THE INVESTMENT ASSOCIATION

Investment Association: input to the Labour National Policy Forum

1. Investment management and the Investment Associaiton

Investment management helps households build their financial resilience by sharing the benefits of successful businesses and infrastructure projects. Investment managers are the link between savers looking to grow their money with the projects and companies which need capital to grow. In turn, this provides funding to the businesses and infrastructure projects which communities rely on for jobs, connectivity and housing as well as public services such as utilities and government buildings.

Most investment is in the form of pensions, which help people to grow their savings throughout their time in work to use in later life, often many decades later. Investing for the long term means we, the investment management industry, focus on sustainable growth. For instance, this means working with the businesses and infrastructure projects that we invest in to ensure that they are part of the solution to our climate emergency, or that they are drawing on a diversity of perspectives and backgrounds to make the best possible decisions.

The Investment Association (the IA) is the body which represents UK investment managers, and acts as a two-way channel between industry, government and regulators. Our members collectively manage £10 trillion, and invest £1.6 trillion directly into the UK economy.

The IA provides outreach and career opportunities to those looking for entry level jobs through an industry led scheme called Investment20/20. Investment20/20 provides training and routes into investment management for people from all backgrounds who may not have previously considered a career in financial services.

The IA also has a FinTech accelerator, Engine, with hubs in London and Birmingham. Engine is boosting the investment management industry's adoption of new technologies and helping investment managers to identify new investment opportunities, work more efficiently and cut costs, ultimately benefiting our customers.

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1. Better Jobs and Better Work

Investment managers are focused on supporting companies to do well in the long term, matching the investments we make to investments which will support peoples' pensions many decades into the future. We know that this long term support can only be delivered by companies which are built to be environmentally sustainable, which are good employers, and which fulfil their customers' needs.

We also know that these qualities must be mirrored in investment managers' own business practices. As employers, we must provide good jobs to people from all backgrounds, and give them a structure in which to develop their career. We know there is a need to spread the jobs that we provide across the UK and are doing so and there is a potential to do more.

A. Stewardship

Investment managers seek to achieve long-term returns through the process of **Stewardship**: that is, supporting and challenging the companies they invest in to consider their long-term future and how they interact with the world around them. For some investment managers, stewardship also involves decisions about which companies and sectors to invest in: investors see businesses which have a positive impact on the world around them as more sustainable in the long term, and so may be more attractive investment opportunities. Ultimately, decisions might be taken to remove investment from companies which do not follow sustainable practices.

The UK's biggest listed companies collectively create millions of jobs, pay billions of pounds in tax and have a presence in every region in the country. Businesses serve many useful purposes. Not only do they provide goods and services that people want and need but by creating those jobs and paying taxes, companies provide for employees' financial wellbeing, contribute to the identity of communities, and help to fund our public services.

But a company's impact can go way beyond those who interact directly with it. The impact of climate change, for example, goes beyond borders and has the potential to change the fabric of our planet and everyone's way of life.

Ultimately this matters to the bottom line, and those who invest in them through their pensions and other savings, too. A company which neglects to understand its impact on people and the planet and doesn't think about the long-term changes to the communities it serves is unlikely to be making sound judgements on the risks and opportunities it will face as a business. This is why investment managers, as major shareholders, engage with companies to understand their strategy and how they are adapting their business model to ensure they continue to thrive and drive returns.

One of the roles that the IA fulfills is to publish the expectations of investment managers on major companies each year. This is done ahead of the period in which most AGMs are held where votes are taken on important issues. This year, priorities include:

- Increasing gender diversity though asking for change in FTSE 350 companies where women represent 35% or less of the Board, and 30% or less of the Executive Committee and their direct reports. These targets will help to ensure that companies are making progress to achieve the FTSE Women Leaders targets of 40% by 2025.
- Seeking change in FTSE 100 companies that have not met the Parker Review target of one director from a minority ethnic group.
- Challenging companies to explain how climate change will impact them and how they are mitigating the risks, monitoring whether companies consider the relevance of climate and transition risks associated with the transition to net zero. With climate change presenting one of

the biggest risks to the long-term sustainability of a company, investors are engaging with companies to support them through the transition to net zero.

Policy Recommendation: Policies which support businesses to create long-term growth are key, and we are glad to see this reflected in the Industrial Strategy. A strong audit regime will be key to this.

