



## **Business and Trade Committee Inquiry – Financing the Real Economy**

Pensions UK Response

September 2025

### *About Pensions UK*

*Pensions UK is the voice of pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest £2 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.*

### **Introduction**

Pensions UK welcomes the opportunity to respond to the Business and Trade Committee's inquiry into financing the real economy. As the voice of the UK pensions industry, we represent schemes that collectively manage trillions in assets and play a vital role in long-term investment.

UK pension funds invest billions in the UK domestic economy, and the scale of that investment is growing. Market conditions have led those investing within and on behalf of pension schemes to look internationally for higher returns over past decades, but as more schemes reach significant scale they are turning to the UK to find sources of patient capital. Further, UK pension schemes understand that there is broader benefit to be had for their members through domestic investment, and many trustees are alive to those benefits in exercising their fiduciary duty to act in members' best interests.

The Mansion House Accord, co-ordinated by Pensions UK, the ABI and the City of London, demonstrated the ambition of the DC market in this respect. Many large open DB schemes and the LGPS have been investing in this way for some years.

Measures in the current Pensions Bill to speed up market consolidation will encourage further UK investment by creating fewer, larger schemes with the right scale and in-house capability to increase their UK allocations. The changes brought about by the Bill are significant and we do not believe further structural change to the market itself is required.

In our response we focus on the continuing barriers and constraints UK schemes face in relation to UK investment, and the reforms needed to unlock their potential.

### **Question 1: Do UK institutional investors allocate sufficient capital to productive enterprise – and if not, what are the underlying reasons?**

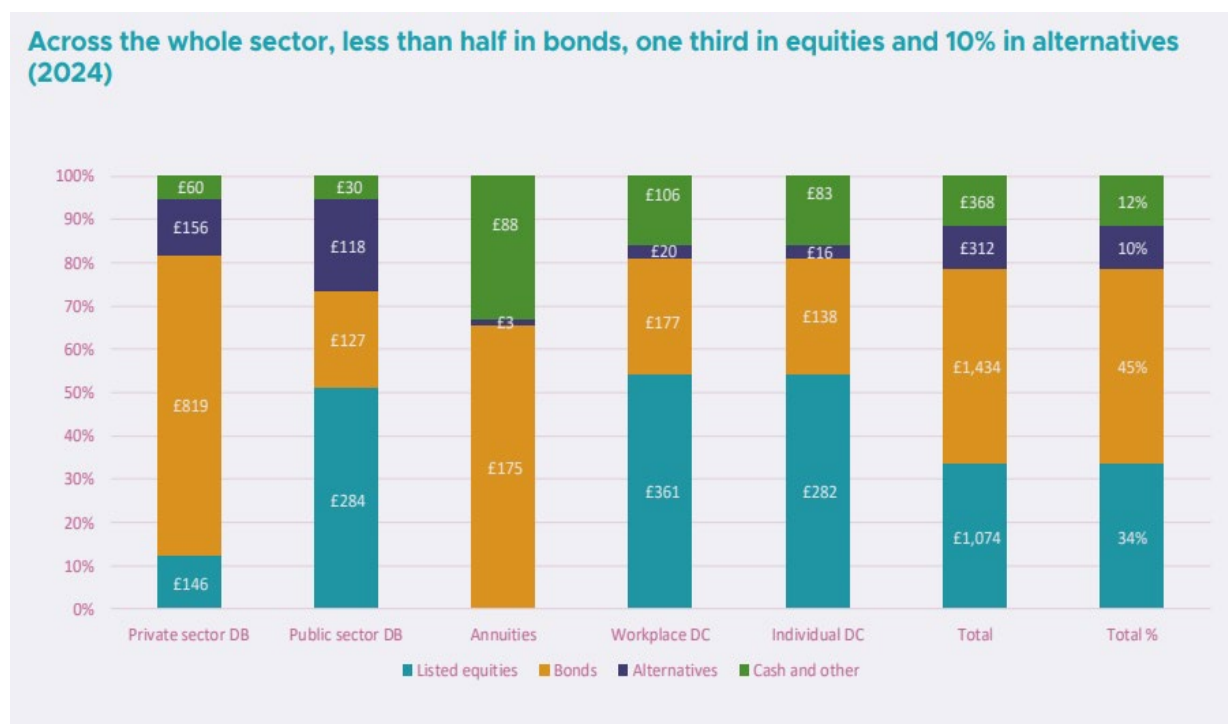
#### *Current Landscape of Asset Allocation*

