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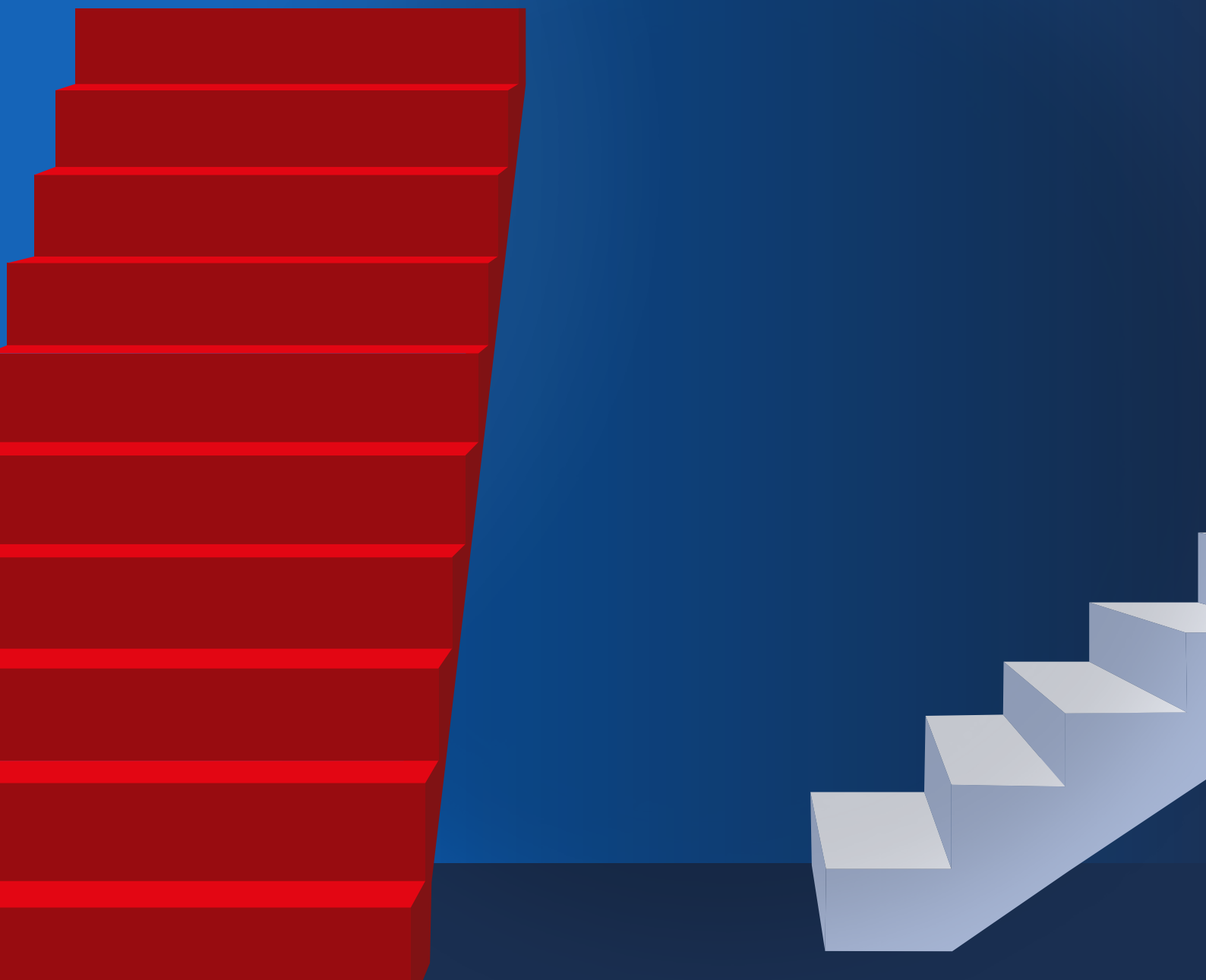
Fixing the growth escalator

Three priorities for UK growth



Summary

This report identifies a persistent break in the growth escalator. Private capital has expanded strongly, yet growth-stage investment has not grown in line with this. New analysis provides a way of looking beneath these investment flows at the underlying private-market fund landscape, an area where limited visibility has historically made it difficult to assess the scale and distribution of fund capacity. Mapping this landscape across the growth escalator reveals relatively limited capacity at the growth stage and identifies an indicative £44.7bn structural gap in growth-stage fund capacity.

