A MANIFESTO FOR INVESTMENT MANAGEMENT
PLANS TO POWER THE ECONOMY

November 2019
ABOUT THE IA

The Investment Association is the trade body that represents UK investment managers, whose 250 members collectively manage over £7.7 trillion on behalf of clients.

Our purpose is to ensure investment managers are in the best possible position to:

• Build people’s resilience to financial adversity
• Help people achieve their financial aspirations
• Enable people to maintain a decent standard of living as they grow older
• Contribute to economic growth through the efficient allocation of capital

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks & shares ISAs. The UK is the second largest investment management centre in the world and manages 37% of European assets.

Investment Association (IA) members hold in aggregate, one third of the value of UK publicly listed companies. We use this collective voice to influence company behaviour and hold businesses to account. More information can be viewed on our website.
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Three quarters of UK households use the services of an investment manager: the economic engines that transforms family savings into the finance needed to allow a prosperous retirement, or enable life changing decisions such as buying a new home. And in turn these savings are put to work to power the UK’s businesses and infrastructure programmes.

But investment managers are not always a visible part of our daily lives. With no bricks and mortar presence on the high street and with limited direct contact with ordinary savers, many people can overlook the central role that investment management plays in the economy.

This keeps the whole economy moving. It finances the highstreets, roads, businesses and housing which we all rely on, and which power jobs and communities all around the country.

It is an area that the UK already thrives at and indeed is a world leader. The government has great power here – through promoting the UK as an attractive destination for investment management, and by making sure we have a modern regulatory system focusing on the twin aims of consumer protection, and international competitiveness.

There are simple steps that could be taken to allow this to continue, which I hope all those charged with helping Britain to thrive will consider.

Chris Cummings
Chief Executive
Investment managers help three quarters of all UK households to save for the future, mostly through pensions and ISAs. Their savings are then invested with £1.6trn worth into the British economy in 2018 alone.

This means that investment management sits at the heart of the British economy. First by helping millions of people across every constituency to prepare for a prosperous later life, and then by channelling these savings into the growing businesses and the infrastructure programmes that we all rely on.

Investment managers have the responsibility not only to invest savers’ money in the way that will produce the best possible returns, but to act as stewards for the investments that they make.

This expertise means that British investment management is already world leading. The £7.7trn in assets managed by IA members makes the UK the second largest investment management centre in the world and by far the largest in Europe, larger than the next three European centres combined.

This global success contributes significantly to the 115,000 people employed in investment management and to the £4.5billion that the industry contributes in tax each year.
The government has an important role to play in helping the investment management industry – and therefore savers and the wider economy – to thrive. In particular, this means:

• **Promoting the UK’s global influence.** The UK already leads the world in investment management, and promoting and protecting this place could be key to our future prosperity. To do this, the UK will increasingly need to preserve and expand its global reach and influence in regulatory and financial services policy making. This includes making sure that the UK does not leave the EU without first establishing an effective future relationship. Investment managers see it as crucial that the UK does not leave without a negotiated agreement that protects the interests of the UK’s millions of savers and investors. The UK needs a close and productive relationship with the rest of Europe to do this. More detail on p 8-11

• **Maintaining the UK’s position as a world-leader in corporate governance.** The UK’s Corporate Governance regime and listing rules are world leading and internationally respected. This plays an important role in attracting capital to the UK and supporting business to flourish. However, there have been a number of high-profile corporate failures in recent years. These events, in addition to the hangover from the global financial crisis, have contributed to a loss of trust in business, the role of audit and in the Financial Reporting Council. We would like the proposed new audit regulator, ARGA, to be established as soon as possible and to ensure that any reform in this area preserves the UK’s position as standard setter on corporate governance. More detail on p12-14

**THE GOVERNMENT HAS AN IMPORTANT ROLE TO PLAY IN HELPING THE INVESTMENT MANAGEMENT INDUSTRY – AND THEREFORE SAVERS AND THE WIDER ECONOMY – TO THRIVE**
• Supporting sustainability through responsible investment. Our industry is constantly developing new products to meet consumer demand for more sustainable financial products. As part of this, the IA is working to standardise the language the industry uses when talking about sustainability in order to help our clients when making decisions about who they ask to manage their money. We will continue to mainstream the inclusion of environmental and social risk factors, including climate change in our role as stewards of our clients’ money. We will call upon the next government to support market led initiatives to place the UK as a leader on sustainable finance. More detail on p15-16

