CMIT

Backing British Growth

The challenge

Britain has world-class companies, deep pools of household savings and a long history as a global financial centre. However, too little of Britain's long-term capital is being invested in British growth. This is particularly obvious when looking at UK public equity markets. UK pension funds now hold only a small share of their assets in UK equities, compared with much higher levels a generation ago. As domestic ownership has fallen, the UK market and most importantly, UK companies, have suffered.

The consequence is visible: more successful UK-listed companies are being bought, moving overseas or choosing other markets for their next stage of growth. This matters up and down the country. Public markets influence where headquarters sit, where senior decisions are made, where research and development happens, where supply chains are built, and where jobs of all types and future tax revenues are created. The UK's equity markets largely support domestic companies: 92% of FTSE100 companies, 82% of FTSE250 companies, and 76% of all companies listed in London are UK incorporated; and no other capital market incentivises the incorporation of companies in the UK. There is therefore a direct relationship between the performance of UK public markets and the health of hundreds of UK wealth creating businesses across the country.

In short, the UK's equity markets are a critical limb to UK growth in every post code, and to building the tax base that can support our critical services and our way of life.

The opportunity

The UK does not need to close itself off from global capital. Openness is one of the country's strengths. However, openness should not mean that we act against our own best interests as a nation. Other successful economies benefit from large domestic investor bases that help *their* companies grow at home while competing globally. Britain used to do this, and should do the same today, by making it easier and more attractive for UK savers, pension funds and long-term investors to back British companies where it is in their financial interest to do so.

A targeted, voluntary and fiscally disciplined package could mobilise tens of billions of pounds of long-term domestic capital into UK companies. Driving growth in those companies, enhancing their capacity to create jobs, strengthening the public markets that serve them and giving British savers and investors a better opportunity to share in the success of the businesses they work in and help to build.

What is required

The UK Government should take advantage of the Autumn budget and announce a package of measures built around a simple principle: stop penalising investment in UK companies and start rewarding patient domestic capital. It would not mandate investment, override fiduciary duties or ask savers to accept lower returns. Instead, it would make UK investment a more rational choice where the underlying investment case is otherwise comparable.

- **Cut the friction:** reduce the transaction cost faced by UK pension funds and ISAs when they invest in UK shares. The UK charges investors to buy UK company shares and does not charge them to buy international company shares – that friction immediately hurts the case for investing in Britain.
- **Reward the flow:** create a modern, capped fiscal incentive for UK pension funds that invest in UK-listed companies. The dividend tax credit was a tenet of the UK's market at its peak – a modern variant would incentivise capital to return to backing UK companies.
- **Reward the hold:** recognise material long-term UK investment in the way unused pensions are taxed, so that patient capital is encouraged to invest in UK assets. Incentivise those with the greatest means to drive more of their investment into UK assets, helping build Britain for the next generations.

Together, these changes would help shift the economics of UK investment without forcing anyone's hand. They would support trustees, providers and savers to consider UK assets on their merits, by removing self-imposed disincentives and rewarding long-term commitment.

The impact

A stronger domestic investor base would ensure the UK's capital markets can support the UK companies of the future to drive economic growth up and down the country. Making it easier for companies to raise capital, remain listed in the UK and grow from here. In turn, this would support sectors that are heavily reliant on patient, long-term capital, and which are central to the UK's economic future and the Government's Industrial Strategy. Including: technology, life sciences, defence, clean energy, advanced manufacturing, financial services and the creative industries.

The wider public benefit is clear: more British savings supporting British companies; more companies choosing to scale, invest and hire in the UK – creating jobs across the value chain, across strategic sectors and across every region in the UK; a more resilient tax base; and a better chance for ordinary savers to participate in the success of UK enterprise.

Back Britain

Britain should back British growth. That means giving savers and pension funds better reasons to invest in UK companies, so the businesses built here have the capital they need to grow here. These proposals do not ask trustees to accept lower returns - they change the fiscal environment so that UK investment delivers better returns. Fiduciary duty is therefore not a barrier; properly understood, it should actually point trustees to Back Britain.

This is not about protectionism, mandation or picking winners. It is about removing the barriers and outright disincentives to Back Britain, rewarding patient capital and ensuring the UK has the market depth to keep more of its future success anchored at home.

For much of the last 20 years, one of the UK's greatest exports has been investment, helping lower the funding costs for overseas companies that compete with British businesses. This moment requires us to prioritise policies which drive growth here in the UK. While we have no shortage of great companies as a nation and no shortage of capital, we do have a shortage of domestic capital being invested at home and a shortage of domestic risk capital focused on driving our growth. Using the coming Budget to reset the incentives for domestic investment in Britain would unlock one of our own greatest levers to drive economic growth.

Our strengths as a nation and the remarkable companies we create are clear, we see it every day, and we hope the nation will see it too.

Dame Julia Hoggett DBE

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