TheCityUK

TheCityUK response to the Pensions Investment Review: Call for Evidence (September 2024)

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes 12% of the UK's total economic output and employs over 2.4 million people – with two thirds of these jobs outside London across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry. The industry plays a significant role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice, and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business, and manage risk.

As a British success story, and a vital facilitator of public and private sector activity across the economy, the financial and related professional services industry is perfectly placed to support the government's mission to boost investment and growth in the UK economy. Our industry is a national asset that makes a significant contribution to inclusive economic growth and stability. There are several ways in which investment in the UK can be enhanced, from streamlining regulations and improving the business environment to fostering innovation, strengthening trade ties and developing a skilled workforce. TheCityUK is committed to working with government and regulators to create the conditions that will attract more investment into UK companies and infrastructure, as well as the transition to a net zero economy, from investors within and outside the UK.

Pools of pension capital in the UK are substantial, with UK DC pension scheme assets set to grow from around £500bn (2021) to around £1trn by 2030[1] and £430bn in Local Government Pension Scheme (LGPS) assets[2]. These capital pools have the potential to play a part in addressing investment shortfalls in the UK and boosting economic growth and productivity. TheCityUK believes that reforms can be made to make it easier and more attractive for UK pensions to invest more capital in UK assets. But any shift in allocation of pension capital to UK assets will need to align with fiduciary duty. To make progress on the pensions investment agenda the government will need to carefully balance objectives for individual savers, business and the UK economy, taking care to consider the complexities of the pension system, and promote behaviours that deliver win/win outcomes for all.

We do not support mandating investment in UK assets. This would contravene fiduciary responsibilities, undermine trust in pensions, and could negatively impact the UK's reputation and attractiveness as an open international financial centre with strong governance.

We welcome the government's focus on consolidation of, and investment by, DC and LGPS schemes in the first phase of their review. We recommend an overarching focus on:

- **Better outcomes for pension savers:** By 2066 UK residents aged 65 years and over are expected to make up 26% of the total population[3]. One of the key benefits of these reforms should be to give people across the UK a better life in retirement and help - in part - with solving the major public policy challenges that an ageing population brings.
- **Encouraging a positive, confident system-wide culture around investing generally, and particularly for later life:** The government should focus on policies that build on the success

[1] The Pensions Regulator (2021): DC: Investing for the future
[2] The Pensions and Lifetimes Savings Alliance
[3] Living longer - Office for National Statistics (ons.gov.uk)

of workplace auto enrolment, to empower UK savers to confidently engage and invest in their pensions. A culture of risk-aversion has developed in the UK. In reforming the pension system and its investment in UK assets, the government needs to consider how to address risk aversion and short termism to optimise retirement outcomes. Good retirement outcomes and sustainable growth across the UK economy both require a risk balanced and long-term approach to investing.

- **Making investment in the UK attractive, easy, and consistent with fiduciary duty**: TheCityUK believes that the government should maintain a focus on revitalising UK capital markets to better serve savers, companies, and investment in UK infrastructure. The government should pursue policies that are effective in supporting the attractiveness of the UK and UK assets to *all* investors, as well as making it easier and more attractive for British businesses to stay and grow in the UK.
- **Identifying key behaviours wanted:** Actors across the pension system need to contribute to good outcomes, finding effective ways to motivate, enable and support those behaviours.
- **Shifting the focus of pension investing from minimising cost to maximising long-term net value in pension outcomes:** Historically, policy discussions on pensions have disproportionately focused on minimising short-term costs rather than maximising long-term pension saving outcomes. The government and regulators should focus efforts on improving good net outcomes for savers in the long-term, rather than short-term focus on minimising costs.
- **Drawing on international best practice:** There are lessons to be learnt from decades of pension reform that have taken place across the globe which have boosted the attractiveness of domestic investment in other jurisdictions. We appreciate each jurisdiction is unique and not everything that has worked well elsewhere would work in the UK, but we encourage government to consider successes elsewhere that could be adapted to positively impact in the UK.

