PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PENSIONS & GROWTH:

A PAPER BY THE PLSA ON SUPPORTING PENSION INVESTMENT IN UK GROWTH

JUNE 2023

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SUMMARY OF MEASURES TO ATTRACT PENSION INVESTMENT IN UK GROWTH

Today, UK pension funds invest almost £1 trillion in the UK through a mixture of UK shares, corporate bonds, government debt, and other asset classes. However, over recent months there have been many public calls, from Government, stakeholders and the media, for pension funds to play a bigger role in providing additional capital to support growth in the UK economy, especially through increased direct investment in infrastructure, private markets and venture capital.

Many commentators have suggested that the best way of achieving additional investment in UK growth assets is by undertaking radical and rapid consolidation of the pensions sector. We do not disagree that scale can have many advantages but, in our assessment, there are many quicker and simpler ways of achieving these objectives. The PLSA has identified a dozen ways in which Government action could promote greater investment by pension funds in the UK:

All Types of Schemes: DB, DC & LGPS

- **Suitable UK investment opportunities:** It is essential to establish a rich, and continuous pipeline of enterprises needing investment for providers to bring to market and investors to choose from. The asset management industry should be encouraged to focus on sourcing UK opportunities and developing new investment funds and products (such as LTAF's and LIFTs) which are appropriate to pension fund needs. The British Business Bank should be given an extended scope to support companies that need scale up capital, and to create or partner with funds that can bundle up the assets in a form that would be suitable for pension funds.
- **Fiscal incentives**: Initiatives like LIFTS, which alters the risk-return component of an investment, are appealing to pension funds provided the financial support by government is of a long-term nature. Enhancing the tax treatment of domestic investments, as they do in France and Australia, merits exploration.
- **Policy certainty:** setting out a clear plan for the future of the UK economy, for example on the Green Transition, will help draw pension fund investment and allow the UK to compete with non-domestic assets.

DC Pension Funds

- **Automatic Enrolment market – Employers & Corporate IFAs**: the market should be incentivised to ensure that those purchasing workplace pensions, usually employers acting on advice from Corporate IFAs, balance net performance and costs focusing on ultimate member outcomes. Government should consider whether the FCA rules on suitability of "DC default funds" and the regime applying to Corporate IFAs are fit for purpose.
- **Automatic Enrolment market – Trustees & Investment Consultants:** Where trustees make these decisions, more should be done to ensure they have the skills necessary to the task and that they receive good advice from investment consultants. Consideration should be given to bringing investment consultants within the regulatory perimeter of the FCA. (NB. The

Master Trusts authorisation regime already requires that the trustees running the scheme have the necessary skills to operate investments.)

- **Scale in DC Products**: the quickest route to achieving volume and scale is by using "fund of fund" investment vehicles, for example by including a mixture of lower risk growth assets, with some higher risk venture assets, to produce a more balanced investment, rather than further speeding up consolidation of DC. (DC consolidation is already happening both due to market pressures as large Master Trusts compete for business, and due to regulatory interventions from DWP/TPR pushing the smallest schemes to consolidate if they cannot demonstrate value for money.)
- **Automatic Enrolment contribution levels:** The Government should press ahead with its plan to increase AE contributions by removing the lower earnings limit and by starting automatic enrolment at age 18 instead of 22. Only by increasing the flow of new assets into DC pensions can we hope to provide more capital, and better retirement incomes, in the future. The Government should also consider further increases in contribution levels from 8% to 12% over the next decade.

LGPS Pensions

- **The LGPS regime:** the Scheme Advisory Board's Good Governance review should be implemented as soon as possible. The government should work with Funds and Pools to understand the comparable international governance models to identify and establish best practice.
- **Asset Pools:** following the enormous changes to the management of LGPS assets, which involved consolidating from around 90 separate pension funds into 8 asset pools, the primary focus should now be on ensuring the current structures work well via the provision of guidance or regulation to support collaboration between and across funds and pools.
- **Resources**: more resource is required to ensure the effective operation of the LGPS, including within its supervisory bodies (DLUHC, SAB, TPR).

DB Pension Funds

- **TPR DB Funding Code**: more flexibility should be given to open DB pension funds than is currently planned in TPR's DB Funding Code. Where supported by a strong employer covenant open DB pension schemes should be able to carry long-term risks as part of their investment strategy, even as they approach maturity.
- **Solvency II:** reforms are also needed to the solvency regime for insurers such that it would incentivise them to directly take over more illiquid assets held by pension funds as they approach buy-out. The operation of the current market encourages schemes to simplify their asset holdings, providing gilts and cash to the insurer, often incurring a 'loss' on their illiquid assets holding's value.

The PLSA's mission is to help everyone achieve a better income in retirement. We work to get more people and money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures.

INTRODUCTION

Over recent months there have been many calls in the public domain, from Government, stakeholders and the media, for pension funds to play a bigger role in providing capital to support growth in the UK economy.

As is widely recognised, investments made by pension funds already support economic growth and are a major source of long-term investment in the UK economy.

