

Investing in the UK's innovation economy

► Ian Connatty explains how pension funds can invest in UK high potential companies through the British Growth Partnership

Growth is on the agenda in the UK, and it presents a significant opportunity. We have a wealth of science and tech-led scale-up companies, we are home to three of the top 10 universities globally, we are a hub for genetics and genomics insight, and a frontrunner in climate tech and quantum computing.

However, the companies in these sectors – those that could be the global leaders of tomorrow – are underrepresented in the portfolios of our pension capital pool. That pool sits at around £3 trillion, making it the second largest in the world. If UK pension funds were to embrace this innovation ecosystem, it could be mutually beneficial: Driving both returns, and our economy.

This is why the British Business Bank is launching the British Growth Partnership, which seeks to catalyse external institutional capital into UK high potential companies, by leveraging the Bank's scale, networks, and track record.

We need to be a scale-up economy

The UK's pipeline of high-potential companies is larger than France and Germany combined, and is growing faster than the global average, as well as the US and China. We are very good at fostering groundbreaking research and starting these companies, but we fall at the point of scaling.

Take Pragmatic Semiconductor as a prime example of what should be happening regularly in the UK. This is a company that developed a technology

to make semiconductors on a flexible polymer substrate rather than rigid silicon at a fraction of the cost. Pragmatic is now set to ramp up production to produce billions of chips in Durham following a £162 million fundraise to build a plant, financed by – among others – the British Business Bank. Semiconductors are a technological sub-sector that will be critical to the world's future, and pension funds can be at the heart of unlocking that.

The opportunity for pension funds

UK pension capital represents 10 per cent of our venture capital pool compared to 72 per cent in the US. In Canada, pension funds invest 15 times what UK pension funds invest in private equity and venture capital and in Australia, DC pension schemes have more than 20 per cent in a range of illiquid assets. The latter has been the most successful DC programme in the world, generating c. 11.3 per cent ROI in the past 20 years.

In November last year, Aware Super, the Australian superannuation fund, announced a £5.25 billion commitment to the UK and Europe via its newly established London office.

Others have seen and leveraged the opportunity on our very doorstep, and we need to do the same.

There have historically been barriers to entry for pension funds. Above all, investment decisions must meet a trustee's fiduciary duty, which provide both value for money and the best outcome for members.

But we need a proportionate, prudent but definite rebalancing of pension portfolios to include more growth-oriented equity assets, and in the UK we have an opportunity-rich environment to do exactly that.

The role of the British Growth Partnership

The Bank has been at the heart of growing the UK innovation economy for the past 10 years. The British Business Bank is the UK's largest domestic investor in venture and venture growth capital, and the most active late-stage investor in UK life science and deeptech companies. In fact, more than half of the UK's current unicorns are part of the Bank's equity portfolio. We have developed long-term relationships with the UK's best-in-class fund managers and, as of March 2024, investments since inception totalled £2.3 billion across 80 fund commitments 10 co-investments, and 18 direct deals.

This successful track record, skills and unique market access have put us in the perfect position to establish the British Growth Partnership, subject to regulatory approval. The initial fund will seek to raise hundreds of millions of pounds, encouraging UK pension funds to invest in some of the highest potential opportunities in the Bank's venture capital pipeline.

Over the past year, we have been working in consultation with pension funds and the wider industry on the design of this vehicle and are pleased to have Aegon UK and NatWest Cushman committed to working with us with a view to making investments in the initial fund.

Once launched, we hope it will be matched with wider action.



In association with

► Written by British Growth Partnership managing partner, Ian Connatty