Set out below is TheCityUK response to the questions in the call for evidence.

Scale and consolidation

1. **What are the potential advantages, and any risks, for UK pension savers and UK economic growth from a more consolidated future DC market consisting of a higher concentration of savers and assets in schemes or providers with scale?**

TheCityUK views more DC market consolidation as a positive step in contributing to better pension performance, efficiencies, governance and saver outcomes. Three forms of consolidation exist in this regard: consolidation of an individual's various policies, which we understand is part of the next stage on the Review; consolidation of assets (which we explore further in the context of platforms in question 2); and consolidation of schemes, particularly smaller schemes. We are focusing on smaller scheme consolidation in this submission but highlight that asset-based consolidation may be a complementary – and quicker - way to achieve some of the benefits of consolidation, especially for contract-based schemes.

Larger schemes are more likely to have in-house investment expertise, making it easier to invest in non-standard asset classes, achieve greater diversity in their asset allocations, and manage investment challenges and opportunities such as climate and infrastructure. However, larger schemes' ability to access a wider range of assets does not necessarily mean proportionately more investment in the UK.

The scale and resourcing of larger schemes gives them greater capacity and access to expertise for risk management and oversight, monitoring changes in the policy and regulatory landscape, and greater bargaining power for fee management when using external parties. They may also have greater resources to invest in innovative solutions, such as digital offerings, which help to support savers and improve the efficiency of the market. Greater scale also brings more efficient operational processes, and scalable IT platforms, typically resulting in a lower cost per saver.

Creating larger UK pension funds, with more funds invested in UK companies, may also result in more active pension schemes stewardship of UK companies.

Size of scheme is not, however, the same thing as scale of investment. Small schemes can have access to scale, for example through bundled services with insurers or asset managers. Similarly, many small schemes use professional trustees for governance expertise.

Investment product structures such as LTAFs enable some smaller schemes to access pooled investments. LTAFs offer long-term investors access to a wide range of assets, including private market investments, which have until recently been available only to a minority of investors. The LTAF offers new investment opportunities and choice to a wider group of investors, including smaller pension schemes. The wider economy will benefit as LTAFs should also bring fresh capital into important new projects such as infrastructure. There is broad support for the potential of LTAFs. There are some potential saver outcomes and prudential system risks that may result if workplace pensions become ultra-consolidated and homogenous at the huge scale that automatic enrolment may eventually drive. As with any sector, having a smaller number of providers would reduce competition in the market and provide fewer options for employers to choose from for their staff. There could be higher barriers and fewer sources of innovation. A small number of similar providers may intensify cost-driven competition.

2. **What should the role of Single Employer Trusts be in a more consolidated future DC market?**

TheCityUK does not have a position on Single Employer Trusts.

3. **What should the relative role of master trusts and GPPs be in the future pensions landscape? How do the roles and responsibilities of trustees and IGCs compare? Which players in a market with more scale are more likely to adopt new investment strategies that include exposure to UK productive assets? Are master trusts (with a fiduciary duty to their members) or GPPs more likely to pursue diversified portfolios and deliver both higher investment in UK productive finance assets and better saver outcomes?**

According to the PLSA, as of 2023, the combined membership of DC contract-based and DC master trust (MT) schemes is over 35 million with over £350billion of assets. There are significant ongoing inflows into both GPPs and MTs. Latest ABI data from the Q1 2024 shows inflows into contract-based workplace schemes (including SIPP and stakeholder) of c£8.3bn vs c £9.4bn into MTs[4].

Both master trusts and GPPs have the potential to play an important role in funnelling investment into UK assets. While consolidation in the MT market is occurring rapidly, it has already occurred

[4] ABI asset-based pensions data collection, Q1, 2024

among GPPs, with a small number of players already at scale. The £245bn in GPPs exceeds the c.£100bn in MTs, and some of the same firms manage the £300bn in individual pensions.