UK pension schemes manage over £3.2 trillion in assets, up around 11% year-on-year. Although roughly half of these assets are invested in UK-domiciled assets, the majority of that domestic allocation is held in government debt, listed equities, and other liquid instruments.

This overall picture masks significant variation between different types of pension schemes, each of which faces distinct regulatory, structural, and operational constraints

that shape their investment strategies. Understanding these differences is essential to identifying where capital could be better mobilised for UK growth since different types of assets will be suited to different types of schemes with different investment objectives.

The chart below from [PPI's Pension Scheme Assets report](#) illustrates the distribution of the UK's pension assets across different scheme types. DB schemes and annuities dominate, together holding nearly two-thirds of total assets, while DC workplace schemes account for a much smaller but growing share. Public sector DB schemes remain significant in scale, whereas private sector DB schemes are in gradual decline as they close to new members and shift toward de-risking strategies. This breakdown highlights how the bulk of UK pension capital is concentrated in mature, liability-driven DB structures, with implications for the types of assets that can realistically be channelled into productive finance.



### Defined Benefit (DB) Schemes

There are approximately 5,000 private sector DB schemes in the UK, of which 4,500 are closed and 500 remain open. Closed schemes manage around £1.2 trillion and are typically mature, prioritising low-volatility assets such as gilts and investment-grade credit to meet their liabilities. These schemes allocate over 70% to bonds and less than 10% to equities.

Open DB schemes, managing around £300 billion, have longer investment horizons and greater capacity to invest in growth assets. Until relatively recently, such schemes have operated under a regulatory framework that has strongly incentivised de-risking, limiting their ability to allocate to UK infrastructure, private markets, or venture capital. However, there are some significant examples of UK investment within open DB. USS, for example, is



able to invest globally in high quality private assets and around 45% of its private market investments are in the UK.

#### *Local Government Pension Scheme (LGPS)*

The LGPS is the UK's largest funded public-sector pension scheme, managing over £400 billion for 7.5 million members and remaining open to accrual. Public-sector DB schemes, including the LGPS, collectively hold approximately £120 billion in productive assets, defined as investments in listed and private equities, property, corporate bonds, and other alternatives. This constitutes about 5% of all UK pension fund assets, with the LGPS accounting for a significant portion of this allocation.

The LGPS also has the largest allocation to UK assets among all pension schemes, with more than half of its investments directed domestically. Eight regional LGPS asset pools, each managing between £25–80 billion, are consolidating into six larger pools, enhancing their capacity to invest in UK growth. However, realising this potential will depend on the maturation of pooling structures and supportive regulatory conditions.

#### *Defined Contribution (DC) Schemes*

DC schemes are now the dominant model for private sector pensions, with 20 million members and assets projected to reach £955 billion by 2030. According to the PPI's 2025 report, DC schemes allocate:

- 56% to equities (mostly global);
- 17% to bonds;
- 3% to property;
- 4% to cash;
- and 20% to other assets.

Of the total asset allocation, approximately 20% is currently invested in UK-based assets, though this figure is expected to rise as schemes respond to government reforms and industry pressure to support domestic investment.

#### *Government Initiatives and Industry Response*

The Government has worked closely with the pensions sector to explore ways of increasing UK investment allocations.

The Mansion House Accord – an initiative jointly led by Pensions UK, the Association of British Insurers (ABI), and the City of London Corporation – sets out a voluntary commitment by pension schemes to increase investment in UK private markets, within the bounds of fiduciary duty. The signatories have committed to invest 5% of their default fund allocations to UK investments by 2030.

