

BIA submission to the Pensions Investment Review

Summary

The Prime Minister's and Chancellor's identification of the life science sector as a key contributor to the Government's growth mission, and the ambition to make the UK a powerhouse for life sciences and medical technology as part of the building an NHS fit for the future mission, are very welcome. This commitment to, and belief in, the sector continues to be well-founded, with current data demonstrating considerable growth and opportunity for job and wealth creation.

The UK life sciences and biotech sector – despite its world-leading strength – faces unique challenges and the life sciences start-up and scale-up business model has particular characteristics that are highly relevant to pension fund allocation decisions and the policy levers that this government could use to increase investment in private and public life science equities. As the voice of the UK's innovative life sciences sector and a long-time active contributor to the UK's productive finance agenda, the UK BioIndustry Association (BIA) strongly welcomes the new government's focus on this area and are pleased to have the opportunity to contribute to this review.

Key points:

- Britain has a genuinely world-leading life sciences and biotech sector, which presents a unique economic growth opportunity for the UK in industries of the future, from healthcare to agritech and climate solutions. This opportunity has been recognised in the Labour manifesto and more recently by the current Prime Minister and Chancellor.
- However, the UK underinvests in the sector relative to other sectors, and in comparison to the US. In particular, the UK fails to fund its companies through scale-up (Series B+ / £20m+ deals, and the public markets) due to a market failure in our own financial system, driven by risk aversion.
- International investors see the value of UK innovation, and are over-represented in UK financing deals as a result. It is UK investors – in both public and private markets – that do not invest in the UK's life sciences sector, despite the opportunity on their doorstep.
- This is a strategic threat to the UK as a core part of our economy is dependent on foreign capital, but more importantly it is off-shoring wealth creation. It is preventing a positive feedback loop whereby UK investors generate returns from UK growth companies that are reinvested into the next generation of growth companies.
- UK pension savers and taxpayers are also missing out, because the architecture of our financial system is not capturing the downstream value of the commercialisation of our research and innovation, which taxpayers are funding in our universities and start-ups.

- BIA and the life sciences sector has been an active contributor to the productive finance agenda and contributed to the pensions reforms debate from a growth sector perspective, including by establishing the Life Sciences Scale-Up Taskforce in 2021 in collaboration with TheCityUK, BVCA, life science venture capitalists, the pensions industry and the Office for Life Sciences.
- Life science businesses are highly-R&D intensive, capital hungry and have long timelines to commercialisation and profit. These characteristics means the sector requires specific policy solutions and championing by government because of the market failure resulting from domestic investors' preference for more traditional industries, which they consider to be less risky (incorrectly)
- We believe there is appetite among some progressive pension funds to invest into UK life sciences and they may develop their own solutions to enable them to gain exposure. However, there will be a longer tail of potentially interested but much less motivated pensions. The government must therefore show strong leadership to champion this agenda, and use its convening power to drive forward commitment in the same way that the French Tibi scheme did.
- A specialist vehicle may need to be provided to enable the less progressive funds to invest in the asset class. This should be delivered by the British Business Bank and BIA has already developed a prototype for this with leading UK life science investors. The British Business Bank should also have an enhanced role and budget to focus on R&D intensive sectors, and use its unique dataset from its investment portfolio to demonstrate the potential returns that UK life science venture capital can deliver.
- Carrot and stick policies may also be necessary. Given the strategic value of the sector to the UK's health and wealth, a "Life sciences charter" could be developed for pension funds to sign up to and they could be supported to talk to their scheme members about the benefits their investments are making. BIA could support this. Mandating pension funds to allocate a set percentage of assets under management to UK life sciences equities in return for state-subsidised pensions tax relief should also not be taken off the table as a last resort if the pensions industry behaviour does not change.

The groundwork for such an approach was outlined in the Labour Party's strategy for the sector, 'A Prescription for Growth',¹ which drew on much of the work done by BIA in partnership with the financial services sector, including recommending introducing a UK version of the French Tibi scheme. We look forward to continuing to work with the government on this critical agenda for the UK's economic future.

For any further information on the contents of this submission, please contact the BIA policy team at policy@bioindustry.org.

¹ [Labour: A prescription for growth - Labour's plan for the life sciences sector. \(2024\)](#)

The growth opportunity of UK life sciences

The BIA is the voice of the innovative life sciences and biotech industry, enabling and connecting the UK ecosystem so that businesses can start, grow and deliver world-changing innovation.

