ASSOCIATION OF CONSULTING ACTUARIES

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LIFTS Secretariat
Business Growth Directorate, Department for Business and Trade

Dear All

Request for Feedback: Long-term Investment for Technology and Science (LIFTS) initiative

I am writing on behalf of the **Association of Consulting Actuaries (ACA)** in response to the above request for feedback.

The ACA is the representative body for UK consulting actuaries, and our members provide advice to thousands of employers and trust-based pension schemes with assets exceeding £1 trillion, including most of the country's largest schemes.

The ACA is therefore not an organisation that would be looking to develop LIFTS funds or investment solutions, and as such we have not responded to the specific questions set out in the request for feedback document. However, we welcome the opportunity to provide feedback as an industry body as detailed below.

We acknowledge that the UK may hold attractive opportunities for investment in the technology and science sectors. That said, as with our comments on previous consultations on related issues[1], we do challenge the implied assumption that UK pension schemes, and DC schemes in particular, will be ideally placed to invest in these opportunities.

UK pension schemes are global investors. When selecting investments, governance bodies need to be confident that their investment arrangements will meet fiduciary duties and ensure that the best outcomes for pension scheme members can be delivered. This means considering the broadest range of asset classes and geographies globally, and taking into account both return potential and risk levels, including liquidity risks, concentration risks, and market risks. If LIFTS meet scheme objectives and prove to be capable of offering attractive risk-adjusted long term returns net of all costs and charges, when weighed up against alternatives, they will certainly have a place.

[1] DWP consultations on Broadening the Investment Opportunities of DC pension schemes; Enabling Investment in Productive Finance, and, Incorporating Performance Fees Within the Charge Cap.

However, we do wish to raise the following concerns:

- The expectation that UK pension schemes, particularly DC schemes, can quickly and easily invest in Technology and Science Venture Capital investments is concerning. It will take time for appropriate vehicles with the required liquidity and operational structures to develop, and for governance bodies to assess their quality and suitability.
- Practical challenges remain around managing the illiquidity associated with private market investments. The extent of work required across administrators, investment platform providers, investment managers, governance bodies, advisers, and other parties to implement a fund is significant. An example of the challenges wrought by less liquid funds was provided during 2020, when many pooled, daily priced property funds suspended trading owing to difficulties in valuing the underlying assets. This was then repeated in September / October 2022 when the gilt market crisis triggered liquidity issues in a number of markets.
- The removal of performance fees from the DC change cap is helpful in removing some cost barriers, but does not mean that fees have gone away. The member will still pay them, in most schemes, and governance bodies will naturally be cautious about adding complex investments with high fee levels. Further, master trusts in particular operate in an environment of fierce competition on price, and we are aware of competitive tenders being won or lost on the strength of 1 or 2 basis points of difference between master trust fee proposals. This will act as a barrier to master trusts welcoming LIFTS with open arms.

To close on a positive note, we do continue to encourage innovative thinking, as outlined in the options proposed in the proposals paper, to ensure improved access to attractive investment opportunities for UK pension schemes. In particular, some of these options may make wider access to private markets less challenging.

Further, the options presented apply to both traditional purchase schemes and to collective money purchase schemes (as set out in the Pension Schemes Act 2021 and also known as Collective Defined Contribution or “CDC” schemes). In our view, enabling investment in these opportunities is, if anything, an even more significant issue for CDC schemes. This is because CDC schemes can hold these assets over longer time horizons than individual DC savers would be able to do. In addition, as CDC schemes are likely to be larger than typical traditional own trust DC schemes, they are likely to be well placed to invest in a wide range of assets, including illiquids.

We would be happy to discuss our response further if that is helpful. In that event, please contact me on 07557 031198 or at tessa.page@mercer.com.

Yours sincerely

Tess Page, Chair, DC Committee
On behalf of the Association of Consulting Actuaries Limited