

Business and Trade Committee

Oral evidence: [Financing the real economy](#), HC 1220

Tuesday 18 November 2025

Ordered by the House of Commons to be published on 18 November 2025.

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Members present: Liam Byrne (Chair); Dan Aldridge; Antonia Bance; Alison Griffiths; Justin Madders; Charlie Maynard; Mr Joshua Reynolds; Matt Western.

Questions 116 - 173

Witnesses

- Tim Creed, Head of Private Equity Investments, Schroders;
- Sandra Boss, Chair, BlackRock;
- Liz Fernando, Chief Investment Officer, Nest Corporation;
- Barry Kenneth, Chief Investment Officer, Pension Protection Fund.

Examination of witnesses

Witnesses: Tim Creed, Sandra Boss, Liz Fernando and Barry Kenneth.

Q116 **Chair:** Welcome to today's session of the Department for Business and Trade Select Committee as we pursue our inquiry into access to finance. Thank you very much indeed to our witnesses for sparing us the time and the expertise this afternoon.

Liz, perhaps I could kick off with you. The story that we have been told over the course of this inquiry is that we are a country that is blessed with a very large amount of long-term savings—about £3 trillion in the pension savings accounts—but that money is not really flowing into UK equities or long-term investment. Could you give us a sense of what has happened and why, as you see it?

Liz Fernando: Maybe I will give some very quick background on Nest and context to give you the sense of scale.

Chair: Can you do that really briefly because we have four witnesses and a million questions?

Liz Fernando: We have about £58 billion of assets under management. Of that, £13 billion is invested in the UK. Of our private markets programme, which is about £10 billion, about two-fifths of that is invested in UK assets, so growth, private equity, infrastructure, real estate and loans to growing businesses. Then obviously we have listed UK investments as well. I am not sure I would recognise that for large—

Q117 **Chair:** You are an exception, I think.

Liz Fernando: We are an exception.

Q118 **Chair:** If you look at the collapse of investment into UK equities, once upon a time, back in 2002, pension funds in the UK invested about 40% of their assets in UK equities. That has collapsed to about 6% today. I am interested in what your take is, as somebody in the industry, about why that collapse has unfolded.

Liz Fernando: There are two drivers going on. One is the maturing of DB schemes. When DB schemes are young, open and taking risk, they are able to invest a lot in equities. When they are mature and doing liability matching, their capacity to take equity risk is substantially lower. That is one driver.

The second driver is that it was very normal to have home bias within equity portfolios. Partly, that was supported by some tax incentives a long time ago. Those are no longer there and the rate of growth in earnings and turnover from places such as America has been outpacing that in the UK. Therefore, pension funds have moved from having home bias to having a more globally diversified portfolio.

Q119 **Chair:** There were three things there. One is about the natural glide path



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shifting. One was about tax incentives and one was about the US outpacing economic growth here in the UK. Is that broadly right?

Liz Fernando: Yes. I would compound the rate of growth of UK corporates and the consequences to equity weightings. Those two are very heavily related to each other.

Q120 **Chair:** You said that people were changing their asset allocation from equities to perhaps bonds. Does that mean that UK long-term investors are shifting their investment in significant quantum into, say, UK bonds or other UK investments?

Liz Fernando: Barry will probably be able to talk better to that because of the role that the PPF plays. You have to distinguish, within pension funds, between DB schemes, which are largely mature and predominantly closed to new contributions, and DC schemes, such as Nest, which are typically young and immature. Our risk profile and capacity to take risk will be very different to a DB scheme. That is why we have such high allocations to both listed and unlisted risk assets.

Q121 **Chair:** Barry what is your take on that basic question? Why are UK long-term investors investing less here at home?

Barry Kenneth: Thanks for the opportunity to come to give evidence today. To build on what Liz has said, the other main change was the regulatory change of pension schemes coming on to corporate balance sheets. It became more of a corporate finance problem than a note to the account. We have seen over the last 20 years, as you have quite rightly said, Chair, that the amount of risk that sat in a pension scheme when you could recognise it on balance sheet on an annual basis was too large for some corporates to stand. We have gone on this de-risking path, with additional contributions from corporates to plug that gap, over the last 20 years. That has resulted in an allocation away from riskier assets, such as equities, into safer assets, such as bonds.

As Liz mentioned, there is also the additional burden on the corporate that, as you de-risk, you have to put further contributions into the pension scheme. There has been a trade-off for the corporates for the last 20 years, which is, "We will fund more through contributions", and at the same time the trustees have de-risked their pension plan.

Q122 **Chair:** Liz also mentioned some tax changes. Would you recognise that too?

Barry Kenneth: Yes, but the regulatory change is the dominant driver of the defined benefit industry, which the PPF is the backstop for.

Q123 **Chair:** Sandra, do you have anything to add to that analysis?

Sandra Boss: At the same time, there were opportunities that the UK could have had to substitute in for DB pension assets. One was that the UK was slow vis-à-vis, say, Australia to mandate auto-enrolment in the DC space. Nest is a great example of what happened once the UK started



accumulating assets, but it was not required for a very long time. There was a gap, which means that we have less DC assets than we should have.

The second thing that is important to remember is that retail investors have a home bias naturally. That is true of UK investors today. It is true in every country. With RDR, the regulation that was put in—

Q124 **Chair:** You are going to need to spare us the acronyms. I will ask you to spell out RDR.

Sandra Boss: What does RDR stand for? It is retail distribution review. This was implemented in about 2013. After the financial crisis, there was concern—this was an FCA regulation—that individuals needed more advice in order to be able to take on investments. The challenge was that the way that that was implemented made the cost of advice extremely onerous. Between 2013 and now the FCA has been making dramatic improving changes.

