

Written evidence submitted by the Investment Association (PEG0074)

Written evidence to the House of Commons BEIS committee inquiry into Post-pandemic economic growth

About the Investment Association

1.1 The Investment Association (IA) represents 250 UK investment managers who manage £7.7 trillion of assets for clients across the world. Investment managers sit at the heart of the UK economy, helping three quarters of households save for their future, through ISAs and pensions, while investing £1.7 trillion in the economy, including through shares, infrastructure investment and increasingly direct lending to small businesses.

1.2 As providers of long-term capital, investment managers redistribute the fruits of economic growth, driving up productivity and lifting living standards for all. Contributing 6% of Britain's net service exports, and employing around 115,000 people, the investment management industry is a vital part of the wider economy and our world-leading financial ecosystem.

What measures and support will businesses need to rebuild consumer confidence and stimulate growth that is sustainable, both economically and environmentally?

Recapitalisation of businesses and encouraging investment

2.1 As major investors in UK companies, owning around one-third of shares in FTSE companies, our members are naturally keen for the government to support the recovery of businesses across all sectors and regions of the UK. During the crisis, the IA has worked closely with our members to respond to a range of immediate company and investor issues that have emerged as a result of Covid-19. This includes identifying how to help companies to raise the additional capital to remain solvent, and setting out shareholder expectations on the payment of dividends and executive pay.

2.2 In the earlier stages of the pandemic, we expressed the industry's commitment, in a letter to FTSE chairs, to support British businesses over the long-term and during the extraordinary economic circumstances caused by the virus. Our letter made clear that the industry's role is to cut through economic uncertainty and market volatility, and to work with and support good businesses that produce sustainable long-term value for savers and investors. Our members reaffirmed they are not here to take short-term decisions or to capitalise on companies or people in distress.

2.3 We took additional steps to help businesses, including working with financial regulators to support greater flexibility for firms to raise additional capital. This has allowed companies to quickly raise capital in an accelerated 'bookbuilding process' without having to offer new shares to existing shareholders. As a result, **existing shareholders including IA members have been able to support companies by providing over £13bn of additional capital.**

2.4 **Our industry stands ready to continue to work with policymakers, with other parts of financial services and wider stakeholders on the essential challenge ahead of supporting the recapitalisation of UK businesses and recovery of the UK economy.** We are facing a once-in-a-generation opportunity to set out a blueprint for the long-term growth of the economy, which ensures greater resilience, sets a clear roadmap towards net-zero emissions, and limits the damage from climate change. Policymakers should also be mindful that the UK's economic recovery will also be driven by the health of global economies and markets around the world, including domestic businesses' global supply chains.

2.5 The industry already is playing an important role in providing long-term capital to support both corporate and government funding, and will continue to do so. Investment managers offer key skill sets across public and private markets. The capacity of our industry is ultimately determined by the scale of capital its customers, such as pension funds, governments, insurers and charities, (to whom it owes a primary fiduciary responsibility) are able to deploy. The industry's fiduciary responsibility to customers and their appetite for risk will lead the way our industry works to deliver long-term sustainable value.

2.6 Significant deployment of capital on behalf of UK retail savers and institutional investors is currently taking place via fund managers deploying available cash to purchase securities from listed companies and invest in government debt. **The IA is undertaking work, which is at an exploratory stage, examining the role of our industry in funding the UK recovery and to consider how the mobilisation of additional retail and institutional pools of capital supports a recovery that is fair and sustainable.** This work will not be completed before the deadline for this submission, but we would be happy to brief the Committee on this work at a later date.

What opportunities does this provide to reset the economy to drive forward progress on broader Government priorities, including (but not limited to) Net Zero, the UK outside of the EU and the 'levelling up' agenda?

Driving forward progress on the UK's transition to Net Zero

3.1. As we emerge from the pandemic, there is the opportunity for the UK to consider how the post-Covid economic recovery can contribute to the UK's journey towards a net-zero economy and meeting the Paris Agreement targets. This is an area that will continue to be a key area of focus for investment managers.

3.2 As major global investors, investing in companies and assets across the world, our members keenly feel the impact of climate change across different geographies and the risk this poses to the long-term value of our clients' assets.

3.3 It is **critical that policymakers encourage businesses to identify, manage and mitigate the impact of climate change as we emerge from the pandemic.** In light of the crisis, we would encourage businesses to take this opportunity to re-examine their current business models and strategy with the objective of moving to a more sustainable, long-term path.

3.4 There is an important conversation to be had coming out of the crisis about how companies are managing environmental, social and governance (ESG) risks and the interplay between these risks and outcomes for society, the environment and the economy. For example, we know there are close links between the governance structures of companies, the productivity of staff and the resilience of employees' local healthcare systems.

3.5 The IA and our members expect all listed companies to explain in their annual report what impact climate change will have on their business and how the company is managing risks and pursuing opportunities. **We support the recommendation in the Government's Green Finance Strategy that all listed companies should disclose in line with the Taskforce for Climate Related Financial Disclosures (TCFD) recommendations by 2022.** In this year's AGM season, we are monitoring companies' progress against this and will be highlighting to investors whether companies have made climate-related disclosures in line with the main pillars of TCFD to help support shareholder engagement on climate change.