Foreword



Alderman Bronek Masojada
The Rt Hon The Lord Mayor of London

Our analysis of the UK investment landscape mapped £4.1 trillion of investment capital available across the UK. It identified a £150 billion additional investment need for infrastructure and high-growth companies by 2030. Closing the growth-stage financing gap is a critical part of meeting that need and unlocking growth across the UK.

A challenge in the UK is that a larger share of private capital is not deployed into stronger growth-stage investments. Domestic institutional participation remains limited, and our analysis identifies an indicative £44.7 billion gap in underlying growth-stage capital needs.

The central question is how to close this gap.

Recent reforms have provided a platform for action, and this report highlights the three priorities to address this growth-stage gap: increase pension provider commitment to UK growth firms; create more growth-stage investment vehicles of sufficient scale; and strengthen investment links across the UK's nations and regions.

Scale-ups generate high-value jobs, drive innovation, and support exports, productivity and UK competitiveness. They also create wealth. Delivering these priorities should therefore be treated as a core part of the UK growth agenda.

The Key Evidence Base

Over the past decade, growth-stage investment fell by 7%, despite private capital investment overall increasing by 165%. Underlying this disconnect is a relatively sparse growth-stage fund landscape. Our analysis identifies an indicative £44.7bn structural gap in growth-stage fund capacity, compared with the level implied by greater continuity between the early and mature stages of the fund landscape. This is not a measure of unmet financing demand. It indicates the underlying capacity and distribution of funds available to support companies through the growth stage.

Three priorities to close the growth-stage gap

1. Increase pension provider commitment to growth firms

More domestic pension capital needs to reach UK growth firms, ensuring companies can access the investment they need as they scale.

Pension funds are an important source of long-term growth capital. The Mansion House initiatives seek to increase historically low levels of pension investment in private markets and channel more domestic capital into the UK economy.

The Mansion House Compact targets 5% of DC default funds in unlisted equities, with allocations rising from 0.36% in 2023 to 0.85% by the end of 2025, equivalent to £2.7bn. The subsequent Mansion House Accord broadened the ambition to 10% in private markets, including 5% in UK assets, with signatories already holding £11.1bn in UK private markets and a further £3bn committed for deployment.

However, the composition of investment matters as much as the headline total. Around 84% of the Accord's reported UK holdings are currently in property and infrastructure, while only £0.5bn, around 4.5%, is identified as private equity. The next step is to ensure that growing pension allocations translate into more capital reaching UK growth firms.

2. Create more growth-stage investment vehicles of sufficient scale

More institutional capital will only reach growth firms if there are investment vehicles of sufficient scale to deploy it.

Mobilising pension capital alone will not close the growth-stage gap. The report's new mapping of the private-market landscape identifies an indicative £44.7bn structural gap in UK growth-stage fund capacity.

The UK needs more investment vehicles of sufficient scale, with structures, governance and risk-return characteristics capable of meeting pension provider requirements. This must be accompanied by the specialist skills and expertise needed to identify growth opportunities, undertake due diligence, support companies through expansion and deploy institutional capital effectively.

The British Business Bank and National Wealth Fund are already helping to strengthen the UK's growth-finance landscape, while initiatives such as the British Growth Partnership and proposed UK Scale-up Fund could provide further routes for institutional capital. The priority is to determine which combination of vehicles and fund structures can most effectively connect institutional capital with growth-stage companies. The City of London Corporation is continuing to work with pension providers and fund managers to explore practical deployment routes at the growth stage, including through its programme of Mansion House roundtables and conferences including Sterling 20. This work will help identify and develop market-led solutions that can be taken forward with industry.