These investments flow through to the economy in a wide range of ways:

- UK private sector DB funds own an estimated 80% of the long-dated index-linked gilt market. As the majority holders and purchasers of UK index-linked gilts pension funds give vital support to the real economy by providing a stable and long-term source of funding for government borrowing. This helps to fund government spending on infrastructure, social programmes, and other initiatives that support economic growth.
- Pension funds also provide funding to businesses through private equity investments and debt financing, generating the capital that businesses need to expand their operations, hire more employees and develop new products or services.
- As large and long-term investors, pension funds also invest in infrastructure projects, such as renewable energy, transportation, and affordable/social housing. Investments that create UK jobs, support economic development, and help to address long-term societal challenges, such as climate change and housing affordability.
- Nearly eight out of 10 UK employees now have a workplace pension, owing to the success of the automatic enrolment regime introduced in 2012.
- A critical role pension funds and savings play is also in supporting intergenerational equity through providing a stable source of income for retirees. Total private pension wealth in the UK constitutes 42% of all household wealth, with £115 billion flowing into workplace pensions in 2021 alone. This level of pension saving provides a significant societal good, helping individuals support themselves in retirement and reducing state spending on welfare payments.

Even though pension funds already play these essential roles, it is right that the industry and policymakers should consider whether pensions could play a bigger role.

It is important, however, to recognise that the primary focus of pension funds is to ensure a retirement income for their members. Nevertheless, as part of an overall strategy to deliver benefits, across a broad portfolio, there should be investment opportunities that both align with the needs of scheme members and with government policy or economic need.

This paper sets out some background information on the nature of pensions in the UK, in particular, the different types of pension provision, their asset allocations, and the policy initiatives Government has already taken to encourage investment in illiquid assets. It then goes on to identify the key barriers that prevent pensions from investing more in the UK than is presently the case and sets out 12 ways to address these issues.

We are already working closely with Government on these important issues and stand ready to provide extra support as needed.

BACKGROUND

The UK has a well-established, sophisticated, and large pension sector, managing over £2 trillion of assets for over 30 million savers.

As long-term owners of capital many pension funds are well placed to invest in a long-term way and build a portfolio of assets which can provide stable cash flows and diversification benefits for the next 15 or even 50 years.

This is the case for the rapidly growing defined contribution (DC) auto-enrolment market, the open (funded) Local Government Pension Scheme (LGPS) and the open or less mature private sector defined benefit (DB) schemes – which together hold a substantial portion of UK pension scheme assets and liabilities.

Schemes and their savers' needs are not homogenous, however, and their investment approaches reflect this variety. This distinction is not always well understood and has been poorly characterised in much of the recent debate about the role of pension funds in the economy.

The PLSA has been pleased to be involved in many government initiatives over recent years to remove barriers preventing schemes investing in growth orientated assets – for example, illiquid assets such as venture capital, private equity and infrastructure – with the intention of doing so for the long-term. Most recently we have participated in the Productive Finance Working Group, and in the recent past have worked with HMT's Pension Investment Taskforce, and the joint HMT and DCMS Implementation Taskforce on Growing a Culture of Impact Investment in the UK. These programmes of work are aimed at creating an environment which better supports schemes to access illiquid investments, where relevant and appropriate. A decade ago, with our members and participants from the wider industry, we also established the Pension Infrastructure Platform to enable investments of this kind.

THE CURRENT UK PENSIONS LANDSCAPE

Workplace pension provision in the UK was historically provided through DB schemes. This is the most mature part of the market, and where the majority of pension scheme assets and liabilities currently reside. This form of pension has, over the last 20 years, been largely replaced for new accrual in DC schemes – in particular through the success of auto-enrolment, which has brought millions of new savers into pensions.

PENSION FUND TYPES, MEMBERSHIP, NUMBER OF SCHEMES, AND ASSETS TODAY AND BEYOND

Type	No of Members	No. Schemes	AUM 2020	AUM 2030	Typical maturity of scheme
DB	12 million	5,000 (Closed: 4,500) (Open: 500)	£1.5 trn (Closed: £1.2trn) (Open: £300bn)	£1.5 trn	10-15 years
DC	20 million	30 MTs & 1,000 PFs (>1,000 members) 1,100 GPPs (>1,000 members)	MT & PF: £435 bn GPPs: £170bn	£955 bn	30-100 years
LGPS	6 million	100 pension funds & 8 Asset Pools	£270 bn	£500 bn	30- 100 years

The scale and distribution of assets across the pensions sector is expected to alter substantially over the next decade during which time we expect the volume of assets in DC pension schemes to double to around £1 trillion and the value of assets in the LGPS are forecast to increase to around £500bn. The value of private sector DB pension funds is expected to stay the same at today's high value (£1.5 trillion) as most are closed to new members and future accrual, although as noted above, a sizeable minority remain open.