Although a Master Trust may be an attractive consolidation solution for some employers with Single Employer Trusts, this is not necessarily so for all employers. Employers take Master Trusts set up for any non-associated employers 'as they find them' and can have little influence on them. While this may be attractive for some employers, other employers may prefer the greater flexibility of a GPP.

A GPP does not have a trustee board with trustee fiduciary responsibilities on investments. There is instead oversight from the GPP provider's Independent Governance Committee (IGC), who may review aspects of the GPP's default fund. It is worth noting that employers often establish their own governance committees to review pension arrangements from their perspective, independently of the provider's IGC, which may take a view on the investment options offered to scheme members.

While outcomes vary widely between providers, there is no pattern of variation in performance between MTs and GPPs[5]. To savers and to employers, there is little to no difference between the products. MTs and GPPs do differ in their legal basis and their regulation, but both have an incentive and a responsibility to achieve good outcomes for savers.

It is worth noting that in GPP DC schemes investment choices are in the hands of the individual saver, so it is the default schemes that are critical in pursuing diversified portfolios.

4. **What are the barriers to commercial or regulation-driven consolidation in the DC market, including competitive and legal factors?**

The main barriers to increasing consolidation in the DC market are:

- **Regulatory and legal barriers:** There are several regulatory and legal barriers to consolidation in the DC market including:
    - **Legislation to consolidate pension schemes:** It is difficult to navigate and overly burdensome. Government and regulators should consider harmonising regulatory regimes and simplifying legislation around consolidation.
    - **Scheme member consent:** Some schemes have restrictions in their scheme rules which prevent them from transferring members into another scheme without their explicit consent. Many members are not well engaged in their pensions and therefore getting consent to consolidate can be difficult.
    - **Bulk transfers without consent in contract-based scheme:** Contract-based providers are more restricted in their ability to move savers to different funds than trust-based schemes. The latter can exercise more discretion and allow trustees to transfer members on 'broadly no less favourable' terms. Policies and legislation to alleviate this barrier could help providers to move relevant customers into higher performing, better value schemes and funds. This will be necessary to deliver the government's goals on value for money and small pots, but it could have wider benefits for savers.
    - **Regulatory restrictions on encouraging scheme members to consolidate:** Especially in the absence of the ability to transfer without consent, firms would like to be able to go further to highlight to scheme members where it is in their interests to consolidate the scheme they are in, in order to obtain consent. We are hopeful that the Advice Guidance Boundary Review will go some way to achieve this, through introducing a targeted

[5] Corporate Adviser, 2024, Master Trust and GPP Defaults Report, pp20-24

support regime and revisiting the Privacy and Electronic Communications Regulations to enable 'marketing' to savers who did not have the opportunity to opt in.

- **Missing or disengaged trustees:** Sometimes schemes trustees cannot be traced and the employer has wound up. These schemes could number in the tens of thousands. A legal solution is needed for these schemes. One solution would be a statutory override, enabling firms to assign policies to the individual, so that it is treated as a personal pension without assuming responsibility for past duties the trustees may have failed to fulfil.
- **Bespoke arrangements and charging structures:** Some pension schemes may be difficult to consolidate. Different schemes operate different charging and payment structures, which can be difficult to combine.
- **Guarantees in legacy schemes:** Some DC pension benefits have valuable guarantees attached to them, such as guaranteed annuity rates or guaranteed investment returns. Moving them to a different provider, or another arrangement within the same provider, risks customer detriment. It is welcome to see this issue recognised in the VFM consultation, which proposes additional disclosure of these features.

- **Commercial incentives:** Pension advisors without master trusts may be less likely to encourage clients to consolidate due to the loss of annual business revenue that would result. TheCityUK advise the government to consider regulating pension scheme advice to employers.
- **Resource and bandwidth:** With increasing time pressures due to reporting requirements and regulatory change, a practical barrier to consolidation is the time it takes to consolidate.

