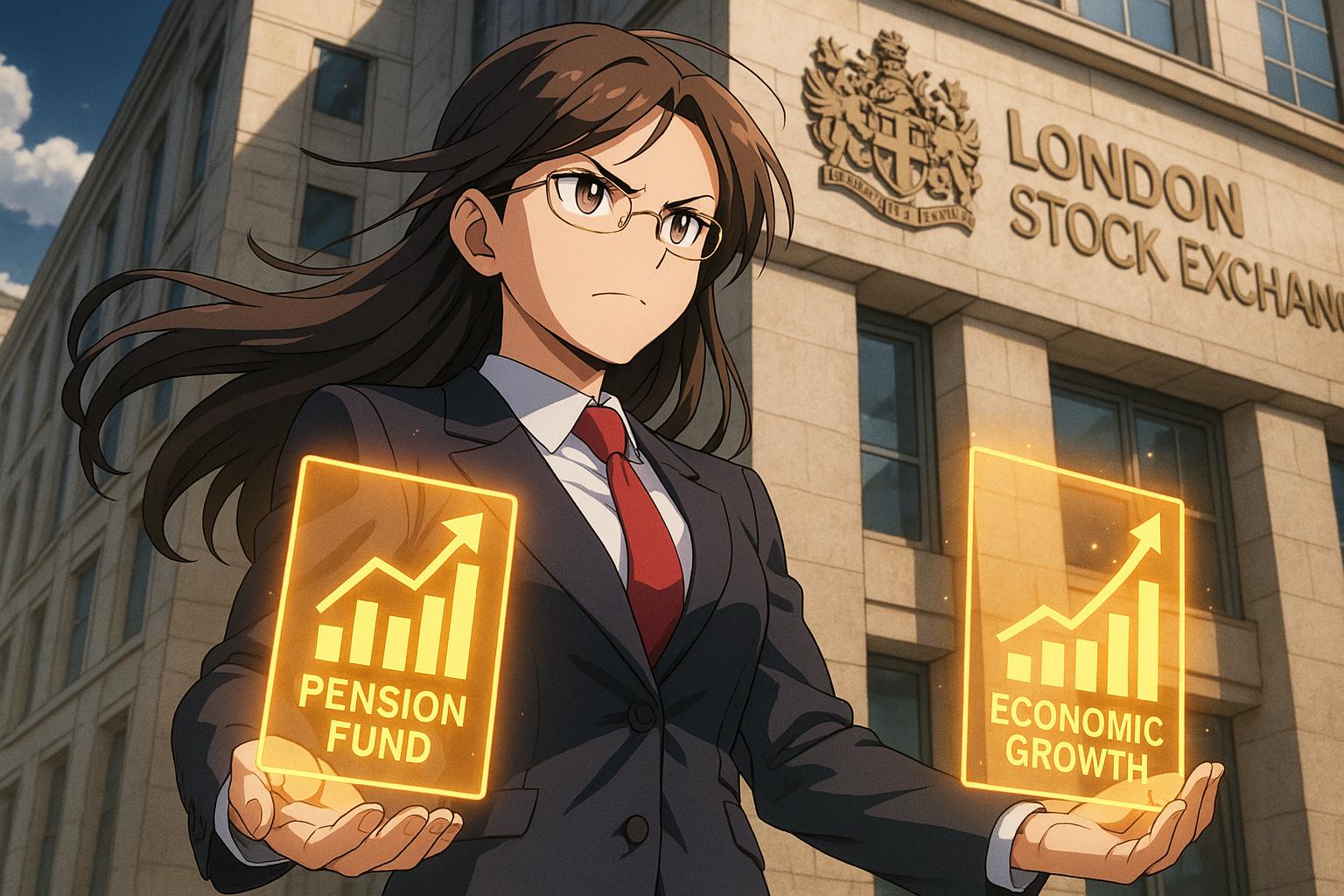
# Chancellor rallies pension funds to boost UK investments amid plummeting equity stakes



The current landscape of British pension funds is alarming, with their investments in UK equities having plummeted drastically. Since 1997, the allocation to UK shares has diminished from a substantial 53 per cent to a mere 4.4 per cent today. This staggering decline not only reflects the underperformance of the London Stock Exchange but also paves the way for foreign and private equity entities to acquire significant UK enterprises, such as Arm Holdings, a leader in smart chip technology.

Chancellor Rachel Reeves has aptly identified the misalignment between the vast savings held within these pension funds and the national interest. Recently, she has garnered commitments from 17 leading UK pension managers to redirect potentially £50 billion of defined contribution funds towards UK projects, particularly in infrastructure and burgeoning start-ups. This initiative is modelled on the successful investment strategies of Canada and Australia, which have seen substantial domestic investments yield positive outcomes. Additionally, Reeves aims to oversee the reorganisation of £1.3 trillion of defined benefit assets managed by local authorities and others into several 'megafunds' — consolidating these smaller funds to enhance efficiency and national investment impact.