The sector has also been encouraged by the launch of the Industrial Strategy and Ten-Year Infrastructure Strategy, along with policies that seek to speed up investment. The newly-established Office for Investment is a welcome step in creating a contact point for engagement and helping ensure investors are married up with appropriate projects at speed. Joining up the mosaic of Government – across agencies such as the British

Business Bank and National Wealth Fund - and ensuring it is aligned to both the delivery of priority projects and generating opportunities that align to the capital available is key to fostering a favourable investment environment.

### Underlying Barriers to Investment

Despite growing policy momentum, several structural and systemic barriers continue to limit pension scheme investment in UK productive assets. These are explored in detail in [Pensions UK's report on creating a pipeline of investable opportunities](#), and include:

1. Lack of a Robust Pipeline of Investable Opportunities. The UK does not yet offer a consistent, scalable pipeline of projects that meet pension schemes' investment criteria. While there have been improvements in visibility and coordination, many schemes still struggle to identify opportunities that meet their risk profile, are commercially viable, and are aligned with their fiduciary duties. The pipeline report highlights that schemes require:
  - Clear project preparation and delivery timelines.
  - Transparent governance and accountability structures.
  - Risk-sharing mechanisms, such as blended finance or government guarantees.

Without these, schemes are unlikely to commit capital at scale, so we welcome government's commitment as part of the Mansion House Accord to develop such a pipeline. This needs to create a decision-useful framework to help asset owners identify quality investments, such as the BVCA's New Opportunities for Venture and Growth proposal which would create a marketplace for these assets.

2. Regulatory Reform. Planning reform and other regulatory changes are essential to unlock investment-ready opportunities. Delays and uncertainty in the planning system create friction and reduce the attractiveness of UK infrastructure and housing projects. Pension schemes need confidence that projects will proceed on time and within budget – and fundamentally – not be cancelled by future administrations. The government is accelerating planning reform through the Planning and Infrastructure Bill, aiming to streamline approvals for housing and infrastructure by cutting red tape and unlocking development near commuter transport hubs. These reforms could help increase pension schemes' confidence that projects will proceed efficiently and deliver predictable returns.
3. Incentives to Unlock Capital. Pension schemes are prudent by design. To encourage greater investment in UK growth assets, a combination of targeted fiscal and investment incentives is required. Recent progress – such as the introduction of the National Wealth Fund, expansion of the British Business Bank, and new government-backed investment vehicles – has laid important groundwork. However, further action is needed to address the specific barriers that pension schemes face.

The [Pensions UK incentives report](#) outlines a range of practical options, particularly relevant for DC schemes and LGPS pools. These include:

- Fiscal incentives: Enhanced tax treatment for domestic investments (such as dividend tax credits and stamp duty reform), targeted tax reliefs for investment in priority sectors, and fiscal incentives for investment into the National Wealth Fund.
- Investment incentives: Cap-and-floor mechanisms to manage downside risk, government guarantees and blended finance models to improve the risk-return profile of UK projects, and reforms to the Contract for Difference (CfD) scheme to support clean energy investment.

While these measures represent positive steps, they must be underpinned by a coherent policy framework and practical enablers to ensure pension schemes can access and deploy capital at scale.

4. Structural Challenges Across Scheme Types. As outlined earlier, different schemes face different constraints:
  - DB schemes are largely closed and maturing and therefore focused on de-risking and funding adequacy.
  - DC schemes remain fragmented, with many smaller schemes lacking the scale needed to access more complex or illiquid asset classes. While consolidation is underway and has the potential to unlock greater investment capacity, it must be managed carefully to ensure member interests are protected, competition is maintained, and governance standards remain robust.
  - LGPS pools are still maturing and greater collaboration between pools could help accelerate progress and reduce competition for assets

#### Strategic Actions to Unlock Investment

These challenges must be addressed through a combination of policy reform, market development, and industry collaboration. To support the reallocation of pension capital into UK productive enterprise, [Pensions UK has identified strategic actions](#) that should underpin any long-term reform agenda. These actions are grounded in both investment and fiscal policy recommendations and reflect the structural realities of the UK pensions landscape:

