MACFARLANES

Investor Intelligence report

UK pension schemes

Opportunities for private capital across defined benefit and defined contribution

March 2025 update

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Introduction

With an estimated market size of approximately £4tr, the UK pension market is the largest in Europe and second largest in the world after the US. The market is evolving in a number of ways as multiple consultations and policy changes have been proposed across defined benefit (DB) and defined contribution (DC) schemes.

Overall, three broad themes can be identified:

1. consolidation/scale;
2. increasing investments in private assets; and
3. increasing investments in the UK.

Pensions have been a priority on the political agenda with both the Conservative and Labour parties agreeing that pension assets should be better utilised to grow the UK's economy, a topic our public policy team explored in a recent article on privatecapitalsolutions.com.

Given this shared agenda, the new government will be able to build on the work already undertaken by the outgoing administration, such as previous consultations. Officials have long been focused on this area and have refined their policy advice both in light of the direction of travel set out by Jeremy Hunt – the previous Chancellor of the Exchequer – and the similar approach taken by Rachel Reeves, the new Chancellor, in opposition. The Pension Schemes Bill, announced during the King's Speech in July, further indicates that the change of government will not disrupt policy development in this area, as the measures proposed mostly echo those of the previous administration. That said, it appears that the new government is eager to move quickly having already published an interim report for its landmark Pension Investment Review and a series of consultations.

In this report we intend to take stock of the ongoing reforms and their impact on each sub-sector of UK occupational pensions and the opportunities and challenges they may pose for private capital.

Note: First published in November 2024, this report was updated in February 2025 to incorporate recent policy changes

Contents

Endnotes can be found on page 23.

Report update

Recent changes at a glance

The new government has wasted little time moving forward with reforms to the pensions market. This report was first published in October 2024 but has been updated for the recent activity in this space. This page provides a summary of the latest developments and how they affect private capital managers.

Public DB schemes

Policy development	Summary	Latest activity	Opportunity and risks for private capital managers
Scale and consolidation via pooling of assets	The government is seeking to accelerate the pooling of LGPS assets to better capitalise on investment opportunities and deliver economies of scale.	▪ The government has proposed pooling all LGPS assets by March 2026. The government issued a consultation "Local Government Pension Scheme (England and Wales): Fit for the future" on the subject which closed on 16 January 2025 and the Minister for Pensions, Torsten Bell confirmed intentions to move forward with this proposal in a speech at the PLSA Conference (11 March 2025).	▪ Scale is expected to lead to greater capacity and capabilities to invest in more diverse and large-scale investments in private markets. This will in turn increase the pools' bargaining power, therefore managers may face more fee pressure. ▪ From March 2026 individual LGPSs will no longer be able to make any direct private capital commitments, all investment will be made through the pools.
Investment in productive asset classes	The LGPSs already invest c30% of their assets in the UK. The government has stopped short of advocating targets for UK investments. It will however place more pressure on LGPS pools to unlock investment opportunities in "local" business and report annually on this.	▪ Government consultation "Local Government Pension Scheme (England and Wales): Fit for the future" closed 16 January 2025, more details on local investment are expected in the final Pensions Review report due Spring 2025.	▪ No targets have been set to tie LGPS funds to a certain threshold of domestic investment, however they will be required to report annually on their local investments. ▪ The government recognises that identifying and assessing the suitability of local investments requires resources for intensive due diligence, therefore there may be a role for the private capital sector to help identify "local" investments and support the development of local growth plans.

Private DB schemes

Policy development	Summary	Latest activity	Opportunity and risks for private capital managers
Surplus sharing	The government is considering options to improve access to DB pension fund surpluses. Releasing the surplus funds is hoped to encourage pension funds to defer the transfer to an insurance company and therefore reverse the immediate de-risk strategy and increase investment in growth productive assets.	▪ In January 2025, the Chancellor stated that "pension trustees and the sponsoring employers could then use this money to increase the productivity of their businesses – to boost wages and drive growth or unlock more money for pension scheme members." A consultation is expected in Spring 2025.	▪ The ability to benefit from surplus should encourage pension funds to increase investment in more growth-orientated asset classes including private assets. ▪ It remains to be seen whether the surplus will only be available for investment within the sponsoring employers' business or whether this mandate will be used to promote wider investment in private markets.

Private DC schemes

Policy development	Summary	Latest activity	Opportunity and risks for private capital managers
Scaling default arrangements	The government has sought views on proposals to introduce a minimum AUM requirement for default funds and limit the number of default arrangements that each provider can operate. This is designed to accelerate a shift towards larger pension funds.	▪ The consultation "Unlocking the UK pensions market for growth" closed on 16 January 2025. ▪ Changes are unlikely to apply before 2030 due to significant market changes and the need for sufficient lead time.	▪ Larger scaled funds will provide further impetus for investment in higher returning assets with greater resources and the ability to accept exposure to higher risk and more illiquid assets.
Investment in unlisted equities	Eleven Mansion House signatories have committed to invest 5% of their default funds in "unlisted equities" by 2030, although this is not mandatory.	▪ According to the FT the government is exploring ways to encourage Mansion House signatories to invest more in defence. ▪ The Compact is due to be updated summer 2025.	▪ It is predicted that allocating at least 5% of DC default funds to unlisted equities could unlock £50bn of investment into private equity. There are calls to extend the target to other private assets.
Unconnected multiple employer pension schemes	Collective DC schemes are designed to hold a greater range of higher risk assets by pooling a broader range of different ages and longevity risks through multiple unconnected employer trusts.	▪ The Royal Mail Collective Pension Plan officially launched on October 2024. This is the UK's first Collective DC scheme (single employer). ▪ The government consulted on draft legislations for multiple-employer Collective DC scheme during 2024 with final legislation expected in 2025.	▪ Collective DC schemes have elements of collective risk sharing that do not exist in traditional DC schemes. This has the potential to allow for higher investment risk. ▪ Scale is a critical element of risk sharing, meaning that the ability to have multi-employer schemes could increase the adoption of this pension type in the UK.
Value for money	The government is developing a VFM Framework to shift the focus from short-term costs to long-term value for savers and increase transparency and competition in the market with pension funds expected to publish public information on their investment performance. This will involve greater disclosure on a variety of metrics (e.g. investment performance, asset allocation inc UK / non-UK split) which is designed to shift the emphasis from cost. The government is also exploring whether employers place too much emphasis on the price charged by workplace pension providers compared to other metrics (e.g. investment performance).	▪ The VFM Framework (initiated by the previous government) was due to be in place by 2027. The FCA undertook a consultation in summer 2024 and the theme of cost versus value was explored in the consultation "Unlocking the UK pensions market for growth" which closed on 16 January 2025. Although the timetable is not clear, it appears the current government remains committed. ▪ The Pensions Minister, Torsten Bell, said in March 2025 he is looking at "reforms to focus more on value, and less narrowly on cost or price… we also need to focus on value in debates and, to be frank, in sales pitches." ▪ The Pensions Investment Review (expected spring 2025) is also expected to comment on what further action might be required to drive the focus on value over cost.	▪ Private capital will benefit from greater allocations where cost is no longer the primary indicator of performance, furthermore, the disclosure requirements around asset allocation may prompt DC pension providers to consider a wider range of asset classes into private equity and private debt. ▪ Private capital managers may be required to provide more information or disclose information about performance in a certain way.

Report update

What's next?

The pace of legislative activity in the pensions market is set to continue during 2025, culminating with the Pension Schemes Bill expected to be introduced before summer recess. As we discuss further in the report, many of the reforms create a significant opportunity for the private capital market.

Spring 2025

Pensions Investment Review – final report

The final report will consider whether further interventions are needed to encourage UK domestic investment from pension funds.

Response to options for DB schemes consultation

Further details expected on the proposal to introduce greater surplus flexibilities allowing more well-funded DB schemes to invest their surplus funds.

Late June/Early July 2025

Mansion House Compact 2

Bloomberg reports that the updated compact is expected to include:

- more signatories (currently 11);
- a new reporting regime disclosing level of investment in UK assets; and
- a domestic allocation target rumoured to be 10% (currently set at 5%).

Summer 2025 (expected before 22 July 2025)

Pension Schemes Bill

The measures announced at King's Speech include:

- Value for Money framework.
- Consolidation of DC deferred small pension pots.
- Consolidation of the DB market through commercial Superfunds.
- Requirement for pension schemes to offer retirement products.
- Reaffirming the Pensions Ombudsman (TPO) as a competent court.

