in the sector, but they should at least curtail it where the goal is for the activist to become the IM rather than seeking changes that would benefit all shareholders equally.

Types of investment entities that are eligible to list: separate consultation to follow

On 3 March 2026 the FCA announced it was also exploring which types of investment entities should be eligible to list in the UK, and specifically whether the requirement for listed closed-ended investment funds to manage their assets in a way that aligns with the objective of spreading investment risk is proportionate.

This work is ongoing, and the FCA aims to publish a timeline for taking it forward later this year.

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