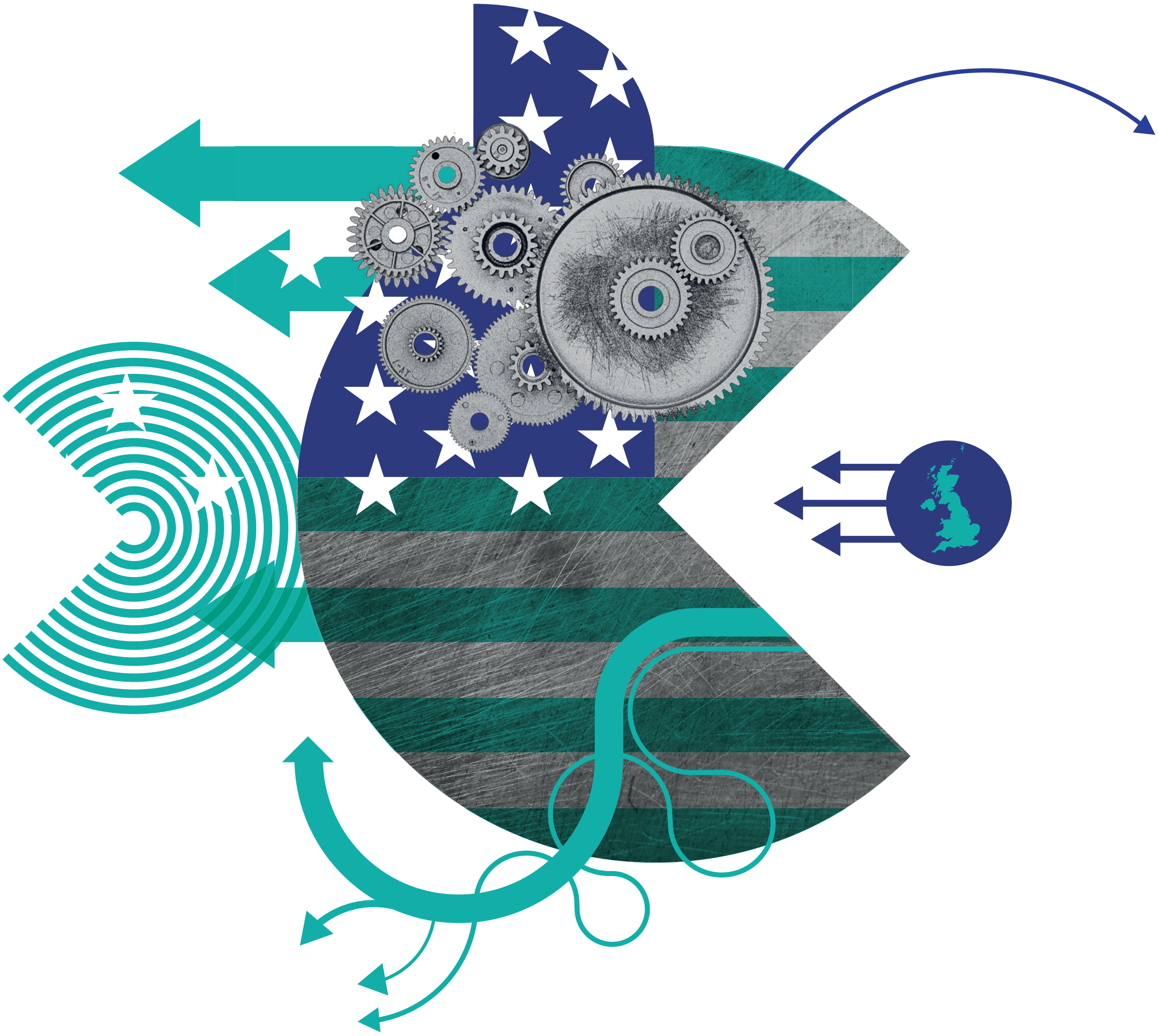
Redesign
Report #1

New Capital Consensus
A better investment system for all

Diversifying Investment Flows

How to rebalance US-dominated capital flows



Diversifying Investment Flows
A New Capital Consensus Workshop Synthesis
July 2026

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Introduction

Over the last two decades, there has been a significant shift by both UK DC pension funds and UK insurance unit-linked funds to base their investment on global stock indices instead of UK stock indices. The system dynamics driving this shift have become entrenched and detrimental to UK economic growth. Pensioners' capital is also unable to support and improve the places that they will retire in, leading to a lower quality of life.

A UK pension fund invested in the MSCI Global Index will hold more money in Apple Inc. (5.5%) than it does in the entire UK economy combined (3.8%). NCC believes that the shift has been driven by a short-term consideration of diversification and a lack of understanding of the drivers of share price performance, especially for large US technology stocks.

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Rather than being an issue of globalising UK pension capital, concentration of our pensioners' assets in 6 or 7 US tech stocks creates a systemic risk in and of itself, exacerbated by the SpaceX IPO. Indexation can allow billions of pounds to flow into high-profile firms before the market has had a chance to determine pricing, and where a single executive has 84% of the voting rights.

