

M&G Freezes Flagship Real Estate Fund as Withdrawals Mount (2)
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(Bloomberg) -- M&G Plc's investment business has frozen its flagship 2.5 billion-pound (\$3.3 billion) U.K. real estate fund after Brexit and the spiraling crisis in the retail property market prompted investors to flee.

The M&G Property Portfolio fund has struggled to sell assets to meet mounting redemptions, with potential buyers being scared off by political uncertainty and plunging mall and store values, according to a statement on Wednesday. Retail properties now account for about 40% of the fund's holdings, according to an Oct. 31 fund factsheet.

The asset management industry has been rocked by fears over daily-dealing funds that allow investors easy entry and exit, but hold assets that take far longer to sell. M&G's freeze follows the shock collapse of star U.K. stock picker Neil Woodford's empire this year, amid tougher scrutiny of managers who have been pushed to seek harder-to-sell assets in their hunt for yield.

"Woodford and M&G are different scenarios, but both point to the same thing," Ben Yearsley, investment director at Shore Financial Planning said. "You shouldn't hold illiquid assets in open-ended funds."

GAM Holdings AG, H2O Asset Management and Lime Asset Management Co. have also grappled with liquidity crises in the past two years.

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The M&G money pool was one of seven major U.K. funds that halted trading in the aftermath of the 2016 Brexit vote, when spooked investors demanded their money back. In a rush to sell properties quickly in order to raise cash, many funds disposed of buildings that remained attractive to buyers even after the Brexit vote, such as London offices or warehouses.

That's left funds like M&G with a higher relative exposure to retail properties that have proven tough to sell. Retailers have been closing stores and seeking rent cuts in an attempt to compete with online rivals, sending retail property values plunging.

M&G's decision to gate its fund will put the spotlight on the managers that also froze funds in 2016. Since the Brexit

vote, Janus Henderson Group Plc's U.K. Property PAIF -- one of those funds that suspended dealing -- has held "a higher level of cash in the face of continued political and market uncertainty" and remains open, a spokesman said by email on Wednesday.

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The string of suspensions following the EU referendum prompted regulators to review U.K. daily-traded property funds for mom-and-pop investors.

The decision to suspend M&G's fund "is to allow the fund time to raise liquidity levels and preserve value for investors through orderly asset sales," the Financial Conduct Authority said in an emailed statement. "The FCA is working closely with the firms involved to ensure that that timely actions are undertaken in the best interests of all the fund's investors."

The M&G property funds will continue to be actively managed while they're gated, according to the statement. M&G says it will waive 30% of its annual charge, which will end when the funds resume dealing.

"Funds promising investors daily liquidity whilst investing in underlying assets which are themselves far less liquid will always lead to suspensions or closure over periods in which capital outflows accelerate," said Adam Jones, a partner at investment firm Albert E Sharp. "Liquidity is clearly top of mind for many investors given recent events."

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