The propensity for retail investors to do investing in this country was greatly reduced. That is why Barclays estimates that we have about £430 billion in cash available to invest. Only 8% of UK adults have received financial advice. It is a bit skewed toward a wealthy person, not toward the individual who probably should be putting money into a stocks and shares ISA but is instead holding cash or a cash ISA.

Q125 **Chair:** Is one of the implications of that that the FCA and the PRA overcooked it a bit and actually need a more robust growth mandate when they are thinking about their regulatory frameworks?

Sandra Boss: The PRA was not involved in investment decisions associated with what I am describing. The FCA was responsible for this regulation. It took a lot of industry feedback at the time that said this could be a likely outcome. At the time, that input was not heeded. Fortunately, now it is introducing an advice guidance boundary review, which makes it easier to give advice to persons with less assets. Also, it is introducing something called targeted support. The changes that it is introducing now are the right changes.

Q126 **Chair:** We do not need any more mandates or guidance for the FCA.

Sandra Boss: We need it to implement what it has put in, but it is very much going in the right direction. It has worked well with industry since it got that growth mandate to facilitate the resolution of the problem.

Q127 **Chair:** Tim, do you have anything to add to this broader analysis to help us set the stage as to why UK savings are not going into UK business?

Tim Creed: You asked a question about both public and private assets. If you look at the UK with regard to private assets, there has been a difference in the UK compared to many other countries and geographies, and in the variety of investors also. If you look at pension funds, insurance companies, endowments, foundations, sovereign wealth funds,



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high-net-worth individuals and retail, in most other countries they are increasing the amount of capital they invest in private assets, and particularly private equity and venture capital, to a greater extent than we see in the UK.

Q128 **Chair:** Why is that?

Tim Creed: Primarily, if you look at the performance of private markets overall, but particularly private equity and venture capital, they have generally been the best performing asset class over almost any time period, whether it is over a one, three, five, 10 or 15-year period, starting at almost any time in history, but not quite every time, because starting in 1999 or 2000 may not have been so good. Across almost any time period, private equity and venture capital has outperformed most or all other asset classes. In other countries and types of investors, people have recognised that and put more capital into private markets.

Q129 **Chair:** Why has the UK not followed suit? Why have we not made the same kinds of decisions? Who is it that is making these investment allocation decisions in the UK that has stopped us following the path of others?

Tim Creed: We have certainly seen the move for DC schemes, and Nest is leading the way here, moving into private markets and private equity as well. That has been very strong progress. There has been a bit of a pullback, as was mentioned before, from some of the DB schemes, where, structurally, they have been pulling back from private markets.

Q130 **Chair:** Sandra, from your point of view, who is driving the fund allocation decisions?

Sandra Boss: The chief investment officer of any institution would be driving those decisions. In the individual space, it is going to be an adviser. The chief investment officer has to look at the objective of the fund and what they are trying to accomplish. If it is a closing DB scheme, like the ones that Barry was describing earlier, they are relatively risk-off. They might be reducing their private assets. In contrast, if it is an LGPS open scheme or an open sophisticated DC scheme, they have been making private markets investments. Barry will talk to it, but PPF has investments in infrastructure and a variety of interesting private assets, and that is typical of an open scheme or a sophisticated scheme.

The challenge has been in DC structures. We will come on to structures. Having something that helps smaller schemes get access to diversified private assets in a semi-liquid model, so an LTAF—long-term asset fund—is a mechanism that, for many schemes, is making it much more possible to put private assets into DC. In time, although it is at approximately 0%, it can give access to private markets to retail individuals as well.

Q131 **Chair:** Liz, from your point of view, am I right in summarising that the problems that bedevil increasing investment in the UK come back to the scheme designs that investment managers are dealing with, rather than a



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mindset of asset allocators who are running these schemes?

Liz Fernando: To have the kind of large sophisticated investment team that you need to support a private markets programme, you need a large block of capital. Therefore, scheme consolidation is going to be very useful in opening that potential up to more people.

As a CIO—we are probably all the same—we are always looking for the best opportunities to put capital to work within the risk budgets we have available to us. Private market assets have historically been much more expensive than public market assets. For DC workplace schemes, which have traditionally, sadly, been sold on the basis of cost rather than returns, cost has been a driving factor for some people. We have shown that, with scale and large inflows, you can negotiate those fees to price points where that is no longer an impediment to getting that money to work.

Q132 **Chair:** Barry, do you have anything to add to that?

Barry Kenneth: Sandra put it really well. The scheme design and the objectives are the most important starting point. Clearly, for our members at the PPF, they have already been disadvantaged before they come to us. My overriding objective is to ensure that I invest our assets commensurate to ensuring that our members are paid the benefits that we have agreed with them. If you take it back into the context, over half our assets are in the UK. We have £32 billion under management. Over £16 billion of these assets are in the UK.

Q133 **Chair:** You are unusual. I suppose that the broader question for us is why you think others are not reflecting the approach that you have taken.

Barry Kenneth: There are different objectives for different pools of capital. Liz will represent defined contribution. I represent more of the defined benefit pension schemes. Yes, the different pools of assets will have different objectives, but we are domiciled in the UK, so it is easier for us to see, go out and find and be marketed to on UK opportunities. With Nest and us, we can see and feel these opportunities, so domestic capital can easily be allocated to these opportunities.

They exist in the UK and we have found them, everywhere from up in Scotland, in the reforestation that we invest in, all the way through the midlands, in the land development we have through our Harworth Estates investments, to Thames tideway, the super-sewer in London. There is not a dearth of opportunities in the UK. It is just the allocation of capital and where you see the right risk-adjusted returns.