5. **To what extent has LGPS asset pooling been successful, including specific models of pooling, with respect to delivering improved long-term risk-adjusted returns and capacity to invest in a wider range of asset classes?**

With nearly 7 million members, over 17,000 employers, and assets totalling over £332 billion, the Local Government Pension Scheme (LGPS) is one of the biggest defined benefit (DB) pension schemes in the world[6]. LGPS asset pooling has been broadly successful in delivering long-term risk adjusted returns and capacity to invest in a wider range of asset classes without the need for a formal merger of LGPS funds. We recommend that consolidation of assets in LGPS continue, for LGPS pools to meet their full potential on responsible investment, management of climate risks and investment in local growth and development.

Costs vs Value

1. **What are the respective roles and relative influence of employers, advisers, trustees/IGCs and pension providers in setting costs in the workplace DC market, and the impact of intense price competition on asset allocation?**

All parties in the pension system have a role in contributing to the current focus on minimising costs. In a tender for an employer's pension scheme, schemes can be won or lost by a difference of a single basis point. Costs are an easy way to compare schemes, as they are quantifiable, current, readily available and easily comparable. But they are only one part of what informs the assessment of whether a scheme is good value for money.

[6] Pensions and Lifetimes Savings Alliance 'LGPS-Report-2022-Executive-Summary.pdf (plsa.co.uk)' 2022 found here: LGPS-Report-2022-Executive-Summary.pdf (plsa.co.uk)

Policy and regulation have had a major influence in driving the focus on cost. It is easier to regulate charges than to regulate investment performance or service standards. Political debate on pension quality following the introduction of automatic enrolment centred on the level and transparency of charges.

It is also easier to measure, provide data and make decisions about schemes based on cost than it is to measure, provide data and choose a scheme based on net value for money outcomes. Employee Benefit Consultants (EBCs), in their crucial role supporting employers and facilitating competition in workplace pensions, tend to focus on cost when recommending auto-enrolment providers to their clients. The role of investment consultants is key in giving appropriate advice, including on investing in productive assets and ensuring investment decisions are value for money in the long term. They have an incentive to focus on cost to demonstrate value in the short term. The fact that they are unregulated is also likely to play a role in creating this cost-first environment. Combined with fierce competition for schemes between providers, this makes for an unhealthy mix of ever lower cost schemes at the expense of a more holistic focus on investment returns and service levels as equally important measures of value.

Employers clearly play an important role in setting costs but are generally not well placed to make informed decisions about value outcomes in the future, without the support of advisers. We welcome ongoing progress on The Value for Money Framework, and the government's intention to bring forward primary legislation so that the framework can also apply to schemes regulated by TPR. Indeed, the framework should be introduced at the same time for both contract- and trust-based schemes. Non-workplace schemes should also be part of this framework. This initiative will improve transparency around costs and longer-term value, support consolidation, and support improvements in retirement outcomes and trust in pensions.

However, it is crucial that the right measures, data, objective assessments and timeframes are established (in the Value for money framework and beyond) to help all in the pension system make the shift from a focus on cost to investing to deliver value for money and better outcomes. A short-term assessment of value for money will not motivate the right behaviours and will not encourage greater investment risk for long term returns.

The government should consider the approach taken in Australia to value for money reporting and set out clear investment principles to help assess net outcomes for savers.

2. **Is there a case for Government interventions, aimed at employers or other participants in the market, designed to encourage pension schemes to increase their investment budgets to seek higher investment returns from a wider range of asset classes?**

There is a case for government interventions to ensure advisers and employers are motivated and supported to assess schemes based on the value they offer in the round: net performance over time, investment strategy and quality of service.

The culture and market dynamics need to change to ensure that competition is not largely limited to costs. If the value for money framework is delivered well, it is likely to play a key role in shifting the focus away from solely on cost and towards value. But importantly, the government's approach to reforms must consider the behaviours, motivations, and impacts of all actors in the system holistically. For reforms to be effective they must collectively promote the behaviours that will deliver mutually beneficial outcomes for pension savers and the UK economy.

We have set out below several interventions that would encourage investment in a wider range of asset classes.