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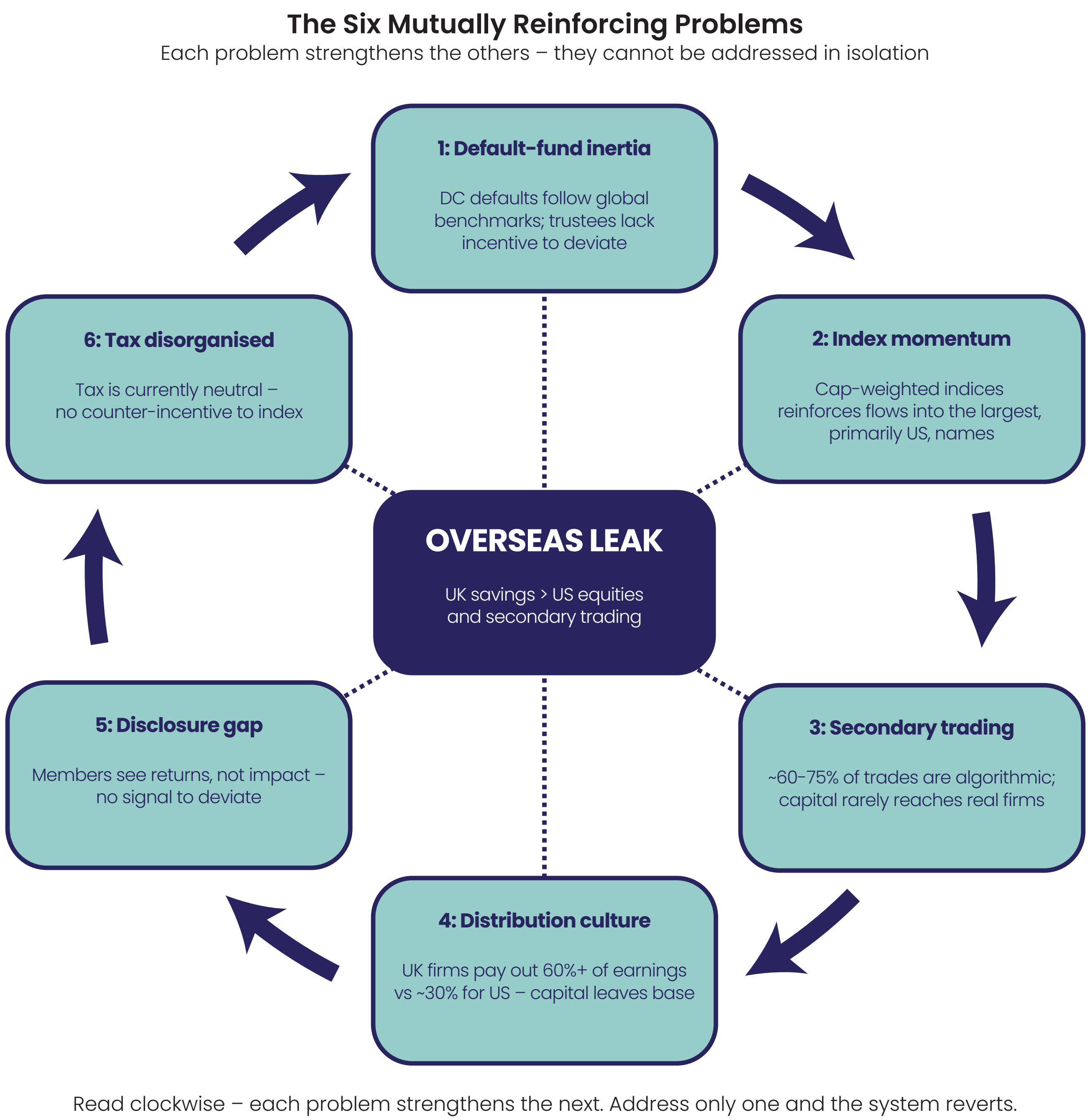
This herding phenomenon also enables US technology companies to damage UK growth on a second front, through high valuations that enable US firms to buy up our own innovative fledgling businesses. Recent examples include AI start-up DeepMind, fintech firm Credit Kudos, and Veeqo, an e-commerce software firm being bought up by Google, Apple and Amazon respectively.

The purpose of this paper is to report on work done in two cross-industry workshops analysing overseas capital flows and developing a series of diagnoses and solutions for the UK investment system to promote its redesign. A redesign that must be undertaken to restore the investment system as a transmission vehicle investing savers' capital into long-term, productive investment, into things that improve the places they live and retire in, whilst producing high-quality returns.

This is the first of three analyses of major systemic flaws within the UK investment system. Future analysis will report on why investment risk has been transferred from institutions to individuals (and led to the decline of risk pooling in the UK) and why secondary investment is failing to drive primary investment (Broken Link). These three problems reflect entrenched industry dynamics to which there is no single silver bullet solution. Changing system dynamics will require a series of policy actions that can collectively counteract existing system dynamics, which in turn can dislodge and replace entrenched industry behaviors.

Figure 1: Six Mutually Reinforcing Problems



Six mutually reinforcing problems route UK savings into overseas securities and into the secondary market for those securities. Each problem holds the others in place; addressing only one allows the system to revert. The report works through each problem and the levers tested against it.

Executive summary

UK long-term savings in DC and unit-linked funds have, by default, been routed into overseas equities and bonds and into the secondary market for those securities. A typical DC default fund holds around 80% of its equity allocation outside the UK, weighted heavily to US large-caps. A growing share of overall market activity is algorithmic — estimated at **60–75%** of equity-market volume in major markets (*LSE Research, 2025; Quantified Strategies, 2026*) — and very little of that activity reaches real-economy firms. The UK saver, the UK economy and, given the scale of the leakage, even emerging-market capital needs are not well served by this default.

NCC's Overseas Capital Flow workstream ran two workshops to interrogate the system and to test what would change it. The findings, on which the body builds:

1. **The starting question is misposed.** The right question is not "how much UK?" but "what do we mean by investment?" The system conflates *primary* investment — capital reaching firms — with *secondary* trading. Once that distinction is restored, the present allocation looks markedly less defensible. NCC estimates that primary investment represents less than 5% of total capital.
2. **Six mutually reinforcing problems hold UK savings overseas**: default-fund inertia, index momentum, secondary-trade dominance, distribution culture, the disclosure gap, and a tax regime that is currently neutral and unfocused. Reform must address them in concert.
3. **The 12.5% global-equity benchmark return deserves scrutiny.** A material portion of the realised long-run return on global equities reflects weight-of-money and passive momentum, not fundamentals (*CFA Institute, 2026*; *Bank of England, 2014*; *Dimson, Marsh & Staunton, Global Investment Returns Yearbook*). Comparing UK DC schemes to that benchmark is comparing them to a moving target inflated by their own peer behaviour.
4. **Maple Eight and large foundations are the right comparators.** Both run effectively unconstrained portfolios with long horizons, and both deliver "lean meat" returns — the underlying return of the assets rather than a benchmark inflated by index-flow. Family-office data is too varied to be useful at this level of policy analysis.
5. **A working definition of "UK productive":** a firm whose capital expenditure (capex plus R&D) exceeds its shareholder distributions (dividends plus buybacks). NCC's forthcoming FTSE 100 / S&P 500 distribution-vs-retention analysis (using LSEG data) will populate this definition with hard numbers.
6. **Tax is currently neutral and disorganised; the reform task is to organise it to out-incentivise indexing.** The report proposes a directional, revenue-neutral pair: a DC exit tax on funds that have not held ≥30% UK productive across the holding period, paired with a dividend tax relief for funds that hold ≥10% in UK regional productive. This is the report's primary policy recommendation; views in the workshop on whether tax can be made to work were mixed, and that range is recorded in §9.

Why this matters now

The political weather is open. A new Prime Minister will have a fresh perspective on how to achieve growth. A Risk Commission — with a taxonomy, working groups, terms of reference and a legislative-levers table — has been costed at c. £3m and is a ready-made institutional vehicle. The arguments and the appetite of the government for growth are converging.

Workshop context

NCC's Overseas Capital Flow stream is one of three flagship workshops within the New Capital Consensus programme, alongside Risk Transfer and Broken Link. Each is designed to produce a tight technical synthesis, with a public-facing piece to follow once all three are complete.

Workshop 1 — 5 December 2025, 09:30–11:30, Zoom. Facilitated by Andrew Curry (School of International Futures). Workshop 1 was deliberately problem-setting: participants tested an agreed problem statement and six candidate drivers, and stress-tested a three-step hypothesis about why UK capital is failing to reach UK securities.