1. Strengthen the pipeline of investable UK opportunities by improving project preparation, delivery certainty, and risk-sharing mechanisms.
2. Support DB schemes to allow well-funded schemes greater flexibility to invest in growth assets, particularly those with longer investment horizons.
3. Introduce targeted taxation incentives, such as dividend tax credits and stamp duty reform, to improve the relative attractiveness of UK assets.
4. Support consolidation, especially in the DC market, to unlock scale and enable access to complex asset classes.
5. Develop the market for DC under auto-enrolment, ensuring that schemes can invest in growth assets during the accumulation phase.
6. Raise contributions, which would not only improve saver outcomes but also increase the supply of long-term capital available for domestic investment.

These actions are interdependent and must be pursued in parallel to create the conditions for pension schemes to invest confidently and consistently in UK growth.

## **Question 2: What constraints do pension funds, insurance companies, and sovereign wealth funds face when investing in UK growth assets?**

UK pension schemes face a range of structural, regulatory, and market-based constraints that limit their ability to allocate capital to UK growth assets. These constraints vary significantly across scheme types and must be understood in context to inform effective policy responses.

### Defined Benefit (DB) Schemes

Open DB schemes have the scale and investment horizon to support growth-oriented assets. However, they operate within a regulatory framework that has, in the past, strongly incentivised de-risking. Even well-funded schemes are encouraged – through TPR funding regulations and guidance, as well as by broader government policy – to reduce investment risk. This is typically achieved by prioritising liability-driven investment strategies and favouring low-volatility assets, which in turn limits their appetite for UK infrastructure, venture capital, or private markets.

As mentioned previously, some open DB schemes such as the LGPS and USS, have the capacity to invest in UK growth assets.

Closed DB schemes, which make up the majority of private sector DB arrangements, are typically mature and focused on preserving capital to meet fixed liabilities. These schemes have little realistic scope to engage with growth assets, and their investment strategies are largely locked into low-risk instruments such as gilts and investment-grade credit.

Recent legislative changes, such as the Pension Schemes Bill's surplus release clauses, could in theory help free up assets for investment into growth assets. However, there is no guarantee that trustees will choose to allocate surplus funds in this way. In practice, while these changes may create new opportunities, trustees will continue to weigh such decisions carefully against their primary responsibilities and the broader context of scheme funding and risk management. As a result, the extent to which DB schemes will increase allocations to growth assets remains uncertain.

The introduction of DB superfunds could prove the most effective route for DB schemes to increase allocations to UK productive assets, and we are very supportive government's and TPR's development of the new regulatory regime. Schemes transfer assets and liabilities into a superfund, which by leveraging the benefits of scale and by using external investor capital to create a security buffer, can protect member benefits at the same time as growing assets with a more aggressive investment strategy, including UK private assets, than a normal DB scheme. Multiple schemes have moved into a superfund for the first time this year, and we expect to see more such transactions, as well as new superfunds emerge in the near future.

### Local Government Pension Scheme (LGPS)

The LGPS is the UK's largest funded public sector pension scheme, managing over £460 billion across 98 funds (£390 billion across 86 funds in England and Wales). It remains open to accrual and has a stronger precedent for investing in private markets than most UK schemes – by proportion of investments, it invests more in private markets than any other type of scheme. However, fragmentation across funds and pools and uneven governance standards – such as differences in how individual LGPS funds and asset pools are overseen, managed, and held accountable – continue to limit its ability to scale investment in UK growth assets.

Pooling reforms are underway, with eight asset pools – soon to be six – established to consolidate investment management. These pools range in size from £20 billion to £65 billion and are expected to manage all LGPS (E&W) assets by 2026. While this represents significant progress, Pensions UK has cautioned that the timeline for full implementation may be overly ambitious given the complexity of local government reforms and recent political developments.