However, an initiative to mandate that these restructured funds channel a portion of their investments into ‘local investment priorities’ has sparked contention. The Treasury's proposed 'backstop' power to guarantee this shift raises concerns about government overreach into personal financial decisions. Critics argue that such moves would violate the fiduciary duty of pension trustees, who are tasked with maximising returns for beneficiaries. Instead of government dictate, it has been suggested that Reeves should focus on rejuvenating confidence in UK equities, thereby enticing pension funds to voluntarily increase their local investments.

Over-regulation in the wake of the 1991 Maxwell pension scandal has substantially influenced pension investment behaviours, steering managers towards safer assets like government bonds at the expense of equities. Furthermore, historical interventions, such as Gordon Brown's removal of tax breaks on dividends for pension funds in 1997, have further entrenched this reluctance to invest domestically. Other countries, like the United States and Australia, demonstrate a healthier equity culture, with large percentages of pension savings allocated to equities — 54 per cent and 24 per cent, respectively. Reeves could consider alleviating burdens like stamp duty on share trades to enhance competitiveness for British investors.

In a related narrative, the push for greater domestic investment is seen not only as economically prudent but also as a potential remedy for the declining investment landscape. The government's initiatives appear aligned with similar practices in other financial hubs, where pension funds have a significant domestic equity presence. Current economic strategies suggest that only a fraction of newer defined contribution plans are being invested in local assets; this, in turn, diminishes the liquidity and risk capital available in the UK market.

Yet, some industry voices suggest a more patriotic approach to investing, comparing UK pension strategies unfavourably with those of Australia. The latter has implemented mechanisms to mandate higher contributions and a prioritised allocation of funds to local equities. Such comparisons bring to light the need for robust incentives in the UK, where pension funds enjoy substantial tax reliefs, yet still lag in domestic asset commitment.

Simultaneously, massive pension entities, such as Canada’s Caisse de dépôt et placement du Québec, are keen to invest heavily in UK infrastructure, signalling confidence in the economic framework. This influx of foreign investment could align with domestic pension strategies to bolster the UK's long-term growth. Ultimately, the challenge remains: can the balance between government oversight and individual choice in pension investment be navigated to foster a more dynamic, growth-oriented economic environment?

With ongoing discussions about the extent of government involvement in personal finance, it is imperative that policymakers tread carefully, ensuring that the goal of rejuvenating the domestic economy does not infringe upon the financial autonomy of individuals whose futures are at stake.

## Reference Map:

* Paragraph 1 – [[1]](https://www.dailymail.co.uk/money/comment/article-14762415/Hands-pensions-Chancellor-Dont-dictate-life-savings-says-ALEX-BRUMMER.html?ns_mchannel=rss&ns_campaign=1490&ito=1490), [[2]](https://www.ft.com/content/a637b186-1194-4a77-9f01-8dac5391446c)
* Paragraph 2 – [[1]](https://www.dailymail.co.uk/money/comment/article-14762415/Hands-pensions-Chancellor-Dont-dictate-life-savings-says-ALEX-BRUMMER.html?ns_mchannel=rss&ns_campaign=1490&ito=1490), [[3]](https://www.ft.com/content/4f1762bf-87e5-4e35-9817-8584b5a00713), [[5]](https://www.ft.com/content/54d16a88-f0bb-412b-a09a-981dd5dfff42)
* Paragraph 3 – [[1]](https://www.dailymail.co.uk/money/comment/article-14762415/Hands-pensions-Chancellor-Dont-dictate-life-savings-says-ALEX-BRUMMER.html?ns_mchannel=rss&ns_campaign=1490&ito=1490), [[6]](https://www.ft.com/content/dd2aa88a-0505-4d3c-aeb2-e6c94f409b8b)
* Paragraph 4 – [[4]](https://www.ft.com/content/ebbafbf5-5e6a-4015-bf8f-3f66102ce420), [[2]](https://www.ft.com/content/a637b186-1194-4a77-9f01-8dac5391446c)
* Paragraph 5 – [[5]](https://www.ft.com/content/54d16a88-f0bb-412b-a09a-981dd5dfff42), [[6]](https://www.ft.com/content/dd2aa88a-0505-4d3c-aeb2-e6c94f409b8b)

