Mansion House Reforms: A boost for private markets?

In his Mansion House address on 11 July 2023, Chancellor Jeremy Hunt announced a series of reforms aimed at making the UK a more attractive destination for private investment, as **Metz Vara** and **James Gow** now report.

The reforms include increasing the limit on the amount pension funds can invest in private equity and early-stage (venture capital) businesses from 3% to 5%, potentially unlocking £50bn in private investment by 2030.

The reforms have been welcomed by the alternatives industry, which has long argued that the UK needs to do more to attract private capital. The alternatives market is essential for funding growth and innovation in the economy, and these reforms should go a long way to improving the scope and size of our industry.

The UK's pension market is the largest in Europe, worth over £2.5 trillion. Nine of the UKs largest defined contribution pension providers representing £400 billion in assets were behind the proposal to increase the private asset investment limit to 5%.

The move is far from a handout for alternatives, widely considered a less volatile asset class to stocks or bonds, while providing higher return potential over the long-term. And the long-term nature of alternatives is significant here. Pension funds have long-term liabilities and therefore need more exposure to long-term investments – something alternatives assets provide.

These changes could unlock up to £50 billion of investment into what the government described as 'high-growth companies' by 2030, "if all UK defined contribution pension schemes follow suit."

"British pensioners should benefit from British business success." Chancellor Jeremy Hunt said in his Mansion House address. "By unlocking investment, we will boost retirement income by over £1,000 a year for a typical earner, over the course of their career. This also means more investment in our most promising companies, driving growth in the UK."

Other key reforms included the creation of a new “intermittent trading venue” for private companies. This will provide private companies with a way to access capital markets on a more flexible basis, without having to go through the full process of a public listing. The trading venue will be operated by the London Stock Exchange and could help to reduce the cost and time taken for private companies to raise capital.

What are the challenges for alternatives?

Critics have questioned whether the alternatives market is big enough to take the additional capital that these reforms are designed to bring. Will this change instead create a bubble? Our view is no. More capital will encourage more entrepreneurs to launch more businesses, which can only be a good thing for the UK economy, let alone companies within the alternatives space. These reforms are designed to address productivity issues in the UK, which have been well documented for being low for a number of years. The objective here is long-term growth for the UK economy, which is something we fully support.

There are still challenges ahead such as the complexity of the current regulatory environment. The alternatives sector is heavily regulated, which can make it difficult for businesses and investors to navigate. The Mansion House Reforms should help to reduce the regulatory burden here.

Overall, these reforms feel like a significant step forward for the UK alternatives sector. Structural issues in terms of how alternative fund managers access capital have been omnipresent in the sector for some time. These reforms aim to rectify that.

The Chancellor’s announcement reflects the growing maturity of the alternatives industry, and we’re excited and wholly supportive of it. Hopefully this will be the first in a series of reforms to be announced in this space, which we expect to boost the growth of the alternatives industry as a whole.

If you have any questions regarding the Mansion House reforms, please contact James Gow directly