DIFFERENT TYPES OF SCHEMES HAVE DIFFERING INVESTMENT NEEDS

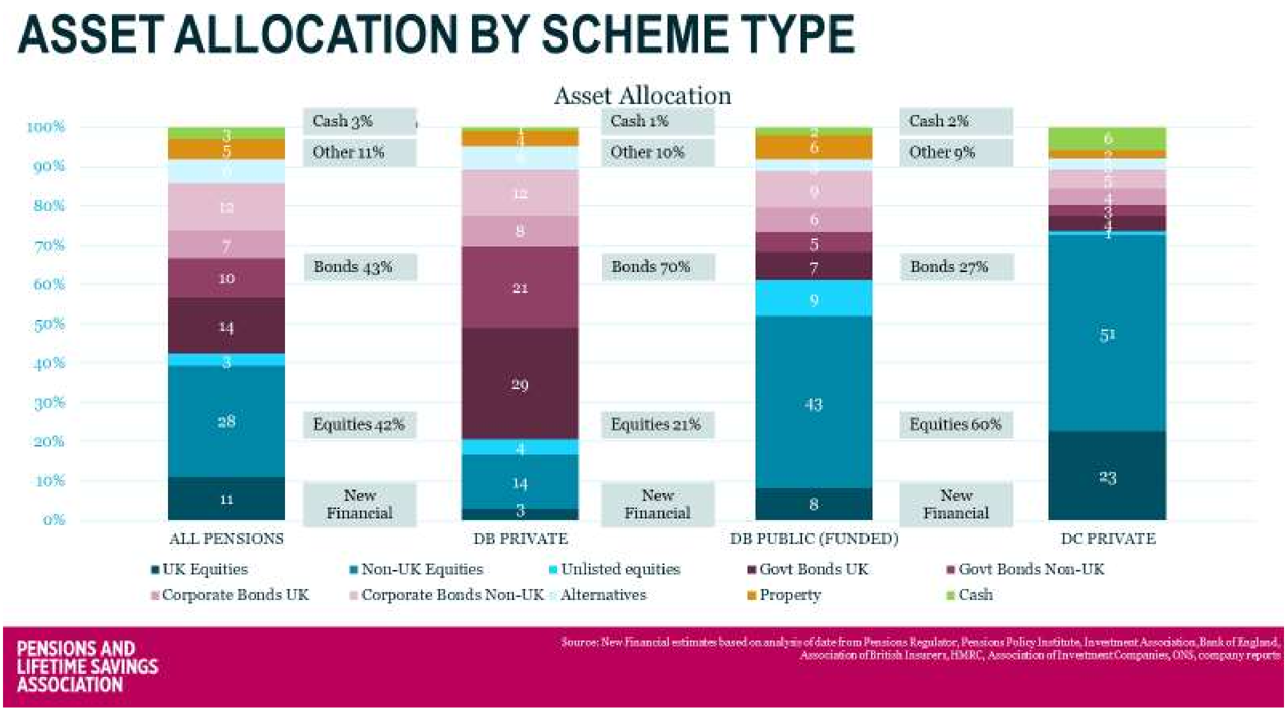
Private Sector DB Schemes: Although the majority of the 5,000 DB schemes in the sector are approaching maturity over the next 10-20 years (at which point they will be cash-flow negative), they will continue to pay member benefits for many decades to come. A sizeable minority of private sector DB schemes (c.500), managing £300 billion on behalf of millions of members, also remain open to accrual. These open schemes, in particular, have capacity to invest in illiquid assets over the long term – although regulatory interventions to support them have largely not been forthcoming in recent years.

Local Government Pension Scheme (LGPS): The LGPS is the UK's largest funded public sector scheme. It manages over £300 billion of assets for its 6 million members. The scheme remains open to new accrual and is less mature than the majority of private sector DB. As a result, its investment strategy includes more growth-orientated assets. The LGPS is expected to grow to over £500 billion of assets over the next decade. Eight large asset pools managing c.£25-80 billion each have already been created in England and Wales.