Further measures under consideration for inclusion in the Bill include:

- Series of reforms to LGPS pooling set out in the Fit for Future consultation, including mandatory pooling of all assets and mandating certain minimum standards around governance of the pools.
- Introduction of a minimum size and maximum number of DC pension scheme default funds as proposed in the Unlocking the UK Pensions Market for Growth consultation.
- Measures to support the roles of employers and their advisers to encourage them to focus on value from their workplace pensions as proposed in the Unlocking the UK Pensions Market for Growth consultation.

Understanding the different segments of the UK pension market

The occupational pension market in the UK can be divided into defined benefit (DB) and defined contribution (DC). In DB schemes the employer bears the risk that investment returns on contributions made may not be sufficient to cover the defined-benefit the employee is entitled to receive at retirement. In DC schemes it is the employee that bears all investment risk. DB schemes can be divided into private and public sector. For DC, the relevant division is whether they are trust-based or contract-based. Personal pensions are included in Figure 1 on the following page for completeness but are out of scope for this report.

Public DB schemes

Within the UK public sector, the vast majority of pensions plans operate as pay-as-you-go, i.e. unfunded. This means that these plans do not have "funds" or pools of assets, instead pensions paid to current pensioners are directly financed from contributions paid by current workers. This includes pension funds for the Armed Forces, Civil Service, NHS, Teachers, Police and Firefighters with combined liabilities of over £1.2tr. This is a common model across Europe, however, in some countries, such as the US, it is more common for public occupational DB schemes to be funded – for example CalSTRS, Texas Teachers or the NYC Police pension.

This is a key enabler for the US's investment in private assets. In the UK however, local government pension schemes (LGPSs) are the only public service schemes which have investment funds and currently manage c.£425bn. England and Wales alone have 86 local authority schemes which are in the process of being pooled together into eight pools.

Private DB schemes

The private sector consists of pensions set up by private companies for their employees. Although this is still a large segment, with over five thousand schemes in the UK with approximately £1.4tr in assets under management, it is on a declining trajectory as the majority of these schemes are now closed as the UK is broadly abandoning private DB schemes in benefit of DC.

DC schemes

Occupational DC schemes include both trust-based and contract-based schemes each representing about half of the market – in 2022 the Investment Association estimated £270bn in trust-based and £275bn in contract-based pensions[1]. Unsurprisingly, this is the fastest growing pension segment in the UK with assets predicted to grow to £800bn by 2030[2] across the trust and contract-based market. Trust-based schemes are regulated by the Pension Regulator whilst contract-based are regulated by the FCA. Although pension reforms so far have often referred to "trustees" and "trust-based schemes", the FCA tends to also follow the same changes and ensures alignment across DC schemes.

Figure 1: UK pension fund landscape

Type		Regulated by	Pension type	Size	Trajectory	Description
Defined benefit (DB)						
Private sector		Pensions regulator	Occupational	£1.4tr	↘	A pension fund set up by a private corporation for the benefit of its employees e.g. M&S pension scheme.
Public sector	**Funded**	DLUHC/ Pensions regulator	Occupational	£425bn	↗	Includes the Local Government Pension Schemes of England & Wales, Scotland and Northern Ireland.
	PAYG[1]	Multiple	Occupational	£1.2tr	—	Includes pension funds for the Armed Forces, Civil Service, NHS, Teachers, Police and Firefighters.
Defined contribution (DC)						
Trust-based pension schemes	**Single trust**	Pensions regulator	Occupational	£100bn[2]	↘	A pension scheme that is established by a pension provider under a trust deed.
	Master trust	Pensions regulator	Occupational	£170bn[2]	↗	Master Trusts are used to manage DC funds for a group of unrelated employers under a single trust (these can be offered by insurers acting as trustees).
Contract-based schemes		FCA	Occupational	£275bn	↗	Under these arrangements there is a contract between the provider and the member but the employer is not a party to the contract and there are no trustees.
			Personal pensions	£790bn	↗	Pensions arranged by individuals. This includes SIPPs, which hold over £205bn of pension assets and offer wider investment choice.

Notes: [1]PAYG (pay-as-you-go) pensions are unfunded meaning that assets are not set aside and invested, instead contributions are directly used to pay benefits. This figure represents their liabilities; [2]According to the Investment Association the total AUM for trust-based pension is £270bn, £170bn can be attributed to Master Trusts according to Go Pensions.
Sources: UK Parliament PLSA; Investment Association; Go Pensions.

Public DB schemes overview

The LGPSs have been a key focus for pension reforms as they are the largest public defined benefit schemes that are funded i.e. have pools of capital to invest. They were seen by the previous Conservative government as a key source of capital to "fuel UK companies", a view that is furthered by the current Labour government.

In the 2024 Labour manifesto[3], the Labour party stated that it would "increase investment from pensions funds in UK markets" focusing on "consolidation and scale, to deliver better returns for UK savers and greater productive investment for UK PLC". In July 2024, the Chancellor, Rachel Reeves, renewed the focus on leveraging pension funds to fuel growth in the UK. As per the Treasury's statement, "action will be taken to unleash the full investment might of the £360bn[4] Local Government Pension Scheme to make it an engine for UK growth[5]." The government's approach has now been laid out in its Fit for the Future consultation[6] published in November 2024. To meet its ambitions, the government is focused on three areas, namely LGPS asset pooling; local and regional investment in the UK; and strengthening governance of LGPS pools and the individual LGPS funds i.e. Administering Authorities (AAs).

A key challenge for the LGPSs is that their fiduciary duties must ultimately guide their investments above the suggestions made by government. Although so far there have been no mandatory impositions on investments, there is increased tension as the government has been looking for ways to move forward its agenda without overstepping its position. The Fit for the Future consultation falls short of proposing a fixed allocation to local investment, and instead proposes that AAs will be responsible for setting a target range for local allocation. The pools would be responsible for making the final decision on investment.

Note: "Levelling up" is a political policy introduced by the Conservative party which broadly aims at reducing economic inequality between different areas and social groups in the UK. With a Labour government this mission remains relevant, however, the term has been dropped.

Key opportunities for private capital managers are driven by:

1. Establishing relationships with growing LGPS pools.
2. Government suggesting further investment in private equity.
3. Aligning products to meet local investment targets promoted by government.
4. Increased transparency and reporting requirements for LGPS pools.

1. Establishing relationships with growing LGPS pools

Pooling requirements were first introduced in 2015 and assets started to be moved into investment pools from 2018. For the LGPSs in England and Wales, there are currently eight pools but progress has been varied with c.55%[6] of assets remaining outside the pools' ownership. To accelerate the transition, in November 2023 the previous government set a deadline for the transition of all liquid assets to the pools by March 2025 and at the same time recommended that the pooling of illiquid investments should also target this date on a comply or explain basis. The new government's policy strengthens this approach and proposes that no new investments are made outside of the pool; remaining listed assets are transferred to the pool; and legacy illiquid assets are (as a minimum) transferred to the management of the pool, however a target date of March 2026 is now being pursued for this transition.

This creates opportunities for managers as pools are allowing some of the local authorities that previously did not have the scale/resources to invest in alternatives to do so through the expertise of the pools. However, it also poses challenges as new relationships must be built. Whilst each individual LGPS fund will still have the ability to set their strategic asset allocation, the government has proposed that implementation of the investment strategy should primarily sit with the pools. This means the pools will take on the responsibility to decide tactical asset allocation and investment manager selection. Managers that mainly maintain direct relationships with individual LGPS funds may look to expand these relationships to the pools.

2. Government suggesting further investment in private equity

The previous government suggested that LGPSs should have ambitions to invest 10% of their portfolio in private equity (not mandatory). The focus on private equity and omission of private debt has been criticised by the PLSA which believes that the focus should be on "private capital", a sentiment that has been publicly shared by several LGPSs. The government's response at the time was that although the target is for private equity, it recognised and hoped to incentivise broader opportunities in private markets.

When considering the aspirational target of 10% for private equity, several funds fall short with average allocations of 6% according to the latest numbers provided by the LGPS Board for England & Wales[7] (see Figure 2). However, when considering "private capital" in its broader sense which includes private equity and venture, private debt and most of infrastructure and real estate, for several LGPS, the 10% target has already been achieved. The new government has not, as yet, opted to introduce such a target, however in the government's Pensions Investment Review Interim Report[8] issued in November 2024 there remains a strong desire to encourage investment in private markets.

