CMIT

The Rt Hon Jeremy Hunt MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

16 November 2023

Dear Chancellor,

We are heartened by the reform agenda currently in train, including the Edinburgh Reforms and the announcements in the more recent Mansion House speech. We are writing now because we believe we are at a critical pivot point in the agenda to drive growth and returns to the economy. The breadth and depth of consensus around the challenges and indeed support across the economy for significant change is unprecedented. The Mansion House Compact in particular focused on the need to ensure that UK capital is directed to great UK companies driving pensioner returns and jobs, innovation and growth in our economy. Whilst the Mansion House Compact focused on one element of the ecosystem – that of finance available to high-growth and smaller UK equity markets – there remain other urgent areas to address.

The UK has remarkable companies and remarkable potential, but we do not invest in ourselves. By way of example, the UK creates more unicorns[1] than any other country outside the US and China[2]. Our technology, life sciences and creative industries carry huge amounts of intellectual property. International investment funds are setting up in the UK precisely to invest in UK companies: indeed in 2021 a single Canadian pension fund invested more in one UK private company than the entirety of the UK pension industry invested in all UK private companies in the same year[3]. We recognise that a range of policy and regulatory structures over many decades have unintentionally created this situation, but it is not the absence of high-quality assets that is our challenge, it is the absence of domestic capital supporting those assets.

The scale of the problem

William Wright and New Financial, in their most recent report[4], highlighted that the share of households owning stocks and shares in the UK halved between 2003 and 2022. This reflects a

[1] A privately-owned business or startup with a value of over $1 billion (£0.72 billion).
[2] Unicorns | Dealroom.co
[3] "In 2021, the £330 billion Canadian Pension Plan (CPP) invested £300 million in one UK-based company, equivalent to the average size of a UK defined-benefit (DB) pension fund (£330 million) and more than the entire UK pensions system invested in private equity and growth capital (£190 million) that year." A New National Purpose: Innovation Can Power the Future of Britain (institute.global)
[4] Report - Widening retail participation in equity markets - New Financial

reduction in the democratisation of our economy: reducing the stakes people have in the future growth and prospects of the country and those of their children.

More broadly, we need to recognise as a country the virtuous cycle or vicious cycle in the relationship between domestic capital availability and the ability of British companies to grow and support the economy. As with the decline in retail investing in the UK, the decline in UK pension funds investing in the future of UK business has been even more stark and contrary to the situation in other G7 countries, despite the pensions industry benefitting from over £60bn worth of taxpayer support.

The data in aggregate suggests that, whilst the decline in retail investment has been 50%, the decline in pension investment in the UK equity markets has been even more pronounced: falling from 53% to 6% of total assets[5] over the last 25 years (a collapse of 89%). This equates to a withdrawal of £1.9 trillion from UK equity markets[6] over that period, a sizeable amount of which is now invested in the homegrown businesses of other countries. Equity markets exist to finance the economy, they are founded in many jurisdictions across the world on a strong domestic investor base that invests in its own economy and is incentivised to do so.

Whilst aggregated data are hard to generate across the G7 and other economies with comparable equity markets, looking at the largest pension funds in major comparable economies where data is available, the difference in the UK's willingness to invest in itself is stark. The 'home bias' of other major pension funds in these economies is clear. When looking at the largest pension schemes in comparable jurisdictions[7], and then considering the size of their total allocations to equities relative to the size of their domestic equity market, we see that Canada is 247% overweight its home market, France 889%, Italy 991%, Japan 1,016%, Australia 2,737% and South Korea 2,990%[8].

When we take the same methodology to understand UK pension fund allocations, taking the three largest schemes in the UK with publicly available data, we observe that they are 40% *underweight* relative to the size of the UK equity market. As a separate example, NEST, our largest defined contribution workplace pension scheme by members in the UK, has less than 0.5% of disclosed holdings in its top 100 investments in UK listed equity[9].

The withdrawal of domestic capital starves our companies of financing, diverts UK tax-payer support to investments in non-domestic companies and ultimately impacts the efficacy of our markets. It also disproportionately impacts smaller and medium sized companies listed on our markets. This decline has occurred over the last two decades and shows no sign of stopping unless proactive policy is formed and implemented.

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[5] Report (capitalmarketsindustrytaskforce.com)

[6] Since 2000, the share of the UK stock market owned by UK pensions and insurance companies has fallen from 39% to 4%[5] which equates to a reduction of £1.9trn when considering 39% of the market size in 2000 and 4% in 2022 (London Stock Exchange Group data).

[7] The world's largest pension funds - 2022 - Thinking Ahead Institute

[8] For full data breakdown and sources see the Appendix.

