

## **Workstream 1: Unlocking additional sources of capital – Terms of Reference**

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### **Context**

The UK has demonstrated its ability to start world leading companies. It is home to the third highest number of unicorns in the world behind only the US and China. We also have one of the largest pools of capital in the world and yet currently, very little of it is being used to fund our most exciting home-grown companies. Too often, such businesses need to seek funding from overseas investors, exporting the returns, the Intellectual Property and often the company itself. In the first 8 months of 2022, 64% of all funding into UK growth companies came from overseas investors, frequently pension funds.

To kick-start investment in the UK and spur economic growth, we need to identify some of the barriers, regulatory and non-regulatory, to unlock additional sources of capital. We need to build an investment ecosystem and culture which encourages UK companies to start here, grow here, scale here and then stay here.

We will help achieve this by encouraging and supporting our pension funds and asset managers to invest more in UK growth businesses. Additionally, we want to address the steady decline in allocations to public UK companies, ensuring we remain a world leading capital market which can support scaling UK companies as they go global.

### **Objective**

This workstream aims to:

- Facilitate capital allocation to our growth economy by establishing joint public and private investment schemes to ensure we do not miss the opportunities of tomorrow.
- Identify and develop proposals to address the public policy barriers to investment across the pensions/insurance, and asset management sectors.
- Adjust the risk attitude of institutional investors, often risk-averse, and encourage them to focus more on investing in balanced risk/reward portfolios, across a range of asset types, looking beyond just cost. This would allow the public to receive the benefit of investing in our most exciting companies.

### **Responsibilities**

This CMIT workstream will:

- Identify Solvency II reform benefits and explore whether these reforms can meaningfully increase allocations to key UK private asset investments.
- Develop public policy proposals to address the barriers across three areas of pensions and insurance: 1. Annuities (DB) 2. Unit-linked (DC) 3. With-profits.
- Establish ways to encourage faster consolidation of Defined Contribution (DC) pension schemes in the UK, which in turn can enable investment at scale into UK private assets.
- Analyse best practice in successful markets with more established private market investment (Canada and Australia).

- Establish ways to increase investor risk appetites (where appropriate), elongate investment time horizons, focus investors on better returns and value for money.
- Consider what investment vehicles and infrastructure exists in the UK or are needed to enable efficient, effective, and scaled private asset investments from UK capital pools.
- Create a strawman for a scalable UK private asset investment platform using existing infrastructure.
- Create coalitions of the willing within UK capital pools where these groups can increase the resonance and reach of CMIT's suggestions.
- Build out a better understanding of the attitudes of key gatekeepers across UK capital pools and explore ways to embed a more progressive attitude to risk and return.

### **Workstream Chair**

Peter Harrison, Andy Briggs

### **Participating CMIT members**

Jon Symonds, Klaus Hommels, Kay Swinburne

### **Secretariat support**

Schroders and Phoenix

### **Engagement and timetable**

- The Chair (and / or workstream lead where appropriate) will provide regular updates to CMIT, no less than once per month.
- This workstream will run until the termination of the Taskforce.
- Initial recommendations to be shared with policymakers and regulators in Q1 2023.
- These changes will only have an impact if the industry acts upon them, therefore this workstream will engage stakeholders across the capital markets ecosystem – buy-side and sell-side – and work with them constructively on the workstream's objectives.

### Expected stakeholder engagement

- His Majesty's Treasury
- Financial Conduct Authority
- Prudential Regulation Authority
- Insurance companies
- DB finance directors, trustees, investment consultants and advisors
- DC trustees, finance directors, private banks, IFAs and platforms
- Private Banks