Call for Evidence: National Wealth Fund

Insight Investment response

April 2025

Insight Investment is one of the largest investment managers in the UK, managing £626bn in assets[1], primarily for UK pension funds, as well as insurers, sovereign wealth funds and financial institutions.

The Treasury Committee has opened an inquiry into "how best the National Wealth Fund can achieve its aims and how likely it is to achieve those aims"[2]. We are delighted to offer some insights to help inform the inquiry.

In this brief response, as a precursor, we would like to highlight the transformational potential of the government's decision to enable and encourage defined benefit (DB) pension schemes to release surplus assets, estimated at £160bn.[3] This policy could change how DB schemes, which hold £1.2 trillion of assets, engage with the National Wealth Fund.

If this capital were to be unlocked, it could also help to mobilise private capital to support growth and sustainability. However, in order to unlock this opportunity, the government must take decisive and appropriate policy actions as set out below.

- Incentivise a longer investment time frame for private-sector UK DB schemes.
- Increase the protection offered by the Pension Protection Fund (PPF) to 100% so that trustees feel secure in releasing surplus. Without this, many trustees are unlikely to allow surplus to be released.
- DB schemes must be permitted to release surplus down to a minimum threshold of full funding on what The Pensions Regulator (TPR) calls a 'low-dependency' basis. This is widely deemed to be highly secure and achieves the right balance between seeking security for members whilst setting a sensible ambition for capital release to support the UK's investment and growth agenda. Setting the threshold too high for surplus release is likely to lead to insignificant amount of capital being released, and the government will need to look elsewhere for private capital instead.
- An appropriate fund vehicle suitable for pension funds will be necessary to access this investor base.

Alongside these actions, we believe it is important to structure the National Wealth Fund to ensure it can attract the maximum amount of capital. On that front we propose the following.

- Mobilisation of private capital should be added as an objective to the National Wealth Fund's strategic objectives.
- Greater clarity on the role of the National Wealth Fund in its potential as a risk capital provider and partner for the private sector.
- Identification of additional priority areas and sub-sectors.
- A collaborative approach with policymakers, business leaders and policy working groups to invest in growth and sustainability and crowding in private sector capital.

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[1] As at 31 December 2024. Assets under management (AUM) are represented by the value of cash securities and other economic exposure managed for clients. Figures shown in GBP. Reflects the AUM of Insight, the corporate brand for certain companies operated by Insight Investment Management Limited (IIML). Insight includes, among others, Insight Investment Management (Global) Limited (IIMG), Insight Investment International Limited (IIIL), Insight Investment Management (Europe) Limited (IIMEL) and Insight North America LLC (INA), each of which provides asset management services.

[2] Call for Evidence: National Wealth Fund, UK Parliament.

[3] Pension reforms to go further to unlock billions to drive growth and boost working peoples' pension pots, 28 January 2025, UK government.

We welcome ongoing dialogue on the National Wealth Fund and are happy to convene meetings to discuss these points further. We also await the publication of the new National Wealth Fund Strategic Plan that will set out next steps in more detail and provide further clarity on the direction of travel.

The points below relate to specific questions within the inquiry, as set out below.

Q. How successful is the National Wealth Fund likely to be in (1) mobilising private investment and (2) stimulating economic growth?

Q. How can the National Wealth Fund ensure that it is crowding in rather than crowding out private sector investment?

With regard to mobilising and “crowding in” private-sector investment, we believe there are practical steps that would enable and encourage the £1.2 trillion of DB pension scheme capital to support the National Wealth Fund. We offer two considerations below.

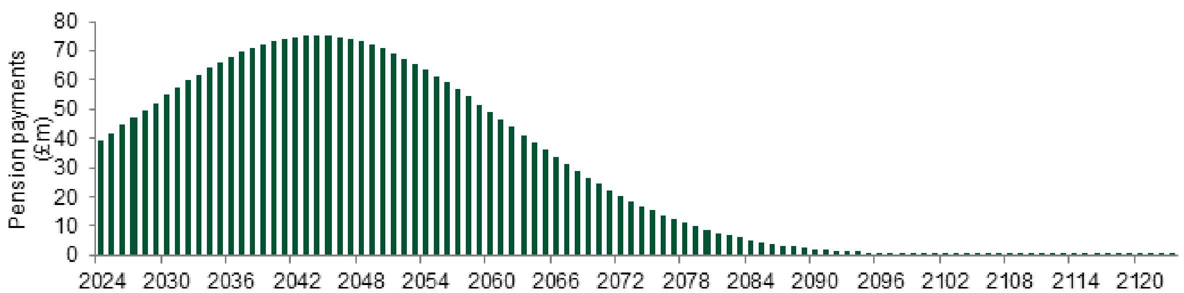
A longer investment timeframe for DB schemes is essential

DB pension schemes are responsible for pensions that extend far into the future, as illustrated in Figure 1, where we show the projected pension payments for a typical UK private-sector DB scheme.