[9] https://www.nestpensions.org.uk/schemeweb/dam/nestlibrary/Nest-SARA-2022-23.pdf

Reversing the decline in UK equity markets: co-ordinated policy and targeted action will fuel economic growth for generations to come

The Government has already taken a number of welcome steps to arrest this decline. The Edinburgh Reforms set out a series of capital market reforms with the aim of making the UK the global capital for capital. We agree with that ambition and are keen to continue to work with you as it bears fruit.

We also welcome the policy update from the Financial Reporting Council (FRC) on 7 November in which it acknowledged that it has an important public interest role in supporting the UK's economic growth and its international competitiveness. The FRC noted that this involves setting proportionate standards and also supporting the Government's broader ambition of making the UK the best place in the world to start, grow and invest in a business. As such, we also welcome the FRC's decision not to take forward the majority of the proposals in its recent Corporate Governance Code consultation as well as to review the Code's associated guidance and to carry out a root and branch review of the stewardship regime.

We strongly believe that the FRC should be given a formal and explicit competitiveness objective by the Department for Business and Trade, in the same way as the Financial Conduct Authority and Prudential Regulation Authority now have. This will ensure that the future design of our corporate governance and stewardship regimes takes into account not just good governance and stewardship, but also the attractiveness of the UK equity markets for both existing and potential domestic and international issuers, as well as domestic and international investors. As a fundamental principle, UK listed companies should not be subject to restrictions that non-UK companies listed on high quality exchanges are not subject to unless they can be justified. CMIT will outline further suggestions in relation to our governance and stewardship regimes in a separate letter in the near future.

The direction of travel set by Mansion House to unlock further pension capital to support the UK's most promising industries while increasing returns for savers is an ambition we also wholeheartedly share, and one which is vital to economic growth. To achieve this, we strongly encourage you to complete the reforms in your upcoming Autumn Statement. In particular, greater consolidation for defined contribution schemes will ensure that all members can benefit from funds with a diverse portfolio of investments, including those in UK equity, to deliver the best possible returns for savers. While final decisions will always rest with trustees and individual pension holders, the regulatory frameworks proposed make clear that investment decisions should be made on the basis of overall long-term returns and not simply cost and should also result in more UK savers benefitting from the strong growth of UK companies. While there are fewer members of defined benefit schemes, they should not miss out on this opportunity either and therefore we urge you to include incentives for schemes to manage surpluses and consolidate.

There may also be a case for going further. Firstly, we believe the British ISA proposal mooted in recent weeks merits careful consideration as it could play a material role in incentivising retail savers to allocate a proportion of their capital to invest in the UK economy while addressing the urgent need to provide British businesses with access to the domestic capital that they need to grow and flourish. Secondly, we believe HM Treasury should work to establish firm data, trends and international benchmarks to help identify any further steps the Government could take to arrest the decline in UK domestic equity pension investment and increase it to levels that are in line with comparable jurisdictions by 2027. We recognise that the paucity of data in this space makes monitoring of progress on this vital agenda difficult and the Government should identify strategies to be able to track the percentage of UK pension fund investment in UK domiciled or listed companies within a broader model portfolio. A report prepared by an independent expert figure is likely to be the most effective way to deliver this work.

We believe a broad cross section of asset managers, UK companies and the wider capital markets ecosystem would support the Government taking decisive action in this regard.

Yours sincerely,

Sir Jonathan Symonds
Member of the Capital Markets
Industry Taskforce

Julia Hoggett
Chair of the Capital Markets
Industry Taskforce

On behalf of the Capital Markets Industry Taskforce

Main Committee**, The 100 Group**

Executive Committee, **GC100 Group**

Andy Griffiths, on behalf of The Investor Forum

James Ashton, Chief Executive Officer of the Quoted Companies Alliance

Steve Bates OBE, Chief Executive Officer of the BioIndustry Association

Lisa Anson, Chief Executive Officer of Redx Pharma plc

Mark Austin, Partner at Latham & Watkins LLP and member of the Capital Markets Industry Taskforce

Mark Barnett, Fund Manager at Tellworth Investments LLP

Bidhi Bhoma, Chief Executive Officer of Liberum

Stephen Bird, Chief Executive Officer of abrdn plc

Dominic Blakemore, Group Chief Executive Officer of Compass Group plc

Edward Bonham Carter, Senior Independent Director at Land Securities Group plc and ITV plc. and former Vice Chairman of Jupiter