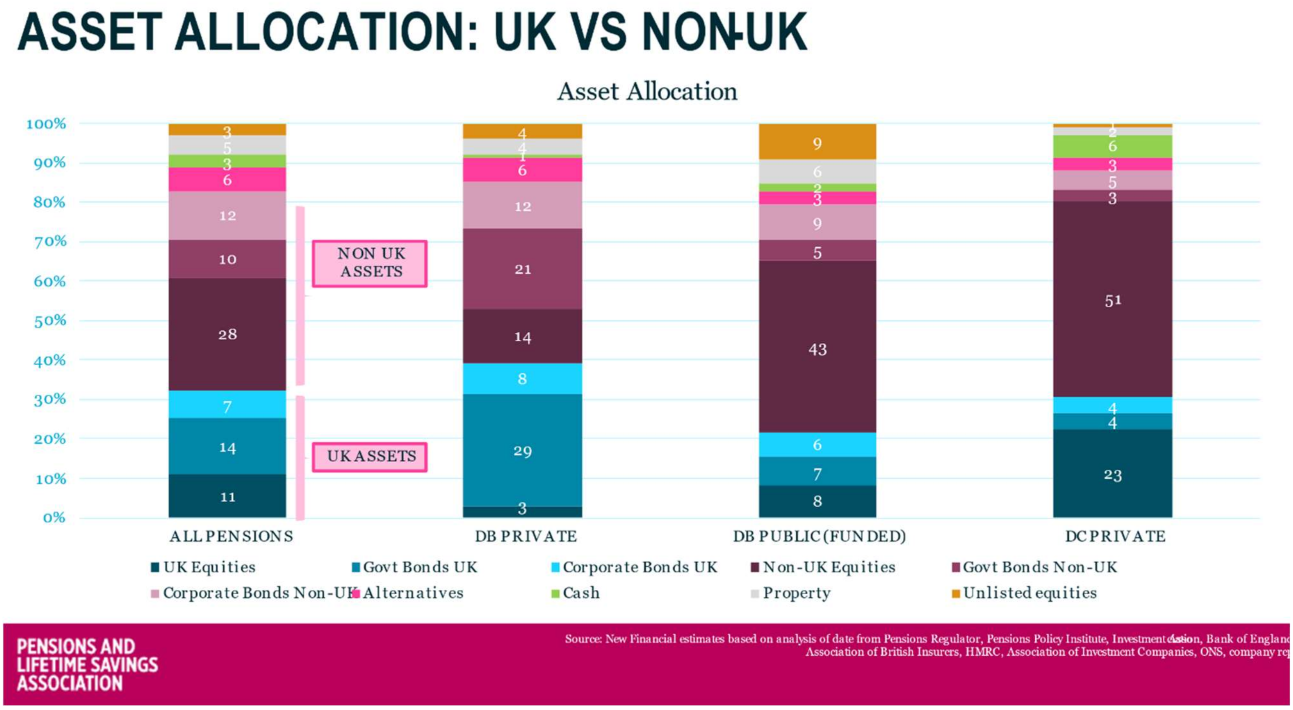
DC Schemes: There are a wide range of DC schemes in the UK, ranging from very small retail personal pensions through to some medium sized, and some very large Master Trusts. The latter, which came into being with the introduction of automatic enrolment in 2012, look after 20 million savers and already manage over £200 billion of assets. They are growing rapidly, and it is estimated that by 2030 they will manage £1 trillion in assets. Today, these schemes invest largely in equities and global indexes but as their scale grows many have already begun to invest more in illiquid assets (within the legislative charge cap).

PENSION FUND ASSET ALLOCATION

Taking all UK pensions together, assets overall are invested around 42% in equities, around 43% in bonds, with 11% in alternative assets. Looking at scheme types, the chart below shows that for the largely closed DB pension schemes in the private sector, only around 21% of scheme assets are in equities, around 70% in bonds, with about 6% in alternatives. In the case of the open public sector DB funds, the story is very different, with around 60% in equities, about 27% in bonds, and around 3% in alternatives. Finally, in the case of DC schemes, 75% are in equities, around 16% in bonds, and about 3% in alternatives.



When it comes to which assets are based in the UK, we get a different picture again. At the composite level, about 32% of assets are invested in the UK (equities and bonds), around 50% outside of the UK (non-UK equities and bonds), and around 11% in property and alternatives. In the case of private sector DB (largely closed), the allocation is 40% UK (equities and bonds), 47% non-UK, and 10% in property and alternatives (many of which are UK). In the case of open public sector DB funds, 21% are in UK assets (equities and bonds), 57% in non-UK assets, and 9% in property and alternatives (some of which are UK). Finally, for DC pension schemes, 31% are in UK assets (equities and bonds), 59% in non-UK assets, and 5% in property and alternatives (many of which are UK).



Commentators often make generalised statements about UK pension funds' asset allocation containing lower proportions of growth assets, or that they invest less in their national market, than other pension schemes. This does not, however, reflect why there are good reasons for this approach - for example, the choice of asset type (equity, bonds, alternatives) is generally linked to scheme type (DB, DC) and scheme maturity (especially, whether open or closed). The Pensions Regulator strongly encourages DB schemes to match liabilities with bonds/LDI, as they become more mature. We would note also the general trend for pension funds around the world, especially in developed markets, to invest more in non-domestic assets during the last 20 years The UK's experience is in line with this trend and, when compared to 6 other OECD countries with major pension sectors, it is clear that UK pension funds invest in the domestic market, a little above the average. More information on how UK pension funds investment practices compare to those in other countries is provided in the annex.

POLICY INITIATIVES ALREADY UNDERTAKEN BY GOVERNMENT

While there is an ongoing exploration of how pension funds can support economic growth in the UK, it is important to recognise several other recent and concurrent initiatives aimed at developing practical solutions to the barriers to investing in long-term, less liquid assets. The full impact of these initiatives is yet to be felt; such changes need time from design to implementation. Other initiatives, such as the joint DWP, FCA and TPR proposals for value for money, are also at early stages of development, but will impact scheme, trustee and provider thinking.