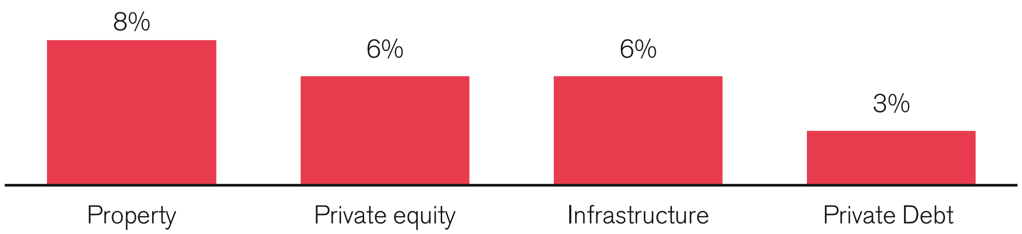
The emphasis is likely to continue, with further details expected in the final Pensions Investment Review report due in 2025, so a clear signal is being sent that all schemes are expected to increase allocations to private assets, particularly equity. This market represents an area of opportunity for private capital not just due to its role in the political agenda, but due to the growth of LGPSs pools, which will in turn create more private market mandates.

Several pools are actively expanding their private markets offering, for example:

- **London CIV:** launched in 2021 its first private debt fund, a closed-ended structure with two managers: Churchill Asset Management and Pemberton Asset Management. The LGPS pooling company is currently in the process of launching LCIV Private Debt Fund II. The proposed fund structure will be an open-ended evergreen multi-manager structure with higher manager diversification.
- **ACCESS:** this pool has been pushing into private markets in the past year. In 2023 it announced mandates for infrastructure and real estate and in 2024 two additional mandates for private equity.
- **Border to Coast Pensions Partnership:** the pension pool launched in April 2024 its "UK Opportunities" portfolio. According to With Intelligence, this will include three sleeves: 1) private equity and private credit; 2) infrastructure and 3) real estate. The pool is expected to commit to four funds per sleeve.

For more detail see Figure 3 on the next page.

Figure 2: England and Wales LGPS aggregated asset allocation



Source: England and Wales LGPS annual report, 2023.

3. Aligning products to meet local investment targets

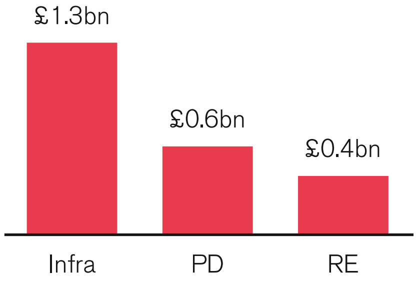
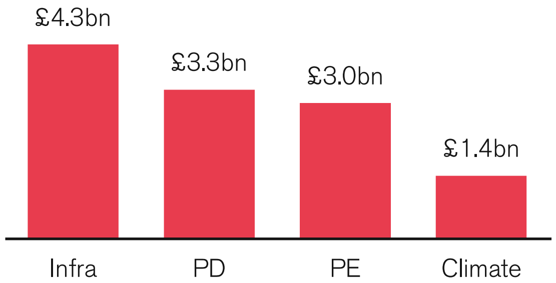
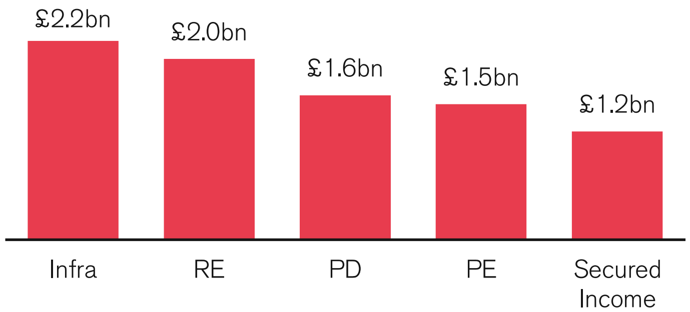
The previous government had proposed a requirement for LGPSs to publish a plan to invest up to 5% of assets to support levelling up in the UK. The new government will continue with this agenda, however it will be less prescriptive. It is proposed that the AA will be responsible for setting its own target for "local investment" in a move away from the 5% levelling up target, however the government will expect this target to be disclosed and reported on annually, highlighting the government's appetite to hold AA to account. It will be the responsibility of the pools to undertake due diligence around local investment and managing the investments.

The definition of local investment is open for consultation, however as it currently stands the term means "investments local to any of a pool's partner AAs or investments in their region". It has been acknowledged that local investment is not an asset class, and different types of investment could support these goals. Private capital managers that deploy capital in the UK may wish to position their products to be compatible with local/regional investment goals. This may not require new product design, but rather a mapping exercise that evidences a portion of alignment and/or review what data will be available to help support AAs and pools meet their disclosure requirements.

4. Increased transparency and reporting requirements for LGPS pools

In a push to drive greater accountability, the new government also wishes to introduce requirements on pools to improve their transparency and reporting. The government highlights that some pools already provide more detailed information on performance by asset allocation, and therefore proposes to create a requirement for all pools to report publicly on their performance and transaction costs. Increased transparency around the performance of private markets will be helpful for private capital managers to prove their ability to deliver financial returns for LGPS pools.

Figure 3: Examples of LGPS pools' commitments to private markets

LGPS pool	Pooled assets		Expected assets post consolidation	AUM managed by pool[1]	Number of client funds	Private markets		Private market assets or commitments
						Assets	Percentage of AUM	
London CIV	£27bn	**+40%**	£45bn	£14bn	32	£2.3bn[2]	15%	
Border to Coast Pensions Partnership	£49bn	**+28%**	£58bn	£40bn	11	£12bn[3]	30%	
Brunel Pension Partnership	£31bn	**+20%**	£37bn	£31bn	10	£5.5bn[4]	18%	

Notes: [1]Excludes passive funds pooled with other managers e.g. London CIV has £12.5bn pooled with BlackRock and LGIM in passive funds; [2]Does not include The London Fund, a £195mn partnership with LLPI investing in real estate an infrastructure; [3]Currently preparing to launch a real estate proposition as part of the pool; [4]Deployed capital, does not include a further £3bn in commitments which are shown in the next column. Sources: 2023 annual reports.

Private DB schemes overview

Currently only 4% of private DB schemes are open to new members[9]. The decline of private DB schemes has had a negative impact on investment in private capital.

This is a trend seen also in other countries, such as the US, that are also transitioning private sector pensions to DC schemes. Interestingly, although DB assets make up a smaller percentage of the total US pension market when compared to the UK, the opposite is true for the proportion of private DB schemes still open to new members.

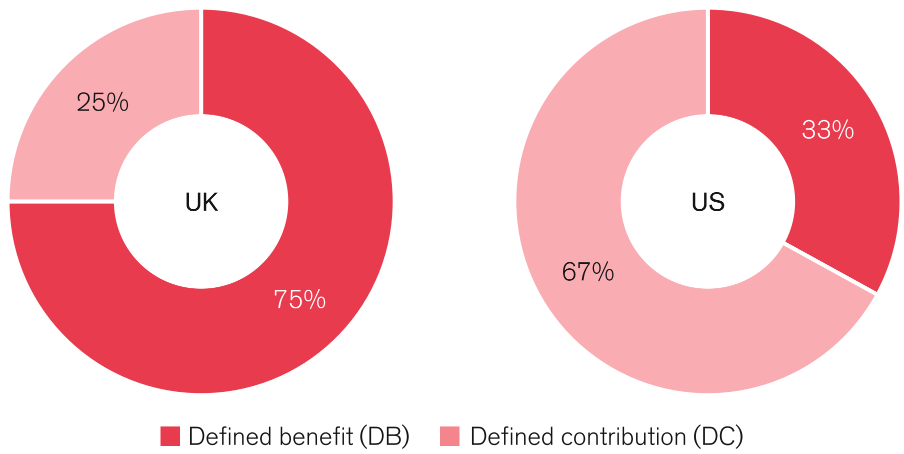
Most UK DB schemes are now closed for new members and have essentially three endgame options:

- **Insurance solutions:** most often these solutions involve a buy-in and/or buy-out[10], meaning the scheme trustees use the pension scheme's assets to purchase an insurance policy thus transferring pension liabilities to the insurance company, effectively de-risking its position. This can happen in stages where the insurer assumes only a portion of the scheme's liabilities at a time.
- **Consolidation:** transferring liabilities to a consolidator, either a DB master trust or a superfund. When transferring to a DB master trust the link to the sponsoring employer is not broken, the employer benefits from being part of a larger scheme, but it remains responsible for the liabilities. Superfunds on the other hand, do remove the scheme from the sponsoring employer's balance sheet.
- **Self-sufficient run-off:** the schemes follows its natural course independently managing its own liabilities until all benefits are paid off.