Fiscal:
The government should consider how the tax system can be adapted to provide effective, targeted, proportionate incentives to help make investment in UK assets more attractive.
For example:

- Government should give serious consideration to removing - or at least tapering - stamp duty on trading of UK equities, for all UK investors (including, but not limited to, pension investments). The UK is an outlier in applying this tax. In the US, for example, stamp duty is not payable and an Australian pension fund buying an Australian equity does not pay the equivalent of stamp duty. By imposing the tax on UK equities only, the government is making UK equities less attractive and poorer value than those of other jurisdictions.
- In Australia and France tax incentives have been successful in driving more significant allocation to domestic assets, without mandation. The Australian 'dividend franking' regime is an illustration - allowing investors to receive a tax credit for the tax already paid by the company distributing the dividends.
- The government could review Relief at Source (RAS) and net pay, and the differences in application across master trusts and GPPs.
- The fee off-setting idea in the Long-Term Investment for Technology and Science (LIFTs) consultation is an interesting intervention to encourage investment.
- Government could reverse removal of dividend tax credits.
- Government could also consider the interaction between pension reform and industrial strategy. For example, there may be potential to offer targeted tax reliefs, or additional NIC savings, for contributions into default funds that include investments in sectors prioritised in the government's industrial strategy.

Regulatory and reporting:

- Regulatory measures have had the cumulative effect of embedding risk aversion, rather than supporting balanced risk investing to deliver good returns for beneficiaries. The UK's regulatory regimes should be reviewed to ensure they do not discourage market participants from investing in a wider range of asset classes.
- Reporting requirements should also be reviewed to ensure they do not exacerbate the focus on short-term costs versus long-term net value for money.
- Finally, we recommend a review of the permitted links rules and liquidity requirements, which remain a barrier to investment.

Investing in the UK

The UK faces substantial investment gaps in areas key to the future success of the UK economy. The government needs to adopt coherent, stable, and consistent policy that appropriately connects improvements in the UK's pension system and outcomes with industrial strategy. That policy should recognise that the UK is a global centre for financial services and investment. As such, while the government seeks to encourage UK investment in the UK, it should also take care to maintain the international reputation, openness and competitiveness of the UK financial industry and economy.

1. **What is the potential for a more consolidated LGPS and workplace DC market, combined with an increased focus on net investment returns (rather than costs), to increase net investment in UK asset classes such as unlisted and listed equity and infrastructure, and the potential impacts of such an increase on UK growth?**

According to New Financial, 42% of LGPS assets are allocated to non-UK equity, 9% to UK equity. This is advantageous for savers but does not support greater investment into UK asset classes. To increase investment in UK assets it will be crucial to support a strong supply of attractive investable opportunities.

The government should focus on:

- **Remove barriers to schemes investing in the UK:** Reforms should address concerns about liquidity and daily pricing which can inhibit smaller funds' investment in private market assets, as managers worry that they will not be able to crystallise assets in the event of withdrawals/transfer. As a result, savers forego higher yields. Government should address barriers to timely DC adoption of new products such as LTAFS and continue to explore ways to make the regulatory regime for investment research more streamlined and efficient.
- **Fostering innovation and entrepreneurship:** Government policy and regulation should encourage investment strategies that allow DC schemes to gain exposure to the full range of fast-growing private companies, while thinly spreading the impact on individual savers' outcomes of those companies that fail.
- **Maximising the potential for private/public collaboration:** To fund and deliver large-scale and long-term projects such as infrastructure, the government should build on initiatives such as the Mansion House Compact, to which there are now 11 signatories collectively holding £793m unlisted equity assets in their DC default fund[7]. Several providers have since announced new funds and changes to funds with increased private market exposure. These partnerships can leverage public resources and private sector expertise to create significant investment opportunities and returns.
- **Private market access:** Although many barriers to private market access have been tackled, several operational and regulatory challenges remain. The recent BVCA report sets out recommendations to address them and increase investment in private capital.
- **Development of additional investment vehicles:** TheCityUK welcomed the creation of Long-Term Asset Funds (LTAFS) to facilitate greater DC investment in long-term assets. We believe there is room to further develop vehicles like LTAFs and Future Growth Capital (FGC) to facilitate greater investment in a wider range of asset classes.
- **Alignment with Net Zero goals:** Government must ensure alignment and consistency between pension reforms and approaches to net zero transition that impact investment opportunities, requirements and incentives. Without alignment, pension schemes may be pressured to invest in UK companies not aligned to supporting the UK's net zero transition.
- **Wider reforms to boost UK investments:** Government should continue to address a broad range of factors that contribute to the UK's attractiveness as a place to work and live. We welcome plans to reform the planning system and launch the National Wealth Fund.
- **Stable and mutually reinforcing conditions:** As initiatives to boost UK investment are implemented, government will need to review behaviours and impacts and, if needed, act to ensure mutually reinforcing conditions to support the long-term inclusive growth mission.