B. Investment Managers as Employers

Investment managers know that it is important to reflect the same long-term thinking we expect from the companies we invest in with our own business practices.

The most important element of this work is our role as employers. Members of the Investment Association employ over 120,000 people, most of them highly skilled and with good prospects to learn and progress.

We take our responsibility to find, train and develop the next generation of investment management staff extremely seriously. As an industry which relies on deep knowledge and increasingly in specialist skills such as technology and sustainability, we know that we have an important role to play here.

Investors' role powering the everyday economy also means that we need to draw insight from all parts of the country, all educational backgrounds, and all communities within the UK. This is vital in letting us make decisions about the companies which will serve the whole economy best into the future, and ensuring that the products and services we offer are suitable for all.

The Investment Association works with our member to deliver a workforce for the future through Investment20/20, an industry scheme to recruit and develop the next generation. Through Investment 20/20, the IA has placed over 2,200 young people in industry roles, with a particular emphasis on attracting those who are traditionally under-represented in financial services.

To ensure we have a world class workforce for the future, the industry needs flexible training options which reflect the speed of change in the sector, and we are keen to go further than we can today, particularly in providing **apprenticeships.** Apprenticeship standards are high quality and are used by some investment management firms. However, their rigidity in relation to the duration, availability of training providers (outside of major cities) and cost means they are not the solution for all skill development needs across all employers.

Policy Recommendation: We would like to see the Apprenticeship Levy become more effective at helping us develop skills within investment management. This should involve allowing the Levy to be used more flexibly in areas which are developing too quickly to allow traditional apprenticeship providers to keep up (for instance, green finance), and supporting its use on specific schemes which support social mobility.

C. Sharing in businesses' success

Investment is the tool through which ordinary households can share directly in the companies' success. By owning shares, usually through their pensions or ISAs, people can own shares in companies which they hope will grow, and provide dividends. This is a vital tool in building people's financial resilience and their long-term economic security while at the same time, powering the UK economy.

This is already a widespread success through the Pensions Automatic Enrolment reforms developed under the previous Labour government which mean that over 75% of UK households now use the services of an investment manager in this way.

But there is far more to do. Less than one in ten people receive regulated financial advice today, which means millions are missing out on support which would help them to pick the right products, make complex financial decisions, or give them the confidence to invest when it is appropriate. We think this needs to be changed so that no one misses out on the chance to try to make their money grow.

Policy Recommendation: We would like to see changes that widen the number of people who can receive appropriate and regulated financial advice and guidance. This should involve allowing simplified advice for those with less complex needs, and improved rules on financial guidance, allowing more tailored information to be sent to those who have already taken the first steps in investment.

2. A Green and Digital Future

Sharing in Green Growth

Climate change is one of the greatest systemic risks that we are now facing – our efforts to address climate risk are therefore among the most important actions the investment management industry can take to act in the best interests of our clients.

The IA is proud to support members signing up to the Net Zero Asset Managers initiative. To date, investment managers with more than £7trn of assets under management in the UK have made this net zero commitment.

The investment management industry is naturally inclined towards providing the long-term, patient capital that is necessary for the transition to net zero. We are clear that a truly economy-wide transition to net zero will require a transition within most, if not all, companies in which we currently invest. In turn, it presents opportunities for growth as each of those sectors invests in their transition to net zero.

We want the UK to be a leader in green finance, giving consumers the chance to share in green growth and giving companies the backing they need to invest in ways which improve our environment.

The UK has the chance to become a world leader in green finance, a double opportunity for the country to both attract economic activity to the UK and play an ever more important role in mitigating climate change. This is something that people want. Last year, we saw a 61% increase in money invested in responsible investment funds.

The first step towards supporting our green finance industry means making it straightforward for people to find and choose the green investments which are right for them. Current proposals by the FCA to 'label' sustainable investment funds will not work: many investments which support green growth are due to be cut out of the system, meaning that there will be an artificially limited number of options for people to do good with their money.

The system currently proposed also does not align with other systems used around the world, most notably in the US and EU. This is a missed opportunity for the UK, as it puts barriers in front of international investors looking for a home for their green investment.

Policy Recommendation: Work with the UK Financial Services regulators to develop a regime for labelling and educating investors that is fit for purpose and attracts international green investment to the UK.