Key opportunities for private capital managers are driven by:

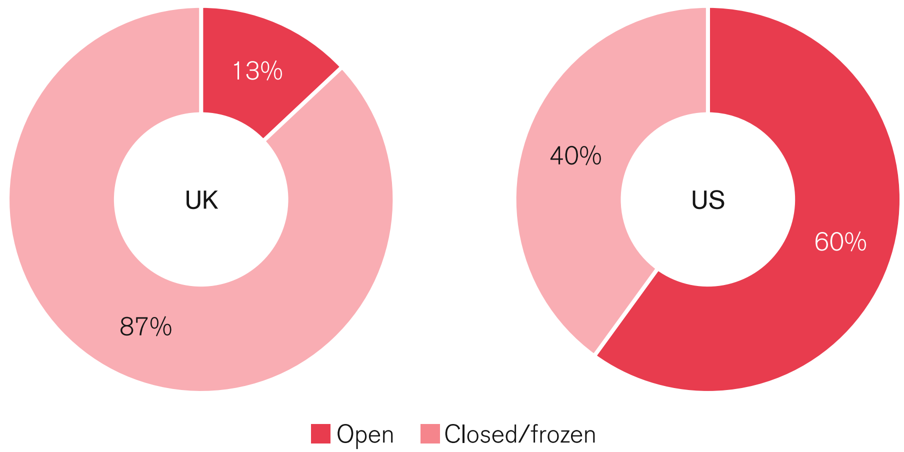
1. Insurance buy-outs creating growth in secondary transactions.
2. Insurers' increased exposure to illiquid assets driven by buy-outs and Solvency reform.
3. Growth of Superfunds and their investments in illiquid assets.
4. Potential reforms on surplus sharing could promote investment in productive assets.

Figure 4: DB/DC split of pension assets



Source: Thinking Ahead Institute, 2024.

Figure 5: Percentage of members in open vs. closed private DB schemes



Source: The Pensions Regulator, 2024.

1. Insurance buy-outs creating a growth in secondary transactions

Insurance solutions are a popular endgame option. This is a high-growth market with 2024 figures expected to double in size from 2022. According to abrdn[11], projections for the next decade suggest further transfers of over £500bn.

This is in part driven by the rise of interest rates. Interest rates are used to calculate the present value of future pension liabilities. When rates go up pensions liabilities go down and funding levels improve. On aggregate, private DB schemes in the UK have become overfunded making it easier for corporates to offload their pension liabilities to insurers.

Currently 53% of large UK DB schemes are targeting a buy-in/buy-out[12]. Not only are more schemes looking for buy-outs, the speed at which these transactions are taking place is increasing. As more pension assets are being moved to insurers this creates challenges and opportunities as life insurers' asset allocations are impacted by regulations which restrict private capital investments.

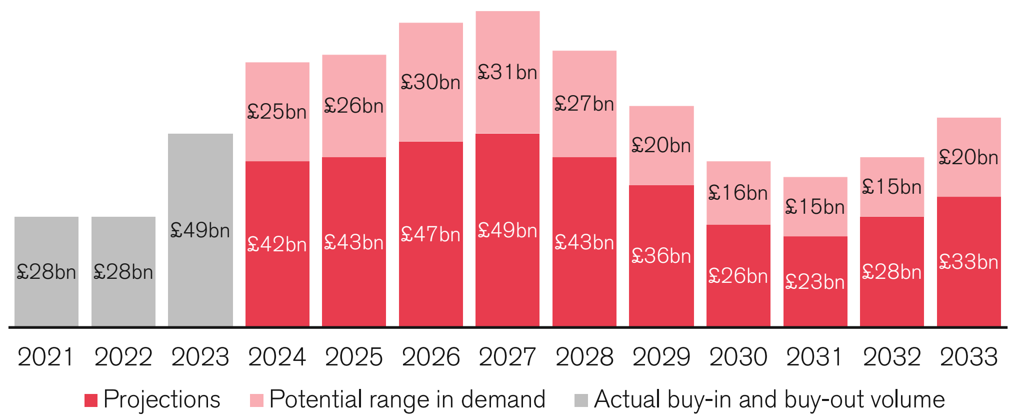
Insurers make investment decisions that optimise for Solvency requirements, which for insurers managing annuities includes eligibility for a regulatory treatment known as the "matching adjustment". Ensuring that both insurance liabilities and assets held to back those liabilities qualify for this treatment enables the insurer, for example, to price transactions such as pension scheme buy-ins/outs at an affordable level, which has been crucial to the growth of this market. At a high-level, to be eligible for matching adjustment, assets must consist of bonds and other assets with similar cashflow characteristics, cashflows must be fixed[13] and immutable by the issuer or third-parties, assets must replicate the obligations' cash flows in the same currency and must be maintained over the lifetime of the obligations to which they are matched.

Due to these regulations, before going through a buy-in/buy-out, pensions schemes have typically looked to reduce their illiquid positions, either by letting them run off or by selling them in secondary transactions[14].

Matching adjustment: The "matching adjustment" allows insurers to discount the valuation of their long-term liabilities (life insurance obligations, including annuities) under Solvency II at a more favourable discount rate than the usual risk-free rate (where certain eligibility criteria are met), thereby reducing the assets required to be held against those liabilities. This mechanism adjusts for the fact that where life insurers' liabilities are long-dated, assets that match these liabilities are not intended to be sold.

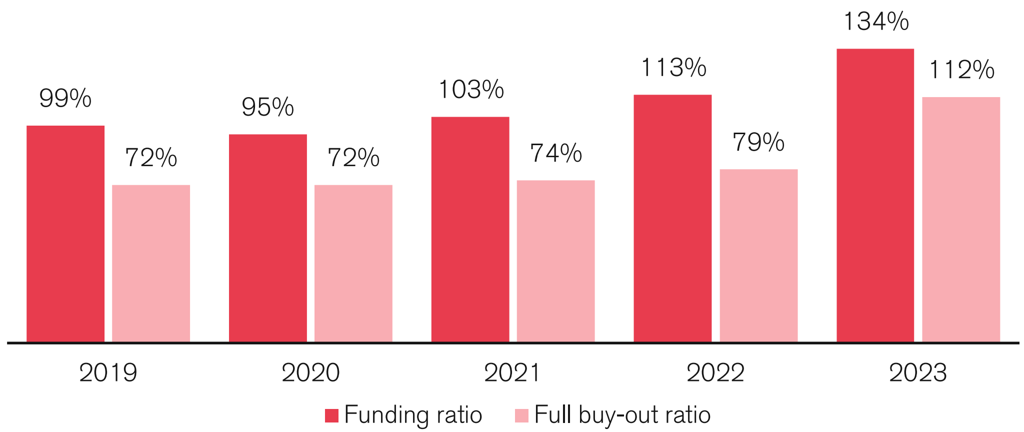
Third-party secondary transactions may be the preferred solution when dealing with assets that do not fit matching adjustment eligibility[15]. Some schemes may prefer the insurer to take on the illiquid positions and, although this may be possible, it could result in having to accept a significant haircut on valuation and potential delays in the transaction due to the insurer's due diligence process.

Figure 6: UK pension buy-ins/buy-outs annual volumes and projections



Source: LCP, 2024.

Figure 7: UK private DB schemes – aggregate funding ratios



Source: The Pensions Regulator Purple Book for 2023.

Note: A pension scheme's buy-out funding ratio will often show a larger shortfall than the standard actuarial valuation, as insurers are obliged to take a very cautious view of the future, and they also seek to make a profit.

We anticipate growth in LP-led secondary transactions driven by growth in the insurance buy-out market and by the large number of pensions funds currently looking for insurance solutions with significant portfolios of illiquid investments. This is still due to the LDI crisis of 2022[16] and the speed at which schemes are currently looking to be bought-out. Consequently, we will continue to see an increase in secondary transactions.

Note: According to Standard Life, 40% of schemes approaching the market have illiquid assets to manage and sometimes this portion is as large as 50%.

For secondaries managers this presents a significant opportunity as the high demand from pension schemes is expected to lead to portfolios of assets coming to market at attractive prices. The opportunity in this market has also led investment consultants to launch platforms to assist their pension clients navigate secondaries.

Sellers and buyers

- **The Tesco Pension Fund:** in February 2023 Tesco Pension Fund entered a £1bn secondaries deal to sell a portfolio of private equity, private credit and infrastructure. The sale was part of Tesco's long-term de-risking strategy. The portfolio was acquired by six buyers, according to Buyouts Insider.[17]
- **Cummins Pension UK:** in September 2023, it was announced that ICG LP Secondaries acquired a $200mn portfolio of buyout GP positions from the pension fund. According to Secondaries Investor[18], the transaction saw a discount to net asset value in the high teens.
- **Border to Coast Pensions Partnership:** it was reported in March 2024[19] that this LGPS pool is looking for bargains in the secondary market as DB schemes sell their portfolios at discounts. The pool has been most active in private equity secondaries but is also considering opportunities in private credit and infrastructure.
- **Pension Protection Fund:** the fund has also benefitted from attractive secondary transactions having purchased a property fund at a 35% discount to net assets from another pension fund this year.

