PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PLSA RESPONSE:

LONG-TERM INVESTMENT FOR TECHNOLOGY AND SCIENCE (LIFTS) INITIATIVE: REQUEST FOR FEEDBACK

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ABOUT US

The Pensions and Lifetime Savings Association is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

EXECUTIVE SUMMARY

- The PLSA and the wider industry have been engaging on the issue of reducing barriers for pensions investing in illiquid assets since the 2017 Patient Review Capital, whose panel proposed a number of initiatives to transform the patient capital landscape across the United Kingdom. The PLSA views the LIFTS initiative as providing an opportunity to build on the momentum made to address barriers to institutional investment into productive assets from institutional investors; in particular, DC pension funds.

- The government's commitment to spend £250 million through LIFTS to support DC pension scheme investment into our science and technology sector is welcome and we feel that this initiative provides an important foundation and natural first step for this work. Additionally, we welcome the government's engagement with the industry and would call for it to continue as this initiative takes shape and is implemented, as it will lead to a higher chance of success - and participation by schemes - as it matures when introduced to the market.

- Additionally, we welcome the key principles of this initiative and view it as fostering a strong potential to stimulate the UK's VC ecosystem when observing the successes of similar initiatives abroad. However, it is too early to be able to accurately determine outcomes of this initiative and the PLSA will need to see additional detail to evaluate further. For instance, it was felt to be too premature to state whether the options for delivery will be effective in achieving the LIFTS objectives, as members have emphasised that their participation will be entirely dependent on the investment case of each proposition, given that they are bound by their fiduciary duties. As a result, the options for delivery will be effective in achieving the LIFTS objectives if there is a robust investment case, and vice versa.

- While members welcomed the four options for delivery, they had a clear preference for 3 and 4 - which offer a co-investment with capped returns for the government and a management fee offset mechanism, respectively - over 1 and 2, as number 3 would most likely support an investment case to help achieve the best risk-adjusted returns, while option 4 would help to offset the high management fees faced, even if temporarily.

- Concerning the questions around a minimum threshold for proposals, as well as the definition of qualifying investments, members were clear in conveying that these are reasonable, appropriate, and in no way represent a hinderance. However, while agreeable, clarity is requested around the practicalities of checking and monitoring whether investments meet the definition of qualifying investments as we would stress the need to avoid the introduction of an unnecessary burden for the industry, who would have to dedicate administrative resources and personnel to carry out these assessments against the criteria outlined.

- We would also raise a question around the consistency and coherence of various ongoing initiatives in this space, including how long-term asset funds (LTAF), exemptions from performance fees, illiquid asset reporting requirements and the LIFTS initiative, all fit together as an overall strategy. We would therefore seek further clarity on the broader landscape to ensure that existing and emerging initiatives complement one another, and all contribute to a cohesive strategy.

- Lastly, while thoughts specific to the consultation questions posed have been outlined within this response, the PLSA welcomes that there is scope for alternative suggestions and would like to champion the incorporation of DB schemes to utilise their vast resource of capital to invest in illiquid assets.

CONSULTATION QUESTIONS

Question 1: In your view, will the options for delivery be effective in achieving the LIFTS objectives? Please outline any adjustments to these options that you believe would increase their effectiveness.

The PLSA welcomes this initiative; in particular, the government's recognition of the need to develop approaches to tackle longstanding barriers to investing posed by this sector, including high annual management fees.

Through this initiative, the PLSA believes that the government's pledge to invest £250 million, alongside investment by pension schemes, have the potential to stimulate the UK's VC ecosystem, as seen by stories of success through similar approaches, such as in international comparators like France's Tibi initiative. When reviewing the objectives in line with the options for delivery, the PLSA also encourages the government to continue to regularly engage with the pensions industry as this initiative is refined and subsequently implemented. Doing so will help to ensure that the initiative remains suitable, fit for purpose, as well as effective in achieving its aims.

Concerning the options for delivery, the PLSA feels that it is too early to determine whether these will be effective in achieving the LIFTS objectives, as members have emphasised that their involvement with this initiative will be chiefly dependent on the investment case of each proposition as they are bound by their fiduciary duties to their members. Therefore, if there is a robust investment case, the options for delivery will be effective in achieving the LIFTS objectives, and vice versa.

Question 2: Which option, or combination of options, would your organisation be most interested in if you were to put forward or support a proposal in due course?

The PLSA views this initiative as worthwhile, as well as welcomes the four options for delivery. While the decision to put forward or support a proposal in due course will depend most heavily on the investment case made – including consideration of the desired impact, benefits and/or returns, which are expected to accrue from this investment – given that they are bound by a fiduciary duty to members, the PLSA would note that it appears that options 3 and 4 are more enticing for DC pension schemes when compared with options 1 and 2, as they would have the most potential of supporting and bolstering the investment case.

In a competitive marketplace, options 1 and 2 are not going to provide a good investment case for DC schemes as the benefits outlined within those options are arguably not enticing enough to warrant interest in the initiative. In contrast, the PLSA feels that option 3, which offers a co-investment with capped returns for the government – resulting in a greater proportion of profit for DC pension schemes – would be most likely to support an investment case as it would help achieve the best risk-adjusted returns. As a result, this option would be the most attractive to members and would be of interest to DC schemes.