Workshop 2 — 1 April 2026, Zoom. Facilitated by Andrew Curry. Twelve participants: The workshop used Tony Hodgson's Three Horizons framework on a pre-populated Miro board, supported by a parallel systems map. Where this report records a position taken in the room it is recorded as a position advanced in the workshop, without attribution to individuals or to their institutions. Where the report sets out NCC's own view — most directly in §9 on tax — that is labelled as NCC's view, not as group consensus.

1. What do we mean by investment? — primary versus secondary

The most useful frame for the rest of this report is the distinction between **primary** and **secondary** investment. Primary investment is the moment a real-economy firm receives capital it can put to work — an IPO, a rights issue, a corporate bond issuance, a private placement, a venture or growth round. Secondary trading is the transfer of an existing claim from one investor to another; the firm receives nothing. Secondary trading performs an essential function — price discovery — but it is a small fraction of what the system needs to do.

Recent estimates put algorithmic trading at **60–75%** of equity-market volume in the US, Europe and major Asian markets (*LSE Research, 2025; Quantified Strategies, 2026*). A meaningful share of the rest is institutional rebalancing. Very little of what moves through major equity markets is primary issuance reaching a firm's balance sheet. **Most of what the market calls investment is trading; they are not the same activity.**

Secondary Investment for Price Discovery

NCC's view is that 20% secondary investment is the correct market mix. Price discovery is real and necessary, but the function does not require 80%+ of trading volume to deliver it. NCC's working view is that around 20% of activity is adequate for the price-discovery function, and that activity above that level is unnecessary churn.

Two consequences follow. First, the relationship between pension flows and real-economy capital formation is much weaker than it appears in policy debate that conflates "investment" with "market activity". Second, redesigning the system to push more capital toward primary issuance — and toward firms that actually deploy capital — is a different exercise from redesigning index weights.

The 20% threshold is not arbitrary. **Andrew Haldane**'s 2011 BoE/BIS speech *The Race to Zero* (Bank of England / Bank for International Settlements) records that, as recently as 2005, high-frequency trading accounted for **less than a fifth** of US equity-market turnover by volume, whereas today it accounts for between two-thirds and three-quarters. At the same time, primary-market price discovery and capital formation were functioning. The policy debate around HFT regulation invoked the ~20% figure as the level above which trading volume is superfluous to the primary-market function it is supposed to support. NCC offers ~20% as a working hypothesis on the same empirical basis: it is the share of activity for which there is an evidential record that price discovery is intact.

2. The six mutually reinforcing problems

Six problems, taken together, route UK savings overseas and into secondary markets. They are mutually reinforcing: address one in isolation and the others reassert. The front-page rich picture maps them as a closed reinforcement loop. They are restated here with one paragraph of evidence each.

1. **Default-fund inertia.** DC default funds, which now carry the majority of UK retirement saving, are constructed around globally-diversified benchmarks. Trustees who deviate from the benchmark face **reputational** risk; trustees who follow it face none. The default is not chosen by savers; it is chosen by the architecture.

2. **Index momentum.** Cap-weighted indices funnel new flows into the largest names. Because the largest names are increasingly US-listed and US-domiciled, default flows reinforce US weight. The dynamic is self-fulfilling: **weight begets flow begets weight**. Passive investment further reinforces this dynamic.

3. **Secondary-trade dominance.** 60–75% of equity-market volume is algorithmic. The capital deployed in those trades does not reach the firm whose security is being traded; only the price moves. The dominant market activity, is not investment in the economic sense the policy debate uses.

4. **Distribution culture.** UK-listed firms pay out a much larger share of earnings than US firms. Aggregate distribution ratios in the FTSE 100 are materially higher than in the S&P 500: **if UK firms distribute around 60% of earnings and US firms around 30%, the case for UK underperformance on retained-and-invested grounds writes itself.** The distribution pattern is itself a brake on UK productive growth.

5. **Disclosure gap.** Members and trustees see returns; they do not see the productive impact of those returns. A scheme that delivers 7% from US tech weighting and a scheme that delivers 7% from UK growth equity look identical on the platform. Disclosure does not yet reward the economically beneficial behaviour.

6. **Tax is disorganised — currently neutral, not a counter-incentive.** The tax regime is silent on whether savings end up in UK productive assets. A fund that holds 0% UK productive is treated identically to a fund that holds 50% UK productive. Tax is therefore not itself a driver of overseas leakage; it is the *absence* of a counter-incentive. The reform task framed in §9 is to organise the tax architecture so that it out-incentivises indexing, rather than letting indexing run unopposed.

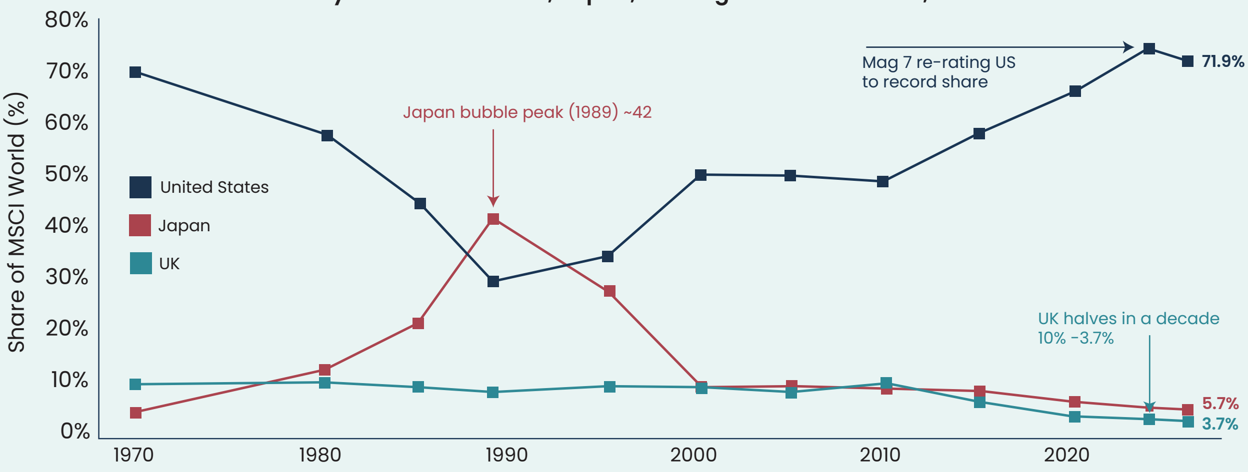
Forward pointer — the retail demand-side dynamic

The six problems above are supply- and architecture-side. A parallel demand-side dynamic compounds them: UK savers continue to apply a **bank-account logic** to long-term saving, with *cash ISAs still outselling stocks-and-shares ISAs*, a paternalistic distribution culture that pushes lower-risk default funds, and an industry incentive for retail fund managers to perform **against one another rather than for their investors** (Pitt-Watson et al., FCA Consumer Panel / BDO, 2014). The full feedback loop — cash ISA preference, paternalism legacy, and lost capital-growth opportunity for the saver — will be considered in the parallel **NCC Retail workstream**.