The PLSA and the wider industry have been engaging on these issues with Government. The main initiatives, most of which are still being implemented and have not yet had time to reach their full effect, are listed below:

Patient Capital Review: Following the 2016 Patient Capital Review by HM Treasury, in 2017 the Chancellor announced a number of initiatives on patient capital including the Pensions Investment Taskforce 2017.

Charge Cap: Several measures to make it easier for DC pension funds to invest in illiquid investment, notably by adjusting the Charge Cap in 2019, and again in January 2023. This included a 'disclose and explain' requirement for DC scheme investment strategies. (The regulatory changes also amended the "permitted links" requirements.)

Productive Finance Working Group: The convening by the Bank, HM Treasury, and DWP of the Productive Finance Working Group in 2020 resulted in the publication of national guidance for DC schemes in November 2022.

LTAF: Creation of Long-Term Asset Funds to facilitate DC pension investment in illiquid assets while still meeting various regulatory and investment requirements (a number of which have already come to market).

LGPS & Consolidation: Five years ago, around 90 pension funds in England & Wales were required to start using eight centralised investment pools primarily to gain additional economies of scale and to enable investment in more asset types.

VFM & Consolidation: The introduction of requirements on small schemes to consider whether they are providing value for money and, if not, to consider consolidation, followed in 2023 by proposals to develop national value for money (VFM) standards to result in further consolidation of schemes below £200 million assets.

Most recently, the Government published a consultation on the long-term investment for technology and science **(LIFTS**) initiative, which aimed to capture feedback from the industry on its plan to invest £250 million through LIFTS to support DC pension scheme investment into our science and technology sector. This has been followed by a further LIFTS call for proposals.

KEY BARRIERS TO PENSION FUND INVESTMENT IN UK GROWTH

As noted above, schemes and their savers are not homogenous, and their investment approaches reflect this variety. The barriers that different schemes face to investing in 'growth' industries reflects these differences. To examine this issue in more detail, we have set out below 4 tables on the barriers to investing in UK growth assets divided by pension types:

- Barriers for all types of scheme: DB, DC, LGPS;
- Barriers specific to DC schemes;
- Barriers specific to the LGPS, and
- Barriers specific to DB schemes.

BARRIERS FOR ALL TYPES OF SCHEME: DB, DC, LGPS	COMMENT
Lack of suitable investment opportunities – currently, there are not enough UK investment opportunities packaged in a manner suitable for use by pension funds.	It is essential to establish a rich, and continuous pipeline of enterprises needing investment for providers to bring to market and investors to choose from. The asset management industry should be encouraged to focus on sourcing these UK opportunities and developing new investment funds and products (such as LTAF's and LIFTs) suitable to pension fund needs. It should be recognised these products can take 1-2 years to come to market. The British Business Bank should have a wider role as a broker in facilitating aggregation and bringing them to market through suitable products. NB. There is also a risk that the increased demand for illiquid assets from the new 'disclose and explain' regulations, might create 'asset bubbles' and provide poor value for money for savers, as pension funds chase a limited supply of suitable investment opportunities.
Financial incentives – lack of extra support from Government for investment in the UK, in terms of fiscal incentives e.g. tax or other treatment.	The UK should learn from 'best practice' examples in other nations where fiscal incentives support the development of key growth areas. In France, fiscal incentives are provided to encourage investment in SMEs. The LIFTS initiative is a good example of an incentive that should work well as it alters the risk/ reward calculus.
Financial products – often remain costly, sometimes slow to innovate to meet the needs of pension funds, and Private Markets continue to lack transparency, and have a weaker regulatory supervision. Higher risk products often have high failure rates.	The regulatory regime should support innovation in product design that meets the needs of institutional capital. At present, platforms have very limited choices, if any, which means these are only accessible to the much larger schemes currently slowing down take-up. Scale in DC is delivered through platforms, rather than a proliferation of managers and products, but that scale has restricted choice in this area. Resolution of failed products must however also be quicker and more robust to provide confidence to investors.

BARRIERS FOR ALL TYPES OF SCHEME: DB, DC, LGPS	COMMENT
Illiquid investment currently requires significant governance and resources – it generally remains resource intensive to invest in illiquid investments.	On their own, many opportunities will be sub-scale, given the resources required to invest in more complicated asset classes. This currently inhibits investment from small-and mid-size schemes. Easy to access product design will remove many resource barriers and broaden the investment base.
Skills and capability – Investing in illiquid assets can be complex, requiring additional skills of those who decide on pension scheme investments and a greater role for those who advise them.	TPR and industry bodies could provide further support for trustee training, and encourage high standards for professional trustees, alongside greater knowledge sharing. Consideration could be given to regulating investment consultants as recommended by the CMA.
Policy certainty – political and regulatory uncertainty, as well as low-growth, have reduced the UK's appeal when measured against global opportunities for investment.	Setting out and implementing a clear plan for the future of the UK economy, for example regarding the Green Transition, will aid the return of confidence to UK markets.

