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New wave of support for UK sovereign wealth fund

Bradley Gerrard

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A new wave of support has emerged for the creation of a UK sovereign wealth fund, which proponents believe would pump much-needed money into large infrastructure projects.

Countries with sovereign wealth funds tend to run fiscal surpluses, something the UK government is a long way from achieving. But in spite of the UK's budget deficit, which currently runs at 3.2 per cent of gross domestic product, the idea has previously won support from Boris Johnson, the mayor of London.

Last year Mr Johnson called for a citizens' wealth fund that he claimed could build the homes the country needs and finance the roads, railways and power stations "the country is crying out for".

Although the mayor's office says it is unable to add to Mr Johnson's comments on the matter, many senior figures in the fund management industry think the idea is worth revisiting.

Asked if a UK sovereign wealth fund would be a sensible idea, Euan Munro, chief executive of Aviva Investors, the fund management arm of Aviva, the FTSE 100-listed insurer, says: "Yes."

"It would go some way to correcting how short-term thinking is leading to under-investment in critical infrastructure," he says.

Data from the National Audit Office in March showed infrastructure spending fell from £57bn in 2009/10 to £42bn in 2013/14.

Mr Munro believes that with the decline of defined benefit pensions there would be fewer large investors with the necessary long-term investment outlook to support infrastructure spending.

"Done well, this will increase the long-term productive capacity of the economy, and would benefit everyone," he says.

The UK Treasury did not respond to requests for comment on whether it is considering the creation of a sovereign wealth fund, but Helena Morrissey, chief executive of Newton Investment Management, thinks it should.

Her company recently hosted a sovereign wealth fund conference as part of a partnership with Cambridge university. She says a sovereign wealth fund or something of that ilk could be of great benefit to future generations.

"One obvious negative [of the current high levels of debt] is the impact on growth," says Ms Morrissey. She believes the creation of a sovereign wealth fund could go some way to correcting this.

"There is potential for a sovereign wealth fund to invest in long-term infrastructure projects, which in turn would support growth," she adds.

Rob Thomas, director of research at The Wriglesworth Consultancy and a former Bank of England economist, agrees.

In a report published by his consultancy last year, Mr Thomas called for the proceeds of quantitative easing to be used to establish a sovereign wealth fund.

“Rather than buying gilts, you could take the same money and put it into real physical investments,” he wrote. “You get a better return and it makes the economy stronger for the long term.”

Nick Tolchard, chairman of the global sovereign group at Invesco, the fund house, says the UK has benefited from being a popular destination for foreign capital, which is often used to help fund infrastructure. However, he added that a fund in the UK that could partner with the government “would be very attractive”.

He suggests a potential source of revenue for the fund could be the tax receipts from the fledgling shale gas industry.

“I remember the 1970s and the North Sea oil boom, and the money was just spent,” says Mr Tolchard. He believes a UK sovereign wealth fund should follow the model of the Norwegian government, which “did not blow the cash it had raised from its oil reserves”.

“The shale gas industry could give the UK an opportunity to do things better this time and put those funds aside for future generations,” he says.

Norway has the largest sovereign wealth fund in the world, at roughly \$912bn. It was established in 1967 and originated primarily from surpluses in the country’s national insurance scheme.

Others believe a sovereign wealth fund could be created by repurposing existing pots of money.

Michael Johnson, research fellow at the Centre for Policy Studies, the think-tank, has previously called for the National Employment Savings Trust, the workplace pension set up by the government under the 2008 Pensions Act, to be turned into a sovereign wealth fund.

He believes the Local Government Pension Scheme could also be reformed into a scalable investment vehicle.

“It is probably the most realistic route. The LGPS has £210bn-£220bn in assets littered across 101 predominantly sub-scale, inefficient funds. It ought to be one fund,” he says.

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Sovereign wealth funds are deemed to be the preserve of countries with huge cash surpluses, but a case has been made for the UK to join the club.

Chancellor George Osborne made it an explicit target of his Budget earlier this month for the UK to run a budget surplus by 2019-20 and is moving to implement legislation to make sure the country’s finances are in the black in “normal times”.

Investment experts have suggested a UK sovereign wealth fund could be used to invest in infrastructure — an asset class that needs large amounts of capital to be successful, but which can be a boon for economic growth.

With a budget surplus planned and infrastructure spending falling in recent years, according to National Audit Office figures, now could be the time to lay the groundwork for a government-linked fund whose function could be to support big projects, such as HS2, the high-speed rail service.

It has also been mooted that disparate local government pensions schemes could be pooled to create an initial core of investment cash for such a fund.

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