We have over [650 members](#) including:

- Start-ups, biotechnology and innovative life science companies
- Pharmaceutical and technological companies
- Universities, research centres, tech transfer offices, incubators and accelerators
- A wide range of life science service providers: investors, lawyers, and IP consultants

The UK's R&D-intensive life sciences and biotech sector is universally recognised as world-leading, and it delivers great benefits to the economy, the health of the nation, and it is key to the Labour government's growth mission, clean energy and building an NHS fit for the future. From improving patients' lives through new treatments and digital healthcare, to the development of environmentally sustainable technologies – including fossil fuel substitutes, biodegradable bioplastics and the cleaning of polluted waters – our deep understanding of biology is helping to address humankind's greatest challenges and Labour's priorities for Britain.

This is a growing sector of the future that poses a unique opportunity. The UK life sciences industry employs over 300,000 people, with around two-thirds of these jobs outside London and the South East. There are 6,850 life sciences businesses, 75% of which are SMEs, and combined they generate a turnover of £108.1bn.² The average GVA per employee is over twice the UK average at £104,000 and the sector consistently invests more in R&D than any other (£9 billion in 2022).³

This strength is spread across the UK. The South East is Europe's Silicon Valley, with thousands of fast-growing agile life science start-ups and scaling companies, many linked to the world-leading universities of London, Cambridge and Oxford, operating at the cutting edge of science to build industries of the future. Such start-ups and scale-ups are the source of much of the innovation in healthcare; emerging life science companies represent 65% of the global drug development pipeline with an additional 7% being developed by them in partnership with larger firms.⁴ These companies not only bring in millions of pounds of foreign private capital into the UK, but also create a demand for services and manufacturing that spreads prosperity across the country.

The North West is the third most concentrated area for life sciences jobs. Pioneering efforts by Eli Lilly in the early 1980s resulted in large scale production of recombinant insulin and human growth hormone there, and the past decade has witnessed significant investments, including Pharmaron's Biologics Centre in Liverpool. AstraZeneca are now looking to make a significant £450 million investment in the region to build further on this regional heritage.

² [DSIT, DHSC, OLS: Bioscience and health technology sector statistics 2021 to 2022. \(2023\)](#)

³ [ONS: Business enterprise research and development, UK: 2022. \(2024\)](#)

⁴ [IQVIA: Emerging biopharma's contribution to innovation. \(2022\)](#)

Elsewhere, Valvea manufactures vaccines in Livingston, Scotland, and Fujifilm Diosynth Biotechnologies manufactures complex biological molecules in Stockton-on-Tees, and has just opened a new £100 million microbial manufacturing facility there⁵. This continues the presence of innovation and industrial research in the region that was initiated by major chemical companies like the ICI in the early 20th century. Our sector's heritage shows that consistent and stable long-term industrial strategy support in life sciences can deliver long-term prosperity across the UK and drive economic growth and wealth creation.

In the second quarter of 2024, the sector saw a significant rise in VC funding, with £564 million raised compared to Q1's £240 million.⁶ This 135% increase marks a stark improvement and is the highest quarterly total since Q3 of 2021. Public financing other than Initial Public Offerings (IPOs) also showed a marked increase, with £577 million raised. This data shows that the sector has a clear path towards sustained growth, supported by large VC deals and significant public market finance raised mainly in America but spent in the UK. For example, Nasdaq-listed Autolus raised almost £500m in February to finance its new manufacturing facility in Stevenage.⁷ Public and private biotech companies secured large rounds from global investors, demonstrating the world-leading capability of UK science and our business leaders. The increase in seed investments in new companies also shows flourishing confidence in UK innovation and an opportunity for the new Labour government.

Low domestic investor appetite is a strategic risk for UK life sciences and the growth mission

Although the UK life sciences and biotech sector is a strong performer compared to European competitors (consistently accounting for approximately 30-40% of the continent's annual total⁸), compared to the US, the sector receives much lower levels of investment, even when accounting for GDP. The British Business Bank's latest Equity Tracker showed the US life sciences sector raises 59% more investment relative to GDP than the UK sector, and that this is the biggest sectoral funding gap seen in British venture capital.⁹ The BBB's data also showed that UK life sciences is the only R&D-intensive UK sector that has not increased its market share of global venture investment over the last ten years.