However, many DB schemes are targeting an insurance buy-out, which would mean transferring all their assets and liabilities to a life insurer. Consequently, their investment timeframe is significantly shortened to a few years or less, focusing on achieving an asset allocation in liquid assets acceptable to an insurer.

For DB schemes to invest more in less liquid assets such as those targeted by the National Wealth Fund, these schemes will need to be enabled and encouraged to invest over the longer term. This would allow them greater flexibility to consider such investments, not just for their surplus assets, but potentially across their overall capital pool.

A typical UK DB pension scheme will be paying out pensions for decades into the future[4]



The government's policy regarding surplus release could achieve this – it could lead to many DB schemes opting to run on for the longer term and thereby increase their interest in such assets.

In our view, this will depend very much on the details of the government’s surplus release policy. We believe that:

- **DB schemes must be permitted to release surplus down to a minimum threshold of full funding on a low-dependency basis** – this is widely deemed to be highly secure and will also incentivise many sponsors to release surplus and run on their DB schemes, given the potential financial boost available; and

[4] Source: Insight, based on a typical £1bn pension scheme with 15 years duration. For illustrative purposes only.

- **the protection offered by the Pension Protection Fund (PPF) should be increased to 100%** – this is necessary to reassure DB scheme trustees and their members that pensions will be secure even in an extreme scenario, in which assets such as those targeted by the National Wealth Fund might struggle.

If the government's surplus release policy incorporates these two recommendations, we anticipate that DB schemes' interest in the assets targeted by the National Wealth Fund will grow substantially in the near term.

They would also help to ensure ongoing investment in the relevant assets even if a DB scheme fails and its employer becomes insolvent – in this case, the DB scheme's assets and liabilities would be taken on by the PPF, which could continue to invest for the long term.

A fund structure with clarity on the higher risk budget will enable leveraging of private sector capital and simplify investment

The majority of DB schemes are unlikely to co-invest directly in the asset types targeted by the National Wealth Fund; therefore, a fund vehicle would be essential for many to invest. This approach offers a straightforward means of diversifying exposure across multiple projects and, by encouraging additional investment, it would effectively leverage the contributions made by the National Wealth Fund. Such structures are prevalent and widely understood, enabling investment from a broader set of stakeholders beyond DB schemes.

In terms of governance, while ultimately the National Wealth Fund must be "owned" by the government to provide long-term certainty and accountability on the delivery of strategic priorities, it should be operationally independent and make independent decisions based on the investment case of each project. Operational independence will build credibility and send the right signals to investors. We await more details on how the Treasury will work with the Department for Energy Security and Net Zero and Department for Business and Trade to deliver its mission.

The National Wealth Fund could seek to implement a 'blended finance' approach, wherein the Fund would undertake higher-risk elements of an investment, thereby encouraging participation from investors interested in lower-risk opportunities. For instance, the Fund could structure an investment vehicle with protection against 'first loss', which may align more closely with the risk appetites of pension schemes and other investors.

A fund structure with a focus on providing first-loss capital, guarantees and such higher-risk elements with the appropriate expertise and risk governance could go a long way in mobilising private capital and achieving the £3 for £1 goal.

Q. The Chancellor has given the National Wealth Fund two strategic objectives: (i) supporting regional and local economic growth and (ii) tackling climate change. How will these two objectives work together?

The National Wealth Fund could act as a valuable vehicle that provides a long-term, strategic investment approach that combines the growth and sustainability missions. The strategic objectives are coherent and align clearly to the investment principle of supporting the government's growth and clean energy missions. The transition to a clean energy system, both globally and in the UK, is a necessity to limit the harmful effects of the global temperature rise.

We welcome the government's Statement of Strategic Priorities that sets out the two objectives as supporting regional and local economic growth and tackling climate change. While we agree with the centrality of these two objectives, we also recommend that the mobilisation of private capital is added as a third overarching objective for the National Wealth Fund. Its importance is mentioned in the Statement of Strategic Priorities but adding it as an explicit strategic objective would underscore its centrality to the National Wealth Fund's mission.

To ensure clear implementation of the investment principles and best deliver against these objectives, it will be important to work with policymakers and business leaders and also leverage the work of key UK policy and research working groups that are involved in understanding the investment, growth and climate transition needs in the UK. These include the following.

- The **IIGCC UK Policy Working Group**, which is focused on the real economy and sectoral decarbonisation roadmaps. One obvious starting point of focus is evaluating the Clean Power 2030 Action Plan on its alignment to the UK's sectoral decarbonisation pathway and to fill the gaps, including policy recommendations and financing mechanisms, to unlock investment barriers in the sector.
- In addition, the **Transition Finance Council** which follows through the recommendations of the Transition Finance Market Review is focused on both policy suggestions and mechanisms to scale transition finance in the UK by providing specific recommendations on areas of investment across sectors key to the UK's transition.