3.6 All UK listed companies should adapt or strengthen their business model and strategy to ensure long-term viability in response to climate change. For certain industries, such as energy, this strategy may include pursuing opportunities to contribute to climate change mitigation and adaptation. Investors expect companies to disclose how climate change will impact on their strategy and capital allocation decisions in the future. This may include spending on infrastructure to manage physical risks, acquisitions to transition the business model, and investment in research and development.

3.7 Clear signals from government on the nature and speed of the UK's transition and the sector-specific changes that will be necessary will also be important. This will enable investment managers to factor climate transition risks more accurately into their investment decisions for the long-term benefit of our customers. It will also help support our role as stewards to companies to make the capital allocation decisions they need to transition. We stand ready to work with policymakers to help identify clear pathways to transition for different sectors of the economy.

3.8 We are also keen to work with policymakers to build on the success of TCFD disclosure and help the UK reach the Paris Agreement goals. We continue to work with our members to support their efforts to disclose against the TCFD recommendations, including to develop meaningful data on the sustainability risks and opportunities of their investments so investors can make more informed choices. We hope the UK will use its position as a global leader on sustainable finance to help encourage change at home and in other countries, including through diplomatic channels during the UK's G7 Presidency and in the run up to the COP26 Summit.

How can the Government best retain key skills and reskill and upskill the UK workforce to support the recovery and sustainable growth?

The crisis's impact on upskilling

4.1 The crisis has naturally had a huge impact on the skills agenda across the board and the UK's efforts to upskill its workforce. With unemployment projected by the Bank of England to more than double before the end of the year and many sectors having to completely shut down for months, it is unsurprising that 44% of workers fear that their job is at risk. This figure rises to 75% when looking at those on salaries of less than £25,000.

4.2 There is rightly a great deal of concern the crisis will disproportionately impact young people who typically occupy entry-level positions and are on lower salaries. Accordingly, the Resolution Foundation found that more than one in three 18-24 year olds are earning less than before the outbreak. Hiring reductions and freezes have become commonplace across business meaning many young people leaving education or being made redundant as a result of COVID-19 will not have access to the usual job opportunities. It is vitally important young people are supported as much as possible in seeking employment opportunities at this difficult time.

4.3 An essential long-term consideration for many industries, including investment management, is the quality of its talent pipeline. For our sector, this is crucial as we are a service industry which has people at its core. People's knowledge, skills and judgement are rightly seen as the most important asset that an investment management firm has. Ultimately, we know our industry will only succeed in the long run if it is made up of talented people from all backgrounds. This is because different voices, opinions and experiences help boost investment performance, guard against group think and better understand our customers' needs.

4.4 That is why we set up our [Investment20/20 programme](#), the investment management talent service addressing diversity in early careers and an employer led solution to youth unemployment. The focus is on attracting, recruiting and developing young people from a wider diversity of backgrounds including socio economic, and it has provided over 1,600 young people with jobs, half of those straight from leaving school. The Investment20/20 Trainee Programme gives young people the first step in their professional career combined with skills training, which leads to sustainable employment.

4.5 Investment20/20 are already supporting employers to look at ways that young people on the Kickstart and Traineeship initiatives in the sector can be part of the Investment20/20 support and skills development network. **The crisis means initiatives such as Investment20/20 are likely to be more important than ever for those starting their career.**

4.6 We have also recently developed a [Talent Strategy](#) for our industry, setting out how we will support investment managers to attract, develop and retain people with the skills, knowledge and competencies the industry needs to thrive in future. It is structured around three key themes: attraction, advancement and environment, with considerations around diversity and inclusion underpinning each one.

4.7. In light of the crisis, it will be important for businesses to reinforce their commitment to diversity, including a diverse workforce, which will be key to the UK's economic recovery. Our members have continued to engage with companies on diversity during this year's AGM season despite the impact of the pandemic, including on gender and ethnic diversity on boards and senior leadership teams.

What opportunities exist for the UK economy post Brexit and the pandemic for export growth?

The opportunities for the UK in international markets

5.1. The investment management industry makes a significant contribution to the UK's service exports representing, on average, 6% of total net service exports over the past 10 years. Our industry is currently the largest centre for investment management in Europe (larger than the next three countries combined), and globally second only to the US in size. This success has only grown in recent years, and during 2018 total assets managed in the UK by the IA's members increased to a record £7.7 trillion (this figure has doubled compared to a decade ago).

5.2 We have worked closely with policymakers to build on this success and support the industry's desire to expand its global footprint in order to form new links with international markets and create new opportunities for export growth and investment in the process. Prior to the pandemic, our ambition was to **more than double the total assets under management in the UK in ten years, taking it to £15 trillion.**

5.3 Key to achieving this will be for the UK to seek opportunities in international markets, especially those with a growing middle class. The UK should be the natural home to manage the funds of international savers and investors. This would boost our industry's export earnings. We have **recently worked with HM Treasury to identify export and inward investment opportunities that the UK industry needs to focus its efforts – particularly those with the highest levels of gross domestic savings and/or private pension assets.**

5.4 There will also be **opportunities for growth for the UK in those areas where we enjoy a competitive advantage, such as FinTech and sustainable investment.** For example, on sustainable investment, the UK has the opportunity to benefit from the potential for growth in this area. The

UK's expertise in sustainable and responsible investment can provide opportunities for export, partnership and global leadership.

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