BARRIERS SPECIFIC TO DC	COMMENT
Scale in DC products – there is a shortage of investment vehicles that suit DC pension fund needs directly or within a fund or wrapper (Central Pools, Fund of Funds, LTAFs).	Typical fund structures and fee models do not accommodate DC schemes' needs well for illiquid investing. Scale in DC is delivered through platforms but these currently offer very limited choice, if any, which means these are only accessible to the much larger schemes currently slowing down take-up. NB. There are also concerns over inter-generational fairness when investing in illiquid assets as members that pay the fees on an illiquid investment may not benefit from it.
Operation of the AE market – the AE market is relatively immature and highly competitive. It has consolidated rapidly and continues to do so. In a fierce market small points of price difference make a significant impact.	The AE market is very competitive. As in all open markets this has had a downward pressure on costs. This limits investment capacity in more expensive asset classes. The new value for money framework should ensure the right balance between value and cost is struck. The advice of Corporate IFAs to employers on workplace pensions should be reviewed to ensure they make recommendations based on value for money and saver outcomes rather than costs alone.
Low AE contributions – mandated levels of savings into AE have been set at much lower levels than international comparators.	AE schemes are relatively immature and have not reached the scale of some international comparators. In part this has also been driven by the low levels of savings required under statute. Increasing AE contributions over time will ensure a steady and increasing flow of growth capital.

BARRIERS SPECIFIC TO DC	COMMENT
DC regulatory regime – operational requirements, daily-dealing and platform structures for illiquids impact product provision for DC schemes. Fierce market competition and the charge cap impacts pricing in the Master Trust market.	Recent changes to the regulatory regime should be given time to take full effect and to provide certainty for schemes and providers. Soft nudges to overcome operational or cultural barriers should continue and should support the UK's highly successful AE market.

BARRIERS SPECIFIC TO LGPS	COMMENT
LGPS regulatory regime – lack of independence from Local Authority.	Implement the Scheme Advisory Board (E&W) Good Governance reforms. Non-UK governance solutions may be able to inform good practice.
Asset pools regulatory regime - Differing pool structures (in England & Wales) and governance.	Introducing pooling structures in England & Wales was a significant undertaking. Governance models and implementation have been successful, although there is more work to do. Reviewing permissions / support to enable greater collaboration across and between Pools would be helpful.
Limited resources – local authorities and their fund have long-standing resourcing issues.	Support is needed for the LGPS to ensure each fund has the right resources to fully deliver for its members. It is also important that the role of LGPS supervisory bodies (DLUHC, SAB, TPR) is clear, and they are appropriately resourced to support and oversee the scheme.

BARRIERS SPECIFIC TO DB	COMMENT
DB regulatory regime – substantial assets in open DB schemes, however DB funding regime inhibits risk bearing.	The DB Funding Code should support open DB schemes holding illiquid assets for longer, especially where they are supported by a strong employer. (DWP should also make progress on developing a legislative framework for DB Superfunds.)
Solvency II - for closed DB schemes looking to buy-out, insurers do not wish to take on illiquid assets due to Solvency II.	Reforms to Solvency II should also be made to incentivise insurers to take on more illiquid assets from transferring schemes, which would in turn prevent unnecessary 'sell-off's' from DB.

MEASURES TO ATTRACT PENSION INVESTMENT IN UK GROWTH

Pension funds are already large-scale owners of UK assets, for example, Government bonds, corporate debt, equities and property. Their needs are often based on whether they are DB or DC schemes, whether they are open or closed to new members, and their scale. While it is essential their investments meet the needs of savers/scheme members in line with their fiduciary duty, this does not mean that they are not also able to act as a source of capital for owning the right sort of UK growth assets, where they have the right risk-return characteristics.

This section sets out what changes are needed to encourage pension funds to invest in UK growth.

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regulatory perimeter of the FCA. (NB. The Master Trusts authorisation regime already requires that the trustees running the scheme have the necessary skills to manage complex investments.)

- **Scale in DC Products**: the quickest route to achieving volume and scale is by using "fund of fund" investment vehicles, for example by including a mixture of lower risk growth assets, with some higher risk venture assets, to produce a more balanced investment, rather than further speeding up consolidation of DC. (DC consolidation is already happening both due to market pressures as large Master Trusts compete for business, and due to regulatory interventions from DWP/TPR pushing the smallest schemes to consolidate if they cannot demonstrate value for money.)
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CONCLUSION

Pension funds play an essential role in supporting the UK economy. The UK has one of the most sophisticated and mature pensions systems in the world – it is a great British success story, that provides security to tens of millions of savers.

How pension funds can play a bigger role in providing capital to support growth in the UK economy is an important question, and in our discussions with schemes there is a clear appetite to invest in the UK where it is in the interests of savers.

