# [Speech: Exchequer Secretary speech: Pensions and Lifetime Savings Association Trustee Conference]

**Intro**

Thank you, Caroline, for that kind introduction.

And thank you to the PLSA for inviting me here today.

As a former commercial lawyer, there are always mixed feelings about coming to a place like Allen & Overy.

I certainly don’t miss some aspects of the old job.

The late nights and long negotiations…

…The seemingly intractable arguments over the finest details of complex written agreements.

Actually, come to think of it, it was all good grounding for a career in politics.

Now we meet at an important moment for our country and our economy with critical decisions to be taken in the days ahead and the present debates can understandably all-consuming.

But I want to talk about the long-term direction of our economy and ask you to consider what you can do to define this country’s success, not in the next few years, but for generations to come.

To create the high-tech, high-skilled, productive and competitive economy that we all desire.

One that attracts, supports and rewards enterprise, entrepreneurship and innovation.

With a climate that inspires a new generation to succeed, to prosper and to excel.

Today, I want to talk about how we can work together to achieve that goal.

The guidance the PLSA are launching today shows that pensions have the potential to achieve more for everyone.

…Better long-term returns for the savers who invest…

…And better long-term impacts for the economy and for society.

## The importance of patient capital

The UK is home to some of the world's most innovative companies.

Harnessing the intellectual might of our great universities, and the strength of our financial services industry…

…Start-ups are created at a rate greater than anywhere in Europe.

And we are seeing many of these companies grow into the global brands of the future…

…With at least 13 unicorns, more than any of our European neighbours, and more than a third of the total number across the continent.

In government, we have prioritised investment in innovative companies.

In this parliament, levels of public investment will be at their highest sustained levels in my lifetime.

And the last Budget gave further support for new technologies, and help for firms to grow.

Last year we unveiled a patient capital action plan to unlock over £20 billion in innovative firms over the next 10 years.

Since last year the British Business Bank has launched 'British Patient Capital' – a £2.5 billion fund to invest in innovative firms.

And we ploughed £1.6 billion into our research and development base…

…to strengthen the UK's global leadership in science and innovation.

But there's a limit to what government can and should do.

Ultimately, it is the sum of private investment in the engine of the economy that will define our success.

Britain's venture capital investment sector is maturing…

…With 4x more VC investment in tech companies than Germany, and more than France, Ireland and Sweden combined…

But neither should we be complacent about these favourable comparisons with Europe, nor let that be the limit to our ambitions.

Last year, the Chancellor identified a £4 billion patient capital gap between American firms and British firms.

UK firms receive fewer rounds of private investment before an IPO than their equivalents in the US.

We have to work harder to keep that talent in the UK and to attract international entrepreneurs to the UK who might otherwise go to the US.

So that those businesses can put down roots here, can thrive and grow here.

And pension funds have a crucial role to play in achieving this.

## How pension funds could help

Auto-enrolment has led to a new cohort of younger savers…

…And an expansion in the amount of money in defined contribution schemes.

By 2025, we expect the overall pot will swell to £1 trillion…

…This has the capacity to drive strong and sustainable growth in the UK economy.

Pension funds are suited to patient capital

…They accrue gradually over a lifetime…

…And with this long-term investment horizon comes a greater appetite for investing in things with somewhat higher risk…

…and a higher reward.

The next generation of young pension savers have the chance to invest in the next world-changing technology, whether that's AI or a life-saving cancer drug…

…Or social impact investment in the infrastructure that underpins the economy – whether that's housing or health or transport.

…Investments that generate returns, while also having a positive effect on society or the environment.

All in all, this type of investment gives people the chance to shape the society they want to live in and to leave to the next generation.

As the youngest member of the present government and notionally a millennial, I believe the investors of today and those following them will demand that their savings include such investments, and be surprised if they do not. I also believe that technology will rapidly increase transparency. The pensions dashboard will enable savers to view their pensions and in time make choices to amalgamate them…

…But I want to see technology harnessed, in time, to bring data on a pension to every savers smartphone including informing savers of how their pension is invested. This seems inevitable and will force the question of the industry-would our investments inspire our savers?

So the vision is clear…

Pension schemes of the future being able to invest appropriate amounts in patient capital as part of a diverse portfolio…

…benefiting from the rewards of innovative companies with significant growth potential.

It happens in America and Australia, where pension pots are more regularly invested in illiquid assets such as private equity and infrastructure.

We want the same opportunities here. We believe we could even be more innovative.

And that's what we're working towards.

Some in the field are showing true leadership and invention.

Strathclyde started a Private Equity programme in 1990.

And over the years they have invested £2.7 billion, with total returns of more than 13% per annum.

Others, like Hermes and USS, have also demonstrated the value of investing in patient capital.

## The barriers we face

To make investment in patient capital the norm…

…and to close the gap with the likes of the USA and Australia.

…we have some barriers to overcome.

At the moment, our pension system is strong in terms of transparency, freedoms with a highly skilled and knowledgeable industry operating within the pre-eminent financial centre.

But still, defined contribution funds invest very little, if at all, in patient capital.

There are regulatory reasons for that, which we identified through our Pensions Investment Taskforce… …which some of us in this room were involved in.

1. First, there's the FCA's permitted links rule, which restricts patient capital type investments that are typically held for the long-term.

2. Second, there is the pensions charge cap, which protects savers from high costs.

We are absolutely committed to retaining protections…

…but we also know that the way firms are required to confirm compliance can actually prevent savers from accessing the expertise needed for patient capital investment.

Throughout the year, we have been working with the industry, including the PLSA, the Investment Association and the ABI among others, to open up these avenues.

## The path ahead

And at the Budget, we laid out a clear plan for progress.

- first, we announced that the FCA will be carrying out a consultation on reforming their permitted links rules, and will publish by the end of the year

- second, we announced that the DWP will consult next year on making the pension charge cap flexible enough to accommodate performance fees, often associated with patient capital investment

The aim will be to follow this up with regulation later in the year.

- third, we announced funding to make pensions dashboards a reality. These will allow people access to information on their multiple pensions in a single place online, helping them to have a clearer picture of their overall financial position

And we know from polling data how much people are looking forward to having this tool, particularly young people.

DWP published their consultation on pensions dashboards earlier this week, and are keen to hear from you on their proposals.

- finally, we announced that some of the largest DC pension providers in the UK –Aviva, L&G, HSBC, NEST, The People's Pension and Tesco Pension Fund – are working with the BBB to develop a blueprint for pooled investment in patient capital

Global trends suggest that pooling investment could help make investment in patient capital more cost effective for pension schemes.

The TPR have updated guidance to reflect the growing interest and appetite for patient capital investments as part of a diversified portfolio.

## Conclusion

So thank you all for your interest so far and for the commitment many have shown.

But this is just the end of the beginning – we have so much work to do.

Thanks to the PLSA's new published guidance and the work of the Pensions Investment Taskforce and DWP we know the path ahead.

The ultimate decisions are yours as pension trustees, independent governance committees and advisors to them However, I believe if we work together, we can be responsible managers of others’ savings, and ambitious custodians of capital, seeking to achieve higher returns for pension funds….

… use the latent potential in our pension pots…

drive the companies and ideas of the future…

Private investment…

Building wealth and security for private citizens…

Doing public good, building an enterprising economy and society for everyone.

Thank you.