Chair: Let us get into the reform of that.

Q134 **Justin Madders:** Good afternoon, everyone. I have a fairly straightforward question for you all. If you can say yes or no, that would be helpful, but if you need to expand, please do. It is about Mansion



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House targets and whether you think they are changing behaviour at the moment.

Tim Creed: I believe that they are and that it is a good thing.

Sandra Boss: Yes. I think that all our defined contribution clients who have signed up are coming to us and looking for private markets opportunities. To Liz's point, they are thoughtful about the need to focus on value for money. It is not possible to deliver private markets opportunities, whether they be UK or global, at the same price point as you can get an index equity management mandate, so that has been very important.

We are finding that our clients are being very prudent about what the right mix is. Ultimately, they need to deliver returns for their beneficiaries. We need to be thoughtful about having enough investable opportunities, so that we are able to ensure that all that money going into the UK goes into productive assets and does not in any way create a bubble. One could satisfy Mansion House simply by investing in UK real estate. That is a lot less productive than if it goes into infrastructure or corporate, whether it is private debt or private equity, that is enabling net new investment in R&D, plant and equipment and people.

Liz Fernando: Yes. Certainly, against the Mansion House compact you are beginning to see some movement. We are still the vast majority of the investment in private unlisted equities within the DC space, but others, from talking to them, have plans. One has to be realistic about how long it takes to get money to work in this area. We have been working with Schroders now for a couple of years. We have been working with BlackRock in private credit for about four years. It takes time to get those projects, to find them, do due diligence and get the money invested. People are working; it will just take time to show up in the figures.

Barry Kenneth: From my perspective, even though I represent more DB than I do DC, the most important part here is the cross-collaboration between Government and industry in order to start understanding what the issue is and taking this debate forward. The Mansion House Accord, which will be coming within the pensions Bill, is one of many policy measures that can be used in order to redirect capital where there is a dearth of capital. Let's be clear: that is in the equity-based finance of UK projects and corporates.

Q135 **Matt Western:** This is really a question for BlackRock and Schroders. I am interested in how it is that you are working to ensure that institutional investors are really connecting with the real economy.

Sandra Boss: "Connecting with the real economy" I would take as institutional investors doing productive investment. That would be, as I said before, plant and equipment or net new business. For an institutional investor to do that, they would assign us a mandate. They would say,



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"We would like to do private debt. We would like to do private equity. We would like to do infrastructure." We need to find those projects for them and we need to find them whether it is a global mandate or in the UK.

Institutional investors typically will diligence our capabilities and then give us a mandate to select on their behalf. If you look at an insurance company, for example, due to the way that they make their decisions, they often have decision rights at the individual asset level. That is part of their regulation by the PRA. They can get very involved in a mandate, working with us. They are seeing us quarterly, doing reviews and understanding, "What are my investments? How are they performing?" They learn more as institutional investors about the underlyings throughout the course.

The other thing I would say, which is quite important, is that very sophisticated investors increasingly co-invest with us, especially in the UK. In addition to saying, "This is the mandate", they will say, "Next to that mandate, whenever you are investing in these types of, say, a UK infrastructure asset, we would like to put up money specifically in addition to that fund." That is beneficial because they build their own capabilities, but it is also beneficial economically for them. That might be lower-cost than doing a fund-based investment. We are seeing insurers and big sophisticated funds building selective co-investment capabilities and then direct capabilities.

Q136 Matt Western: Is that what you are seeing, Tim?

Tim Creed: It is very similar indeed. When institutional investors look to invest with us, or with other managers, in the private market space, they generally lock up their capital for a prolonged period of time. Traditionally, it was 10-year vehicles. There is more flexibility now, which we may go into. If an institutional investor is going to lock up their capital for such a long period of time, they make sure they do extensive due diligence, with many meetings over many months, and sometimes even over a couple of years, to ensure they know how we operate, how we look at assets and the way that we are going to share the information on those assets with them as investors.

All that extensive work on due diligence means that, when we start investing, we and the client have a mutual understanding of what we are going to look for, why we are going to look for it and how we are going to report about it. I believe that that means that they are well aware of what we are investing in and get very clear visibility on those productive assets that you were referring to.

Q137 Matt Western: What do you find are the barriers to, or what is helping enable, these products being taken up by the pension funds?

Tim Creed: Sandra mentioned LTAFs in one of the previous answers. LTAFs are a new product that has been brought through by the FCA. They are positioned for DC investors. It is not so relevant for DB investors or



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LGPS. It is DC. I would not even say that it is all DC investors, because some are able to invest without the LTAFs. LTAFs certainly have increased the ability for DC schemes to invest into private markets.

We set up the first one, which is a cross-private markets vehicle. We also have the first one that focuses purely on UK venture. We also have the first one that is available to the wealth channel, so it is not just DC investors.

Those products have within them a structure of what is called semi-liquid, which means that the capital is not locked up for the 10, 12 or 15 years that you would normally see in a conventional private markets product. That has enabled and is enabling more DC schemes to invest more capital into private markets.

Sandra Boss: I will not repeat Tim's comments about LTAF, which are incredibly spot on. It is also important to understand that changes that the Government are making or could make around having a better supply of investable assets are also quite important. The UK planning Bill is going through the machinations. God bless when it gets signed. Right now in the UK it takes 4.2 years to get a project approved from an infrastructure perspective. That used to be about 2.6 years. The time has almost doubled over a decade, let us call it. We need to be able to get projects shovel-ready and in process. You cannot invest in something when it is in the planning stage as an institutional investor, in development maybe and definitely once it is operating. That is a really important change.

