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Thursday 16 January 2025

Dear Treasury and DWP colleagues,

**Pension Investment Review – Unlocking the UK pension market for growth**

We welcome the opportunity to respond to your consultation *Unlocking the UK pension market for growth*.

The Quoted Companies Alliance *Investor Working Group* has examined the proposals and advised on this response from the viewpoint of small and mid-sized quoted companies. A list of Expert Group members can be found in Appendix A.

We welcome the work the Government is undertaking as part of its Pension Investment Review. Instead of responding to each consultation question, we provide a brief response containing our overarching views on the relationship between increased consolidation and investment in domestic equities.

As research from the Treasury shows, UK DC pensions' share of assets held in UK listed equities is around 8%<sup>1</sup>, down from around 30% in 2012<sup>2</sup>. Moreover, the same research correctly identifies the potential benefits to economic growth and productivity that investment in unlisted and listed equities can offer<sup>3</sup>.

We recognise that this review is at an early stage and also acknowledge that the focus of this stage of the review is on measures towards increasing DC pension fund consolidation as a means for securing the scale and capability needed to invest in a wide range of asset classes and in turn, deliver improved long-term returns for savers and investment in the UK.

However, the second phase of this review currently being placed on hold is concerning, particularly given the urgent need to boost pension fund investment into UK equities, and the absence of more direct proposals to achieve this in this phase of the review. As such, we urge the Treasury and DWP to reinstate the second phase of this review as soon as practicably possible alongside considering alternative proposals to those contained in this phase of the review in order to boost investment in UK equities.

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<sup>1</sup> HM Treasury. *Pension fund investment and the UK economy*. (2024). p.1.

<sup>2</sup> Ibid. p.7.

<sup>3</sup> Ibid. p.21.

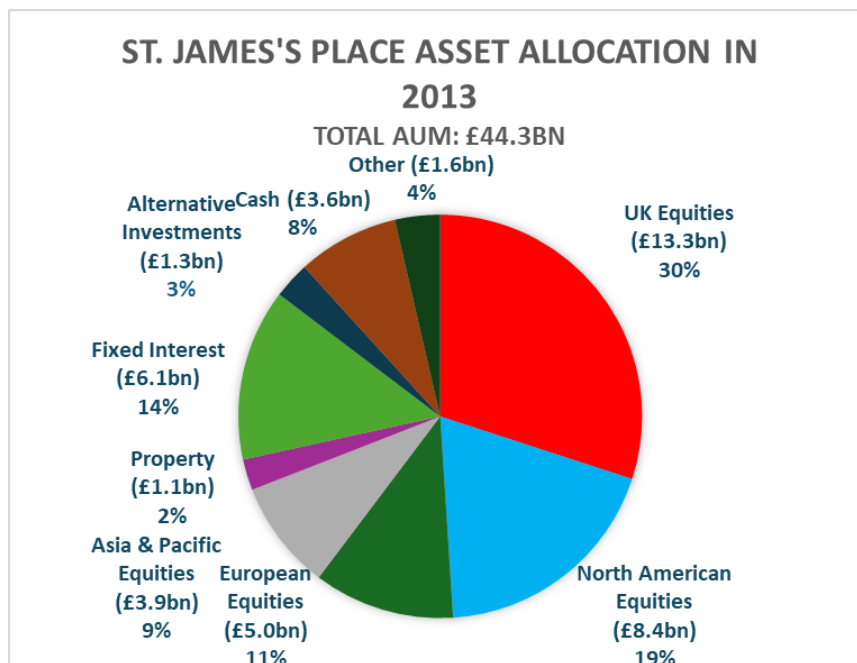
We believe that there is a risk that, absent further measures, increased consolidation offers no guarantee of additional investment being redirected to UK equities, and in particular smaller UK equities. Furthermore, a clear distinction when taking forward these reforms must be made between private equity and public equity, and within public equity, between listed and unlisted (companies trading on AIM and Aquis). It is vital that these reforms do not focus solely on channelling greater pension fund investment into private equity, and recognise the need to allocate greater levels of investment to the UK’s public markets, where companies are proven to be more productive, operate transparently, distribute wealth widely and contribute to broad-based regional economic growth.

Regarding the risks of consolidation for smaller equities, we are concerned that pension funds, as they enlarge, will move away from smaller companies as it becomes more difficult for them to achieve sufficient unit size. Furthermore, more work is needed as part of this review to demonstrate how more consolidated DC schemes will have the necessary internal expertise to invest in diverse asset classes, and in particular, smaller company equities.

Trends within the wealth management industry, which has undergone significant consolidation in recent years, do not indicate that consolidation on its own will result in higher levels of investment in domestic equities. In fact, the reverse has been true.

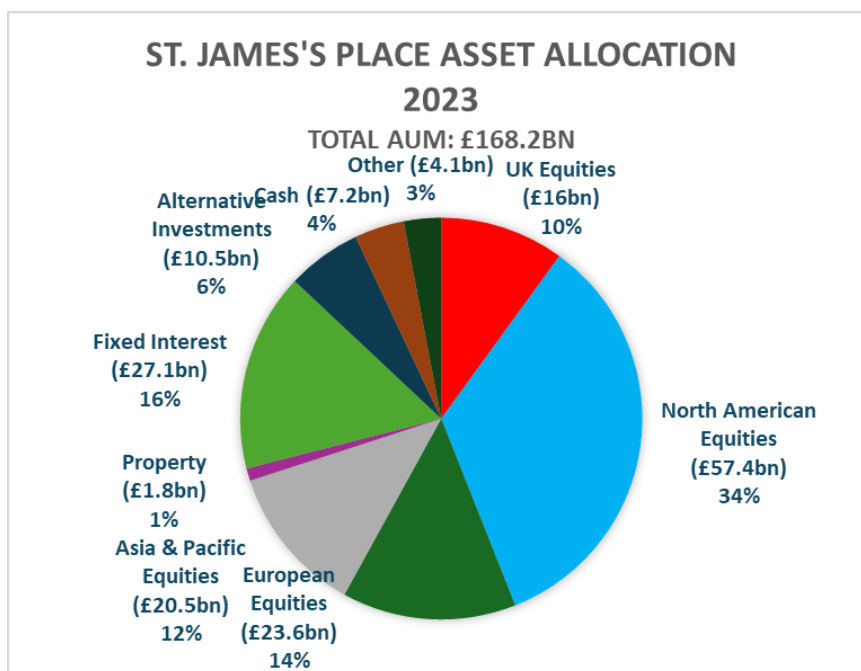
For example, the UK’s largest wealth manager, St. James’s Place, has significantly reduced its exposure to UK equities over the last ten years. This is despite a 280% increase in its assets under management over the same period.