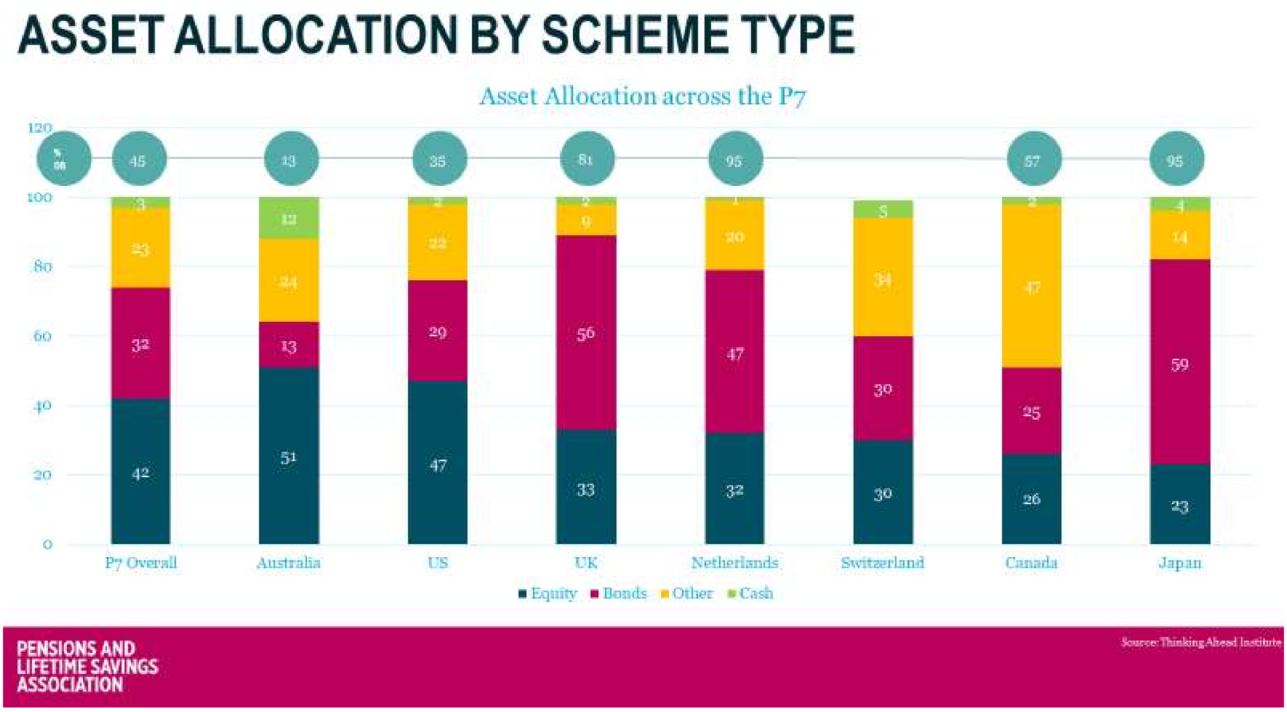
Over recent months there have been many calls in the public domain, from Government, stakeholders, think thanks and the media, for pension funds to play a bigger role in providing capital to support growth in the UK economy. Many have suggested that the best way of achieving additional investment in UK growth is by undertaking radical and rapid consolidation of the pensions sector. We do not disagree that scale can have many advantages but, in our assessment, there are many quicker and simpler ways of achieving these objectives.

We welcome Government efforts to address these challenges. The sector is already seeing positive results from changes to the regulatory regime. Although there have been a great deal of speculative proposals over recent weeks and months, we believe the barriers to investment have not been fully understood.

The PLSA has identified 12 ways in which Government action could promote greater investment by UK pension funds in the UK. These range from ensuring that there is a suitable pipeline of investment opportunities, packaged up by the asset management industry and government entities so they are appropriate for pension fund needs, to targeted regulatory and fiscal interventions, including some related to the operation of the automatic enrolment market. Importantly, our proposals build on current Government initiatives and address the needs of the pensions landscape as it is now.

We ask the Government to consider our report on the barriers and solutions to encouraging more investment in the UK and we look forward to further engagement on this important topic.

