Pensions expert

http://www.pensions-expert.com/DB-Derisking/Govt-urges-pension-schemes-to-invest-in-the-UK-recovery

DB & DERISKING

Govt urges pension schemes to invest in the UK recovery

By **Rolhat Zen-Aloush** | August 5, 2021

Boris Johnson and Rishi Sunak have urged UK pension schemes to invest more in long-term UK assets with the goal of fuelling the recovery of the post-pandemic economy.

In an open letter to the industry, published on Thursday, the prime minister and the chancellor of the exchequer argued that now would be the right time to unlock the hundreds and billions of pounds sitting in UK schemes to ignite "an investment Big Bang".

They pointed out that global investors, including pension funds from Canada and Australia, were benefiting from opportunities of UK long-term investments, while more than 80 per cent of UK defined contribution pension fund investments are in mostly listed securities, which represents only 20 per cent of the UK's assets.

"While we are glad that international investors prize UK assets and are working hard to attract even more inward investment, we also want to see UK pension savers benefitting from the fruits of UK ingenuity and enterprise, being given the opportunity to back British success stories, and secure higher returns and better retirements," the letter stated.

If they can succeed at this there is a real opportunity for a win-win here: an alignment of the national interest with pension fund savers

Richard Butcher, PLSA

Govt calls for a change in mindset

While Johnson and Sunak recognise the government has the responsibility to remove obstacles and costs to making long-term, illiquid investments in the UK, they say "everything possible" is being done to encourage a change in mindset and behaviour of institutional investors.

To help with this, they noted that a new UK Infrastructure Bank is "open for business" and "ready to co-invest green infrastructure and support regional growth", as well as the UK's first green gilt emission set for September, which will allow "institutional investors to fund the government's vital green commitments".

The letter also stated that the Department for Work and Pensions was reforming the cap on fees that DC schemes can charge "to ensure that they are not penalised for over-performance", as well as accelerating the consolidation of the pension sector, including vehicles such as superfunds.

Johnson and Sunak also mentioned the Long-Term Assets Fund, specifically designed to boost access to property, infrastructure and other long-term illiquid assets for those who might otherwise be unable to invest in sectors, which the Financial Conduct Authority will be launching later this year. However, the fund has already caused concerns in the industry.

The letter stated: "Whether you are a trustee or manager of a DC or defined benefit pension fund, running an insurance company or advising investors on their investment strategy, we are challenging you this summer to begin to invest more in long-term UK assets, giving pension savers access to better returns and enabling them to see their funds support an innovative, healthier, greener future for their country.

"We know that this will require a change in mindset for many investors that will not happen overnight, but that is why this change needs to start now."

Industry points out future hurdles

Industry experts quickly reacted to the government's call for action, with Richard Butcher, chair of Pensions and Lifetime Savings Association, noting that the government can "play an important role in providing a pipeline of attractive investable opportunities and a regulatory environment that provides institutional investors with access to high-quality, value-for-money products" in this area.

He added: "If they can succeed at this there is a real opportunity for a win-win here: an alignment of the national interest with pension fund savers."

However, Gareth Mee, global investment advisory leader at EY, argued that "different types of schemes have different barriers to using long-term illiquid assets, so there are a number of key points to consider".

He noted that for the many DB schemes that are targeting a transfer to an insurance company, "their time horizon would be much shorter, and investment in illiquid assets doesn't meet that timeframe".

"Greater flexibility over assets that could be used to pay insurance premiums could help bridge this gap," he said.

Tapping DC schemes for growth fund raises industry concern

Chancellor Rishi Sunak is reportedly hoping to draft defined contribution schemes into propping up the government's proposed Long-Term Assets Fund, though experts have raised concerns about its practicality.

Read more

He added: "Covering all schemes, one of the main barriers to investment from pension schemes is the level of complexity, diversity, risk and reward of the potential investments, and this must be addressed.

“The level of expertise and manpower needed is significant and particularly challenging for smaller schemes that don’t have the size of team to invest directly or to oversee the investments made.

“Greater consolidation in the market could help more schemes access these types of investment and therefore increase the overall levels of assets invested.”

More stories

Opperman: Charge cap has room for illiquid investments

Tapping DC schemes for growth fund raises industry concern

Experts wary on BoE governor’s DC pandemic recovery call

Budget 2021: Govt announces investment pension rules reform

Can UK councils rent their own streets to fund pensions?

Nest invests £250m in green energy