Reframe

The right framing is *not* "domesticate UK money". It is **stop giving the US all our money**. Once UK pensions stop overweighting US equities, more capital is available for the UK and for emerging markets that today receive almost no UK pension flow at all. The reform is a re-routing of capital from one overweighted destination to many under-weighted ones — not a parochial pitch.

The story of MSCI World since 1970 is best told through three numbers: the US weight, the Japan weight, and the UK weight. Everything else is footnoted to those three.



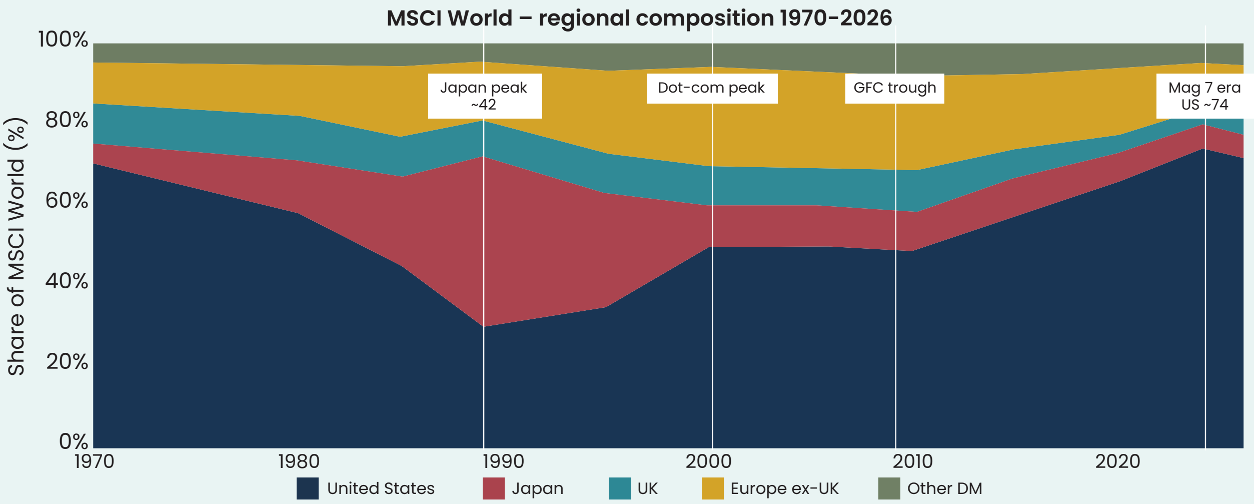
Sources: MSCI factsheets; NBIM 2012; MSCI Equal-Weighted Index Update Dec 2010.

MSCI World — three regions, three stories: the US down and back, Japan up and back down, the UK in slow decline

The US was approximately 70% of MSCI World in 1970. By 1989 that share had collapsed to around 30%, as Japan inflated to its asset-bubble peak. The US then climbed steadily — 35% by 1995, 50% by 2005, and a near-monotonic re-rating from the post-GFC trough — to reach 74% by end-2024 and 71.9% by April 2026. The index now carries more concentrated US exposure than at any point in its 56-year history.

Japan briefly carried the index, then receded. At the 1989 peak, Japanese equities reached ~42% of MSCI World on a market-cap basis. Japan today sits at 5.7%. The Nikkei did not regain its 1989 nominal peak until early 2024.

The UK has halved in a decade. UK weight in MSCI World was ~10% in 2010–11, 4.24% by mid-2022, and 3.68% as of April 2026. Three things drove the slide: the relative outperformance of US technology, the structural overweight to financials and energy in the UK market, and a Brexit discount that has not closed. The figure that should give UK pension policymakers pause is that the UK now represents 3.7% of the benchmark its own savers are passively invested in — a structurally smaller share than the US owes Apple alone. The Mag7 alone account, as of the end of June 2026, for 22.4% of the index. The UK share will reduce further over time with c. $4trillion of US mega-IPO's.



Sources: MSCI factsheets (various); NBIM/Norwegian MoF 2012; MSCI Equal-Weighted Index Update Dec 2010: archived MSCI World factsheets. Pre-2010 figures interpolated

3. The 12.5% question — how credible is the global-equity benchmark return?

Recent UK debate on DC performance has anchored itself on a comparison: UK DC default funds return c. 7.9% p.a. against a global-equity benchmark of c. 12.5% over ten years. The gap is real, but the comparison gives the benchmark too much credibility. The question that should sit alongside the 7.9% figure is: **how much of the 12.5% is fundamental performance and how much is weight of money?**

Long-run equity research, including **Dimson, Marsh and Staunton**'s annual *Global Investment Returns Yearbook* and **Dimson et al.** (2024) *Long-Run Asset Returns*, places the equity risk premium realised over the last fifteen years materially above its longer-run historical estimate. A meaningful component of that excess is the structural inflow into passive global equities — i.e. the same DC and global-passive flows whose returns are now being benchmarked against the index. The CFA Institute's 2026 *Stocks for the Long Run Revisited* brief, and the Bank of England's 2014 work on procyclicality in institutional flows, make the same conceptual point: realised long-run returns and the *theoretical* long-run return of the underlying assets are not the same number.

DC default funds are therefore being benchmarked against an index whose outperformance owes, in part, to the inflows from DC default funds. This does not invalidate the 7.9% figure as a description of what UK DC schemes actually returned; it does call into question whether 12.5% is the right target. The more useful question is **what real economic return UK savers should expect from a portfolio built to deliver an income for life** — a question that takes the benchmarking exercise out of the index frame entirely.

The macro-flow question for Treasury — and NCC's fallback, not modelling guidance. A clear question: **how much of the 12.5% global-equity benchmark reflects fundamentals, and how much reflects weight of money and passive momentum?** The honest expectation is that **we will not get an answer** — and that is precisely the point. Financial policy is not yet taking the macro flow seriously, and without an answer the policy conversation will continue to anchor on a contested benchmark.

4. What "productive" means — a working definition

Any policy that aims to direct capital toward UK productive investment needs a workable definition of "productive". The definition used in this report is simple: **a productive firm invests more than it distributes**. Concretely, capital expenditure (capex plus R&D plus capitalised investment) exceeds shareholder distributions (dividends plus buybacks), either in a given year or — more usefully — over a rolling multi-year window.

The definition is calculable from public filings, requires no new taxonomy, and has an honest implication: by it, a meaningful share of the FTSE 100 may not currently count as productive. NCC's forthcoming analysis of FTSE 100 and S&P 500 firms, drawing on LSEG data, will test exactly that. The questions the analysis is built to answer:

1. What share of FTSE 100 free cash flow is being distributed (dividends plus buybacks) versus retained and invested (capex plus R&D)?
2. How does that share compare with the S&P 500, by sector?
3. How would the FTSE 100 "productive cohort" look if a 50/50 invest-vs-distribute threshold were applied? A 60/40 threshold?
4. How stable is that cohort over a five-year rolling window?