• Boosting employee ownership. Employee ownership can bring a range of benefits to companies including enhanced employee engagement, can lead to greater productivity. Most employees already have the chance to save into pensions, and many can also invest directly in the companies for which they work. The value and importance of employee ownership schemes could be better explained to employees, ensuring as many people as possible are taking advantage of the opportunities. More detail on p17

• Encouraging pension scheme investment in infrastructure. Today, not all pension savers can invest in illiquid assets such as infrastructure and housing. This means that savers can’t always access a full range of long-term investment opportunities. It also means that the economy can't fully benefit from large pools of capital which could be used to boost productivity. Changing this means focusing more on the ultimate outcome that everyone wants from their pension – investing in assets that could provide stable growth over the long-term. This point will help to build policymakers’ broader understanding of the role and purpose of illiquid assets. More detail on p18-20

• Developing a workforce with the skills and talent we need. Investment management requires a highly skilled workforce. We would like to see a skills regime in the UK which enables us to recruit the best home-grown and international talent. There is also a need to develop the provision of training in newer areas such as cyber security. Included in this will be reform of the apprenticeship levy. The levy’s ambitions to provide good jobs for a wide range of young people are ones that the investment industry shares. But the levy’s current form actively stymies work to broaden our industry’s skills base. Simple reforms could make it easier for investment managers to focus on training. More detail on p21-22

This global success contributes significantly to the 115,000 people employed in investment management
THE UK: A LEADING INVESTMENT MANAGEMENT HUB

THE CONTEXT
British investment management is a world leading industry. The £7.7trn in assets managed by IA members makes the UK a more significant centre for investment management than the next three European centres (France, Germany and Switzerland) combined.

Globally, the UK is second only to the US in terms of size. But the UK remains the leading international investment centre: the US industry is largely domestic-focused.

Overall, investment management is responsible for 6% of the UK’s net service exports, contributing to job creation and tax contributions right across the UK.

The UK’s standing as a global hub for investment management today means that we have the chance to grow this even further in future. We are already known as a centre of expertise for fund management, and in particular for using investors’ stewardship power to hold big businesses to account.

The Investment Association has an ambitious target to double UK assets under management to £15trn in the next decade, as part of a plan to enhance the UK’s competitiveness and reputation as a global hub for investment management.

OF THE £3.1TRN MANAGED FOR OVERSEAS CUSTOMERS TODAY, OVER HALF OF THIS (£1.8TRN) COMES FROM ELSEWHERE IN THE EU

WHAT HAPPENS TODAY?
The UK’s global reach in investment management has been developed as a member of the EU, and this is reflected in the savings that are managed here: of the £3.1trn managed for overseas customers today, over half of this (£1.8trn) comes from elsewhere in the EU.

This means that to boost the UK’s global standing, policymakers need to focus on two things: securing the best possible future relationship with the EU after Brexit, and helping investment managers to seize opportunities around the rest of the world after Brexit.
A POLICY PLAN

- After Brexit, the UK should seek a close economic relationship with the EU which minimises disruption for savers and investors, underpinned by regulatory cooperation and a joint commitment to upholding international standards. To achieve this, the UK’s future relationship with the EU should:
  
  - **Keep the ability to offer investment products and services cross-border.** This is necessary to minimise disruption and instability in capital markets, ensure consumers have access to the most extensive range choice in investment products, and to help keep costs low.
  
  - **Offer certainty over the process underpinning market access.** Firms and savers need confidence about market access arrangements, which can only be provided if the process for determining access is stable and predictable, focuses on the delivery of regulatory outcomes, and is based on close supervisory cooperation.
  
  - **Give the UK a strong voice in the development of European and global regulation.** The UK is the world’s leading international investment management centre. Given this size and scale, it is not appropriate for the UK to be subject to rules which UK policymakers have not had a meaningful role in shaping.

