Influence, connect, save

UK BioIndustry Association

Guy Opperman MP
Minister for Pensions and Financial Inclusion
Department for Work and Pensions
Caxton House
Tothill St
London SW1H 9NA

11 May 2022

Dear Mr Opperman,

RE: Facilitating investment in illiquid assets

I am writing to you as the CEO of the UK BioIndustry Association (BIA), the trade association for innovative life sciences in the UK. Our goal is to secure the UK's position as a global hub for life sciences and as the best location for innovative research and commercialisation, enabling our world-leading research base to deliver healthcare solutions that can truly make a difference to people's lives.

First, I would like to thank you again for spearheading this important work to ensure pension savers have access to innovative and diversified investment strategies and are able to benefit from the wealth-creating opportunities of the UK's innovative, venture capital-backed industries, including life sciences. We have actively engaged in this agenda with your department and others over the past few years. However, we are disappointed by the slow-down in the pace of change to the regulatory charge cap. We stated in our response to the former consultation that this change is necessary to help the pensions and venture capital industries move forward in addressing other barriers to enable investment in illiquid. It is important we maintain momentum.

However, we do believe greater transparency is another important element to changing behaviour and risk appetite within the pensions industry to better meet the needs of today's savers, so I am pleased to have the opportunity to comment on the latest consultation.

Introducing Disclose and Explain Policy Proposals

As your previous consultations have noted, innovative sectors of the economy tend to be composed of more illiquid companies but also offer the greatest chance for large returns on investment as well as societal benefits from advances in technology, such as new medicines. However, UK pension schemes, especially those operating in the defined contributions market, are not investing in them. Pension savers should have the opportunity to gain exposure to sectors that will benefit their own and others' health *and* deliver real asset value growth for their savings to provide a comfortable income in retirement.

There is an added injustice here, as taxpayers are funding a welcome and unprecedented increase in government R&D spending, on which these innovative industries are being built. But those same taxpayers are not being given the opportunity to benefit from the financial upside through their Statemandated DC pension. As a result, much of the wealth created is being accumulated by overseas investors.

The rise of crowd-funding and ethical investment platforms exemplifies the growing interest among savers to take a more active role in their investments and savings. The BIA believes that the public have the right to make informed decisions and choose how and in what to invest. To facilitate this, it is necessary for pension funds to set out clearly their investment strategies, including their approach to investing in illiquid capital as well as annually report the approximate percentage holdings in illiquid assets of their default arrangement.

Regarding the definition of illiquid investments, we favour option 2. To provide transparency for savers to know what their money is supporting, it will be necessary to define the underlying assets in a vehicle. It will also be important to provide a high level of granularity in the classifications used, beyond a catch-all ‘illiquid assets’. We recommend differentiating between private equity and venture capital, and infrastructure and green investments etc. We therefore support the example of a proposed disclosure that separately reports private equity and venture and growth capital. Savers will want to know if their investment will be supporting the buy-out of House of Fraser or a spin-out from the University of Manchester developing a cure for childhood leukaemia. Ideally a sectoral breakdown – life sciences, IT, hospitality etc. – would also be beneficial for investor choice. As your consultation notes, Australian pension schemes report each asset’s identity, showing that this is not overly burdensome.

History has handed the UK two world-leading sectors: life sciences and finance. A symbiosis should exist between these two, but it doesn’t, yet. There is great opportunity to turbo-charge the UK’s life sciences and biotech sector and capture more of its economic value for the UK, including in the form of retirement savings, by building better connections between our financial institutions and innovative sectors of our economy. The UK pensions industry is large, which means it has great potential for good but is slow to change direction. The Government can provide the impetus for change through these small tweaks to regulation and also provide confidence within the pensions industry by publicly championing the importance of this agenda for the UK’s future. I stand ready to support you in this mission however I can.

I would welcome the opportunity to meet you to discuss this further. If this is of interest, please ask your office to contact my Executive Assistant Miriam (mgedge@bioindustry.org) to follow up this invitation.

Yours sincerely,

Steve Bates OBE
CEO, BioIndustry Association

Cc: Rt Hon Kwasi Kwarteng MP, Secretary of State for Business, Energy and Industrial Strategy
George Freeman MP, Minister for Science, Research and Innovation
Charles Roxburgh, Second Permanent Secretary to the Treasury

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