2. **What are the main factors behind changing patterns of UK pension fund investment in UK asset classes (including UK-listed equities), such as past and predicted asset price performance and cost factors?**

[7] ABI, The Mansion House Compact Year one progress update, 2024, found here: abi-mansion-house-compact.pdf

The primary factor driving the changing pattern of pension investment has been the decline of defined benefit (DB) pensions. Closed DB schemes are increasingly in the decumulation phase, focusing on managing interest rate liability, inflation and longevity risks, for which investment in fixed or predictable income assets is a much better fit than equities.

Changes in accounting rules also impacted UK DB schemes allocations to UK assets. As well as the administrative burden and focus on accurate valuation, standards such as the International Financial Reporting Standards (IFRS) 17, combined with the increasing focus on decumulation, have caused DB funds to adjust their investment strategies to better align with their liabilities.

Over recent years, DC schemes have shifted to more diversified approaches across asset classes, for example switching to long-dated gilts and cash as members approach retirement. Many schemes have also diversified away from pure equity investment to deliver a less volatile member journey.

The decline in DC and DB investment in UK assets (both debt and equity) can also be attributed to a shift to more global diversification investment strategies, relatively poor UK equity market performance, recent periods of political and regulatory instability, economic conditions, an overly strong focus on cost control (at least in DC), and poor availability of attractive UK investment opportunities. The global trend towards diversification has led UK schemes to look abroad and build portfolios with a global market-weighted approach to equities.

The pressure from pension savers and trustees/employers to lower fees has accelerated the shift from actively managed funds to passive tracker investment strategies. The reduction in fees and margins has created challenges for financial advisors, asset managers and default pension fund managers. With increasing regulatory and reporting responsibilities and leaner support teams due to less resource, advisors and pension fund managers have reduced capacity for portfolio construction and fund selection. Consequently, many advisors are opting for simplicity by recommending a narrower range of funds to their clients, and pension fund managers are forced to focus on low-cost approaches to maintain commercial viability.

Finally, tax rules impact pension and other investing behaviours, and should be considered carefully as part of the government's pension review. Any tax changes the government is considering making, for example in the autumn Budget, need to be considered in the context of their potential to impact decisions by pension savers and other actors in the pension system, and on pension outcomes.

The steady growth in DC pensions will gradually increase demand for equities, although the increase in DC lags the decline in DB, and on current patterns most of the investment will be in non-UK equities.

Aligned with the government's Growth Mission, the government should work to consistently create conditions that encourage and support a steady pipeline of attractive investible UK assets. But care needs to be taken to balance demand and supply for UK assets (or subgroups of UK assets), to avoid risk of creating asset bubbles through demand exceeding supply.