INVESTMENT MANAGEMENT IS RESPONSIBLE FOR 6% OF THE UK’S NET SERVICE EXPORTS, CONTRIBUTING TO JOB CREATION AND TAX CONTRIBUTIONS RIGHT ACROSS THE UK

£7.7trn
IN ASSETS MANAGED BY IA MEMBERS IN THE UK
Forums such as the OECD and IOSCO will continue to have a major impact in the UK's ability to compete at a global level. As the UK reshapes its place in the world, it is more important than ever that our voice is heard in these bodies to ensure that global regulation supports the UK's place as a world leader.

- **Preserve the integrity of the UK’s financial services hub.** This means keeping the UK competitive for all parts of the financial services sector, which drives inward investment, and encourages global firms to locate themselves in the UK.

- **Leaving the EU without a deal** would be the worst possible outcome for UK investment managers, and the savers and businesses that rely on them. The UK’s place as the leading international investment management hub has been built in partnership with our European neighbours, and firms currently rely on the rules, networks and stability that this gives.

A sudden break in this could create immense and widespread disruption, on a scale that simply cannot be prepared for in advance.

The government should still continue to make preparations so that investment management can continue to support the economy in the event of a no deal exit. It is particularly vital that plans already made are not changed – companies and customers are relying on these to mitigate the key cliff-edge risks associated with a no-deal Brexit and a sudden loss of passporting rights. For example, this includes the Temporary Permissions Regime for inbound firms and funds, and the MOUs agreed between UK and EU regulators to ensure delegation of portfolio management can continue from EU funds to UK investment managers. However, further action is still needed to prepare for a no deal, such as resolving a conflict between UK and EU Share Trading Obligations, and temporary equivalence decisions concerning UK clearing houses and settlement facilities.

• After Brexit, government should focus on competitiveness, through a modernised regulatory system with the joint aims of protecting consumers, and keeping the UK as the world’s most attractive location (in business, tax and regulatory terms) for international investment management. This could include ensuring that industry, government and regulators work together to promote business overseas. This promotion could focus on the UK’s expertise in FinTech and sustainable investment, factors which are likely to become increasingly important to consumers right across the world.

• Strengthening the UK’s status as a global investment hub means protecting delegation: the international norm allowing EU27 funds to be managed in the UK. Delegation is a global matter that will not change automatically with Brexit. However it will become more important than ever in ensuring that savings from all around the world can be managed in Britain. Policymakers must therefore ensure that nothing threatens the international norm of delegation after Brexit, and that other governments do not attempt to restrict delegation in a way that would harm the UK’s place as a global hub.

• UK savers must continue to be able to choose from a wide range of funds, including those based overseas. Today, more than 10,000 different funds are offered to UK investors, 7,200 of which are domiciled elsewhere in the EU (though most are managed in the UK). Many of these funds offer specialist opportunities or lower costs, which are only possible thanks to being offered to a Europe-wide pool of consumers.

Access to these funds will be protected immediately after Brexit thanks to the Temporary Permissions Regime. But in the longer term, the UK government should revise Section 272 of the Financial Services and Markets act, to make it more straightforward for UK consumers to access overseas funds.

• Extending the Asset Management Taskforce. The Taskforce has triggered important projects including a working group to look at the future UK fund regime, plans for a UK Economic Forum, Velocity, and an industry-wide review of skills provision: all points which make the UK a global hub. This success means the Taskforce should be extended beyond its current term.

THE INVESTMENT ASSOCIATION HAS AN AMBITIOUS TARGET TO DOUBLE UK ASSETS UNDER MANAGEMENT TO £15TRN IN THE NEXT DECADE
MAINTAINING THE UK’S POSITION AS A WORLD-LEADER IN CORPORATE GOVERNANCE

THE CONTEXT

Investment managers believe that well run companies are more likely to deliver sustainable value over the long term for their clients. The activities undertaken by investment managers to promote the long-term success of companies are collectively known as ‘stewardship’. Stewardship involves looking at a range of issues including strategy and financial performance, corporate governance (including executive pay, diversity of the board and management, succession planning, culture and stakeholder engagement), productivity and capital management, audit and accounting, and environmental and social issues.