Platforms

- **ISIO's Fund Liquidity Options, launched in 2024:** this is a platform created to help clients sell private credit and infrastructure equity holdings on the secondary market.
- **WTW's Illiquid Asset and Buyout Specialist Group, launched in 2023:** the new group offers advice on managing illiquid assets in the run-up to buy-out including sales on the secondary market. In a press release[20], the Head of this group said they had seen "a 50% increase in first time sellers on the private equity secondary markets in the last year".

2. Insurers' increased exposure to illiquid assets

Since Brexit, the PRA has been working on the UK version of Solvency II (Solvency UK) which includes reforms to the matching adjustment rules. One of the key objectives, as stated by the Treasury, is to promote more insurance investment in infrastructure, and other illiquid assets to support the UK economy. This is very much in alignment with the narrative for pension assets where the current government also wants to increase investments in private assets.

Note: It should be noted that the Labour party has shown great support for the Solvency II reform. Former City Minister, Tulip Siddiq, said at the launch of the capital markets industry taskforce conference that the Labour government would unapologetically reinvigorate capital markets including "proposals to encourage the investment of capital freed by Solvency II reforms into UK infrastructure and green industries".

The new rules[21] allow for 10% of the matching adjustment benefit to be attributable to highly predictable cashflows (rather than fixed cashflows) and make sub-investment grade assets efficient from a matching adjustment perspective by removing what has been known as the "BBB cliff"[22]. Additionally, the PRA will look to streamline the matching adjustment application process for certain assets.

These reforms to Solvency II, in addition to the need to deal with illiquid assets to enable pension buy-outs, are both drivers for insurance companies to increase their exposure to illiquid assets. Our view is that this can create opportunities for private debt managers that are able to design products where cashflows are structured in a way that is consistent with the requirements for matching adjustment. Some of the adaptations that can make private loans eligible for matching adjustment include make-whole loan clauses, structuring solutions to mitigate the prepayment risk, fixing interest payments or using derivatives to convert interest payments from floating to fixed. Alignment to matching adjustment has typically been easier to achieve within infrastructure debt and real estate debt as these loans produce stable cashflows and more readily lend themselves to longer-term funding.

To take advantage of these opportunities, managers should build/strengthen relationships with insurers as these will increasingly be the institutions holding pension assets. Figure 8 on the next page shows the list of insurers that are currently active in the UK pension buyout market. We can see high levels of growth and market concentration as well as the presence of new market entrants.

Figure 8: Insurers participating in the UK buy-in/buy-out market

Insurers[1]	Buy-out volume in 2023[1]	Market share in 2023		Volume growth since 2021	Largest single transaction[1]
Rothesay	£12.7bn	50% market share	26%	↗ x4	▪ Telent: £4.7bn, 2019.
Legal & General	£12bn		24%	↗ x2	▪ Rolls Royce: £4.6bn, 2019.
PIC	£6.9bn	50% market share	14%	↗ x2	▪ RSA: £6.5bn, 2023.
Standard Life/ Phoenix	£6.2bn		13%	↗ x1.2	▪ Imperial Tobacco: £1.8bn, 2022.
Aviva	£5.5bn		11%	↘ x0.9	▪ Aviva Pension Scheme: £1.7bn, 2022.
Just	£3.4bn		7%	↗ x1.8	▪ GKN: £0.5bn, 2023.
Scottish Widows	£0.9bn		2%	↗ x9	▪ **Exited the market in 2024**, the bulk annuity platform was acquired by Rothesay.
Canada Life	£0.6bn		1%	↘ x0.6	▪ Undisclosed: £0.9bn.
M&G	£0.6bn		1%	*Re-entered in 2023*	▪ Northern Bank: £0.3bn, 2023.
Royal London	£0.3bn		1%	*New market entrant in 2024*	▪ Royal Liver: £0.3bn, 2024.

Notes: [1]According to LCP as of October 2023. Only buy-ins and buy-outs with a UK pension scheme are included.
Sources: Lane Clark & Peacock LLP (LCP).

Note: In July 2024, Brookfield applied for an insurance licence with the PRA to enter the UK corporate pension buy-out market. Brookfield has owned Oaktree since 2019, an alternative-asset manager with over $170bn in assets under management. Coincidently, Utmost, a British insurer backed by Oaktree, is also expected to enter the buy-out market in 2024. This increased competition can be a driver for innovation for insurers and asset managers.

3. Growth of Superfunds and their investments in illiquid assets

As an alternative to insurance buy-outs, pension schemes may look to transfer their assets and liabilities into a new DB pension scheme, i.e. Superfund, which is backed by additional capital from external investors. This risk-transfer solution is seen as a lower cost solution for pension schemes which is meant to be used only by schemes that cannot access the insurance market in the foreseeable future (Pensions Regulator's guidance suggests this is up to five years).

This is still a recent concept in the UK. The Pensions Regulator created an interim regulatory regime in 2020 and it is currently developing a permanent legislative regime[23] which may lead to more Superfunds being established. The King's Speech in July 2024 confirmed that consolidation through Superfunds remains on the agenda for the current administration.

As the Superfund market develops this may provide an opportunity for private capital as Superfunds are expected to benefit from scale when compared to individual schemes and they operate outside the insurance regulatory framework which puts them at a more favourable position than insurance companies.

The previous government had also consulted on establishing a public sector consolidator operated by the Pension Protection Fund (PPF) by 2026[24] which would target DB schemes that are unattractive to commercial consolidation providers. According to the consultation, one of the aims of the PPF Superfund is to enable greater investment in "high-growth UK assets" than would have been achievable without the consolidator, which again aligns to the broader objectives across pensions – consolidation, investing in private assets and investing in the UK.

Note: Some Superfunds will hold the assets and liabilities until run-off whilst others act as an interim solution whereby they look to sell to an insurer once an improved funding ratio has been achieved. The latter is the model used by Clara Pensions, which is so far the only Superfund to be approved by TPR and is backed by Sixth Street.

4. Potential reforms to surplus sharing could promote productive assets

Defined benefit pension schemes are typically not incentivised to maximise returns, but rather to match assets and liabilities. Well-funded schemes for example tend to shift their investment strategy to capital preservation rather than growth. This has largely been driven by the funding regime that pension schemes have to comply with. The fact that it is often difficult for sponsoring employers to access any surplus in a pension scheme also has an impact on funding and investment decisions.

The previous government was looking to reform the treatment of scheme surplus for private defined benefit schemes by making it easier to share scheme surplus with employers and scheme members. One of the key aims stated was to support schemes to invest in more "productive assets"[25], a goal which aligns with the Labour party's manifesto.

In January 2025, the government announced it was looking at legislative changes that would allow all DB schemes to permit surplus extraction where there is a trustee-employer agreement. It is hoped this will encourage investment in higher risk assets and greater investment in UK assets.

DC schemes overview

Last year a series of reforms for DC trust-based schemes were proposed which are meant to significantly unlock capital for the private capital industry – £50bn by 2030 according to the Mansion House speech[26]. The current Chancellor has echoed the aims of the previous administration and announced that a pensions review will "explore ways to increase their investment into productive assets" as "even a one percentage point shift of assets into productive investments could mean £8bn of new productive investment to grow the economy and build vital infrastructure by the end of the decade.[27]"

An analysis of some of the largest master trusts in the UK reveals that so far, most have no allocations to private equity or private debt, but several have expressed intentions to change this (see Figure 10 on the following page). Allocation to other alternative asset classes such as infrastructure and real estate exist, but exposure is achieved often through more liquid products.

Key opportunities for private capital managers are driven by:

1. The Government's agenda to drive further investment in unlisted equities through the Mansion House Compact.
2. The introduction of several additional reporting obligations and other reforms that are expected to encourage DC trustees to invest in private markets.

Figure 9: Mansion House signatories

Mansion House signatories	AUM[1]		Market share of master trusts[2]
M&G/Prudential	£120bn		-
Nest	£37bn	37% market share	22.0%
Legal & General	£25bn		15.0%
Aviva	£10bn	25% market share	6.0%
Standard Life/Phoenix	£9bn		5.0%
Mercer	£7bn		4.0%
Aon	£6bn		3.0%
Smart	£5bn		3.0%
Aegon	£4bn		2.5%
Scottish Widows	£3bn		1.5%
Cushon	£2bn		1.3%

Notes: [1]This AUM refers to the Master Trust except for M&G/Prudential which is not a master trust, where the AUM refers to the 'With-Profits' fund; [2]According to Go Pensions DC Master Trust League Table 2024, H1. Represents the market share of commercial master trusts, this includes data from 19 master trusts representing c. £170bn AUM.

