The LIFTS Initiative: Unlocking Institutional Investment for the UK's Most Innovative Science and Technology Companies

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By 2030, it is expected that UK Defined Contribution **(DC)** pension schemes will hold c. £1 trillion in assets. Until recently, UK DC pension schemes have traditionally limited their investment remit to listed equities and bonds (due to ease of management, lower fees and aligning with a more conservative investment strategy) and have not deployed capital into private markets. As a consequence, a vacuum in funding from DC pension schemes has been created in the UK venture capital and growth equity landscape, particularly for high capital-intensive science and technology **(S&T)** companies, pioneering developments and pre-revenue companies. The current economic climate has further exacerbated that vacuum.

In March of this year, the "Long-term Investment for Technology and Science" **(LIFTS)** consultation was announced by the Department for Business and Trade and HM Treasury. This was followed by a Summary of Responses published by HM Government in May, stating that it would, among other things, proceed with a Call for Proposals from the industry for the establishment of new funds or investment structures to support the growth and ambitions of the UK's most innovative S&T companies. Such Call for Proposals was separately published by the British Business Bank **(BBB)**, which had a deadline of 28 July 2023, and those proposals are currently being evaluated by the BBB.

The aim of the LIFTS initiative is to crowd-in and unlock institutional investment, particularly from DC pension schemes, into the venture capital and growth equity ecosystem. The wider goal is to scale up the UK's most innovative S&T companies (which traditionally need significant rounds of capital to fund the research and development necessary to expand) and in turn boost economic growth in the UK.

HM Government (via the BBB) is committing an *initial* amount of *up* to £250 million to new approaches or investment vehicles that achieve the objectives of the LIFTS initiative and deliver genuine Value for Money (VfM). In terms of eligibility, an applicant for funding will need to demonstrate long-term support from UK institutional investors (either actual or viable "in-principle" commitments) and support from at least one UK DC pension scheme. The BBB's Call for Proposals invites use of the following options for delivery of the initiative: (1) investment collaboration and information exchange; (2) *pari passu* co-investment; (3) co-investment with capped returns for government; and (4) a management fee offset mechanism.

An update on the LIFTS initiative is due as part of HM Government's Autumn Statement 2023 (to be delivered at the end of November), at which point an announcement is expected as to submitted proposals that are deemed successful under the BBB's Call for Proposals.

It remains to be seen what level of interest will be generated by the LIFTS initiative. However, our view is that, if there is a positive take-up from key industry players, this initiative could provide a

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significant and much-needed boost to the UK's S&T companies and start to narrow the gap between the UK and US markets, the latter being generally regarded as a more entrepreneurial culture with access to a deeper pool of specialist investors and dedicated S&T venture capital funds geared up to evaluate and manage the risk profiles and investment time horizons typical for such investments. The BBB's role in acknowledging and sharing investment risk should provide valuable comfort to key institutionals in the UK who are uniquely positioned to provide the necessary long-term and often intensive capital commitment.

The LIFTS initiative is part of a broader strategic objective to stimulate the UK's venture capital ecosystem and enhance the UK's market positioning as a viable growth capital solution for highly rated, scaling UK emerging companies. In July, the government announced a series of "Mansion House reforms" to boost private markets, committing at least 5% of the UK's largest DC pension providers' default funds to unlisted equities by 2030. More recently, in late October, twenty of the UK's leading venture capital and growth equity fund managers signed a new "Venture Capital Investment Compact" launched by the British Private Equity & Venture Capital Association (BVCA), with support from HM Government. This shows a tangible commitment from the industry to develop a long-term and constructive working relationship with UK pension investors.

Read HM Government's summary of responses received in respect of its initial consultation here.

Read the BBB's Call for Proposals here.

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