The Government has expressed interest in the Canadian Maple 8 model, which combines scale, in-house expertise, and independent governance. While the LGPS shares some of these features, such as arm's-length governance and flexible investment regulation, there is progress to be made in terms of diversification and internal investment capability. The Canadian experience shows that consolidation and reform can deliver stronger returns and lower costs, but these outcomes require time, independence, and investment in in-house talent, which can be expensive.

Pensions UK supports a structured and measured approach to reform, recognising the unique features of the UK system and the need to maintain local accountability and member-focused governance. The LGPS is already a high-performing scheme, and further progress in pooling and diversification should be allowed to develop incrementally, rather than through rapid or mandated change.

### Defined Contribution (DC) Schemes

DC schemes should, in principle, be well-suited to investing in high-growth assets during the accumulation phase. However, they face several persistent challenges:

- Scale and fragmentation limit access to complex asset classes, particularly for smaller schemes – this is being addressed through market consolidation
- Permitted links restrictions on holdings of illiquid assets within unit-linked funds/insurance contracts.
- High costs and fees associated with private markets can be difficult to absorb in a highly competitive price-driven market.
- Daily pricing requirements make it difficult to hold assets that cannot be valued on a daily basis.
- Very strong performance has, in recent decades, been found at very low cost, in passive equities, and these assets avoid all of the above constraints.

### Funding Gaps and Market Readiness

The scale of the UK's funding gap is significant, and while policy efforts have improved visibility, many pension schemes still report a lack of investable opportunities. As highlighted in Pensions UK's pipeline report, the market is not yet delivering the volume or quality of projects needed to attract long-term capital at scale.

### **Question 3: How does the UK's financial infrastructure - including equity and debt markets - support or hinder productive investment?**

The UK's financial infrastructure is widely recognised for its depth and sophistication. Its equity and debt markets are among the most developed globally, offering a broad array of instruments and liquidity. However, despite these strengths, the structure and orientation of these markets often present challenges to long-term, productive investment, particularly for institutional investors such as pension schemes.

#### *Practical Challenges to Increasing Productive Investment*

While the UK's financial markets are highly developed and liquid, pension funds – particularly DC schemes – face a range of practical constraints that can limit their ability to invest in illiquid, long-term growth opportunities. These include daily pricing requirements, fee sensitivity, and fiduciary constraints, which can make it challenging to access productive assets such as infrastructure or venture capital.

However, through the Mansion House Accord, Pensions UK and its members have signalled a clear ambition to increase investment in UK growth assets and to work collaboratively with government and industry partners to address these barriers. The Accord reflects a shift towards a more proactive, long-term approach, underpinned by voluntary commitments and a focus on enabling reforms.

#### *Stewardship and Governance Concerns*

The current stewardship environment further complicates the picture. While Government and regulators have adopted a more pro-risk stance to encourage growth, there is concern that this may come at the expense of effective stewardship. Pensions UK maintains that weakening stewardship rights to stimulate investment is not a sustainable solution. Strong stewardship and long-term growth are not mutually exclusive, and we reaffirm our position that robust governance is essential to catalyse productive investment. This view aligns with the Governance for Growth Investor Campaign, a UK pension scheme backed campaign, which advocates for governance as a driver of sustainable growth.

#### *Role of LGPS Pools and Aggregation Mechanisms*

LGPS pools represent a promising avenue for aggregating capital to support large-scale UK investments. However, these pools are still maturing and require time to establish the necessary infrastructure and governance frameworks. Their potential to unlock scale and access more complex asset classes is significant but it will require time, stable governance, and continued support to fully realise.

### Positive Developments and Opportunities

There are several initiatives that support productive investment and merit further development:

- LIFTS (Long-term Investment for Technology and Science) aims to channel capital into UK start-ups and late-stage growth companies.
- Organisations such as the British Business Bank (BBB), National Wealth Fund (NWF), GB Energy, and the National Housing Bank offer potential for blended finance and risk-sharing mechanisms. However, more clarity is needed on how pension schemes can engage with these opportunities.
- DC consolidation could unlock scale and enable access to more complex asset classes, though this must be framed carefully to avoid unintended consequences.