Figure 10: Analysis of the Mansion House signatories

These are the six largest commercial master trust DC schemes that signed the Compact, and their outlook into private markets. Allocations refer to the default fund.

Mansion House	Master trust AUM	Real assets	PE/PD	Investment adviser[1]	Expressed targets and comments	
Nest	£37bn	13%	4% - PC 2% - PE[2]	In-house	▪ Manage £5bn in property, private credit, unlisted infrastructure and private equity. ▪ Private markets are c.15% of total portfolio, 45% of private assets allocated in UK.	*"We continue to diversify into private assets such as property and private equity. These assets can produce long-term, strong growth."* CIO, Nest. IPE, 2023
Legal & General	£25bn	10%[3]	0%	Hymans Robertson	▪ In July 2024, L&G launched its Private Market Access Fund expected to unlock private market access for 5.2m DC members – available for DC schemes to invest in directly and via the new "L&G Lifetime Advantage Fund" default strategies. This product is a Fund of Funds with underlying investment in L&G's LTAF which the FCA had approved earlier in May.	*"The fund is a one-stop-shop for private market exposure and we hope it will inspire DC members into greater engagement with their pension."* Head of DC, Legal & General. Press release, 2024
Aviva	£10bn	10%[4]	0%	Isio	▪ Aviva's Head of Real Assets has predicted that 90% DC schemes will allocate 10% to illiquids. ▪ Prefer simpler/more transparent fee structures for private markets. ▪ Aviva has so far launched two LTAFs – Real Estate and Climate Transition Real Assets.	*"We will shortly be allocating to further illiquid assets such as private debt and infrastructure, and over time, private equity such as venture capital."* Head of Investment Strategy, Aviva. Corporate Adviser, 2024
Standard Life/ Phoenix	£9bn	6.2%	0%	Reddington	▪ Phoenix Group and Schroders launched a new private markets investment manager, 'Future Growth Capital' (FGC) to promote the Mansion House objectives. Launching with £1bn in initial commitments, the FGC will aim to deploy £10-20bn of investor funds into private markets over the next decade.	*"This facility will also play a significant role in the future design of our flagship defaults"* Group CEO, Phoenix Group. Schroders press release, 2024
Mercer	£7bn	0%	0%	In-house	*"I can envisage some clients wanting a 10% private markets allocation straightaway, and that will be fine with us. And certainly by 2030 we would expect our private markets allocation to be larger than 5%."* Investment and Retirement Lead, Mercer. IPE, 2024	
Aon	£6bn	Yes, amount unknown	0%	In-house	▪ Aon will first focus on building its private markets allocation, particularly private debt and infrastructure, and then over time will look to introduce private equity. ▪ Aon is currently appointing specialist managers for each area of private markets. ▪ It will be 12-18 months before allocation begins.	*"It might include productive finance but not necessarily private equity. Private equity will follow once we've got potential vehicles. It will take some time to get up and working."* CIO, Aon. IPE, 2024

Notes: [1]According to the Corporate Adviser Master Trust report 2024; [2]As of September 2023, based on Nest's 2040 Retirement Fund (default strategy); [3]Based on growth phase of the fund, as of 30 April 2024; [4]Allocation to property in 'My Future Focus – Aviva's default investment solution, as of April 2024. Sources: IPE, Top1000funds, Corporate Adviser, Corporate Adviser Pensions Average, and companies' media releases.

1. Government's agenda to drive further investment in unlisted equities

Although currently not mandatory, the eleven Mansion House signatories have committed to invest 5% of their default funds into "unlisted equities". These signatories represent approximately 60% of the UK's master trust assets. Until now, the term "unlisted equities" has not been properly defined, but is essentially equities not listed in a recognised trading venue, with equities quoted on AIM and Aquis Growth Market included.[28] So far, such investments represent 0.36% of allocations on average.[29]

2. Reporting obligations and other relevant reforms

In addition to Mansion House, several other reforms have been proposed that aim to positively impact DC schemes' ability or willingness to invest in private assets. These are summarised in the following table.

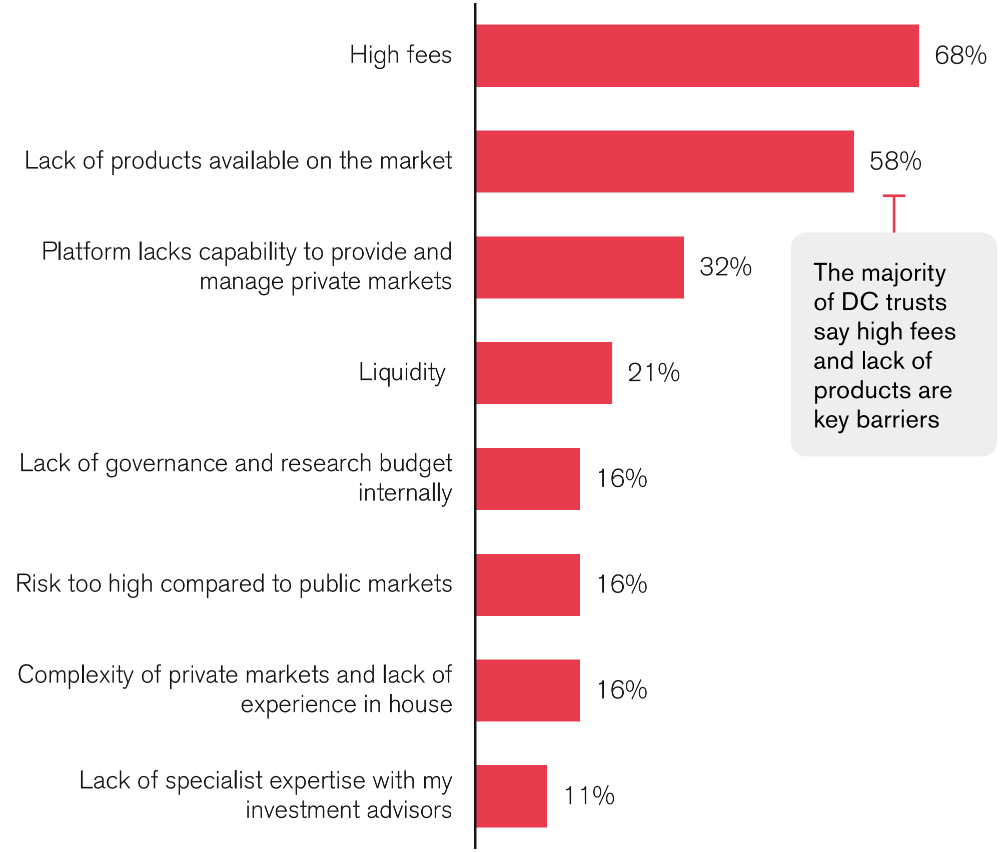
Figure 11: DC schemes reform proposals

Proposed reform	Status	Summary of reform	Impact
Changes to fee cap	Effective since 6 April 2023.	▪ Performance fees were excluded from the 0.75% charge cap that applies to default arrangement in DC schemes.	▪ Potential increased ability to invest in alternative assets which typically charge higher fees. Managers have in theory more flexibility on how to structure compensation.
Investment policy for illiquid assets	From 1 October 2023.	▪ Trustees will have to state their policy on investing in illiquid assets for their scheme's default arrangements, disclose the asset breakdown, and provide a justification if they have not allocated to private markets.	▪ Sets expectation that DC schemes should consider investment into private assets.
UK investment disclosures	Under consultation by FCA (August 2024).	▪ DC schemes to publish breakdown of allocations, including UK equities, investment in British businesses and costs/returns.	▪ Currently there is no obligation for DC schemes to invest in the UK, but public disclosures will add pressure to do so.
Value for money framework	Announced in Spring 2024. FCA consultation closed October 2024 and DWP/HMT consultation closed January 2025.	▪ The reform shifts focus from cost to long-term value. DC schemes may have to compare their performance against at least two other schemes.[30] ▪ The government is also exploring the role of employers and advisers which will place greater emphasis on the performance of auto-enrolment schemes focused on metrics other than cost e.g. net investment returns.	▪ DC schemes are incentivised to allocate more to private markets as the focus is on returns and those performing poorly will not be able to take on new business or may be forced to merge. ▪ Increased reporting and disclosure will provide an important signal on the performance of DC schemes and drive better investment decisions.
Consolidation of deferred small pots	Consultation launched in Summer 2023. Confirmed by the current government.[31]	▪ Trust-based DC schemes holding less than £1,000 would be automatically consolidated into "default consolidator(s)" which would likely be a limited number of approved master trusts. ▪ A "pot follows member" approach was also suggested but has been less popular as the frequency of transfers would increase liquidity needs working counter to the focus on productive finance.	▪ This would mean an increase in the number of transfers out of any schemes with many small pots thus leading to higher liquidity needs, which would be a barrier for illiquid assets. ▪ On the other hand, the aggregation of these small pots into consolidator schemes would allow them to increase scale quickly and could be positive for private asset investments.
Lifetime model	Call for evidence launched in Autumn 2023, mentioned again in the Spring Budget 2024[32], however no active proposals by current government.	▪ Savers to keep pensions with one provider even if changing employers creating a "pot for life" approach. The aim is to reduce small/dormant pots and to "support wider investment in high growth assets".	▪ In the long-term this would lead to large, consolidated pots with significantly lower liquidity requirements, both of which could facilitate investment in private markets.
Scale up and consolidate multi-employer schemes	Under consultation in November 2024 – earliest changes expected 2030.	▪ In pursuit of larger pension funds the government has proposed (i) a cap on the number of default funds that each provider of multi-employer auto-enrolment schemes can operate and (ii) multi-employer schemes' default funds should operate at a minimum AUM.	▪ Larger pension schemes will be able to achieve greater diversity of investment, and in particular the government believes operating at scale will allow greater investment in private equity.[33]