Investment Association members have demonstrated the impact they can have when they are not satisfied with governance at the companies in which they invest. For example, this year investment managers have raised concerns at gender diversity on boards and overgenerous pension contributions to chief executives.

Three in ten FTSE100 companies have pledged to cut their pension contributions for executives in response to pressure from shareholders.

Our analysis of data from the 2019 AGM season has also revealed that 28 of the 69 companies (36%) the Investment Association and the Hampton-Alexander Review wrote to in February for only having one or no women on their board, have appointed at least one additional woman to their board.

The UK’s capital markets are reliant on high corporate governance standards and trustworthy financial reporting. Effective corporate governance, financial reporting and audit practices helps boost investor confidence, ensuring that the UK attracts global capital flows and remains a desirable place for companies to list.

These standards allow investors to make well-informed investment decisions, and guide the stewardship activities that investment managers carry out on behalf of their clients. In order to be trusted by investors financial reporting needs to be subject to a high quality audit process and an effective regulator is required to set and enforce high reporting standards.
WHAT HAPPENS TODAY?

The UK is a leader in corporate governance standards but some recent high-profile failures at companies like BHS, Carillion and Patisserie Valerie have begun to undermine the confidence of investors and the wider public in the way companies are run and in the quality of audits.

In 2017, the Investment Association established a Public Register of UK listed companies which have experienced significant shareholder rebellions (any vote of 20% or more against the management’s recommendation is considered significant). The Public Register shines a light on companies which are acting out of line with the expectations of their major shareholders.

THREE IN TEN FTSE100 COMPANIES HAVE PLEDGED TO CUT THEIR PENSION CONTRIBUTIONS FOR EXECUTIVES IN RESPONSE TO PRESSURE FROM SHAREHOLDERS

THE PUBLIC REGISTER SHINES A LIGHT ON COMPANIES WHICH ARE ACTING OUT OF LINE WITH THE EXPECTATIONS OF THEIR MAJOR SHAREHOLDERS
A POLICY PLAN

We welcomed the independent review of the FRC and set out our vision for a new regulator. Government should ensure that ARGA is a strong, independent and trusted regulatory body with a remit of upholding audit standards, financial reporting and corporate governance.

- It is important that ARGA is placed on a statutory footing and accountable to parliament. The sooner that legislation can be passed the greater the confidence investors and other stakeholders will have in the ability of the new body will be strong in using its powers to set and enforce standards.

- The new body should be equipped with a director enforcement regime with the power to sanction all directors who fail to meet adequate standards on corporate reporting.

THIS YEAR INVESTMENT MANAGERS HAVE RAISED CONCERNS AT GENDER DIVERSITY ON BOARDS AND OVERGENEROUS PENSION CONTRIBUTIONS TO CHIEF EXECUTIVES
THE CONTEXT
Investment management plays an important role in supporting and challenging companies to identify and manage risks and opportunities for their businesses which stem from environmental, social or governance issues, including climate change related risks and opportunities.

A fundamental reason for this is that investment time horizons are linked to the long-term saving needs of the end client: savers and the institutional investors who act on their behalf. Many investors, such as pension funds, focus their investment activities on creating sustainable value for savers over long term time horizons of 30 years or more. This means we can play an important role in preserving a planet that today’s young savers can continue to enjoy in their retirement.

Investment managers know that some people want their money invested to improve all sorts of businesses. One way investment managers are doing this is engaging with and challenging investee companies across all industries, on their environmental and social risks including material climate change-related risks and opportunities that could impact on financial returns and the wider economy.

Some people only want their money invested in certain sorts of companies. So investment managers also create funds which favour or exclude certain companies. This is often done for ethical reasons and might mean companies attract more investment if they have a good record on environmental factors.

By holding all kinds of companies to account, we can help them to generate sustainable value for savers.

WHAT HAPPENS TODAY?
The UK has a reputation for stewardship and responsible investment and this is a key component of our industry’s success at home and abroad. We have a long history of engagement with companies and the UK’s regulatory approach (for example the UK Stewardship Code) is well respected internationally.