The two tables below illustrate this shift in asset allocation away from UK equities from 2013 to 2023. By 2023, the percentage of assets under management held by St. James’s Place in UK equities had dropped from 30% in 2013, to just 10% in 2023<sup>4</sup>.



Source: St. James's Place Annual Report and Accounts 2013

<sup>4</sup> St James’s Place 2023 Annual Report and Accounts: [https://www.sjp.co.uk/sites/sjp-corp-newux/files/SJP/reports-presentation/2024/SJP\\_AR\\_2023.pdf](https://www.sjp.co.uk/sites/sjp-corp-newux/files/SJP/reports-presentation/2024/SJP_AR_2023.pdf) & St. James’s Place 2013 Annual Report and Accounts: [https://www.annualreports.com/HostedData/AnnualReportArchive/s/LSE\\_SJP\\_2013.pdf](https://www.annualreports.com/HostedData/AnnualReportArchive/s/LSE_SJP_2013.pdf)



Source: St. James's Place Annual Report and Accounts 2023

To ensure that the aims and objectives of this review are met, we believe that the Treasury and DWP should consider other measures, including creating incentivisation schemes with specific targets for pension funds to invest in UK equities and within that asset class, allocate a segment towards smaller public companies. This would go beyond what was agreed as part of the Mansion House Compact.

The 2023 Mansion House Compact set out that the 11 DC pension fund signatories would allocate 5% of their assets to unlisted equities by 2030. While progress towards this objective has been slow, demonstrating the limitation of a purely voluntary scheme<sup>5</sup>, we believe that achieving this goal would not necessarily require direct mandation and the government could go even further than the Compact's original objective.

For example, incentivisation through specific tax credits could be achieved by making existing pension tax reliefs contingent on investing in equities below the FTSE 100 and those unlisted equities on the UK's growth markets (AIM and Aquis). One of the primary reasons Australia has a high domestic bias for equities is due to tax credits for investors on dividends paid by Australian companies<sup>6</sup>. We believe that such an approach would achieve a reasonable quid pro quo, namely, that a British tax relief ought to benefit the British economy.

However, the Government should not at this stage rule out that UK pension funds should be required to radically upgrade their UK equities exposure in order to retain their existing tax-advantaged status. The objective should be to bring UK pension asset allocation at least back into line with the level of domestic weighting adopted by a broad range of other developed economies.

The Government's Financing Growth paper highlighted France's Tibi scheme as a possible framework for increasing investment in UK small caps: "Labour will set up an opt-in scheme for DC funds to invest a

<sup>5</sup> £793 million had been allocated toward unlisted equity assets in default funds as of February 2024, out of a total of £219bn assets. Source: Association of British Insurers. *The Mansion House Compact Year one progress update*. (2024): <https://www.abi.org.uk/globalassets/files/publications/public/its/2024/abi-mansion-house-compact.pdf>

<sup>6</sup> New Financial. *Comparing the asset allocation of global pension systems*. (2024). p.20.

*proportion of their assets into UK growth assets – split between venture capital, small cap growth equity, and infrastructure investment.”<sup>7</sup>*

Given the success of the Tibi scheme in increasing the amount of venture capital and small fund investors in France, we believe that this approach could also be considered.

Finally, we recommend the inclusion of a disclosure regime that monitors pension funds’ progress and requires them to report clearly on their allocations across various asset classes and geographies. This should include a breakdown according to UK equities, and include a distinction between listed and unlisted equity. Under the category of unlisted equity, there should also be a clear demarcation between quoted equity (those on AIM and Aquis) and private equity. Doing so, will allow for benchmarking to ensure that there is effective oversight on pension funds’ progress towards set targets for allocation to domestic equities.

This would be a relatively straightforward policy to implement in the short term at no cost to the Treasury and would send a positive signal to UK companies and the markets.

More broadly, the success of these pension reforms in boosting economic growth will also depend on effective Government communications to market participants to ensure that the eligibility of different asset classes under the reforms is understood. For example, under the Mansion House Compact, DC pension fund allocations to ‘unlisted equity’ is not always understood as including public equities quoted on AIM and Aquis.

If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,



James Ashton  
Chief Executive

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<sup>7</sup> Labour Party. *Financing Growth: Labour’s plan for financial services*. (2024). p.21.

**Appendix A**

**The Quoted Companies Alliance *Investor Working Group***

<b>Natalie Bell (Chair)</b>	<b>Liontrust Asset Management</b>
Fraser Elms	Herald Investment Management Ltd
James Goodman	Schroders Investment Plc
Judith MacKenzie	Downing LLP
Katie Potts	Herald Investment Management Ltd
Richard Power	Octopus Investments
Eustace Santa Barbara	Canaccord Genuity
Paul Stevens	Business Growth Fund (BGF)
Gervais Williams	Premier Miton Group Plc