The purpose of these questions is not to set a single target ratio but to **give the policy debate a measurable proxy** for productive behaviour that can be tested against the data. The definition feeds directly into both the tax recommendation in §9 and the Broken Link workshop's analysis of secondary issuance.

5. Comparators — what unconstrained portfolios actually do

Two comparator sets are useful when thinking about what a more productively-tilted UK pension portfolio could look like. Family-office data, by contrast, is too varied to be useful at this level of policy analysis and is set aside here.

5.1 The Maple Eight

Canada's eight large public pension funds — CPP Investment Board, OTPP, OMERS, CDPQ, BCI, AIMCo, PSP and HOOPP — collectively manage well over CAD 2 trillion. Recent disclosures (*Moody's, Managing the future of risk for Canadian public pensions, May 2026*) show CPP at CAD 714.4 bn net assets with a 8.3% ten-year net return, and PSP at CAD 299.7 bn with an 8.8% ten-year net return. Three features matter for this report:

1. **Long horizon, internal capability.** Each fund manages a meaningful share of assets in-house, avoiding the rent-taking intermediation chains that erode long-term net returns.
2. **Productive allocation by default.** Material allocations to direct infrastructure, real estate, private equity and private credit — primary investment — rather than to secondary equity markets.
3. **Governance distance from short-term political risk.** A structural advantage that the UK can imitate, but which depends on political will.

5.2 Foundations and endowments

Large foundations and endowments operate under effectively unconstrained investment freedom — they are not bound by short-horizon solvency measurement or daily liquidity requirements. Work from **Elroy Dimson**, co-founder and Chairman of the Centre for Endowment Asset Management at Cambridge Judge, and from **True North Institute**'s *Analysis of Large US University Endowment Outperformance* (2024), shows that the top quartile of endowments outperforms passive blended benchmarks materially over a ten-year horizon — driven by access to illiquid asset classes and by tolerance for long-horizon mispricing.

The foundations comparator is the **"lean meat"** portfolio: the return the assets generate over a generation, rather than the **"meat plus fat"** return of a benchmark inflated by index-flow momentum. The point is not that a DC default can or should be a Yale endowment, but that the *existence* of these portfolios is evidence that an unconstrained, long-horizon, primary-investment-tilted allocation is investable and earns its own returns.

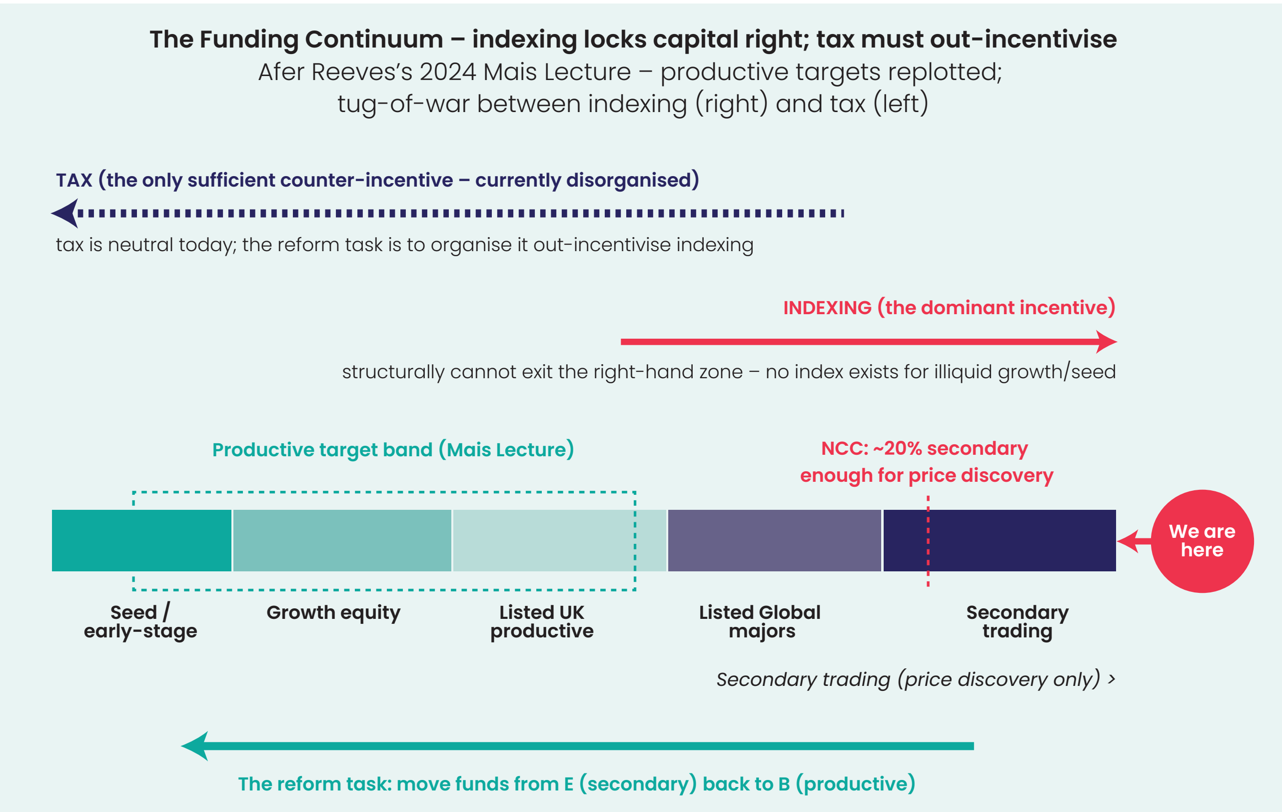
6. The funding continuum — where the money actually goes

(Figure 2) After Reeves's 2024 Mais Lecture. The continuum runs from seed and early-stage primary investment (left) to secondary trading (right). The green band marks the productive target zone; the dashed amber line marks NCC's working view that around 20% of activity is sufficient for price discovery. The red "we are here" marker shows where UK pension capital actually sits today.

The figure replots the funding continuum that Rachel Reeves used in her 2024 Mais Lecture, with two additions. First, the productive target band is drawn explicitly so the gap between target and reality is visible. Second, the **red "we are here" marker** sits where UK pension capital actually sits: in listed global majors and in the secondary market for those majors, well to the right of the Mais target zone.

What the figure makes legible is that the issue is not allocation between asset classes in the conventional sense. It is allocation along the **primary-to-secondary axis**. A pension fund that moves from 5% UK growth equity to 10% UK growth equity has moved a short distance along the continuum; a pension fund that moves from secondary index-tracking to direct co-investment in UK growth has moved a long way.