The other side of the green growth coin is in helping companies and infrastructure projects to consider how their own work might become more sustainable. This is something that investment managers fully support, as we are looking to grow investments over many decades. We know that this will only be possible if the threat of climate change does not undermine our economy, and within this individual companies will only thrive if they are able to adapt to be fully part of our green future.

Investment managers support this through our Stewardship role described above. However, the Government has a role to play here too. We support The Net Zero Investment Plan which would require Government departments to collectively assess the total investment needed in the areas they focus on, track public and private financial flows across the economy towards the net zero objective, and provide a comprehensive financing plan to close the gaps between required and actual financial flows.

Policy Recommendation: Consider recommendations made to introduce a Net Zero Investment Plan for Government departments to consider the green finance needed in their areas of responsibility. This should be boosted by a clear and stable regulatory and taxation regime in this area, which would lessen the risks involved in these investments for investment managers.

B. Technology that enables participation

FinTech supports people and businesses impacted by the recent historic challenges we are overcoming as a society.

Around 2,500 FinTechs have made the UK their home with a growing number seeing investment management as an opportunity to redefine existing processes and business models, benefiting from access to an international market, global talent and great connectivity. This greatly widens the services that many companies can offer and the people that they can reach.

New technology gives people looking to invest new ways to find products, understand the risks involved and find the opportunities which are right for them. Staying at the forefront of technology is the best way to help widen the number of people able to access appropriate investments. It can also help investment managers to find the best investment opportunities, in particular from smaller or newer companies that have traditionally struggled to access finance. Finally, by making the whole investment process more efficient, it can keep costs down for all involved. It may also be a way to encourage new investors to consider regulated and well established products, rather than opportunities which exist outside current structure.

The IA is very hands on in its approach to innovation with our FinTech accelerator, Engine, providing practical support to smaller FinTechs looking to improve investor outcomes in the future. Engine has hubs in London and Birmingham, reflecting the high level tech of skills that are found across the UK.

FinTech must be an area that government embraces if British consumers are to continue to have access to the world's best products and opportunities into the coming decades. As we move into the era of tokenisation and distributed ledger technology, it's more important than ever that government works quickly to take advantage of the opportunities on offer and involves those with a deep understanding of this fast moving area in decision making.

Policy Recommendation: Establish forums for government to draw on expertise from industry, regulators and consumers to swiftly develop policy allowing UK consumers and companies to benefit from rapid tech change while protecting the interests of consumers.

3. Britain in the World

Leading High International Standards

Britain can be proud to be the natural place that people around the world choose to manage their money. More than £4.6 trillion is managed here in the UK for savers from around the world, and it's this position that keeps British investment management world class: increasing the highly skilled jobs we can offer; giving a huge boost to the capital available on UK companies' doorsteps; and enabling British savers to more easily access the biggest and best possible choice of investment opportunities.

We cannot take this position for granted and in many ways, the pre-eminent position is under threat from other jurisdiction actively trying to attract these high value services. Therefore, the IA is focused on providing the best possible products and services and explaining Britain's potential on the global stage to keep us front of mind as a destination for foreign investment.

But government too has a role to play here. Much of Britain's success in financial services is founded on our high regulatory standards: savers and businesses from around the world have traditionally know that they can rely on British regulators to set rules which protect them, and enforce them in a fair way. Looking forward, this credibility relies on standards which, while remaining high, are also agile and continue to enable innovation and protecting consumers from new threats as they emerge.

This credibility also gives us the potential for leadership, with regulators around the world often looking to the UK as a template to follow when setting standards in new areas, meaning that thinking developed here can spread across the world.

It is vital that we do not forget the global importance of our regulation after Brexit, which is why the investment management industry shared Labour's approach to the Financial Services and Markets Bill to entrench regulatory systems which prioritise good consumer outcomes; stable financial markets; and world-leading financial services which help the everyday economy to grow. This should now be put into practice by letting the UK lead the world with high quality regulation.

Policy Recommendation: **allow the UK to play a leading role in setting high global regulatory standards to make it easy for companies who do the right thing to trade across borders.** An example here is the 'labelling' of sustainable investment funds described above. When labelling rules are developed, the plans of other leading centres for green finance, including the EU and US, should be kept in mind. This will make it more possible for British investment managers which focus on high environment standards to sell their products around the world.