In summary, while the UK's financial infrastructure provides a strong foundation, its current configuration and market behaviours often hinder the flow of capital into long-term, productive investments. Addressing short-termism, enhancing stewardship, and supporting aggregation mechanisms are critical steps toward unlocking the full potential of institutional capital for UK growth.

#### **Question 4: What reforms could enhance the UK's attractiveness as a destination for global capital, particularly from patient or long-term investors?**

To strengthen the UK's appeal to global capital – particularly from patient and long-term investors – reforms must focus on improving policy certainty, unlocking investable opportunities, and enhancing the risk-return profile of UK assets. Pensions UK has outlined key priorities in its Pensions and Growth publications, including:

1. Creating a pipeline of investable UK opportunities, which highlights the need for long-term policy alignment, planning reform, and scalable investment platforms to bring forward viable projects; and
2. Using investment and fiscal incentives to encourage the flow of pension investment into UK assets, which sets out practical options to de-risk investment and improve returns without resorting to mandation or altering fiduciary duty.

Key recommendations within these reports are detailed below.

#### 1. Long-Term Policy Certainty and Strategic Alignment

Investors need confidence in the UK's long-term economic direction. While initiatives such as the Industrial Strategy and National Infrastructure Strategy are welcome, there remains a need for a comprehensive national investment strategy that aligns public and private capital with UK growth priorities. This would help anchor investor expectations and reduce perceived policy risk.

#### 2. Planning Reform

Planning reform is essential to unlocking a robust pipeline of investable UK opportunities. Despite recent efforts, the development pipeline remains insufficient to meet the scale of capital available. Accelerating planning reform would help bring forward viable projects

and signal the UK's commitment to enabling growth, with the government's recent progress on the Planning and Infrastructure Bill demonstrating a clear intent to streamline approvals and unlock development opportunities.

### 3. Targeted Fiscal Incentives

Pension schemes are more likely to allocate capital when risks are mitigated and returns are supported. Pensions UK's report on encouraging the flow of pension investment into UK assets outlines several mechanisms that could improve their attractiveness, including:

- Cap-and-floor models to provide downside protection.
- Reform of the Contract for Difference process to improve investment certainty.
- Enhanced tax treatment for domestic investments.
- Expansion of full expensing provisions, which currently allow businesses to deduct the full cost of qualifying capital investments but are temporary.

### 4. Improved Tax Treatment of UK Assets

The tax treatment of UK assets should be reviewed to ensure it does not disadvantage domestic investment relative to international alternatives. For example, pension fund investment in UK equities is currently less favourable than in overseas shares due to stamp duty. Addressing such distortions would help level the playing field and encourage reinvestment in the UK economy.

### 5. Support for Investment Platforms and Partnerships

Initiatives such as LIFTS are promising models for channelling capital into UK start-ups and scale-ups. Similarly, organisations like the British Business Bank, National Wealth Fund, GB Energy, and the National Housing Bank offer potential for blended finance and risk-sharing mechanisms. These bodies should work proactively to identify any gaps in capital provision and use appropriate structures and tools to access the deepest private sector pools to complement their investments. Further work is also needed to clarify how pension schemes can engage with these platforms and access emerging opportunities.

To this list, we would also add the need for a stable and predictable regulatory environment. Regulatory certainty is paramount for investments that often span decades. Countries like Canada and the Netherlands have established transparent, consultation-based regulatory frameworks that provide investors with reasonable visibility into future policy changes. This predictability allows institutional investors to model cash flows with greater confidence, reducing cost of capital requirements. The UK Government itself identifies that the current regulatory landscape is not functioning as effectively as it should and too often holds back growth and inhibits private sector investment. We would also argue that one of the most important things Government could do is to share a single view on the pipeline of investment opportunities available.

## Question 5: How do UK tax policies, regulatory frameworks, and risk management practices influence investor behaviour and capital allocation?