Figure 2: The Funding Continuum



Sources: Reeves Mais Lecture 2024; Haldane (BoE/BIS, 2011 – HFT <20% of US equity volume in 2005, today 66-75%; LSE Research / Quantified Strategies (2025-26)

7. Reframe — stopping the leak, not domesticating the saver

(Figure 3) Capital-journey chart: the path from saver pot through default fund, mandate, index, fund manager and broker to issuer. The diagram traces where productive UK allocation is lost at each stage of the chain. The objective of the reforms in §8–10 is to close the leak at the point of mandate and default-fund design, where it is most addressable.

The framing of this report is deliberate: **not** "domesticate UK money", **but** "stop giving the US all our money". The reason matters.

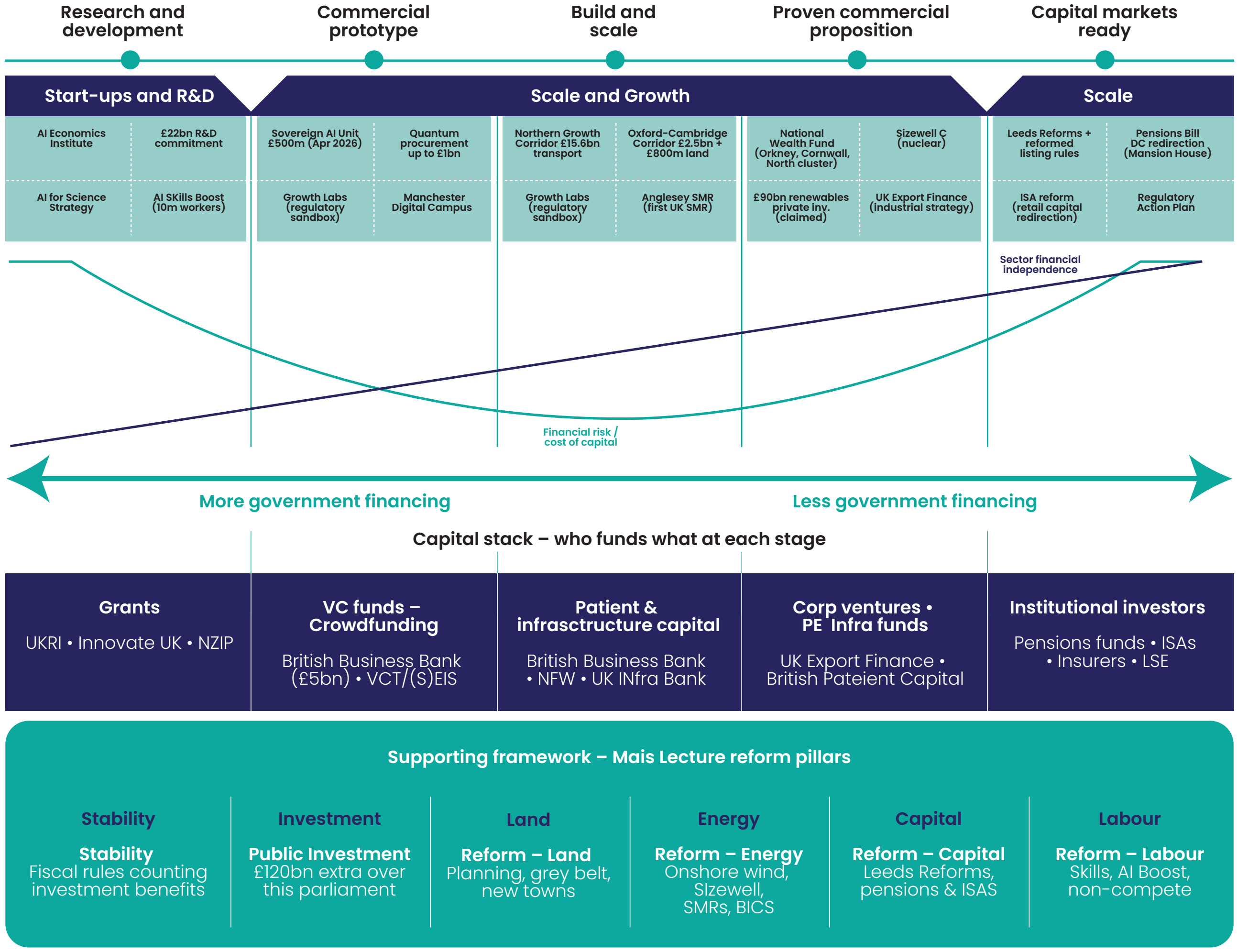
Framed as domestication, the reform sounds parochial. It signals that the UK saver is being asked to forgo return for patriotic reasons. The arithmetic of the global-equity benchmark suggests this is a trade-off; that arithmetic does not survive once §3's question is asked. But, more importantly, the framing is wrong as a description of the policy aim.

The actual aim is to stop the **default overweight to one destination** — the US — from absorbing capital that would otherwise be available for productive UK growth *and* for emerging-market investment. Emerging-market allocation in UK DC defaults today is, in many cases, zero. Once the overseas allocation is no longer primarily a US allocation, the question of how UK pension capital deploys in emerging markets becomes live. The reform is therefore in the interest of UK growth, of EM allocation, and of any saver who would benefit from diversification away from a single-country overweight.

Figure 3: The Capital Journey

UK productive investment targets – Mais Lecture 2026

Mais targets and vehicles plotted in the GOV.UK Net Zero Strategy Figure 28 commercialisation / capital-stack journey



Sources: HM Treasury, Mais Lecture 2026 (gov.uk, 17 Mar 2026); BEIS / DESNZ, Net Zero Strategy – Supporting the transition across the economy (Fig. 28); NCC Mais Analysis Matrix v2 (20 Apr 2026). NCC Overseas Capital Flow workstream – draft for review

8. Recommendations from the group

This section captures the recommendations that emerged from the workshop. They are ordered by how the discussion prioritised them, not by ease of implementation. Tax leads, because the group returned to it repeatedly even where individual voices doubted its political feasibility. NCC's own house view on tax, including the language for Treasury, is set out separately in §9.

8.1 Tax as a directional lever

Views on tax were **mixed**. One strand of the discussion held that tax cannot be made to do meaningful work against the inertia of index momentum and against the political economy of pension tax relief. Another strand held that it is the only lever strong enough to do so. The specific shapes the group tested:

1. **A DC exit tax.** A tax (suggested at c. 10%) on accumulated gains payable on exit from a DC default fund **unless** the fund has held a minimum proportion (suggested at 30%) in UK productive assets across the holding period.
2. **Dividend tax relief.** A relief on dividend tax for funds that hold a minimum proportion (suggested at 10%) in UK regional productive assets, designed to be approximately revenue-neutral with the exit tax.
3. **Default-fund route versus member-choice route.** Two implementations were tested: changing the trustee default fund (cleaner and faster), or offering a member-choice version with a tax-advantaged "UK productive" default tier. Views in the room split between the two; the report does not adjudicate. However, we note research done by Nest and New Financial that indicate a preference for greater UK investment from savers than currently provided.