The other thing I would mention is that we know that we need infrastructure investing. There is a challenge that we have right now. Let us look at US telco and the regulation around US telco versus UK telco. Right now, you can get 5G in the UK about 10% of the time. In the US, you can get it about 68% of the time. The real rate of return that is allowed to a utility company here is half the rate that you get in the US. If I am that grid, I have raised £60 billion in equity and debt and I am going to invest in US and UK grid infrastructure, I am looking at the relative rates of return.

If Government policymakers are enabling projects to get started or enabling business-friendly investing that is going to let corporates start new projects, these are all things that increase the attractiveness of the market. One thing that is absolutely fascinating is that, since 2000, UK corporates are actually in surplus. They have not needed, in aggregate, to borrow money because they have been self-financing, because they have not been investing as much as, let us say, Sweden. From 2010 to now, Swedish corporates are in deficit. They are borrowing. There is something around needing money. It is not just about the supply of capital, but it is also demand, because the companies have amazing projects and feel that they have the support to put that money at risk so



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that they can get attractive returns. It is the dynamic around where the money could go that is really critically important.

Q138 **Matt Western:** On that, was that the case through the last decade or so, when we had record low interest rates?

Sandra Boss: There was not a lot of net borrowing. There really was not.

Chair: They were running positive cash balances.

Sandra Boss: That is generally true.

Chair: They did not take the opportunity.

Sandra Boss: Yes. There have been exceptions, but, in general, we have seen a relatively conservative, dividend-led approach from UK corporates, with not as much net new-opportunity-seeking. As we know, it has been a complex 10 years. We had the uncertainty associated with Brexit, covid and the Russian invasion of Ukraine.

Q139 **Chair:** That is a very British understatement.

Sandra Boss: Yes, I have been here a while. I have been trained. That energy cost uncertainty has also been a real issue. Our energy costs are much higher here industrially than they are in other countries.

Q140 **Chair:** Characterise for us how abundant the investment opportunities are when you are out there hunting for things to invest in on behalf of your clients.

Sandra Boss: It is very easy to find real estate investment. We have 190 real estate investments here, which is about £5.5 billion. We have some amazing infrastructure investments. We have £12.6 billion in infrastructure, including Gatwick Airport.

Q141 **Chair:** Do you have to work hard to find these, or are they all over the place?

Sandra Boss: Especially when it comes to sterling assets that insurance companies can invest in, there is some scarcity. There is some scarcity.

Q142 **Chair:** Tim, is it a similar story?

Tim Creed: We are almost flooded with investment opportunities. If you look at Schroders, we have a separate part of the business, Schroders Greencoat, which focuses on offshore wind farms and is the largest owner of offshore wind in the UK. It sees a large number of opportunities. Within the private equity and venture capital world, we are flooded with opportunities. The biggest challenge is making sure that we choose the right ones.

Q143 **Mr Reynolds:** Tim and Sandra, you are talking about long-term asset funds. I want to keep us on that topic for a second. How effective have anchor investments by the British Business Bank been when it comes to developing these long-term asset funds?



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Tim Creed: I do not know how much people are aware of the full background with one of the first vehicles that the British Business Bank invested in over the last couple of years called LIFTS, the long-term investment for technology and science. It was mandated to invest up to £250 million in a UK venture or up to maybe five UK venture managers, as long as we brought matching capital. In the end, it ended up investing all that £250 million with Schrodgers. We brought in capital—another £250 million—from Phoenix, so we set up a £500 million vehicle.

We think its process for selecting us was outstanding. I would say that, but it spent a year doing due diligence and it is a very experienced investor. It really looked under every rock possible. We think that it did a thorough job. We structured that as an LTAF. That was the first time that it had invested in an LTAF. It was the first time it had had experience in an LTAF, and we did so because we wanted to raise capital from other DC schemes for that strategy.

Sandra Boss: We have heard that the British Business Bank has been very dynamic. Did you mention the national wealth fund as well, or are you only interested in the British Business Bank?

Q144 **Mr Reynolds:** I am happy to talk about the national wealth fund as well.

Sandra Boss: British Business Bank, which has been helping in smaller-cap space, has been very dynamic. The business growth fund is another nationally sponsored group that has had a very good track record of doing relatively small-cap venture capital. That has not yet, as far as I know, gone into any kind of LTAF-type structure. That has been mostly funded by banks, but is definitely highly beneficial to British businesses.

The national wealth fund has not yet hit that sweet spot of net new corporate development. Clearly, it is providing funding. It is beneficial. It tends to be, at least from what I have seen, more side by side with other potential available investments. There is a lot of potential for it to do more in the way of guarantees and first-loss-type investing. There is that potential but it is yet untapped, and also more potential, potentially, for it to co-invest with big institutional investors and insurance companies. I see it operating in a higher cap space versus the British Business Bank, which is more focused in the early years.

Q145 **Chair:** The theory is that the national wealth fund will be capitalised at about £37.5 billion and the British Business Bank at about £5.5 billion. Internationally, that is still quite small. It would be good to hear any reflections on whether the balance between the national wealth fund and the British Business Bank is right. There are an awful lot of eggs in the national wealth fund basket, and there ain't much in the British Business Bank basket.

Sandra Boss: The one thing I could observe is, if you wanted to put more money into the small-cap space, probably the best lever to use would be looking at EIS and VCT, so the enterprise investment scheme



and venture capital trust. Right now, there are sectoral and size limitations. Taking that and thinking more about how we get more geographic diversity, get more capital-intensive opportunities and move higher up the cap table, while still qualifying for those schemes, would be a really interesting tactical improvement. What is nice about that is it means that you are not trying to pick winners. If you have a tax structure, the companies flourish. They use the tax incentives that are available to them. It is an easier way to do it, similarly to a guarantee.