UK tax and regulatory frameworks play a central role in shaping institutional investor behaviour and determining how capital is allocated across asset classes and geographies. While some elements of the system are competitive, others create structural disincentives for long-term investment in UK productive assets. One example of which is the treatment of tax on dividends, government may wish to look at introducing a dividend franking regime akin to that of Australia to equalise the attractiveness of UK equities.

### 1. DB Regulation and Risk Management

The regulatory framework for DB schemes is primarily focused on de-risking and funding adequacy. This has led to increasingly conservative investment strategies, with a strong preference for low-risk assets such as gilts over growth-oriented investments.

The introduction of the new DB funding code has further formalised these requirements. The code sets clearer expectations for long-term funding and risk management, reinforcing the need for schemes to prioritise security for members and prudent risk controls.

While the code provides some flexibility for well-funded schemes, the overall environment continues to encourage caution and a focus on liability matching. As a result, most DB schemes are likely to maintain conservative investment strategies, which may limit the flow of capital into UK growth assets and the real economy. As mentioned previously, USS, with its well-established private markets team and existing investment into growth assets, (£25bn of which 45% is invested in the UK) is an exception.

### 2. DC Fragmentation and Scale-

DC schemes face structural barriers that limit their ability to invest in complex or long-term assets. Fragmentation across the market and lack of scale prevent many schemes from accessing private markets or infrastructure investments. Recent government policy, including the Mansion House reforms and subsequent consultations, has placed a strong emphasis on encouraging consolidation in the DC market to unlock greater investment capacity and improve member outcomes.

Consolidation is now progressing, with the aim of enabling more schemes to access a broader range of asset classes, including illiquid and growth assets. However, this process must be managed carefully to ensure that member interests are protected, competition is maintained, and governance standards remain robust. It is also important to recognise that consolidation alone will not address all barriers – schemes will still need support to build the necessary expertise, manage costs, and navigate regulatory requirements.

Commercial considerations – particularly the strong focus on price – can act as a limiting factor on private markets allocations. In addition, the daily dealing requirements of DC schemes present a structural challenge, as private markets are typically valued on a quarterly basis. Achieving the right balance between scale, diversity, and good governance is critical to delivering the benefits of consolidation and supporting the sector's commitment to the Mansion House Accord.

### 3. Tax Policy and Investment Incentives

The UK's corporation tax rate of 25% is relatively competitive. However, investment allowances – provisions that allow businesses to deduct the cost of capital investments from taxable income – are among the least generous in the OECD. This creates distortions in capital allocation and reduces the attractiveness of UK assets.

The introduction of full expensing is a positive development, allowing businesses to immediately deduct the full cost of qualifying capital investments. However, its temporary nature limits its effectiveness. Making full expensing permanent and expanding investment allowances would improve the UK's competitiveness and encourage long-term investment.

### 4. Stamp Duty and Asset-Level Tax Treatment

Pension fund investment in UK equities is currently less favourable than in international shares due to stamp duty. This tax treatment creates a disincentive for domestic investment and may lead schemes to allocate capital abroad. Reforming stamp duty and ensuring UK assets are not disadvantaged relative to international alternatives would help retain capital within the UK economy.

The UK Government has a range of tools at its disposal to encourage the crowding-in of private capital, including guarantee/insurance provision, subsidised financing and the use of sub-sovereign covenants such as local authorities and the NHS. We would encourage the UK Government to continue to use a mixed economy approach to incentivise and drive the most stable and long-term investment structures.

## Conclusion

Countries that have successfully attracted large-scale institutional infrastructure investment achieved this by building credible, long-term frameworks that give investors confidence in contractual integrity, collaborative partnerships and fair treatment. We would argue that this stable regulatory environment is paramount.

With planning reform underway, the Industrial Strategy published, the NISTA database launched and the Office for Investment up and running, we are pleased that the UK Government is on the right path. The key now is to implement these reforms at speed if the country is going to meet its ambitious growth targets.

In closing, we reiterate that the current Schemes Bill goes as far as is necessary to address the major structural issues in the workplace pensions market. Our priority is to ensure the effective implementation of these reforms, which will underpin the continued success and stability of workplace pensions in the UK.