8.2 Default-fund mandate design

Separately from tax, mandate design is itself a substantive lever. The discussion tested whether the default fund's investment objective should be reformulated to require an explicit productive-investment proportion. DC defaults carry the bulk of new saver flow; changing the default changes the system.

8.3 Benchmark reform

How UK schemes are measured is itself contested. The question in §3 — **what share of the 12.5% global-equity benchmark return is down to fundamentals versus weight of money?** — needs to be considered by Treasury and the regulators. If the answer changes benchmark construction, it has the potential to change how trustees can be held accountable. NCC tax recommendations below have the potential to affect assumptions on market growth in a way that should change asset allocation.

8.4 Disclosure on UK productive impact

Members and trustees do not currently see the productive impact of their savings; they see only the return number. A **disclosure regime on productive-investment proportion**, at fund and scheme level, would make the choices being made on savers' behalf visible. This is a smaller lever than tax or mandate design, but it is a necessary one if the larger levers are to have political traction and to provide Government data on policy effectiveness.

8.5 The Risk Commission as institutional vehicle

The final substantive recommendation is procedural rather than substantive: the reforms cannot be carried by a series of consultations and discussion papers. They require **an institutional vehicle**. NCC has costed such a vehicle — a Risk Commission, c. £3m, with a taxonomy, working groups and terms of reference, a legislative-levers table, and a list of city grandees who would serve. The Risk Commission is pitched as the Prime Minister's "risk-reward commission" — a vehicle the PM could announce in a single statement. It will be described in the parallel NCC Risk Commission paper; this report references it as the institutional home for the recommendations above.

9. NCC house view — why tax is the only strong-enough lever

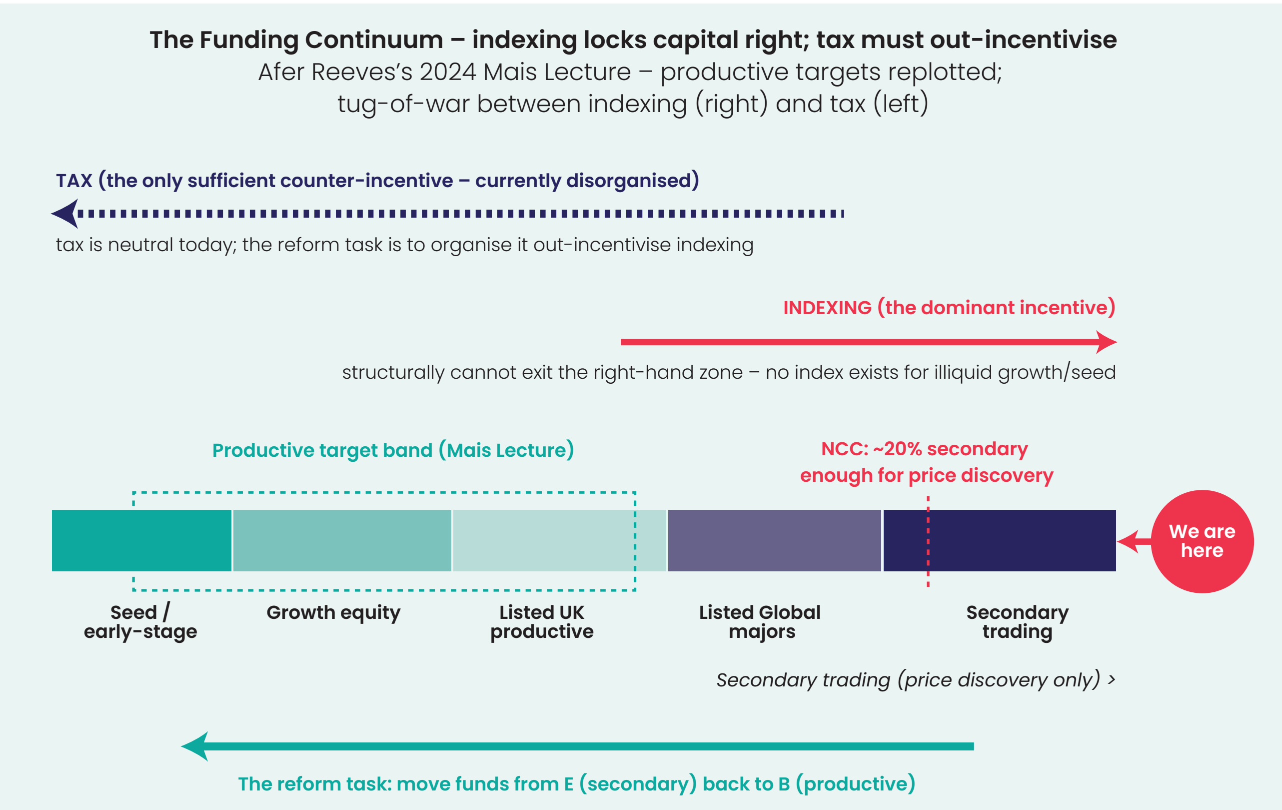
This section sets out NCC's own position. It is not the group's consensus. It is offered to the reader — and to the policy audience this report will reach — with the workshop's mixed views fully acknowledged. The reframing here is deliberate: tax is currently **neutral and unfocused**. It is not itself a driver of overseas leakage. The reform task is to focus it so that it out-incentivises indexing.

The two main characters of this part of the story are **indexing** and **tax**. Indexing is the dominant incentive in the system today: cap-weighted, momentum-amplifying, structurally tilted toward the largest (and the US-listed) names, and — critically — structurally unable to leave the right-hand zone of the funding continuum, because no index exists for illiquid growth or seed-stage capital. Tax, by contrast, is currently **neutral and unfocused**. A fund that holds 0% UK productive faces the same tax architecture as a fund that holds 50% UK productive. Tax is not itself doing harm; it is simply absent as an influence.

Indexing is the **right-pulling** force, locking capital into secondary trading of global majors. Tax is the **left-pulling** force — but the arrow is currently dashed, because the architecture is not organised to pull. The reform task is to **organise tax so that the left-pulling force out-incentivises the right-pulling force**, and the system as a whole moves back along the continuum into the productive band.

Views on **whether** tax can be made to do this work were mixed in the workshop. A strand of the discussion held that pension tax relief is a deferral that avoids double taxation rather than a subsidy, and that politicising it is dangerous. **NCC's view, taking that strand seriously and weighing it against the system dynamics, is that a strong organised incentive is needed to counteract the inertia and momentum of indices, and that an organised tax architecture is the only lever strong enough to provide it.** The other levers — mandate design, benchmark reform, disclosure — are necessary but individually insufficient.

Figure 4: The Funding Continuum



Sources: Reeves Mais Lecture 2024; Haldane (BoE/BIS, 2011 – HFT <20% of US equity volume in 2005, today 66-75%; LSE Research / Quantified Strategies (2025-26)

They depend on trustee, regulator and member behaviour changing in response to information. Tax depends only on the cash flow.

