Imran Razvi

Paving the way to better investment

Francesca Fabrizi sits down with The Investment Association senior policy adviser, pensions and institutional market, Imran Razvi, to find out how the association is improving pension funds' access to private markets and more

Please tell us about The Investment Association.

The Investment Association (IA) is the trade association for UK-based investment managers. Our 250 members collectively manage over £9.1 trillion of assets on behalf of their clients in the UK and around the world, including £2.2 trillion on behalf of UK pension scheme members. Ensuring that our industry remains globally competitive is a key priority for the IA so our members can best serve their clients. We also want to support the UK government to deliver a culture of inclusive investment to encourage people to invest and improve their financial resilience.

What is your role at the IA and which areas you are currently focusing on?

I joined the IA in 2014 to lead the work on pensions policy. In this role, I work with our members, policymakers and regulators to create a policy and regulatory environment for pensions investment that helps our member firms deliver high quality investment products and services to pension schemes. Recently, I have been focused on our engagement with the government's Pensions Investment Review and setting out our wider views on pension reform.

You spoke at last year's Pensions Age Northern Conference on the expansion of the role of private assets in UK DC schemes – how has changing policy helped here?

An important dimension of the investment agenda for DC schemes is improving access to private markets, which are forming a growing share of economic activity. The opportunity set domestically and internationally for diversified investment strategies is growing and DC schemes should benefit from this. It can also contribute to the government's growth agenda by driving more capital into UK high-growth companies and infrastructure projects.

Policy has become more conducive to facilitating this access in recent years. Initiatives such as the Long-Term Asset Fund (LTAF) and the work of the Productive Finance Working Group, both of which the IA has been closely involved in, laid a strong foundation in providing the access for DC pension funds to benefit from private markets. The Mansion House Compact has built on this, but more work is needed.

Firstly, the market must change its focus from competing solely on price to competing on value. The proposed DC Value for Money (VFM) framework could help here, although certain modifications to the proposals are needed to ensure the intended effect of driving value for money is achieved. We also recommended that elements of advice around scheme selection and asset allocation may require regulation to drive a focus on value.

Enabling investment in private assets also requires a greater focus on some of the infrastructure issues that are complicating allocations, notably daily dealing mechanisms, which inhibit access to private markets. We recommended that government create a clearer set of policy and regulatory expectations for the UK fund distribution infrastructure to give DC schemes the confidence and ability to allocate to private assets within the broader daily dealing environment.

These changes are critical for increasing private market investment in DC as they will give trustees and pension providers the confidence to make such allocations.

How are you seeing the LTAF market develop in terms of products, and how do you expect this to continue going forward?

The FCA authorised the first LTAF in March 2023, with further launches bringing the number to 17. We expect this to increase significantly over the coming years, as investors increase their investment allocation to private assets.

Current LTAFs are more of a multi-asset vintage, providing a one-stop-shop approach to private markets, but over time we increasingly expect to see more LTAFs focused on a single asset class or specialised investment strategy emerge.

Another interesting development may be bespoke LTAFs being built for specific master trusts as those schemes consolidate. This would give schemes the ability to appoint different managers for different sleeves within their LTAF.

How would you like to see pension policy/regulation develop further in order for the UK pension space to flourish?
There has been a lot of supportive policy that should enable a more positive environment for pensions investment. Equally, there are several initiatives in train, notably the DC VFM framework which, if regulators get right, will further support DC schemes to build well-diversified portfolios. In that regard, regulators have done a great deal to help in recent years.

But regulation can only go so far. It is now up to the market to adapt and compete on the value of pensions – not just price. This is true of both investment and other services provided by pension schemes. Placing long-term outcomes over price when defining value requires cultural change. This is vital to the UK pension system fulfilling its full potential.

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What are your thoughts on the government's recent Pensions Investment Review?
We welcomed the Department for Work and Pension's call for evidence and consultation on proposed reforms to build further scale in the workplace DC pensions market. This is an opportunity to harness efficiencies and enhance the way in which investment decision-making takes place, to the benefit of scheme members and the UK economy, particularly where private market allocations are better facilitated.

Our response included a strong focus on 'sophisticated scale', in which governance, accountability and appropriate investment expertise are the starting point for delivering the best investment outcomes. These investment frameworks do not come about automatically as schemes get bigger – they require deliberate actions to be put in place.

While supportive of sophisticated scale, we also cautioned against minimum thresholds in legislation for assets under management or limiting the number of default funds. These moves could incentivise 'asset gathering' over innovation and negatively impact smaller, innovative providers seeking to enter, or remain in, the market.

Advisers could also play a greater part in the culture shift from cost to value. Given the challenges that pension providers face in competing on factors other than cost, advisers and employers can help shift the market dynamic. If done carefully, the regulation of advice, both over scheme selection and investment, could allow regulators to help steer the market away from a narrow focus on cost to a broader focus on value.

Which other areas of pensions need more focus going forward?
The government needs to push ahead with the second phase of the pensions review and address the bigger questions around the shape of the pension system.

Foremost is the issue of contribution rates. Broadly speaking they will need to rise for millions of people if the desired living standards are to be achieved. We have called on the government to identify appropriate contribution rates for different segments of the working population and consider how best to achieve these levels.

We want also to see pension savers enjoy a better retirement income experience. We have recommended that a series of new measures should be put in place both to support pension savers in making retirement income decisions, and to enable a new generation of retirement products that are specifically geared towards the provision of retirement income. This will benefit pension savers and the overall availability of investment capital.

Written by Francesca Fabrizi