Mansion House Compact Background & FAQs

Contents

Introduction

The Mansion House Compact is an industry-led voluntary expression of intent to take meaningful action to secure better outcomes for UK savers through increased investment in unlisted equities.

“According to a survey commissioned by the Department of Work and Pensions in 2022, 37% of UK pension savers expect their retirement income to be half or less than their current income.”

Source: Planning and Preparing for Later Life - GOV.UK (www.gov.uk)- Chapter 3.3.3

Background

Since the introduction of auto enrolment, participation in workplace defined contribution (DC) pensions schemes have increased in all sectors and regions of the UK from £82 billion of total annual contributions in 2012 to £115 billion in 2021[1]. Yet, According to a 2022 industry survey, only 14% of defined contribution (DC) pension scheme members believe they are on track for a retirement income that maintains their current standard of living in retirement [2]. At a time when increasing pension contributions would be difficult for many, scheme members could benefit from the higher potential returns through investment in unlisted equities as part of a diversified portfolio.

There is a significant opportunity for UK long-term savers benefit from the higher potential returns possible through increased diversification and investment in unlisted equities. Estimates suggest that a 22-year-old new entrant to a default DC scheme with a 5% allocation to unlisted equities, comprising venture capital and growth equity, could achieve a 7-12% increase in total retirement savings . However, it is also acknowledged that the comparison of investment performance between unlisted equities and their listed counterparts is impacted by various factors [3].

As highlighted in the recently published ‘Powerful Pensions: Unlocking DC capital for UK tech growth’ report, collective action from pension industry participants and a supportive public policy framework is required to allow institutional investors, especially DC pension schemes, to effectively invest in unlisted equities and other equity-like private capital [4].

Investing a percentage of DC pension assets into unlisted equities not only offers the opportunity to bolster the retirement incomes of millions of savers in the UK but also supports the next generation of companies in fintech, life sciences, biotech, and clean technology, where more investment is needed. This investment represents a significant opportunity to create growth and in turn support jobs and prosperity across the whole UK economy.

Currently, just 1% of the £4.6t of UK pensions and insurance assets, and just 0.5% of UK DC assets, is invested in unlisted UK companies [5]. This means that UK long-term savers are not able to benefit from the potential returns of growth capital, and UK-based high growth businesses struggle to obtain the funding they need to reach their potential.

The Mansion House Compact attempts to build on the other initiatives already aimed at increasing investment from institutional investors, particularly DC pension schemes, into unlisted equities. This includes: the Financial Conduct Authority (FCA) rules for the creation of Long Term Asset Funds (LTAF), the consultation on Long-term Investments For Technology and Science (LIFTS) initiative and the recommendations the Productive Finance Working Group (PFWG), which called for a greater focus on long-term value for DC pension scheme members. We also note the complementary work being undertaken by the Capital Markets Industry Taskforce (CMIT) and UK Finance’s report into the competitiveness of UK capital markets, which aim to strengthen the UK economy.

Frequently Asked Questions (1/3)

What is the aim of Mansion House Compact? The compact is an expression of intent, on a voluntary basis to take meaningful action to achieve better outcomes for UK long-term savers through facilitating access to the higher net returns that can arise from investment in unlisted equities as part of a diversified portfolio.

Is the Mansion House Compact legally binding? The Compact is a non-legally binding initiative.

What is the ambition of the Compact? The intention of the Compact is to achieve a minimum 5% allocation to unlisted equities through defined contribution (DC) pension funds, and other sources of long-term savings, via the Compact. This signals a bold ambition to unlock over £50bn of capital by 2030, a figure derived from the anticipated value of workplace DC pensions in 2030 [6]. The term "objective" is used to signify the ambition of the Compact and is not a reference to the signatories' investment objectives.

Who signed the Mansion House Compact? The founding signatories are Aviva, Scottish Widows, Legal & General, Aegon, Phoenix, NEST, Mercer, M&G and Smart Pension.

Could the Compact encourage investments assets that are not appropriate for the risk profile of savers? No, the objective to allocate at least 5% of DC default funds to unlisted equities by 2030 is underpinned by a requirement to act in the best interests of savers.

What are asset owners voluntarily committing to? Consistent with the requirement to act in the best interest of their savers, and in line with the supporting actions of Government, signatories commit:

- to increase the proportion of UK pension and other relevant assets, including DC default funds, invested in unlisted equities
- to the objective to allocate at least 5% of DC default funds to unlisted equities by 2030 in a way that is consistent with the requirement to act in the best interests of our savers

Who are the intended beneficiaries of the Compact? Investing a percentage of pension assets into unlisted equities offers the opportunity to bolster the retirement incomes of millions of savers, which will consequentially support the next generation of innovative, high-growth companies in fintech, life sciences, biotech, and clean technology, where more investment is needed.