Tim Creed: If I was to add a comment there, we would see that the British Business Bank is very good at investing in funds. That is where it basically seeds funds. It gives money to venture capital managers who then make the direct investments. Its skillset is investing in funds.

To grow from £5 billion to be substantially larger is very easy while focusing on funds, because funds is a very scalable investment style. Investing directly is a slightly different type of skillset, and so there has to be some thought and care with that approach. Putting in numbers and perspective, the UK venture market is £20 billion per year. You mentioned £5 billion in aggregate. That is invested over many years.

Chair: On its balance sheet, yes.

Q146 **Mr Reynolds:** When you look at the national wealth fund, British International Investment and the British Business Bank, if you combine them all together, that is still about a quarter of the size of the Japanese development bank, for example. How much is that holding us back?

Tim Creed: It is also very small compared to the size of sovereign wealth funds in many other countries. One of the biggest topics is whether the British Business Bank can facilitate additional capital to come in alongside it. It would be good if the British Business Bank was bigger, of course, and could invest more capital. The £250 million it allocated to us is a very small amount compared to the total amount we invest. If it can facilitate additional capital coming into the venture market, we think that there is lots of space and opportunity.

Q147 **Chair:** Is it successfully doing that today? You said, "If it can."

Tim Creed: It does so, but there is always further growth that can happen.

Q148 **Alison Griffiths:** This is a question for all of you. Would a NOVA or Tibi-style approved fund list allow institutional investors to speed up investments to private markets?

Chair: This is an idea put to us by BVCA, on behalf of some of its members, as a way of taking some learning from France and facilitating the speed with which the kind of investment that you are stewarding goes into the venture capital market.

Barry Kenneth: I would like to step back to make it a broader question. The UK has one of the biggest allocations of pension insurance capital in



the world. It is probably in the top five. It used to be in the top two or three. I am not quite sure where we sit today. The real element of this is trying to match this capital allocation to where, as a country, we need to allocate capital.

Over the last three or four years, the collaboration with industry and Government has enacted a couple of big things that are important. Consolidation is a big thing, but it is a big thing not just to consolidate, but you have fragmented pools of capital around the UK, in both DB and DC space. When formulating these big super funds, we have an element of scale here. Obviously, we can be scaled bigger, but that allows the key ingredients.

When we look across the pond to Canada or go to Australia, there are key ingredients that ensure pension capital is allocated into the right type of investments. That is professional management, scale, time horizon and effective governance. It is not the consolidation in itself that makes that possible. It is getting these key ingredients in. When you have professionally managed funds and scale, it is an awful lot easier to allocate capital into the right investments, specifically equity investments.

Let's be honest: it is the riskier type of investments that need the most allocation of time and thought about how we allocate capital. These professional big-size institutions, with the right professional management, are the way that you get scale and allocation of capital into the domestic economy. It is not by any rhyme or reason that we and Nest are big allocators into the UK, but we have teams that enable us in order to go and do so.

Q149 Chair: Does anyone want to demur or agree with that analysis?

Sandra Boss: I think that that is right, and I will come back to your fund approval list. If you look at LGPS and the consolidation that has gone on there, it has been quite thoughtful in terms of trying to bring many small pools together. There are still many orphan public pension funds around the UK that are not part of that type of a scheme. Think about someone such as a PPF holding those type of schemes. Some of them are funded. Some of them are unfunded. Trying to take those from £2 billion, £1 billion or £0.5 billion and putting them together is an opportunity.

There are, similarly, orphan private schemes that have governance or covenant problems. Having a mechanism that would allow a public consolidator down in the bottom end of that market would be a thing that could bring assets together.

When it comes to the fund approval list, the only place I could see any benefit from some kind of a kitemark would be in the self-directed investing world for retail. Today, a retail investor has their own journey.

Q150 Chair: Would it make a difference there?



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Sandra Boss: It would be marginally beneficial, but in a world where the new retail disclosure risk work is being done, plus the new targeted support and very simple offerings, mostly what we need for that market is to get people into investing. Although it is good that now a long-term asset fund could be in a stocks and shares ISA—that is a great change—the first thing that someone who has just been in cash will probably do is a market-tracking ETF, where they feel that they can get diversification, dip their toe in the water and learn about investing. They are very unlikely to go from, “I have it in cash”, to “I want private assets”, and probably they should not. There is a lot of investor education, so I would focus that more in other categories.

Chair: That is very helpful.

Q151 **Antonia Bance:** Liz, the London Stock Exchange Group and others have called for setting a minimum 25% allocation of pension scheme default fund assets into UK investments. How feasible do you think this is for the sector as a whole?

Liz Fernando: If you look at UK investments, as I mentioned at the start, we already have over 20% of our assets invested in the UK, across listed and unlisted assets. I think that that call was specifically for UK listed companies. If you look back historically, the returns from the UK market have been subdued compared to international stock markets, so the decision to not have home bias has been a correct one for savers historically.

In terms of future allocations, it was mentioned before that the demand for capital has not really been there from corporates. When we buy listed securities, if the company is not asking for new capital, all that happens is that I trade shares with an existing shareholder. The company gets no additional capital as a result of that and is therefore no better off. We have decided that we are better off allocating our UK assets into investments that will help boost the UK economy and growth and will result in better financial outcomes for members, but also better quality of life in terms of the infrastructure and facilities they have around them. We think that that is a much better use of capital.