Under FCA rules, investment managers are expected to disclose the nature of their commitment to the Stewardship Code and, where they do not commit to the Code, its alternative investment strategy. A new EU Directive (‘SRD II’) also requires investment managers to make disclosures on their engagement as investors in EU investee companies. Investment managers are expected to take into account financially material environmental, social and governance risks and opportunities when managing money on savers behalf. This can of course include climate change.
A POLICY PLAN

In order to facilitate better management of climate related risks and opportunities across the UK economy and contribute to sustainability, we would need clear direction from policymakers and a coherent regulatory environment that underpins the government’s ambitions for decarbonisation and climate change adaptation. Such an environment is necessary to empower investment firms to take investment decisions that are geared towards sustainability.

The following considerations are important in the creation of this environment:

• **Regulatory clarity.** We would welcome clarity on what regulatory measures will need to be introduced to facilitate the transition to zero carbon emissions by 2050. This will help the industry put in place plans to identify and mitigate climate related financial risks as they consider the long term prospects of the companies they are invested in.

• **Maintaining flexibility and proportionality.** Regulatory intervention that maintains flexibility and proportionality is necessary to continue to encourage innovation and growth across the many different forms of green finance and investee companies’ business models.

• **Aligning incentives across the investment chain.** A joined up approach across the investment chain (from savers, asset owners, investment managers, through to investee companies) is necessary to ensure that climate change-related, and other ESG considerations, are meaningfully factored into the investment process.

• **Driving up data quality and assurance.** Data availability and quality remains a key obstacle to progressing green finance. Investors need investee companies to provide more comprehensive, meaningful and comparable data. This needs to continue to be improved to facilitate the integration of this information into investment managers’ investment processes.
BOOSTING EMPLOYEE OWNERSHIP

THE CONTEXT

A measure of a successful company is its approach to managing its workforce. A well-engaged, stable and trained workforce is more likely to be more productive and, in turn, to drive long term business success. Our members therefore have a key interest in proposals that seek to boost employee engagement, retention and productivity.

Employee ownership can bring a range of benefits to companies including enhanced employee engagement, with employees having a greater sense of ‘buy-in’ in to the business as a result of the ownership of shares and improved retention rates, all of which can lead to greater productivity. The IA has historically supported companies to consider whether such a structure can deliver benefits for them in the context of their business model and culture. A number of UK companies have adopted employee ownership structures with mixed take up and success.

WHAT HAPPENS TODAY?

Indirect employee ownership involves some or all of a company’s shares being held indirectly for the benefit of all employees, for example in an Employee Ownership Trust.

There are also a number of direct ownership methods for employees already including Share Incentive Plans (‘SIP’), Save As You Earn (‘SAYE’), Company Share Option Plans, Enterprise Management Incentives (‘EMI’), employee share schemes, and transferring shares to an ISA.

A POLICY PLAN

Our aim is to develop and promote effective means of strengthening employee ownership in UK listed companies. To contribute to the policy debate on employee ownership, the IA is sponsoring research to assess the behavioural and economic benefits of employee ownership, assess the effectiveness of existing employee ownership structures in the UK and develop effective new proposals for strengthening employee ownership.
BUILDING BRITAIN’S INFRASTRUCTURE

THE CONTEXT

Infrastructure investment is the backbone of the British economy. It’s the funding for roads and railways that keep passengers – and businesses – moving; the energy we use every day; and the new homes, schools and hospitals we all rely on.

Each year our infrastructure needs large amounts of finance for new building programmes and to maintain existing ones, and in some cases to make up for under-investment in previous years. This is particularly important when it comes to housing: some estimate that we need as many as 340,000 new homes each year¹.

There are two main sources for this investment, government spending and private capital. Both have an important role to play.

Much of this private capital invested in infrastructure ultimately comes from ordinary savers’ pensions and ISAs, which investment managers channel directly into projects and into the companies which build them. This benefits the savers who want to receive stable long-term returns on their investments, and all the users of the infrastructure that this funds.

Around £35bn is channelled into British infrastructure each year by investment managers. This is particularly significant in some crucial parts of the infrastructure landscape, for instance there is £6.7bn of capital markets finance invested in social housing, the largest single source of finance in this area.

¹ https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CPB-7671

AROUND £35BN IS CHANNELLED INTO BRITISH INFRASTRUCTURE EACH YEAR BY INVESTMENT MANAGERS
WHAT HAPPENS TODAY?