Both BIA and BBB data shows seed funding for UK life sciences is relatively healthy, with levels comparable to the US.¹⁰ However, early and late-stage VC (Series B+ / £20m+) deals are where the gap opens up. Data from both the BIA and the British Venture Capital Association (BVCA) shows that investment at these stages – critical for scaling a business – is predominantly coming from

⁵ [FUJIFILM: FUJIFILM Diosynth Biotechnologies celebrates opening of Billingham, UK microbial manufacturing facility. \(2024\)](#)

⁶ [BIA: Finance report Q2 2024. \(2024\)](#)

⁷ [Autolus: Autolus Announces Pricing of Underwritten Offering \(2024\)](#)

⁸ [BIA: Finance report 2023 \(2023\)](#)

⁹ [British Business Bank: Small business equity tracker \(2024\)](#)

¹⁰ [BIA: Finance report Q2 2024. \(2024\)](#) and [British Business Bank: Small business equity tracker \(2024\)](#)

foreign investors, particularly American ones.¹¹ This is also true for public markets, where there has been a significant trend since 2015 for UK life science companies to list on Nasdaq rather than the London Stock Exchange.¹² This is critical, as scaling businesses are drawn geographically to where they can access capital and be close to their investors. The UK therefore risks losing high value R&D, manufacturing, and management jobs as companies move overseas. Moreover, foreign equity investors participating in these later and larger financing rounds will collect the financial returns and pay capital gains taxes in their own jurisdictions, meaning wealth creation is not accumulated in the UK economy and reinvested in the next generation of scaling companies.

There is a clear market failure demonstrated by these data: UK investors do not want to invest in UK life sciences. The quality of UK life sciences and the companies is not at fault, as they attract a disproportionate number of expert US investors. Risk aversion in the UK investor base is widely acknowledged, and life sciences is seen as one of the riskiest sectors to invest in and potentially the most difficult and therefore least attractive. None of these assumptions are necessarily true, but there is a strong perception within the financial system that is driving perverse behaviour, resulting in poor returns for retirement savers and the British economy.

On the contrary, pension funds – both local government and defined contribution – are well placed to increase their exposure to late-stage VC funds and growth-stage public market deals.

Action by government to address this behaviour through this Pensions Review will help close the funding gap between the UK and US by unlocking a significant new source of domestic capital, while also opening up the financial opportunities of the UK's world-leading life sciences sector to fund comfortable retirements and grow the British economy.

The BIA has been an active partner with government and the financial services industry to address these challenges

The challenges described above are not new and the BIA has been an active partner with government and the financial services industry to address them for many years.

We were instrumental in the Patient Capital Review of 2017, which characterised the chronic funding gap challenge for life sciences and the opportunity of unlocking pension fund capital.¹³ We have since responded to many of the DwP and FCA consultations on pensions reform, and, in 2021, we established the Life Sciences Scale-Up Taskforce with the Office for Life Sciences, TheCityUK, BVCA and pension funds and venture capital firms to identify the life science-specific challenges and solutions to unlock institutional capital for the sector.

¹¹ [BIA: Finance report Q2 2024. \(2024\)](#) and [BVCA and Beauhurst: UK scale-ups increasingly relying on overseas investors to grow \(2024\)](#)

¹² Unpublished BIA analysis available on request.

¹³ [HMT: Financing growth in innovative firms: consultation response \(2017\)](#)

Among other things, this group studied the French Tibi scheme and recommended the UK pursue a similar strategy of strong government leadership to secure commitments from pension funds, match-making of VC firms and pension funds, and a state-backed vehicle to facilitate investment. Some of these crystallised in the Mansion House Compact, but there is still more to do, as recognised by the Labour Party's manifesto.

The life sciences business model has unique characteristics for policy makers to consider

The UK's life sciences sector – despite its world-leading strength – faces unique challenges around investor perception resulting in the market failure described above. Linked to this, is the life sciences business model, which has particular characteristics that must be considered within the Pensions Review if it is to ensure that pensions investment into UK assets reaches life sciences businesses to enable growth of this priority sector. Without this special consideration and sector-specific policy intervention, the market failure could continue and the UK will not capitalise on its world-leading competitive advantage in life sciences.

Some of the key unique characteristics include:

- **R&D is a core part of business activity:** often it is the only activity a life sciences or biotech business undertakes in the first 10-15 years as it develops its products that must go through rigorous regulatory assessments. Almost all money raised by companies is invested directly into R&D activities
- **Exponentially increasing R&D spending:** medicines must undergo clinical trials or other regulatory trials of increasing size and cost to prove them safe and effective
- **High capital requirements:** it typically takes \$1bn to develop a medicine (excluding commercial manufacturing and market access investments) or to invest in production infrastructure for other biotechnology-based products.
- **Long timelines to commercialisation, revenue- and profit-making:** the complete development process for a new drug can take 10-15 years
- **Business growth and R&D spend funded by successive venture capital rounds:** Multiple funding rounds, supported primarily by specialist investors, are needed to sustain the long-development timelines and high costs
- **Internationally mobile firms and capital:** it is a global sector supported by global investors, the UK is in competition to attract and retain both companies and investors
- **High risk associated with R&D investments:** fewer than 14% of all drugs in clinical trials make it through regulatory approval, resulting in capital losses. However, this shouldn't be taken to indicate high failure rates and capital loss at a company equity investment level

These characteristics means generic policies applicable to the venture capital industry more broadly do not always benefit the life sciences. The sector therefore requires specific policy solutions and championing by government through the Pensions Review.