Still, key barriers remain, which explain the low levels of investment in private assets when comparing the UK to other countries with significant DC markets such as Australia or Chile. These are:

1. The charge cap that applies to default schemes and negative views on performance fees.
2. The use of unit-linked funds which constrain the products DC schemes can invest in to access illiquid assets.

Figure 12: What are the most significant barriers to investing in private markets for your DC trust?



Source: The Defined Contribution Investment Forum, 2024.

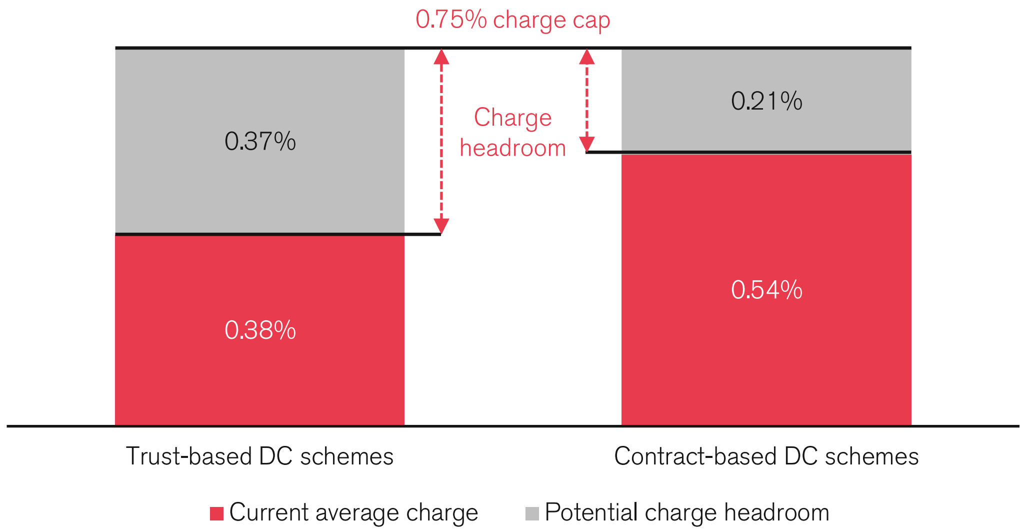
1. Charge cap and views on performance fees

Trustees and managers of occupational pension schemes which are used to meet employers' automatic enrolment duties must ensure that the costs and charges borne by the scheme do not exceed 0.75%. This is known as the "charge cap".

Although at first glance the charge cap might appear to be the main barrier for private capital investments where managers typically charge much higher fees:

- the charge cap applies on a "blended" basis across all the funds held within the scheme. This means that a private capital manager could charge fees in excess of 0.75% if there were other lower cost funds in the scheme, provided there is sufficient "headroom"; and
- given the historical focus on costs, many DC schemes have invested in low cost funds to date and are operating currently with aggregate fee levels below the 0.75% cap, so there could be room to include private capital funds in these schemes. This headroom is indicative of a broader mindset which favours lower fees over higher returns and is currently being addressed through the value for money framework. Similarly, the exclusion of performance fees from the charge cap, affords additional flexibility to fund managers on their charging structures, but it does not address the broader underlying issue – most DC schemes do not believe performance fees fit their models (see Figure 14 on the following page).

Figure 13: Average charges for qualifying schemes for automatic enrolment



Source: Department of Work and Pensions, 2021.

A common reason cited is that performance fees may make it difficult to ensure that fees are attributed fairly between members. Members will invest/divest at different times making it challenging to ensure that the members that are bearing the cost of the performance fees are also the ones benefiting from strong performance. In this context, a much greater emphasis is put on valuations and DC schemes must provide transparent and clear reporting on costs and charges to their members.

Opportunities exist for managers that are able to solve this problem. Some managers, particularly within infrastructure and private credit, have rejected carried interest completely in favour of a flat management fee model to attract DC investors. Others are considering performance fee models that more closely resemble hedge funds, perhaps using techniques such as series accounting or equalisation to address concerns around member fairness.

Figure 14: Do you agree with performance fees being allowed in DC schemes?

Source: Corporate Advisor Intelligence, Master Trust and GPP Defaults Report, 2024.

2. Investment through unit-linked funds

Many DC pensions schemes are managed by life insurance companies. These funds are then typically invested through unit-linked funds, which are products that have underlying pooled investments (fund-type structures) wrapped in an insurance policy. These products combine plan-holders' capital into a pooled fund which allots them units according to how much money they have invested. The popularity of unit-linked funds from a buyer perspective is that they can achieve highly diversified exposures at lower cost, from an insurer's perspective, they may also receive a more favourable treatment under Solvency II through unit matching. The rules that set out the types of assets that can be held in unit-linked insurance funds are commonly called "permitted links rules". These rules are meant to protect the retail investors, who ultimately bear the investment risks of these products, and have been a key barrier for private capital due to their restrictions on unlisted and illiquid assets – broadly, unlisted securities are permitted only if "readily realisable in the short term", which means that private capital investments are unlikely to qualify.

According to the FCA, most UK pension savers who are members of defined contribution pension schemes invest via unit-linked funds. When analysing the signatories to the Mansion House Compact, the relevance of permitted links rules becomes clear. Out of the nine master trusts, only one has a completely in-house governance model whereby trustees choose managers for each asset class, not dependent on an insurer's investment platform. Master trusts managed by consultants, as in the case of Mercer and Aon, typically also invest through insurance platforms, which again engages the permitted links rules (see Figure 15 below).

Figure 15: Mansion House Master Trust Analysis

Mansion House Master Trust	AUM[1]	Market share[1]	Type	Insurance-linked	Trustee governance model for asset allocation[3]	Investment platform[3]
Nest	£37bn	22%	Independent	No[2]	In-house	None
Legal & General	£25bn	15%	Insurer	Yes	Outsourced	LGIM
Aviva	£10bn	6%	Insurer	Yes	Outsourced	Aviva
Mercer	£7bn	4%	Consultant	Indirectly	Outsourced	Aviva/Scottish Widows
Aon	£6bn	3%	Consultant	Indirectly	Outsourced	Aegon
Smart	£5bn	3%	Independent	Indirectly	Hybrid	LGIM/Mobius Life
Aegon	£4bn	2.5%	Insurer	Yes	Outsourced	Aegon
Scottish Widows	£3bn	1.5%	Insurer	Yes	Outsourced	Scottish Widows
Cushon	£2bn	1.3%	Independent	Indirectly	-	Aegon/Mobius Life

Notes: [1]According to Go Pensions. Represents the market share of commercial master trusts, this includes data from 19 master trusts representing c. £170bn AUM; [2]May invest in unit-linked products as part of a the broader asset allocation; [3]According to DC Investment Forum.