How do you define unlisted equities? This initiative seeks to support the high-growth, innovative technology companies that often struggle to obtain the scale-up capital they need to reach their potential. Amongst UK companies, Innovate Finance has estimated a £15bn gap in growth capital requirements [7]. For the purpose of the Compact, unlisted equities are defined as equities which are not already listed on a recognised trading venue. We note that equites quoted on AIM and the Aquis Growth Market are not admitted to the Official List of the United Kingdom Listing Authority and are therefore included in the definition of unlisted equities. Hence, these equites quoted on AIM and the Aquis Growth Market may be considered, alongside other unlisted equities, in meeting the allocation to unlisted equities.

Frequently Asked Questions (2/3)

Does the definition of unlisted equities include infrastructure and real estate? No. This Compact relates to investments in unlisted equities consistent with the requirement to act in the best interest of UK savers and consequentially will benefit high-growth UK companies including but not limited to those operating in fintech, life sciences, biotech and clean technology sectors. It is recognised that there is also value in investing in other types of private assets.

What does 'meaningful action' mean in the context of the Compact? It is recognised that organisations signing up to the Compact may be at different stages of their journey towards fulfilling the voluntary commitment at the timing of signing the Compact. Moreover, it is acknowledged that the Compact signals a long-term ambition that requires multiple parties to effect change. As such, there is no specific definition of meaningful action, merely an expectation that organisations have made demonstrable progress within 12 months of becoming a signatory.

What is the timeline for signatories to take 'meaningful action'? Signatories are expected to take meaningful action within 12 months of signing the Compact and stay on track to aim to have allocated at least 5% of DC default funds to unlisted equities in a way that is consistent with the best interests of their savers by 2030.

Will organisations be mandated to invest in unlisted equities? No, the Compact is an industry-led, voluntary initiative.

What types of organisations will be signing the Compact? Founding signatories will be institutional investors (i.e. pension providers, pension schemes, Master Trusts, etc.). Other organisations, such as asset managers, employee benefit consultants, investment advisors or industry associations may choose to endorse the Compact.

Our organisation is not ready to commit to the Compact, are there alternative ways to show our support? Institutional investors can sign the Compact after the founding signatories are announced on 10-Jul-23 provided they have the necessary Executive or Board level approvals. Other organisations, such as asset managers, employee benefit consultants, investment advisors, employers, or industry associations can endorse the Compact and/or publish their support via the http://www.theglobalcity.uk/resources/mansion-house-compact.

Should my organisation seek legal advice before signing the Compact? Organisations are encouraged to seek independent legal advice as part of the approval process.

Could signing the Compact have an impact on Trustees statutory duties? It is acknowledged that when taking investment decisions (including a decision to invest in unlisted equities) the Trustee will need to act in the interests of savers, hence the Compact is a non-legally binding commitment and signing up to the Compact should not compromise Trustees' statutory duties. As with all investment decisions, Trustees must understand and be able to assess the financial benefit to members and consider and/or receive advice on the risk associated with investments in unlisted equities. Organisations are encouraged to seek independent legal advice or alternative counsel before signing the Compact.

Frequently Asked Questions (3/3)

Must organisations invest solely in UK-based unlisted equities? No, there are no geographical restrictions; however, there is a desire from stakeholders to ensure UK long-term savers benefit from the potential returns that could arise from investment in the next generation of UK scale-ups as part of a diversified portfolio.

How will progress against this initiative be tracked? One option currently under consideration is for progress to be reported in the annual State of the Sector report published by the City of London Corporation.

What are the reporting expectations on signatories? The Compact does not supersede any existing guidance, legislation or regulation related to reporting.

Our organisation already has a significant allocation to unlisted equities, do our current allocations count? Yes, but the intention of the Compact is to unlock new capital in order to increase the percentage of total UK pension and other relevant assets invested in unlisted equities.

Why is it necessary to explore a joint investment vehicle? Our report titled Powerful Pensions highlighted a lack of suitable investment vehicles for DC pension schemes to invest in private markets. [8]

Who will be setting up the joint investment vehicle? The joint investment vehicle is an industry-led initiative.

Do signatories have to allocate capital via the joint investment vehicle to sign the compact? No, signatories can invest via a variety of existing or new investment vehicles to fulfil their commitment. For some, including smaller institutional investors, there will be value in a joint vehicle as means for them to further their investment in unlisted equities.

Why is it necessary to take action now to improve the outcomes of UK long-term savers? World Economic Forum revealed in 2017 that the UK retirement savings gap is projected to rise from £6.5trillion to reach £25 trillion [9]. According to a 2022 industry survey, only 14% of defined contribution (DC) pension scheme members believe they are on track for a retirement income that maintains their current standard of living in retirement. [10]

References

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