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## Bibliography

1. <https://www.dailymail.co.uk/money/comment/article-14762415/Hands-pensions-Chancellor-Dont-dictate-life-savings-says-ALEX-BRUMMER.html?ns_mchannel=rss&ns_campaign=1490&ito=1490> - Please view link - unable to able to access data
2. <https://www.ft.com/content/a637b186-1194-4a77-9f01-8dac5391446c> - The UK government is considering introducing a 'backstop' power to mandate large pension funds to invest in British assets, aiming to unlock over £50 billion for domestic infrastructure, housing, and growth businesses. This move, part of broader reforms to consolidate pension schemes into 'megafunds' with at least £25 billion in assets, has faced criticism from industry leaders and Conservative critics. The Treasury believes this strategy will boost long-term investment returns and national economic growth. To ease resistance, smaller schemes with plans to grow to £25 billion by 2035 will be allowed to continue. In parallel, a Mansion House accord has secured commitments from 17 major pension providers to allocate at least 5% of default funds to private UK assets by 2030, potentially releasing £25 billion for domestic investment. These efforts aim to reverse a steep decline in UK pension fund investment in domestic assets, which fell from over 50% in 2012 to around 20% in 2023.
3. <https://www.ft.com/content/4f1762bf-87e5-4e35-9817-8584b5a00713> - A satirical article explores the author's mixed feelings about Chancellor Rachel Reeves' increasing influence over citizens' financial decisions, particularly pensions. Reeves has been pressuring pension providers to invest more heavily in UK-based projects and start-ups, arguing it benefits customers and aligns with national interests. This push includes voluntary codes and suggested quotas, aiming to redirect funds from foreign investments like Nasdaq to British enterprises. While there is cross-party support for such policies, the author humorously questions whether the government’s motives are driven by public interest or a need to fill investment gaps post-Brexit. The piece facetiously suggests expanding government oversight to personal finance areas such as holidays and food purchases, highlighting concerns about autonomy versus oversight. Overall, the article critiques the balance between national economic objectives and individual financial freedoms, wrapped in a humorous tone.
4. <https://www.ft.com/content/ebbafbf5-5e6a-4015-bf8f-3f66102ce420> - Canadian pension giant Caisse de dépôt et placement du Québec (CDPQ), managing C$473bn for six million savers, plans to invest over £8bn in the UK over the next five years, boosting infrastructure development efforts by UK Chancellor Rachel Reeves. CDPQ CEO Charles Emond expressed strong confidence in the UK’s transparency and investment environment, adding that the UK is a top priority due to its clarity and willingness to collaborate. CDPQ currently has £17bn invested in UK assets such as the First Hydro Company and the London Array Offshore Wind Farm. The fund aims to increase its UK holdings by 50% and gradually rebalance its global portfolio, shifting focus from the US (currently 40% of its assets) to Europe, including additional investments in France and Germany. Emond sees energy transition assets and private capital filling gaps left by fiscally constrained governments. The UK’s recent move to channel 5% of local pension funds into domestic private markets is expected to foster a conducive environment for foreign investors like CDPQ. Collaboration with UK pension schemes may enhance local knowledge alignment and further drive external capital into British infrastructure.
5. <https://www.ft.com/content/54d16a88-f0bb-412b-a09a-981dd5dfff42> - The article discusses the potential for UK pension funds to be mandated to invest in UK assets. It highlights that financial incentives for retirement savings aim to reduce reliance on social welfare in old age and boost investment for economic growth. The UK offers substantial tax breaks on pension contributions and returns, amounting to £52bn in 2023-24. However, while UK pensions assets rank third globally, investment in domestic assets is declining, with only a small percentage of newer defined contributions invested locally. This shift reduces market liquidity and economic risk capital, impacting London's role as a capital markets venue. The government has considered mandating domestic investment, though this concerns pension investors. Proposing alignment with Australian models, the author supports mandating domestic investment over altering tax reliefs, emphasizing the need for existing schemes to recognize their benefits and obligations.
6. <https://www.ft.com/content/dd2aa88a-0505-4d3c-aeb2-e6c94f409b8b> - Policy reformers suggest that UK pension funds should invest more patriotically in domestic equities to boost economic growth, similar to Australian 'super funds'. UK pensions have significantly reduced their investments in UK equities over the past 25 years. The shift is mainly seen in defined benefit (DB) schemes due to historical reasons such as the Maxwell scandal, changes in regulations, and removal of dividend tax relief. Conversely, defined contribution (DC) schemes in the UK maintain higher equity allocations, comparable to those in Australia. Australia mandates higher pension contributions and emphasizes 'value for money' in investments, contrasting with the UK's focus on low costs. Australian funds allocate a significant portion to domestic equities, benefiting from tax breaks, whereas UK schemes have less domestic allocation due to the lack of similar incentives. Despite these differences, the net performance of UK and Australian DC schemes is comparable. UK policymakers could consider reforms to increase auto-enrolment contributions and adopt a 'value for money' approach. Restoring dividend tax relief in the UK, however, remains challenging, which could hinder the ability to boost holdings in UK equities.