This figure could be much higher. Today, not all pension savers can invest in assets such as infrastructure and housing (rather than stocks and shares). This means that savers can’t always access a full range of long-term investment opportunities. It also means that the economy can’t fully benefit from large pools of capital which could be used to boost productivity.

Changing this means focusing more on the ultimate outcome that everyone wants from their pension – investing in assets that could provide stable growth over the long-term. It also means changing some FCA rules that make it harder for some Defined Contribution schemes (also known as DC, and covering the majority of new pension savings) to invest in infrastructure.
A POLICY PLAN

- **Government should encourage a focus on the long term outcomes of infrastructure investment, not short term costs.** We all need to focus on the ultimate outcome that DC pension savers want: a pot of money as large as possible with which to fund retirement. Too often, we focus only on the costs of investing and not the benefits. While these are vital, it also means that investments such as infrastructure are often ignored because investment costs can be higher, even though overall they can offer better returns. Whenever we talk about pensions we should focus on the overall outcomes.

- **Review the pensions charge cap** to allow the flexibility to invest in assets such as infrastructure which may involve higher costs for a greater long-term return. This limits investment into infrastructure and other long-term assets.

- **Change fund structures to allow long-term investment.** The fund structures currently used in some DC pensions don’t currently allow investment in infrastructure, and the FCA should support a new fund structure to allow this. The IA has proposed a Long Term Assets Fund to do this, and we would welcome a firm government commitment to this.

  The Long-Term Asset Fund will help widen access to more illiquid assets, opening up investment opportunities for a range of customers, particularly those saving in Defined Contribution (DC) pension schemes over many decades. As well as supporting savers, it would open up a new source of much-needed patient capital for the British economy.

- **Change the permitted links rules to widen the possible types of investments.** Most DC pension funds find it difficult to invest in infrastructure because of the ‘permitted links’ rules. The FCA plans to change these rules, but their current proposals are complex and unlikely to fully unlock large amounts of capital from pension schemes. This needs to be streamlined.
A SKILLED AND TALENTED WORKFORCE

THE CONTEXT
Investment management is a service industry which has people at its core. Their knowledge, skills and judgement are rightly seen as the most important asset that an investment management firm has.

The profile of a potential new recruit to the investment management industry today will be worlds apart from the skills and experience that today’s CEOs were expected to display when they likely joined the industry a generation ago. To attract talented people to fill the skills gaps that exist in today’s industry we need to attract people with the right skills, provide the right training at entry and create a culture of continuous personal and professional development.

We are committed to developing home-grown talent but in an international industry like ours, there will always be the need for an immigration system which allows UK-based firms to access the best international and specialised skillset. As the UK leaves the European Union we will need a quick and efficient visa system which enables us to attract the talent we need.

WHAT HAPPENS TODAY?
Investment managers have faced no restrictions on their ability to move skilled employees within the EU but freedom to move staff around the world and bring highly skilled people to the UK has been more limited and costly. We expect this situation to change as the UK leaves the EU.

Much of the focus when developing home-grown talent has been placed on the Apprenticeship Levy. Unfortunately, since the Levy was introduced in 2017 the investment management industry has found that – in common with other industries – the current framework does not meet the industry’s skills needs. For every £61 paid by investment managers, the industry has only been able to unlock just £1 to fund its apprentices.
A POLICY PLAN

We would like to see an immigration and skills policy which enables UK-based companies to bring high-value and highly-skilled employees to the UK, to the benefit of the wider economy. We also ask the government to reach agreements with other countries to make it easier for British employees to gain experience overseas.

For the development of home-grown talent, we propose these reforms to the Apprenticeship Levy system:

• A new ‘conversion course’ for investment management to allow people with different types of education, including in degree subjects which are not typically associated with financial services, to enter the industry.

• Introducing a pool in partnership with pan-industry bodies to allow employers to coordinate their approach for similar apprentices and to run courses jointly.

• Allowing employers to improve the skills of current employees by replicating in England and Wales the flexible system which is used in Scotland.

Higher funding for financial services professional apprenticeships at levels six and seven to make it easier to pay for high cost professional qualifications.