NCC's recommended shape is the pair the group tested, recast in the out-incentivise frame: a **DC exit tax** of c. 10% on accumulated gains, payable on exit from a DC default fund **unless** the fund has held ≥30% in UK productive assets across the holding period; paired with a **dividend tax relief** for funds that hold ≥10% in UK regional productive assets, designed to be revenue-neutral. The pair is directional rather than punitive: a fund that holds UK productive earns the relief, a fund that does not pays the exit tax, and the Treasury sees neither a windfall nor a loss. Critically, the pair is organised: it gives the architecture a clear left-pulling force that the present neutrality does not. Consumer choice is also not constrained. If this measure were phased in over say, a five year period, it could shift existing capital stocks - not merely new flows.

On **what we would and would not ask Treasury to do**: it is not NCC's job to tell Treasury how to model the incentive. It is NCC's role to tell Treasury what incentive needs building in. The shape above is the shape NCC would propose; the modelling, the calibration of thresholds, and the legislative drafting are Treasury's. The argument NCC would make rests on the distribution-ratio comparison in §2 and §4: *if UK firms distribute around 60% of earnings versus around 30% in the US, why should UK saver outcomes be any worse than US saver outcomes?* The proxy for productive that the system has already inserted — the distribution ratio — is the proxy the tax design can use.

NCC's ask of Treasury Not modelling. Three commitments: (i) a willingness to **organise tax so it out-incentivises indexing** — a directional pair of the shape above, calibration to follow; (ii) consideration of the **fundamentals-versus-weight-of-money** composition of the 12.5% benchmark retrun, with **NCC macro-flow work** as the institutional fallback; (iii) a **working definition of UK productive**, calibrated against the FTSE-100-versus-S&P-500 distribution comparison that NCC analysis will provide.

10. Next steps

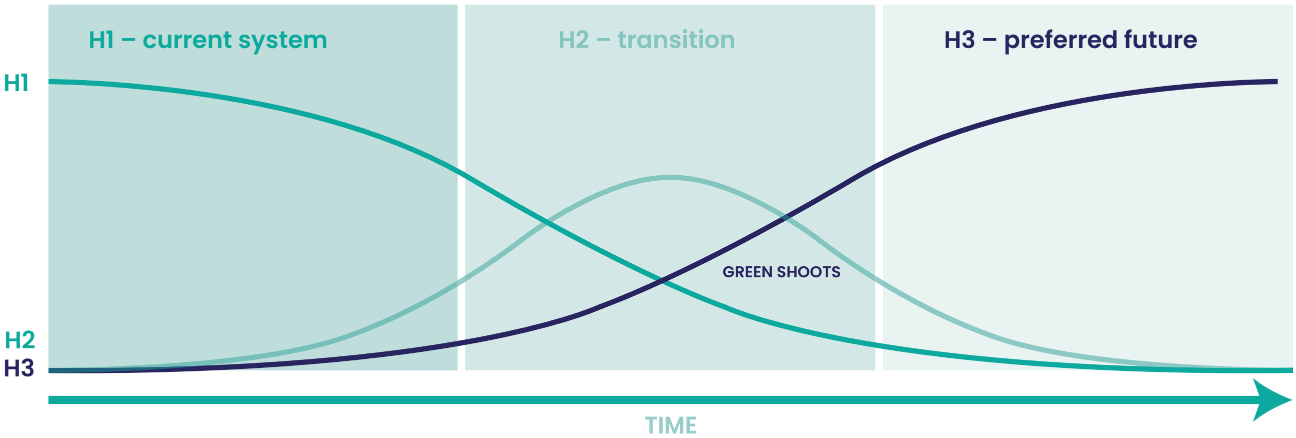
1. **FTSE 100 / S&P 500 distribution-vs-retention analysis.** NCC analysis, using LSEG data. Output: a public-facing chart and a working definition of "UK productive" that can be carried into the analysis of how UK corporates (and government) *invest* the money that the financial system ultimately only ever *intermediates* to them. NCC is exploring this nexus in its third and final Broken Links workshop (4 below).
2. **Macro-flow workstream.** The institutional fallback to a Treasury non-answer on the 12.5% composition question (§3). Output: an NCC-owned quantification of the share of the global-equity benchmark return that reflects weight-of-money and passive momentum versus fundamentals.
3. **Retail workstream link.** The retail demand-side feedback loop — cash ISA preference, paternalism legacy, fund-manager incentive to compete against peers rather than for the saver (Pitt-Watson et al., FCA Consumer Panel / BDO, 2014) — is treated in the parallel NCC Retail workstream, where the full mechanism and policy implications are developed.
4. **Broken Link workshop link.** The definition feeds the analysis still to come via NCC's Broken Link workshop. This workshop will explore the supply-side (issuance) dynamics of UK capital raising to complement and complete the demand-side dynamics that NCC has already mapped. It will also assess how the secondary trading of existing stock is crowding out primary investment in UK capital markets.
5. **Risk Commission proposal.** The detailed Risk Commission paper — already drafted at c. £3m, with taxonomy, working-group ToRs, legislative-levers table, and proposed members — is the institutional vehicle for the recommendations above. A 10-page public version of this report will follow alongside the parallel Risk Transfer and Broken Link papers, plus a fourth system-level paper that describes how the three problems interlock.

Annex

Annex A. Three Horizons reference figure

Three Horizons schematic with the H1 zone highlighted — the dominant system today: globally-diversified, US-weighted, secondary-market-tilted DC defaults. §2–10 sketch the H3 destination and the H2 transition levers.

Figure 5: Three horizons



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New Capital Consensus
A better investment system for all

About New Capital Consensus

New Capital Consensus is a coalition of not-for-profit, apolitical organisations that have come together to explore how the current UK investment system contributes to the country's current problems of low productivity, inequality and low levels of investment. Its objective is to find ways to release investment capital to address societal problems, like those above and in particular, to green the economy.

We believe addressing these problems requires us to:

- Understand how the system operates holistically and as a complex adaptive system;
- Recognise the source of private investment resides predominantly in consumers retirement savings;
- Develop a clear map of the system and an accurate quantification of and view on system stocks and flows;
- Through this, identify the policy levers capable of redirecting system flows toward more productive uses that benefit savers.

We will focus not only on those beneficial policy changes that can be effected within the current system but - recognising that current market structures have developed in an anachronistic way - also those that require changes to current market structures, approaches and beliefs.

The NCC coalition of organisations comprises **Finstic** (Financial Systems Thinking Innovation Centre), **University of Leeds** and **Radix Big Tent** and is incubated at **Chatham House Sustainability Accelerator**.

Chatham House, the Royal Institute of International Affairs, is an independent policy institute based in London. Its mission is to help build a sustainably secure, prosperous and just world. Chatham House does not express opinions of its own. The opinions expressed in this publication are the responsibility of the authors.

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