Policy update: The UK Investment Management Strategy II

What has happened?

The Treasury (HMT) this week (6th December) published its second Investment Management Strategy (IMS2) which outlines the Government's long-term approach to enhancing the UK's position as a centre for asset management.[1]

How does this relate to responsible investment?

The IMS2 was announced during last month's budget statement to ensure the asset management industry 'continues to thrive and deliver the best possible outcomes for investors and the UK economy.' This version is intended to build on the 2013 strategy and targets a range of policy areas including social and impact investment, green finance and Islamic finance. The following is a brief summary of the section most relevant to the sustainable and responsible investment sector.

Innovative Investment Strategies

Chapter 7 of IMS2 looks at supply and demand for innovative investment strategies in the UK. We welcome the Government's acknowledgement that 'Rising investor demand for productive and responsible investment, and an interest from policy makers to ensure financial products are accessible to all, presents an opportunity to bring new investment strategies to the mainstream.'

HMT states it 'recognises the significant opportunities' inherent in social investment, green finance and Islamic finance and will seek to reduce barriers to uptake through 'early consideration of the tax and regulatory treatment of these investment strategies.'

Patient capital and long-term finance

IMS2 highlights that some start-ups can struggle to attract the necessary investment to grow to scale. It notes its review into the supply of patient capital, chaired by Sir Damon Buffini, and an 'action plan' announced at the budget which will unlock £20 billion of investment to finance innovative firms. The industry panel's full response to the Patient Capital Review is available here.

Social and impact investment

The paper states the UK has created one of the most advanced social investment markets in the world, noting successes such as the creation of Big Society Capital and the recent landmark figure of £1bn of social investment as of September 2017.

The Government highlights the Social Investment Tax Relief (SITR) as a key route for individuals to support causes they care about through their savings and investment choices. It notes that the size of the relief was recently expanded and that it expects to see its use grow over the next few years.

It also notes the £150bn impact investment market and the potential for it to grow further, adding that there is 'an opportunity for the UK asset management industry to capitalise on its well-

[1] HM Treasury, *The UK Investment Management Strategy II,* available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/665668/The_Investment_Management_Strategy_II.pdf

developed social investment offering to affirm the UK's global leadership in the field of impact investing.

In flagging its commitment to encouraging 'more traditional capital flows into large-scale investments with a social purpose', HMT endorses the recent FCA and Law Commission reviews into legal and regulatory barriers faced by retail and institutional investors looking to do social investment, which found no such barrier. Conspicuous by its absence is the point that barriers were discovered and were behavioural in nature. This resulted in the Law Commission recommending that fiduciary duties should be clarified in legislation and that the FCA publish clear guidance on how firms should consider financially material and non-financial factors in the investment process.[2] The paper goes on to state the Government will formally respond to the paper later in December (our expectation is for this to take in the very near future).

The Government also promotes a recent report by its social investment advisory group, chaired by Elizabeth Corley, which references UKSIF and Good Money Week.[3] It states it will give 'full consideration' to the report and will work with regulators 'to build capability and increase transparency in this form of investing to further encourage growth of the impact investing market'.

Green finance

The Government notes the UK's status as a centre for green finance, highlighting the launch of a dedicated green bond segment across the London Stock Exchange's fixed income markets. It notes an estimated $93tn of investment will be needed over the next 15 years in infrastructure to finance the transition to a low-carbon economy. It argues that 'green finance presents an enormous commercial opportunity for the UK asset management sector.'

The Government highlights the fact it has commissioned the British Standards Institute to develop the world's first green finance management standards, and further engagement to ensure the UK remains at the forefront of the sector. This work includes the setting up of the Green Finance Taskforce to consolidate the UK's position and to scale-up domestic green finance.

Islamic Finance

IMS2 notes the growth of the global Islamic Finance industry, which is projected to grow to $3.5tn from $2tn by 2021. Islamic funds remain underdeveloped, and the Government highlights the significant opportunities for fund managers given the increasing demand for Sharia-compliant products across Muslim-majority countries.

Finally, HMT states the UK is a leading centre for Islamic finance and was the first country outside of Muslim-majority countries to issue a Sukuk (Islamic-equivalent bond) in 2014. It notes its commitment to ensuring a level playing field for Sharia-compliant financial products and its intention to reissue the UK sovereign Sukuk when it matures in July 2019.

8th December 2017.

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[2] The Law Commission, *Pension Funds and Social Investment,* available at https://www.lawcom.gov.uk/project/pension-funds-and-social-investment/

[3] DCMS, *Growing a Culture of Social Impact Investing in the UK,* available at https://www.gov.uk/government/publications/growing-a-culture-of-social-impact-investing-in-the-uk