3. Strengthen investment links across the UK's nations and regions

Stronger links between investors and growth firms are needed to unlock investment opportunities across the UK.

Private markets activity remains concentrated in London, while high-potential firms are scaling across the UK. A stronger growth capital market should connect institutional investors with companies and investment opportunities across the UK's regions and nations.

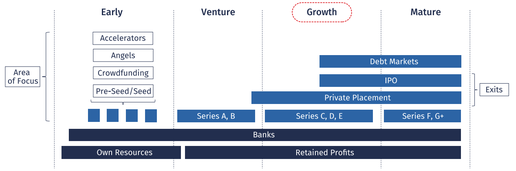
This will require fund managers and venture capital investors to build stronger regional networks, improve their visibility of local opportunities and work more closely with regional institutions, clusters and business-support organisations. Pension providers also need greater awareness of the nature and scale of investment opportunities across the UK.

The objective should be to increase investors' visibility and understanding of regional opportunities. At the same time, stronger routes are needed for high-potential firms to access growth capital wherever they are based.

The funding escalator: access to capital becomes critical at the growth stage

Firms move through a funding escalator from early-stage to growth and maturity. Different forms of capital support different stages, but access to large-scale capital becomes critical at the growth stage.

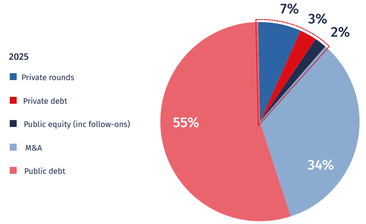
While capital availability has expanded, it is not fully addressing a growth-stage gap. International investors play a significant role, investing 2.2x more per deal than domestic investors. At the same time, domestic institutional participation remains limited, with UK DC pension schemes historically allocating only 2-3% to private markets, constraining the availability of long-term domestic growth capital.



Focusing on the capital that supports scaling

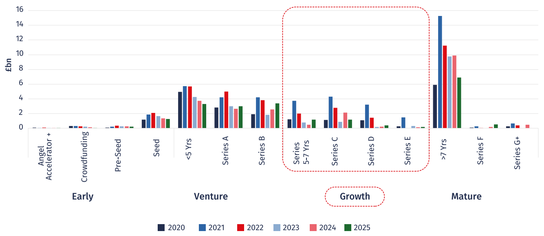
This analysis focuses on the parts of the funding escalator most relevant to growth: private rounds, public equity and private debt where some of the most significant changes have occurred in recent years.

While M&A and public debt account for the largest funding flows, these sources are typically associated with more mature companies.



A break in the growth escalator

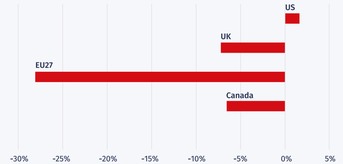
Investment has not kept pace at the growth stage. There is a clear drop-off in later-stage funding, particularly around Series D, indicating a structural gap in the funding escalator.



A wider trend, but with implications for the UK

UK growth-stage investment declined by around 7% over the past decade, despite overall capital growth. The decline in growth-stage investment is also observed in Canada and the EU27, while the US has continued to expand. This suggests a structural challenge, but also highlights the scale of the opportunity.

Growth-stage investment over the past decade (2016 vs 2025)



The missing link: growth-stage funds of scale

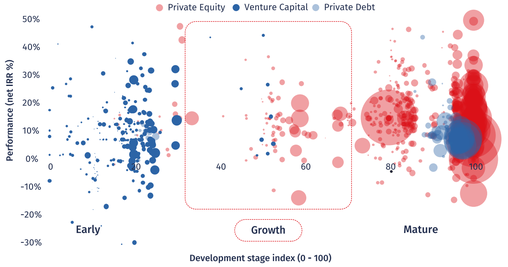
Mapping UK private-market funds suggests that the investable fund universe is not evenly distributed across the funding escalator.