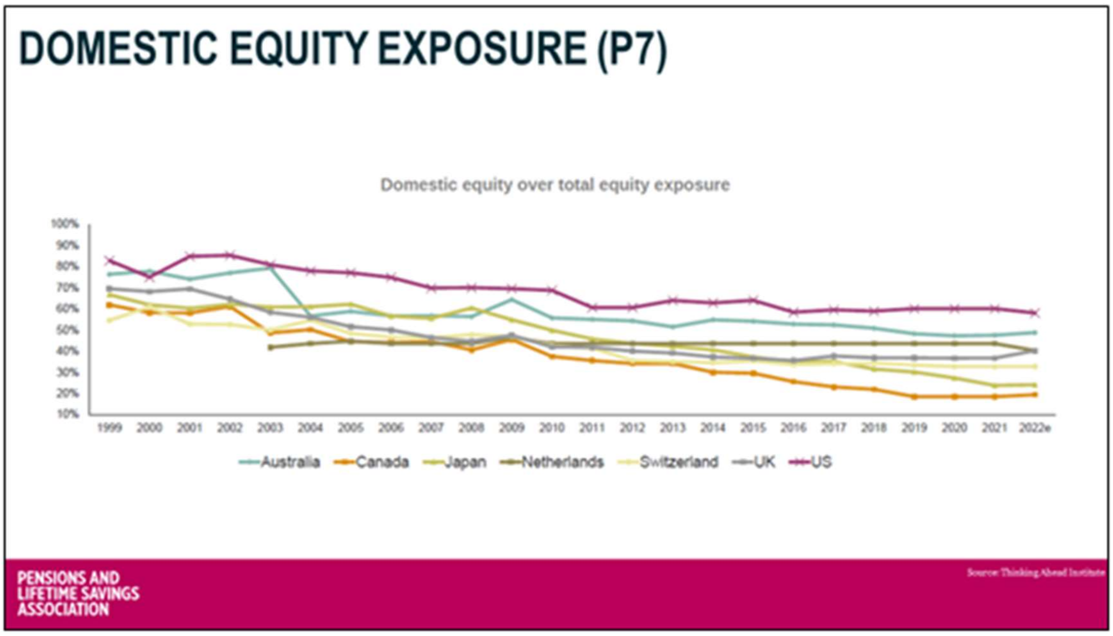
ANNEX: UK PENSION INVESTMENT: INTERNATIONAL COMPARISONS



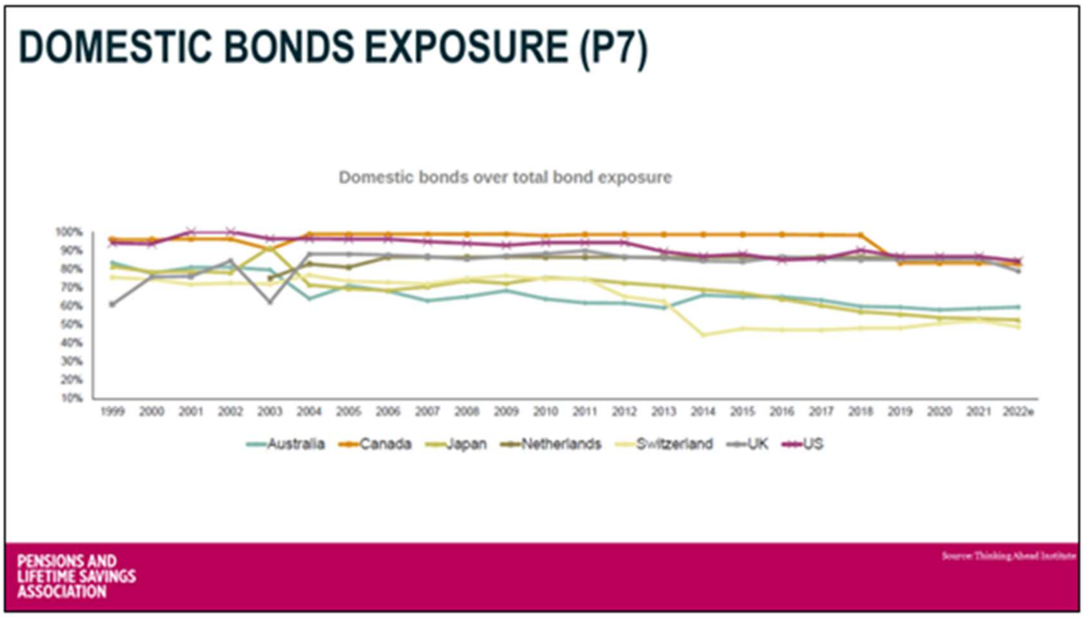
As the chart shows, the asset allocation of pension funds varies considerably from one country to another. When UK pension funds are compared to those in 6 other significant pension fund markets, they are found to be a little bit less likely to be invested in equities than the average (33% in the UK, 42% average across 7 countries), a bit more likely to be invested in bonds (56% UK, 32% average across 7 countries), and to have a smaller allocation to other assets including property, infrastructure, alternatives (UK 9%, average across 7 countries of 23%).

Much of this difference is likely to be down to the fact that the majority of pension fund assets in the UK are held in closed private sector DB schemes, where the maturity of the scheme requires a more cautious approach to ensure member benefits are paid.

Over the last 20 years, across pension funds in many countries, there has been a tendence to diversify away from home domestic investment in line with good investment principles.



The chart above shows that there has been a reduced focus on domestic equity exposure over the past 20-year period. The weight of domestic equities has fallen on average across the P7 from 67.1% in 2002 to 37.7% in 2022. During the past decade the US has had the highest allocation to domestic equities, the UK has been above the P7 average whilst Canada, Japan and Switzerland have had the lowest allocation.



Allocation of assets to domestic bonds has remained high, even though it has decreased over the past 20 years across the P7. On average the allocation to domestic bonds as a percentage of total bonds decreased from 85.3% in 2002 to 70.1% in 2022. The UK has one of the highest allocations to domestic bonds alongside the Netherlands and the US while Switzerland has the highest foreign bond exposure.