Labour have already committed to many of the components necessary for a sector-specific industrial strategy. The groundwork for such an approach was outlined in ‘A Prescription for Growth’, which emphasises the importance of government partnerships with industry.

Actions required to unlock pension funds to enable the life sciences sector to contribute to the growth mission

The Mansion House Compact was an enormous step forward for the UK’s financial services industry and has given hope to start-ups and scale-ups that the pensions industry is ready to engage with them and invest in their growth, in a way that foreign investors and pension funds already do. UK pension funds have a significantly lower allocation to private equity and infrastructure assets (around 6% combined) than many of their peers (Canadian public sector pensions 34%, Finnish pensions 17%, and Australian supers 14%).¹⁴ It is critical that government continues to give this agenda, and the Compact specifically, its full backing and maintain pressure on the pensions industry to change its behaviour in the interests of the country.

We believe there is appetite among some progressive pension funds to invest into UK life sciences and they may develop their own solutions to enable them to gain exposure. Phoenix Group is a prime example, it has already launched one solution with Schroders. Another Phoenix Group partnership with Intermediate Capital Group, supported by the British Business Bank LIFTS programme, promises to be more life science specific, but is not yet fully announced. It requires the highest levels of support from the government.

However, there will be a longer tail of potentially interested but much less motivated pensions that will continue to argue that regulations or systems prevent them from participating in the innovation economy and supporting growth. The government must therefore show strong leadership to champion this agenda, and use its convening power to drive forward commitment in the same way that the French Tibi scheme did.

A specialist vehicle may need to be provided to enable the less progressive pension funds to invest in the asset class. This should be delivered by the British Business Bank and BIA has already developed a prototype for this with leading UK life science investors, which we would be happy to present to the Pensions Minister.

¹⁴ [William Wright and James Thornhill: Comparing the asset allocation of global pension systems: Analysis of investment in domestic equities & of home bias by pension funds in the UK and around the world. \(2024\)](#)

The British Business Bank, and its subsidiary British Patient Capital, have become a critical cornerstone of the UK venture ecosystem and will be instrumental in Labour's growth mission and industrial strategy. As the pension reforms may take multiple years to result in the substantial extra investment our sector needs, funding from the British Business Bank is a vital source of capital for innovative UK businesses that are scaling now and want to stay in the UK. The government should enhance the British Business Bank with additional funding, including enabling it to reinvest its profits, with a clear mandate to address market failures to support R&D intensive sectors.

The British Business Bank also has a wealth of data that could be used to help the pensions industry and retirement savers themselves understand the financial opportunity that the UK life sciences presents to them. This should be made public, as we believe it would address many of the preconceptions described in this submission and help solve the market failure leading to chronic underinvestment in UK life sciences, despite its world-leading strengths.

Carrot and stick policies may also be necessary. Given the strategic value of the sector to the UK's health and wealth, a "Life sciences charter" could be developed for pension funds to sign up to, committing them to invest into the sector to help create jobs and the medicines and other biotechnologies of the future that will improve all of our lives. BIA would be happy to help develop materials that could be used by the pensions industry to speak to their audiences about the good that they are doing for the UK's health and wealth.

Mandating pension funds to allocate a set percentage of assets under management to UK life sciences equities in return for state-subsidised pensions tax relief should also not be taken off the table as a last resort if the pensions industry behaviour does not change.

In conclusion, to ensure that pensions investment into UK assets reaches life sciences businesses to enable growth of this priority sector, the Pensions Review should:

- Deliver strong government leadership on the Mansion House Compact and championing of the life sciences sector within it, and use its convening power to drive forward commitments in the same way that the French Tibi scheme did
- Explore a life science-specific vehicle to provide an easy route through which pension funds can gain exposure to UK life science growth businesses
- Enhance the British Business Bank with additional funding, including enabling it to reinvest its profits, with a clear mandate to address market failures to support R&D intensive sectors
- Encourage the British Business Bank to publish data on the financial returns of the UK life sciences sector
- Explore a Life sciences charter for the pensions industry
- Not take off the table a mandatory requirement for pension funds to allocate a set percentage to the UK life science sector