The landscape appears more concentrated around mature-stage strategies, with fewer vehicles focused on the growth stage where the funding gap is most acute.

So what? Mobilising more institutional capital will not be enough on its own.

The UK also needs larger, specialist and institutionally investable growth funds able to lead and follow on in substantial rounds. This makes building a deeper pool of growth funds of scale critical to closing the UK's scale-up challenges.

Private-markets UK fund landscape

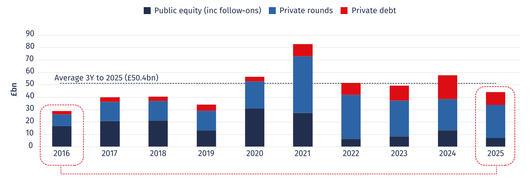


A £44.7bn market-structure gap in the UK growth-stage fund landscape

Previous studies have also identified a persistent shortage of growth capital in the UK. The 2017 Patient Capital Review identified an annual funding gap of around £4bn, particularly affecting firms seeking more than £5m in equity investment. In 2020, the ScaleUp Institute, Innovate Finance and Deloitte estimated an annual growth capital gap of around £15bn. Our analysis adds to this debate by looking beneath these firm-level investment flows at the underlying fund landscape and the capacity available across different stages of the growth escalator. It identifies a £44.7bn structural gap in growth-stage fund capacity compared with the level implied by greater continuity between the early and mature stages. This provides an indication of the underlying structure and distribution of fund capacity supporting firms as they scale.

The funding landscape has undergone a structural shift

Over the past decade, private capital has played an increasingly important role in the UK's funding ecosystem. Investment from private rounds has increased by 165%, outpacing the EU27 and Canada. As a result, total funding across public equity, private rounds and private debt has risen by 53% to £44.2bn, expanding the overall capital available to growing firms.



Private capital is playing a much larger role in the UK's financing landscape, filling the gap left behind by public issuance and raising the capital available for UK companies.

Private investment in the UK grew by around 165% over the past decade, while growth-stage investment declined by 7%

This shows that increasing aggregate capital pools alone is not sufficient: capital must be deployed through vehicles with the scale, mandate and specialist capability to support firms through larger growth rounds.

Private investment growth over the past decade (2016 vs 2025)



Three priorities for delivery

1. Increase pension provider commitment to growth firms

Build on progress under the Mansion House Compact and Accord by ensuring that a greater share of expanding private-market allocations reaches innovative UK growth companies.

2. Create more growth-stage investment vehicles of sufficient scale

Develop vehicles with the scale, structures and specialist expertise needed to channel institutional capital into growth-stage companies.

3. Strengthen investment links across the UK's nations and regions

Increase the visibility of opportunities across the UK and strengthen the links connecting investors with high-potential growth firms.

Methodology

Investment levels are analysed using S&P Global Market Intelligence data, examining investment across the growth escalator, changes over time and international comparisons. The fund-landscape analysis uses fund-level data from BlackRock's Preqin platform, focusing on UK-focused funds defined as funds with more than 50% of their allocation invested in the UK market. A development-stage index combines funds' stated investment strategies and underlying investments to estimate their position from early stage through growth to mature assets. Proxy values are used where performance or fund-size data are unavailable. The growth-stage fund-capacity gap is modelled using PE & VC funds, reflecting their relevance to the financing journey of scaling firms. Fund capacity per development-stage index point is calculated for the early and mature stages and used to derive an interpolated growth-stage density. Applied across the growth-stage range, this implies an illustrative £44.7bn structural gap. Funds concentrated at the 100-mark are excluded as these are predominantly buyout funds. The estimate measures the distribution of fund capacity across the private-capital landscape, rather than unmet financing demand, capital deployment or investment required by UK firms.

City of London Corporation

Led and produced the research, including the analysis of investment flows, scoping of the fund-landscape analysis and modelling of the growth-stage fund-capacity gap.

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