While many members also voiced support for option 4, which centred on the management fee offset mechanism, the PLSA would urge the government to refine this option further. Although it is welcomed that the government has developed an initiative to offset the high annual management fees, DC pensions schemes could then, in theory, receive a lower ‘assessment score’ when applying the recently consulted upon Value for Money (VfM) framework if investing via these means. Therefore, it is important that the interrelationship between these differing policy initiatives are addressed as the VfM framework is developed.

Question 3: Do you agree that a requirement to invest at least 50% of the proposed fund or structure into qualifying investments would be a suitable minimum threshold for proposals? If not, what alternative threshold would you propose that would achieve sufficient focus on UK science and technology companies?

While the PLSA welcomes that there has been a threshold offered for proposed funds or structures, in terms of influencing a decision to put a proposal forward, members felt that the minimum portion of 50% would not have a significant impact either way on schemes engaging with the initiative, given that the predominate emphasis would be on the investment case from the proposals.

Therefore, the PLSA is of the opinion that the requirement to invest at least 50% of the proposed fund or structure into qualifying investments would be a suitable minimum threshold for proposals, as it is sensible that the government would like reassurance that their money is going towards the goals of the initiative.

Question 4: Do you agree with the proposed definition of qualifying investments? If not, what alternative definition would you propose that would achieve sufficient focus on UK science and technology companies?

In terms of influencing a decision to put a proposal forward, the PLSA views that the definition of qualifying investments would not have a significant impact either way on schemes deciding to engage with the initiative as the emphasis would be on the investment case made by the proposals. Therefore, there was broadscale agreement from the members that these definitions are reasonable.

Furthermore, the PLSA feels that the definition of qualifying investments was largely agreeable as it is sensible that a government driven initiative – funded by taxpayer money – supports UK public policy goals, as well as that assurances would be required to evidence the adherence to the definition by DC schemes investing as a part of this initiative.

However, while mostly supportive of the proposed definition for qualifying investments, we would seek clarity on the rationale behind the following requirement:

> *'The company intends that 20% or more employees will be carrying out research for at least three years from the date of investment, in roles that require a relevant master's degree or higher.'*

While not in opposition, the above requirement was viewed as somewhat of an arbitrary distinction given the other requirements, but that it should not stand in the way of a worthwhile investment. However, similar to the remaining proposed aspects of the definition, the PLSA does not oppose these and would request that more clarity be provided on the rationale, if possible.

However, while the PLSA views the substance of the definition as suitable, a broader question remains concerning the practicalities of checking and monitoring whether investments meet the definition of qualifying investments outlined within this proposal. For instance, requiring DC schemes to ensure that their investments meet the definition will bring about associated administrative duties required to check that an investment meets the outlined criteria.

As a result, the PLSA would seek clarity on how this will be managed without producing an unnecessary burden for the industry, who would have to dedicate administrative resources and personnel to review and check that each component of the definition has been met. Additionally, the PLSA would request clarification on how schemes would be meant to determine these aspects, as well as how they are meant to evidence that their investment met the proposed definition.

Beyond the impact on DC schemes concerning administrative capacity, the PLSA would also like to seek clarity concerning the regulatory assurance regime for qualifying investments; in particular, how it will be maintained and managed, as well as the implications of a breach, or a change in circumstances, of one of the underlying companies within the product, for example.

Lastly, while the PLSA agrees with the definition, there is an expectation that it may represent an additional barrier which would disincentivise participation in the broader initiative more generally. Therefore, the government should explore this potentiality and make subsequent adjustments, which would minimise any disincentives associated with the definition.

Question 5: How likely is your organisation to put forward a proposal in due course, either individually or in collaboration with others? If relevant, please summarise any changes that would make your participation more likely.

As captured within the preceding answers, the PLSA broadly welcomes this initiative, which reflects a contingent of member views; however, as a membership body, the PLSA are unable to comment on this question. Instead, the PLSA has encouraged members to share their perspectives directly, which will hopefully provide a more comprehensive view of the likelihood of DC schemes engaging with the initiative and putting forward proposals.

While members will largely welcome this initiative and support the aims and objectives, which all appear sensible, the likelihood of DC schemes submitting a proposal is completely dependent on the investment case made. DC schemes are required to act in accordance and alignment with their fiduciary duties to the beneficiaries of the scheme. As a result, the better the investment case, the more likely the submission of a proposal, and vice versa.

Moving now towards changes, while DC pension schemes can afford to take a longer-term view with investments and could be ideal vehicles for investments in illiquid assets, the PLSA would encourage the government to further build on this initiative to explore pathways which would help to determine the potential for DB schemes to participate, including the LGPS. For instance, there are approximately 500 open DB schemes holding roughly £250 billion, which could provide access to immediately available capital to further meet this initiative's aim.

As this initiative is in its early stages of development, we appreciate the opportunity to provide the perspective of DC pension schemes, which will help to ensure that this is successfully implemented. We welcome that there is scope for alternative suggestions and as there will likely be adjustments and changes following implementation, we would like to reiterate an offer of support for this initiative as it develops. For instance, we would be happy to facilitate further links between DC schemes and the government to discuss aspects of its implementation to aid in adjustments to ensure its continued success and any efforts to improve.

DISCLAIMER

Material provided in this publication is meant as general information on matters of interest. This publication is not meant to give accounting, financial, consulting, investment, legal, or any other professional advice.

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