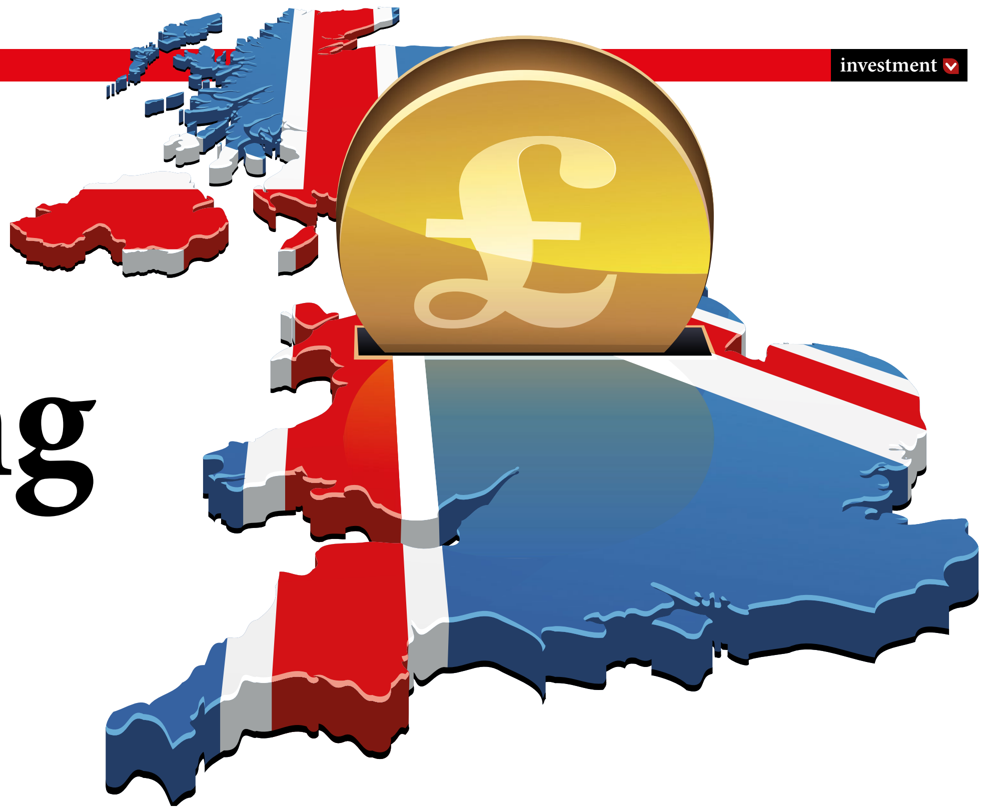

Doing our duty

Following recent calls for the government to require UK pension funds to support UK growth, the Budget announcement to support DC investment into "innovative UK companies" and to encourage LGPS funds to consider investments in illiquid assets, and the FCA granting regulatory approval for the UK's first Long-Term Asset Fund, *Pensions Age* asks: What 'moral or ethical duty' should UK pensions funds have to support UK growth?

Some trustees of UK pension funds (or charity trustees) may personally feel a moral duty to support the UK (good!), and there are very good investment reasons for trustees to invest in the UK. However, the phrase 'moral/ethical duty' in this case is used as justification to force or guilt-trip trustees to invest in a certain way according to someone else's morals and/or vested interests.

If we want more investment in the UK then we should make it attractive to do so – hopefully this is what the UK government is planning for DC. Mandating certain types of investment is a massive red flag to all investors and it will ultimately backfire as investors flow like water to where they are treated better and have more control.

If trustees do feel a moral duty then it should be supported by a strong investment case to ensure that the trustee is acting in line with their primary fiduciary duty to pay members benefits when they are due. Although, it's worth noting that morals can be used as a shortcut to help to guide trustees instinctively to what is a good investment for further financial investigation, and charities should consider how their assets support or detract from their wider mission.

Mandating a certain type of investment will create an entire industry to determine which assets qualify and who is licensed to provide the badges. This new industry will destroy net value in the UK by drawing skilled workers away from more productive uses and enabling top-down resource misallocation by government.

This extra UK investment will provide a temporary boost to the economy. This will be paraded as evidence for the policy working, whilst carefully ignoring the adverse side-effects which will gradually overwhelm and overtake the short-term sugar high. But, by that time, the policy advocates will have moved on, leaving the wider UK population to pick up the tab through poorer living standards, as usual.