Q152 **Chair:** This is very helpful. The thing we want to flush out is that, in the pensions Bill, Ministers are proposing to take a reserve right to basically mandate domestic allocation. Folk such as the London Stock Exchange have proposed a different kind of alternative, so we are trying to get some judgments on which is the best way through this to solve the problem we are interested in, which is maximising scale-up finance for British entrepreneurs.

Liz Fernando: We all go out looking for the best opportunities. If the market conditions and growth environment are right, the money will come to the UK. If we are having to force money to come to the UK, we have got something else wrong, frankly.



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Q153 **Chair:** Arguably, we have. Your argument, therefore, is that nothing is going to change unless you get some macro factors in better shape.

Liz Fernando: Our job as pension funds is to invest in the best long-term financial interests of our members. It is really important that that primary objective of a pension fund does not get lost in the broader debate. We represent one in three of the UK working population. Therefore, there is a very high synergy between the UK economy doing well and our members doing well, because how long they are in work and the quality of work they are in is going to make a big difference to the size of their pension pot at the point of retirement.

It is important that those assets that they are contributing are invested for financial reasons. If there are ancillary benefits that can come from those investments, we should absolutely embrace them, but it would be inappropriate and inconsistent with our fiduciary duty to invest in ways that are not looking after those financial interests first and foremost.

Q154 **Dan Aldridge:** Hi, everyone. Thanks for being here. Bearing in mind everything that you have already said, have regulation and market practices pushed us to prioritise low costs over creating value? If so, what might change this direction? Sandra, you were nodding.

Sandra Boss: Yes, I am nodding. I would compliment the DB industry for not having that problem. In both wealth and DB there has been a history of the buyers of managed funds paying for high value and being low-cost when that is the more appropriate solution and it is a more commoditised product. In DC, cost has been a real issue. Cost has been king in DC, and that comes from the regulatory framework and consultancy. It is really important that the work that is being done right now to emphasise value for money in DC be prioritised. That is really quite important in that segment in particular.

There are obviously exceptions, especially a more sophisticated investment office that is thinking about the returns in the round. The more sophisticated the investor, the more likely it is that they are able to understand that, in the round, a DC outcome over a long term will be better with better returns.

It is really interesting. Liz was talking about thinking about the beneficiaries; 13 million future retirees in the UK are beneficiaries of clients who we are managing money for. Pensions UK did some research that said that the difference between one percentage point over a lifetime for the normal DC investor is £43,000 at the end, so it really matters that we get those returns right. Little bits and bobs of cost along the way are not as important as making sure that those returns are right.

Q155 **Dan Aldridge:** Could I ask you a bit more on what the characteristics of a sophisticated investment office might look like? That would be useful to know.



Sandra Boss: Both Liz and Barry have talked about larger schemes being able to hire professional staff. One thing that we see is very beneficial is a chief investment officer who has been trained in the right kind of decisions, not only about asset allocation but also the manager selection. Also, for these funds that are big enough to be thinking about direct investing, the individuals need to have done their own live direct investment deals, not just picking funds. The more that they are themselves investors who have stepped in to work on behalf of the pension, the better.

In this country, the fragmentation and small size of pensions—we have around 5,000 pensions—means that often you have a lay trustee body dealing with a consultant who is explaining what one should invest in. It gets too removed and the decisions can get a little bit fragmented and diluted vis-à-vis these more sophisticated groups.

Tim Creed: Cost is a very important topic. One thing I mentioned was about private equity and venture capital being the best performing asset class over so many different time periods. I was talking about net performance. That is performance after fees. That is a really important way to look at the total performances. It is important to look at net, not gross.

With regard to venture capital and private equity specifically, they are very hard areas to invest in. I could give an example of a company, Revolut, which is a company I am sure many of you are aware of. We were fortunate enough to be investors in every single financing round in the series A. These are technical terms for financing of venture: series A, series B, series C and series D. The first valuation was at £6 million. The next one was £230 million, then £2.5 billion, then £30 billion. We were invested all the way through.

We were invested through our venture funds, so through venture fund experts, in those earlier rounds. They had specific fees that we then had to pay to them. When we report about our performance and our investment in a company such as Revolut, we report the net performance that we have generated for our clients. We also are very transparent with the gross performance, so how much it costs us to do it. At the end of the day, the bit that has generated the returns for a variety of different clients, because that is in a number of different pools, is the net performance of having been involved in a company such as Revolut from the series A round all the way through its substantial growth.

Chair: That sets us up for a question about consolidation.

Q156 **Matt Western:** On the subject of consolidation and aggregation, this is a question for you, Barry. In your eyes, will the pension scheme consolidation lead to more investment into UK assets and businesses? Is that the result, or is it just something that is wished for?



Barry Kenneth: No, it is a conduit. I will go back to my previous answer. The consolidation, in one respect, is a conduit, as long as that is alongside the key ingredients of having professional management of investments, scale, time horizon and effective governance. You need all the ingredients that sit alongside the consolidation. Consolidation in itself does not deliver results, but it is able to affect the economies of scale and enables us to have professional investment teams that are cost-effective in order to assess the opportunities.

Consolidation in itself is a conduit. The ingredients of being able to allocate that capital in the most effective way require the other ingredients to work alongside that in order to deliver the right outcomes.

Q157 **Matt Western:** The proposals are for the PPF to take a more ambitious role in all this. How do you see that?

Barry Kenneth: One of the ingredients that the PPF has is a long investment track record. Obviously I am biased, but it was extremely good. We have an award-winning member services business and an actuarial function that matches up the assets and liabilities. We have the key ingredients, we are a Government asset and we can be expanded from here without many changes to the target operating model that we run. If the Government see us as having a bigger footprint in the pension ecosystem, we stand ready to be there in order to assist.