Edward Braham, Chair of M&G plc

Andy Briggs, Group Chief Executive Officer of Phoenix Group Holdings plc

Julie Brown, Chief Financial Officer of GSK plc

Ruth Cairnie, Chair of Babcock International Group plc

Stuart Chambers, Chairman of Anglo American plc

Dame Elizabeth Corley, Chair of Schroders Plc

Rosamond Deegan Chief Executive Officer of OMass Therapeutics Ltd

Margherita Della Valle, Chief Executive Officer of Vodafone plc

Michel Demaré, Non-Executive Chair of AstraZeneca plc

Hendrik du Toit, Founder and Chief Executive Officer of Ninety One

Andrew Duff, Chair of The Sage Group plc

Michael Findlay, Chair of Morgan Sindall Group plc and London Stock Exchange plc

Simon Fine, Chief Executive Officer of Shore Capital Markets

Steven Fine, Chief Executive of Peel Hunt

Sir Douglas Flint CBE, Chairman of abrdn plc and IP Group plc

Catherine Graham, Chief Financial Officer of Darktrace plc

Andy Gregory, Chief Executive Officer of BGF

Sam Gyimah, Venture Partner at Lakestar Advisors UK LLP

Peter Harrison, Group Chief Executive at Schroders plc and member of the Capital Markets Industry Taskforce

Andrew Higginson, Non-Executive Chair of JD Sports Fashion plc

Chris Hollowood, Chief Executive Officer of Syncona Ltd

Klaus Hommels, Founder and Chairman of Lakestar Advisors UK LLP and member of the Capital Markets Industry Taskforce

Sarah Howell, Ph.D., Chief Executive Officer of Arecor Therapeutics plc

Chris Hulatt, Co-Founder of Octopus Group

John Ions, Chief Executive at Liontrust Asset Management plc

Chris Kennedy, Chief Operating Officer and Chief Finance Officer of ITV plc

Matthew Lester, Non-executive Chairman of Kier Group plc

Helge Lund, Chair of B.P. plc

Nicholas Lyons, Member of the Capital Markets Industry Taskforce

Dame Louise Makin, Chair of Halma plc

Dr Dan Mahony, UK Life Science Investment Envoy

Anna Manz, Chief Financial Officer of London Stock Exchange Group plc

Dr Richard Mason, Chief Executive Officer of Apollo Therapeutics Ltd

Dr Frank Mathias, Chief Executive Officer of Oxford Biomedica plc

Julian Morse, Chief Executive Officer of Cavendish Financial plc

Gerry Murphy, Chair of Tesco plc and Burberry Group plc

Dame Carolyn McCall, Chief Executive of ITV plc

Michael McLintock, Chairman of Associated British Foods plc

Mike McTighe, Chairman of IG Group Holdings plc

Ian Meakins, Chair of the Board of Compass Group plc

Steve Pearce, Chief Executive Officer of Singer Capital Markets

Noel Quinn, Group Chief Executive Officer of HSBC Holdings plc

Rich Ricci, Chief Executive Officer of Panmure Gordon

Margaret Rice-Jones, Serial Entrepreneur, Chair and Non-Executive Director (various; including ScaleUp Institute)

Don Robert, Chairman of London Stock Exchange Group plc and Keywords Studios plc

Dr David Roblin, Chief Executive Officer of Relation Therapeutics Ltd

Nick Russell, Chief Executive Officer of Canaccord Genuity Limited

Martin Scicluna, Chair of J. Sainsbury plc

Tim Score, Non-Executive Chair of The British Land Company plc

Matthew Scullion, CEO and Founder of Matillion Ltd and member of the Capital Markets Industry Taskforce

Alastair Smith, Chief Executive Officer of Avacta Group plc

Greg Smith, Chief Executive Officer of IP Group plc

Lawrence Stroll, Executive Chairman of Aston Martin Lagonda Global Holdings plc

Robert Swannell, Senior Adviser, Citi EMEA and former Chair of Marks & Spencer plc and former Chair of UK Government Investments (UKGI)

David Schwimmer, Chief Executive Officer of London Stock Exchange Group plc

Paul Walker, Chair of RELX Group plc

Paul Walsh, Chairman of McLaren Group Ltd

Jasmine Whitbread, Chair of Travis Perkins plc

Keith Williams, Chair of Halfords Group plc and International Distributions Services Group plc

Sir Nigel Wilson, Group Chief Executive of Legal & General Group plc

William Wright, Founder and Managing Director of New Financial

Appendix – Pension Fund Data

Analysis considers up to 3 of the largest pension funds, where asset and geographical allocation is publicly disclosed, in each G7 or comparable country[10].