We should all take responsibility for our own morals, not have them foisted on us by power-hungry bureaucrats.
Cartwright director of investment consulting, Sam Roberts

I don't think it is a moral or ethical duty for pension funds to be required to invest in the UK, but it does feel like many funds have swung too far to investing on a very globalised basis, with tiny allocations to UK assets. This means

they are missing out on some of the great opportunities available to them closer to home, such as the reliable and long-term returns available from investing in building what the country needs to create a better, fairer, greener society – the care homes, retirement communities, affordable housing schemes, and sustainable infrastructure.

Similarly, it means they are missing out on the exciting returns available from backing the UK's entrepreneurs, who have created some of the most forward-thinking businesses with high-growth potential. Currently, when these companies are looking for capital to scale up, they have to look to overseas investors, who then get to reap the benefits from the success of our burgeoning entrepreneurial community.

We would like to see more UK pension funds investing a small part of their capital into these kinds of opportunities, especially in the case of DC schemes, which are typically managing money for relatively young people, who have time horizons measured in the decades before they will need to draw down their pension.

Often, too, the beneficiaries of these pension schemes want their money to be put to work in the UK, to do some good for the UK economy while also generating financial returns that will build up their pension pot. They might be shocked to find out just how little of it is invested domestically at present.

Octopus Group co-founder, Chris Hulatt

The notion of a moral or ethical 'duty' on UK pension schemes to support UK growth makes me distinctly queasy. These schemes must, by law, invest to achieve the best outcomes – looking at the broadest range of opportunities, without fear or favour. This does not exclude UK opportunities, but it does mean assessing their merits against global options and for DC schemes in particular, answering the question 'which investment strategy will deliver to our savers the best risk-adjusted return over the long term'.

We are delighted to see more vehicles opening up for investment in innovation, and in asset classes that have traditionally been tricky for some schemes to access – but introducing a moral or ethical duty is a bridge that should remain uncrossed, to pardon the infrastructure pun.

Mercer UK wealth strategy leader, Tess Page

People need to be fairly clear about what it means to 'support the UK economy'.

You can make UK pensioners better off by investing globally to achieve higher overall returns. A few of those pensioners might move to Spain but most will spend the extra income on UK products and services, supporting the UK economy. It's just a delayed effect and that isn't always politically very popular.

There are examples of explicit policies bearing fruit quickly through jobs as well as supply chain benefits. But these need to be carefully targeted and managed. The Chinese have been very good at it in key industries like electric vehicles.

More broadly, compulsory local investment can be a mixed bag. With easier access to finance, good innovation will be encouraged but many more 'chancers' and unworkable businesses will line up for handouts, which ultimately does nothing for the economy. There are many examples of this around the world. South Africa is a useful case study. It had a form of 'compulsory investment' for pension funds, requiring them to hold South African government bonds. However, there is little evidence that this boosted either domestic innovation or infrastructure spend, in fact the state of infrastructure is worsening not improving.

So those calling for UK pensions to focus on UK investment, might want to be careful to spell out what they are really looking for.

RisCura investment consultant, Lars Hagenah

It's long been the ambition of the government to utilise the vast assets of UK pension schemes to stimulate economic growth. Indeed, in 2011 the biggest defined benefit schemes were targeted to fund major domestic infrastructure projects, while in 2015 the rationale for creating today's LGPS pools was in part similarly motivated. Neither initiative took off, not least given a reluctance to assume the construction risk inherent in greenfield projects.

While today the idea of smoothing the path to enable DC funds to capture illiquidity premia over their long time horizons is to be welcomed (ditto the suggestion that LGPS funds increase their allocation to local levelling up initiatives), then as now there are three main barriers to fulfilling this vision.

The first is fiduciary duty. When investing pension scheme assets, pension fiduciaries must act in the best financial interests of their scheme's beneficiaries, setting aside their own moral and ethical principles. That is, the investment must stand up on its own merits in financial and increasingly in sustainability terms. After all, these assets must ultimately pay pensions.

The second is governance. That is, whether pension fiduciaries have the time and expertise to apply the requisite due diligence and oversight demanded by more complex investments. Some do but most don't. Given this, investment in venture capital, for example, is a no, no for most pension schemes.

Closely linked to this is ensuring the provision of appropriate investment vehicles that facilitate investment in complex assets, while keeping value for money front of mind. While LTAFs are a step forward, they're no panacea. So, if government is to successfully secure pension fund investment to stimulate growth, it must be mindful of all three pre-requisites before setting out its plans.

Columbia Threadneedle Investments head of pensions and investment education, Chris Wagstaff