Q158 **Chair:** Are the Government's plans to consolidate the pension funds that we have today ambitious enough?

Barry Kenneth: I do not think that it is for me to talk about specific Government policy.

Q159 **Chair:** Let me put it a different way then. Will the proposals that are set out in the pensions Bill, currently debated in the House, deliver the kind of consolidation that you think is going to make the difference that we perhaps need?

Barry Kenneth: It works in the right direction. It was mentioned in one of the previous sessions that there is a £2 trillion hole. I think that Will Hutton mentioned that there is a £2 trillion hole in terms of investment. There are all the different levers, push and pull, that the policymakers can have, working alongside industry. There are all the ideas that can manifest themselves in order to deliver, based on the fiduciary objectives for the people such as ourselves.

Q160 **Chair:** The Tony Blair Institute, for example, proposed different incentives that could drive consolidation on a bigger scale much faster. Should we be more at that end of the policy proposals, rather than the more modest measures in the pensions Bill?

Barry Kenneth: If you add the answers that we have said today, the consolidation is a conduit. If there is consolidation plus professional management and scale, that will end up, in my view, with a better



likelihood of better outcomes for both the UK and the members that will sit there.

- Q161 **Justin Madders:** This is a topical question, I think. There is about £30 billion of income tax relief in registered pension schemes at the moment. Do you think that that is being used effectively at the moment? Is that getting the right results?

Sandra Boss: For who?

Justin Madders: For the taxpayer or for the investor.

- Q162 **Chair:** At the moment we spend a lot of money on tax relief, but we tax incentivise people to invest that money abroad as much as we do at home. The question is whether we should be re-gearing those incentives to incentivise domestic investment.

Sandra Boss: There is a policy decision as to whether you want to make that shift. Australia does a franking credit dividend benefit. The UK used to do that. That is highly beneficial.

As you think about changes to pension policy, one of the most important things is consistency for the individual. An individual is saving over his or her lifetime to plan for retirement. Dramatic changes that affect someone needing to work 10 more years or how they think they are going to do their inheritance for their children are destructive to where you are trying to go, which is to get people in the UK to invest more.

I would think about how whatever change might be made would motivate and incentivise, positively, more of the right savings behaviour and be very careful about something that can surprise or take away from someone who has been planning their life on decades of a certain policy. I do not know whether that helps, but that would be how I would think about it.

- Q163 **Chair:** There are a lot of arguments that we have heard that suggest that tax incentivising or focusing tax incentives on UK domestic equity investment, for example, would be a better use of those tax incentives. At the moment, you get a better tax incentive for buying Meta shares than you do for a UK listed firm. If we are trying to scale up finance for UK companies, that does not seem to make a lot of sense.

Sandra Boss: I would point back to what Liz was saying earlier. Pension funds have, or any investor working on behalf of someone else has, an objective to look after that individual beneficiary's best financial interests. They have a fiduciary duty. The logic, from an industry perspective, is enabling an attractive UK equity environment to draw in investment.

It is important to note that, this year, a sterling investor will have done profoundly better investing in the FTSE 100 than investing in US S&P 500 because of US dollar versus sterling performance and, in absolute terms, FTSE has outperformed the S&P. That has not been true for many years,



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but people are thinking about that. That only continues in a world where UK companies are earning more. It is not just about a one-time re-rating, but we will see diversification questions being asked more and more by our clients, so a market-led motivation. The biggest problem today is that, if I buy a UK share, I am going to pay a 0.5% stamp duty right off the top. If I buy a US one, it will be zero.

Q164 **Chair:** You would say that sorting out stamp duty might be a better measure.

Sandra Boss: Personally, I think that things that disincentivise buying a UK share are a bad idea. Things that incentivise buying a UK share, for example the franking credit, are measures that are highly beneficial. They are running the numbers.

Q165 **Chair:** Liz or Barry, do you have any observations on that?

Liz Fernando: We already invest substantially in the UK. Over 20% of our assets are already in the UK. I am not sure what the PPF number is. It is higher, I think.

Barry Kenneth: It is 50%.

Liz Fernando: There is also a question of looking at this holistically. If people are not saving for themselves and building up a substantial personal pension, they will be falling back on the state. There is a "one hand, one pocket, other pocket" conversation that needs to be thought about as well here. How do you get the best overall retirement outcome funded in different ways?

Q166 **Justin Madders:** Is that the judgment that you are making when you are deciding where to invest?

Liz Fernando: The judgment we are making when we decide where to invest is where we can get the best returns for our members.

Q167 **Justin Madders:** It's not, is it, I don't think, even though it is a very valid point?

Liz Fernando: That is the policy decision you are having to weigh, because you have both hands. You have both parts of the scales.

Tim Creed: I will add one more point. This topic is around the financing of the real economy. A lot of that is venture, growth and scale-up businesses. The public markets are good and there are fast-growing companies there, but there are generally much faster-growing companies in venture, growth and scale-up, where we see companies growing 10%, 20% or 30%, or even 50%, 80% or 100% year on year. That is an area where you can see substantial growth in the performance of the investments, but they also have tangible impact on the real economy.

Q168 **Matt Western:** On what you were saying about maybe shifting to a 0% on stamp duty, so on the acquisition, if you were to make it fiscally



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neutral, where would you levy tax?

Sandra Boss: I will not answer that question. I am not a tax policy person. I do not know.

Q169 **Matt Western:** If you are trying to incentivise the market, which is what you are saying we should be doing, should the seller be taxed more?