3. **Is there a case for establishing additional incentives or requirements aimed at raising the portfolio allocations of DC and LGPS funds to UK assets or particular UK asset classes, taking into account the priorities of the review to improve saver outcomes and boost UK growth? In addition, for the LGPS, there are options to support and incentivise investment in local communities contributing to local and regional growth. What are the options for those incentives and requirements and what are their relative merits and predicted effectiveness?**

The twin aims of this review are both welcome, but sometimes they will be in conflict. For example, in recent years savers have benefited from pension schemes reducing their exposure to UK equities. The priority of the review should be to increase the attractiveness of the UK for investment (aligning with other key developments including the National Wealth Fund, GB Energy and transition to net zero).

As mentioned above, there are several ways that the government could incentivise and enable greater pension system investment in UK assets including:

a) **Improving the incentives to invest in UK listed equities**. While overall UK economic performance and investment return is the best incentive, targeted incentives could include:
    - Preferential dividend tax treatment for certain categories of UK assets (subject to criteria). This could range from an additional dividend allowance for individuals at one end of the spectrum, to reinstating an imputation system for dividends paid by UK listed companies (in certain target sectors, or meeting certain criteria, for example aligned with UK industrial strategy) with repayable tax credits, at the other end of the spectrum.
    - Tax reliefs for qualifying assets. For example, extending business relief to investors holding shares in certain UK growth sectors, may allow asset managers to develop and market portfolios of assets with attractive growth /returns characteristics.

b) **Reducing the disincentives to invest in listed equities**, including consideration of the ways required to measure and report normal volatility, and the consequent asset and liability matching protocols that are needed to balance such volatility. Government should also consider disincentives to pension providers and participants being a first mover in what is currently a very risk averse pension system.

c) **Consistent regulatory guidance across the pension fund and institutional investment landscape:** For example, in COBS 21.3.1 (2)(c) investors were told to limit illiquid holdings to 20-35% of a qualified investor scheme fund structure. We note that the FCA published a letter which intimated accelerating fund managers' exit from holdings of listed small and mid-cap stocks through fear of regulatory action.

d) **Investment research:** The government needs to consider factors in the wider ecosystem for pension and institutional investment, such as the availability of quality research on companies and assets (as set out in Rachel Kent's Investment Research Review, July 2023). TheCityUK supported reintroduction of payment optionality for investment research. Further work is needed to determine how to address other issues raised in the review.

We recognise the fiscal impacts of some of these suggestions and that any proposals need to be seen in the wider context of the UK fiscal outlook. However, redirecting even a small proportion of DC capital into UK public equities could have a multiplier effect on UK growth.

Finally, the new National Wealth Fund could have a potentially important role to play in both crowding in and de-risking pension fund investment in alternatives (e.g. infrastructure and real estate). This should be at the centre of its design and the government should think expansively about its impact.

Conclusion

TheCityUK supports the government's commitment to enhance the pensions landscape and retirement outcomes, starting with DC pensions. We believe that increased consolidation in these

schemes will lead to better outcomes for pension savers across the country and can help boost investment and inclusive growth in the UK economy.

While we commend the pace at which government has begun to tackle this agenda, we recommend an approach to pension policy which recognises that pensions are a long-term product. Part of the success of auto-enrolment is due to it being rolled out on a manageable timetable, and in a way that has survived changes of government. Maintaining a focus on cross-party support for further reforms is crucial to building stability and confidence in the pension system, and its outcomes. As a significant and growing pool of capital, pensions have potential to play a role in supporting the government's Growth Mission and other policy objectives. But success will depend on making the UK ecosystem, its companies and broader investment opportunities attractive prospects for investment returns. This will require a range of policy and regulatory approaches that combine and complement to motivate behaviours and outcomes that support the needs of individual savers, of sustainable UK growth and resilience, and of current and future generations in meeting the increasingly complex needs of an ageing society.

TheCityUK recommends that reviews into to the pension system and capital markets are built into a broader long-term strategy to boost individual investment across UK society. More investing by more individuals would support inclusive growth, delivering financial resilience benefits to individuals and household and – even if only a small percentage of increased investment went into UK assets – increasing net investment in the UK. The agenda to boost growth and channel investment into UK assets is a complex challenge, but vital to the future of the UK, and one on which TheCityUK stands ready to support the government.