	TAI 300 Ranking	Domestic Equity Allocation % of Equity Allocation	Global Equity Market Weighting[11]	Overweighting
Canada				
Canada Pensions	**7**	*Undisclosed*		
Ontario Teachers	**18**	*Undisclosed*		
Public Service Pension Plan[12]	**37**	8.9%	3.2%	**178%**
OMERS[13]	**56**	13.7%	3.2%	**326%**
HOOPP[14]	**59**	10.8%	3.2%	**237%**
			Average	**247%**
Japan				
Government Pension Investment[15]	**1**	49.8%	4.4%	**1,026%**
Local Government Officials[16]	**14**	49.1%	4.4%	**1,010%**
National Federation of Mutual Aid[17]	**38**	49.2%	4.4%	**1,012%**
			Average	**1,016%**
France				
RAFP[18]	**118**	35.4%	2.7%	**1,226%**
Fonds de Reserve Pour Les Retraites (FRR)[19]	**206**	17.4%	2.7%	**552%**
			Average	**889%**
Italy				
ENPAM[20]	**214**	40.9%	0.6%	**991%**
			Average	**991%**
Germany				
Bayerische Versorgungskammer	**34**	*Undisclosed*		
BVV	**161**	*Undisclosed*		
VBL	**169**	*Undisclosed*		
Australia				
AustralianSuper[21]	**20**	45.2%	1.3%	**3,303%**
Future Fund[22]	**26**	28.9%	1.3%	**2,074%**
Aware Super[23]	**46**	39.0%	1.3%	**2,836%**
			Average	**2,737%**
South Korea				
National Pensions[24]	**3**	34.2%	1.3%	**2,600%**
Teachers' Pension[25]	**290**	44.1%	1.3%	**3,380%**
			Average	**2,990%**
			Average	**1,482%**

[10] *The world's largest pension funds - 2022 - Thinking Ahead Institute*

The US is separated from other international peers due to the size of the equity market but despite its dominance, US Pension Funds are still overweight the US.

	TAI 300 Ranking	Domestic Equity Allocation % of Equity Allocation	Global Equity Market Weighting[11]	Overweighting
US				
Federal Retirement Thrift	**4**	*Undisclosed*		
California Public Employees[26]	**6**	60.1%	43.2%	**39%**
California State Teachers	**11**	*Undisclosed*		
New York State Common[27]	**12**	68.9%	43.2%	**59%**
New York City Retirement[28]	**13**	61.4%	43.2%	**42%**
			Average	**47%**

	TAI 300 Ranking	Domestic Equity Allocation % of Equity Allocation	Global Equity Market Weighting[11]	Overweighting
UK				
Universities Superannuation[29]	**41**	2.2%	4.5%	**-51%**
Royal Bank of Scotland Group	**69**	*Undisclosed*		
BT Group	**71**	*Undisclosed*		
Lloyds Banking Group	**80**	*Undisclosed*		
Electricity Supply Pension	**91**	*Undisclosed*		
Railways Pensions[30]	**108**	3.3%	4.5%	**-25%**
Barclays Bank UK	**122**	*Undisclosed*		
BP	**132**	*Undisclosed*		
HSBC Bank[31]	**141**	2.5%	4.5%	**-43%**
			Average	**-40%**

[11]Global Equity Market Weighting is calculated using the total market capitalisation of all listings, including dual/secondary listings, on each exchange as a proportion of the aggregated market capitalisation of the largest 65 exchanges globally.
[12]Public Service Pension Plan FY2022
[13]2022 ANNUAL REPORT OMERS
[14]2022 Annual Report HOOPP
[15]Investment Results Update Report Q2 2023 - GPIF
[16]Pension Fund for Local Government Officials Review of Operations FY21
[17]National Federation of Mutual Aid Association Review of Operations FY21
[18]RAFP Public Report 2022

[19]FRR Annual Report 2022

[20]ENPAM The Activities of the Foundation 2022 *Data captures Animia and Euizon portfolios as Italian equities holdings.*

[21] Australian Super Product Disclosure Statement November 2023

[22] Future Fund Portfolio Update to 30 September 2023

[23]Aware Super Asset Allocations as at 29 September 2023 *Domestic asset allocation taken as an average of the domestic equity investment as a percentage of the total equity investment across all five portfolio funds.*

[24] National Pension Service Investment Management Annual Report 2022

[25] The Korea Teachers Pension Fund Operation Status (based on late 2022)

[26] CALPERS 2021-22 Annual Comprehensive Financial Report

[27] 2023 Annual Comprehensive Financial Report NYSLRS

[28] 2022 Annual Comprehensive Financial Report - NYCERS

[29] USS Public Market Investment *Analysis only considers top 100 disclosed equity holdings.*

[30] Railway Pension Scheme My Fund Choices - Fund Factsheets as per September 2023 *Analysis only considers top 10 disclosed equity holdings per fund for the following: Global Equity Fund, Socially Responsible Equity Fund, Long Term Growth Fund, and uses number of holdings as a proxy.*

[31] HSBC Bank (UK) Pension Scheme Annual Report 2022 *Analysis only considers defined contribution pooled investments.*