Sandra Boss: Financial transaction tax, in general, is a bad idea for encouraging participation in securities markets. The US has a 0% financial transaction tax. Germany has a 0% financial transaction tax. Ours is the highest in the world. Regardless of buy or sell, I know, when I am buying, if I have to sell it, I am going to pay that. It is still a cost to me. You need to be looking for another lever. I know that right now the Government are weighing a variety of fiscal levers. As much as you can avoid taxing economic activity, that is beneficial.

Q170 **Mr Reynolds:** Liz, Justin asked about the tax relief on the pensions. It is rumoured in the papers that the Chancellor is going to consider putting national insurance on pension contributions. How do you think that will impact UK savers who are registered with you?

Liz Fernando: I do not think that I am the best person to answer that question. I would come back to a point Sandra made earlier about the fact that people are saving for their pensions over a very long period of time. Undermining trust in the system and what people are likely to get out of it is something one should avoid at all costs.

Q171 **Mr Reynolds:** Do you think that this could undermine trust in the system?

Liz Fernando: Again, I do not think that I am the right person to answer that question.

Q172 **Chair:** Could stamp duty on shares and share transactions be set to zero, for example, without damaging the kind of long-term incentives that you are worried about?

Liz Fernando: Anything that makes the UK economy and the UK stock market relatively more attractive to put capital to work in is a sensible thing to do. As I have said a few times, we are all trying to get the best returns for our members we can within the risk budgets we are allocated. If a headwind is taken away from investing in the UK listed markets, you would expect more money to flow here.

Chair: That is useful.

Q173 **Charlie Maynard:** Comparing our capital markets in the UK to where they were 20 years ago, it is not a very pretty picture. You have set out some of that and been very polite doing it, but let us say that there are not great returns. You have a fiduciary duty to look after your clients. The demand for capital has been low. Move to passive investment has naturally resulted in a huge sucking sound towards hyperscalers in the



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US and ever more concentration over there, but good return so far. Ever more concentration into the US is one obvious thing.

You have your responsibilities. We have our responsibilities. We covered stamp duty already. Beyond that, in terms of some sensible decisions that the Government could be making to make the UK capital markets more attractive, what would you be nailing out there?

Sandra Boss: I can certainly observe that the listing rule changes have been excellent. They are working through, but we are now seeing the fruition. We have seen fast raises happening, which were not possible. Coats is an example of a company that raised £250 million in a matter of days when it needed to buy a company. It beat others out in the acquisition. The listing rule changes have been very beneficial.

The FRC changes around stewardship code and corporate governance code have been very beneficial. Those changes have been wise.

One of the things that is going to be most beneficial is working through of advice around diversification. Whether it is a pension fund, a wealth investor or a retail investor, anyone who is taking advice right now is asking the question that you are asking around excessive concentration risk. There are products being developed that allow you to equal rate your exposures, so that you are not overweighted to those companies. We have seen a lot of international diversification out of the US into European and emerging market equities, so there is attention to that issue.

The most valuable thing from a market perspective that the UK can do right now is to look very attractive. Company earnings growth is the single most exciting and important thing, so companies investing in productivity improvements using the AI available to them. It is interesting. We are the largest asset manager here, and that is inward investing into the UK £568 billion. It is about 40% equity and about 60% fixed income. That is what we have invested in this country. Part of that is obviously domestic-domestic. Some of that is inward from outside.

When we are investing here, one thing I am most excited about is a deal that we have just done with a group called Digital Gravity Partners. It is £500 million to do something that we desperately need and can do quickly, so data centres that already exist and are not yet AI chip-enabled, but they are already hooked up to power. It is refitting them with Nvidia chips so that they can do user-oriented AI. I say "user-oriented." It is hard for us to afford, with our power costs, the training farm, huge gigawatt centres for AI data centres, but we can afford these types of centres where our finance companies, our biotechnology companies and the Cambridge-Oxford cluster can actually do investing right now.

Thinking about exciting net new things that can happen every day and more announcement flourish, so talking about it when we do something



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amazing in this country, is actually a really good idea. It is more typical of my home people to talk about the good things we have done, but there is a buzz factor that matters.

Tim Creed: You mentioned hyperscalers. If you look at the likes of the Googles, the Facebooks, et cetera, they are very large. Many people want large companies such as that in the UK. They were pretty much all venture-backed originally. If we go a few steps back and start at the beginning of the journey, we need to enhance and improve our venture community, our growth community and our scale-up community, so that we can create those companies and let them grow.

Where you talk about successes, believe it or not, there are actually a large number of very successful, fast-growing venture companies, growth companies and scale-up companies that are on that journey. We need to put more money into those. More British capital needs to go into those, and not just capital from other countries. More British capital needs to go into those to really grow them. Also, as you say, we need to talk about them a lot more.

Barry Kenneth: I have one additional point. There is a bit that has not been covered today. One problem from an investment standpoint at the moment is not getting involved in the early stage of a project formulation. I hope that the formation of the Sterling 20, which had its first meeting yesterday, will help to alleviate that. When a project has already been mandated, it has been structured and then it is presented to investors in a kind of packaged bowl, sometimes it does not meet the characteristics of what we would be looking for from investors. Getting us involved earlier on what it is that we would need will help.

Sterling 20 might be able to help that in terms of 20 different pools of capital in the room. We can get involved at the earlier stages of projects and be able to set down the types of criteria and risks and returns that we are looking for. Even if that stuff does not marry up sometimes, that is where you have your national wealth fund to maybe come in, whether it is through contracts for difference, through infrastructure or taking the first loss—I think that Sandra mentioned that earlier on—in order to make the project viable. All these things will help get capital into UK projects. These types of initiatives between the industry and the Government are really important.

Chair: Thank you very much indeed. That has been extremely helpful in helping us understand the nuances of this policy challenge. That concludes this panel.