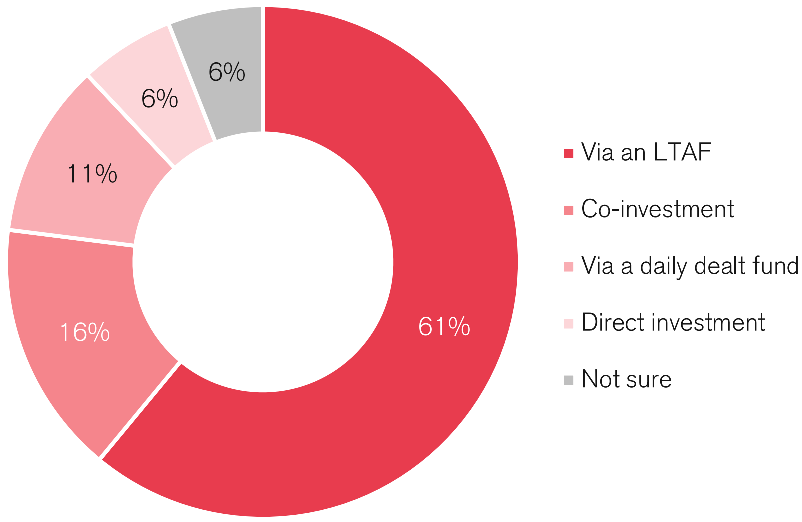
As shown, permitted links rules are a significant hurdle to access a large addressable market. Luckily there have been several changes to these rules in the past three years to facilitate investments by DC schemes in more illiquid assets. The most significant change has been the creation of the Long-Term Asset Fund (LTAF) and its inclusion as one of the new "conditional permitted links", meaning, it can be held in a unit-linked fund. The LTAF was first available in 2021, although there was limited uptake. However, in 2023 we saw a renewed interest, mainly explained by two factors:

- When LTAFs were first created they were only available to default arrangements in DC schemes.[34] In 2023, distribution was extended to mass market retail investors, as well as self-select DC pension schemes and Self-Invested Personal Pensions (SIPPs). Read our article on this topic on macfarlanes.com. Although this report does not go into much detail on personal pensions, SIPPs represent a large and growing market, which alone holds more assets than the DC master trusts market.
- The previously mentioned reforms such as the Mansion House Compact and the obligation for DC scheme investment policies to refer to investment in illiquid assets, have increased pressure on DC schemes to invest in private assets.

LTAFs are the only UK authorised fund product supporting direct access to private asset classes and are expected to become the vehicle of choice for managers looking to access DC capital and more broadly "democratise" their offering for a UK investor base.

A broad range of asset classes are suited for LTAFs including private equity, private credit and real assets, however, given these are open-ended funds with typically regular redemption opportunities, private credit is particularly well positioned for this product and is where we currently see the highest demand, alongside diversified private capital strategies, often delivered through a fund of funds model.

Figure 16: Absent any constraints, how would you prefer to access illiquids?



Source: The Defined Contribution Investment Forum, 2024.

Overall, it is important for managers to understand how to deliver access to alternative assets for different types of pension funds. Figure 17 below provides a high-level summary.

Figure 17: Delivering access to alternative assets for pension funds

	Closed-end funds	Lux Part II UCI funds/RAIFs	Evergreen funds-of-one	LTAFs	Listed funds - Investment trusts
DB schemes	Permitted	Permitted	Permitted	Permitted	Permitted
DC schemes: independent from insurance platform	Permitted, but not preferred	Permitted	Permitted	Permitted	Permitted
DC schemes: with insurance platform	Not permitted	Not permitted	Permitted, but not preferred	Permitted	Permitted

Permitted
Permitted, but not preferred
Not permitted

Note: May be able to access evergreen SMAs if the pot of assets meets the permitted links rules.

Note: LTAFs are a product innovation to allow access to DC funds, they are mostly relevant for insurance-linked DC schemes, which make up the majority of the UK DC market.

Key takeaways

The UK pension system is complex and currently undergoing several reforms impacting its different segments. Although throughout the years, managers saw a decline in commitments from UK pensions as many DB schemes closed, Brexit and the government's need for growth are now providing new opportunities for private capital. The three main themes across the reforms are consolidation/scale, investments in private assets and investments in the UK.

- LGPS pools will continue to grow through consolidation in coming years. Managers must adapt to new dynamics and build relationships primarily with the pools, several of which have open mandates for private asset managers.
- The private DB schemes buy-out market is growing at a significant rate and is creating important opportunities for secondaries managers as pension schemes look to sell their illiquid positions that are unattractive for insurers.
- The potential proposals regarding allowing employers to share in DB pension surplus and the proposed Superfund regime could be expected to incentivise investment in higher returning private investments.
- DC schemes are also being encouraged to invest in private assets but there are still important barriers to consider. It is crucial to understand their use of unit-linked policies to determine how they can best access alternative assets. For those impacted by permitted links, LTAFs are the preferred solution as they fit directly into the regulatory framework.
- Monitor the government's final Pensions Investment Review to understand whether further interventions will be made to promote investment in the UK.

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Investor Intelligence

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Investor Intelligence

Margarida Ferreira
Investor Intelligence Lead
DD +44 (0)20 7791 4375
margarida.ferreira@macfarlanes.com

Georgina Grant
Senior Analyst, Investor Intelligence
DD +44 (0)20 7849 2433
georgina.grant@macfarlanes.com

Legal Contributors

Andrew Barton
Partner, M&A/Insurance
DD +44 (0)20 7849 2464
andrew.barton@macfarlanes.com

Faye Jarvis
Partner, M&A/Pensions
DD +44 (0)20 7849 2141
faye.jarvis@macfarlanes.com

Lora Froud
Partner, Investment Management
DD +44 (0)20 7849 2409
lora.froud@macfarlanes.com

Richard Fletcher
Partner, Banking and Finance
DD +44 (0)20 7849 2244
richard.fletcher@macfarlanes.com

Endnotes

1. Investment Management in the UK 2022-2023 (theia.org).
2. According to PPI DC Future Book 2023 (publishing.service.gov.uk).
3. Labour Party 2024 Manifesto (labour.org.uk).
4. Figure only includes the England and Wales LGPS.
5. Chancellor vows 'big bang on growth' to boost investment and savings (gov.uk).
6. Local Government Pension Scheme (England and Wales): Fit for the Future, November 2024 (gov.uk).
7. LGPS Scheme Advisory Board - Asset Allocation, 2023 figure (lgpsboard.org).
8. Pensions Investment Review: Interim Report, November 2024 (gov.uk).
9. Defined benefit pension schemes - Work and Pensions Committee (parliament.uk).
10. Other insurance solutions also exist e.g. longevity swap agreements (where longevity risk but not asset risk is insured).
11. Cashflow matching for insurers and pension schemes (abrdn.com).
12. Legal & General survey from March 2024 (legalandgeneral.com).
13. Some inflation-linked assets are permitted.
14. When pension schemes are already engaging with insurers other options exists such as agreeing a deferred premium.
15. Other solutions such as deferred premiums or loans also exist, however the trustee would still be exposed to investment risk.
16. Several schemes became overallocated to illiquid assets as cash collateral requirements had to be met with cash.
17. Tesco pension sells £1bn pound PE portfolio to multiple buyers (buyoutsinsider.com).
18. Secondaries Investor ICG LP Secondaries secures over $200m portfolio from UK pension Cummins (secondariesinvestor.com).
19. UK pension funds snap up real estate at steep discounts (ft.com).
20. WTW launches Illiquid Assets and Buyout Specialist Group (wtwco.com).
21. Some elements of these rules are already in force, others will come into force in December 2024. PS10/24 – Review of Solvency II: Reform of the Matching Adjustment (bankofengland.co.uk).
22. Sub-investment grade assets were considered “inefficient” for matching adjustment inclusion and, according to Schroders, accounted for less than 1% of UK matching portfolios in October 2023 (schroders.com).
23. Timeline for completion is unknown.
24. According to the consultation “Options for Defined Benefit schemes” which was opened in February 2024 (gov.uk).
25. The term “productive assets”, which is often used by government, does not have a formal definition. However, it is often described as investment that expands productive capacity, furthers growth and can make an important contribution to the real economy. Examples of productive assets include: plant and equipment, research and development and infrastructure. This includes both private equity and private debt related to these sectors.
26. This figure implies a market size of £1tr. It is most likely that this figure also includes contract-based DC schemes as currently trust-based schemes only manage approximately £270bn (theia.org).
27. Chancellor vows 'big bang on growth' to boost investment and savings (gov.uk).
28. According to the Mansion House Compact Background & FAQs (theglobalcity.uk).
29. According to the ABI year one progress update (abi.org.uk).
30. Comparable schemes must be larger than £10bn.
31. Included in the Pension Schemes Bill announced during the King’s Speech (gov.uk).
32. During the Spring Budget speech, Jeremy Hunt stated he would continue to explore “how savers could be allowed to take their pension pots with them when they change job”. Spring Budget 2024 speech (gov.uk).
33. Pensions Investment Review: Unlocking the UK pensions market for growth, November 2024 (gov.uk).
34. According to Aegon, over 90% of those in company pensions will tend to remain in the default option (aegon.co.uk).

MACFARLANES

Macfarlanes LLP | 20 Cursitor Street London EC4A 1LT

T +44 (0)20 7831 9222 | F +44 (0)20 7831 9607 | DX 138 Chancery Lane | macfarlanes.com

privatecapitalsolutions.com