Q. The Chancellor's strategic direction sets clean energy, advanced manufacturing, digital technologies, and transport as priority sectors for the National Wealth Fund. Are these the right priority sectors? Should others have been included?

The priority sectors as set out in the Statement of Strategic Priorities are sensible and reflect a combination of the new government's wider priorities and the earlier mandate of the old UK Infrastructure Bank, in line with the strategic objectives in the 2023 Act.

- To ensure the National Wealth Fund helps catalyse sustainable growth, we recommend the National Wealth Fund identifies areas and sub-sectors where targeted public investment would catalyse more private finance. The National Wealth Fund's focus should be aligned with the growth-driving sectors identified in the upcoming Industrial Strategy and build on areas where the UK already has some competitive advantage in e.g. manufacturing low-carbon technologies.
- It could also consider prioritising sectors which make up the bulk of emissions in the economy and support wider competitiveness and growth objectives. While infrastructure has also been highlighted as a key area of investment, it would be good to ensure that this encompasses the broader built environment beyond infrastructure including buildings, utilities and transport networks, and climate adaptation projects, and the construction activity for this supporting infrastructure. Food and agriculture is a key contributor to emissions and to the UK's low-carbon transition, so would be important to include as a priority sector as well.
- We are also supportive of the government's intention to retain flexibility where financing gaps emerge to respond to changing market dynamics and seize any opportunity for sustainable growth.

For the National Wealth Fund, a coordinated and aligned approach that maps priority areas based on their contribution to growth, and sustainability, are key. In this regard, accessing and considering outputs from policy research groups as highlighted above could be a useful exercise.

Q. How attractive is the National Wealth Fund likely to be as a partner for the private sector? Is the private sector sufficiently aware of the opportunities available within the National Wealth Fund?

Q. How can the National Wealth Fund ensure that it is crowding in rather than crowding out private sector investment?

The National Wealth Fund has the potential to be a very strong partner to the private sector. While extending and enhancing the prior UK Investment Bank's mandate to growth and sustainability, critically, we need clarity on how the National Wealth Fund is taking over the mantle from the UK Investment Bank. Following helpful information in the Statement of Strategic Priorities, there is a need for even more clarity on the additionality of the National Wealth Fund and how it will work together with Great British Energy. In our view, the National Wealth Fund should focus on addressing areas with limited risk appetite, and Great British Energy should not duplicate the National Wealth Fund's sector focus. It would also be helpful to establish how it would interact with the wider development finance landscape. More information on how these will interact will help ensure that the National Wealth Fund is operationalised effectively.

In our view, the National Wealth Fund should set a clearly defined risk budget and return requirements, and have a governance structure that serves to fill the gap in the blended-finance space as a true risk-capital provider. Core to this approach is the principle that the National Wealth Fund should focus on the additionality of the underlying projects and scalability to leverage this with private capital providers.

The other point which may be worth touching on is the risk mandate, expertise, and culture along with loss capitalisation at a policy investor like the National Wealth Fund. One of the learnings on this from the development bank space is the link between the risk mandate, expertise and culture, along with loss capitalisation and the overall risk appetite for providing catalytic capital. Clarity and transparency around the risk mandate and expertise, along with the loss-capitalisation framework, are necessary to ensure credibility and alignment with the goal of mobilising and crowding in private investment. The National Wealth Fund has the opportunity to address this at inception and operational setup, to ensure this is credible and aligned with its strategic objectives – including mobilising private capital.

By carefully constructing its risk mandate, collaborating with policy research groups, identifying sectors and activities with high impact for growth and the low-carbon transition, and providing risk capital for these, can ensure that the National Wealth Fund is a very attractive partner.

Q. By what criteria should the National Wealth Fund be judged?

The Government has set a target for the National Wealth Fund to attract £3 of private investment for every £1 of public money it invests. While it is definitely appropriate to include targets as a criteria to assess delivery on the mandate and a minimum requirement of £3 of private investment for every £1 of public money it invests makes sense, it is important that the multiplier is linked to the specific sector and activity being financed, size of the policy gap and catalytic capital needed, comparative financing available in the private sector, and estimated returns with the first-loss support and private-sector financing. It is also appropriate that it is judged against the additionality of the impact on growth and sustainability from the projects and activities it invests in.

The National Wealth Fund can set sector- and even activity-specific goals that it aims to achieve through its investments. With an overlay of additionality screening to ensure they are focused on areas that are underserved by the private sector, it can achieve its dual goals of reducing policy barriers and mobilising private capital in its role as a risk-capital provider.

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