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BRINGING PRIVATE MARKETS INTO DC

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WHAT DOES 'VALUE' MEAN IN PRIVATE MARKETS?

Two industries are coming together to find a new way to deliver value to DC pension savers

John Greenwood

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If you are a DC pension provider, it might feel like the Government is pushing you in different directions.

The value for money framework will place a premium on strong near-term returns, as providers are ranked on performance, alongside service and charges.

At the same time, our friends in Whitehall are also driving the industry towards significant new allocations to private markets, both in the UK and globally, which may take some time to start showing their worth in terms of numbers.

For DC professionals, getting the most out of these new allocations to private markets requires a new understanding of value – one that is far less constrained by price, and more tilted towards quality, and to an understanding of the risk/return characteristics of the different types of alternative assets available to schemes.

The dispersion of returns on private equity, for example, is extremely broad. While index funds enable schemes to buy the market average, this is simply not possible in private markets. Every decision requires a value judgement, which can turn out well or badly. So experience, quality and expertise are going to be crucial in delivering for the nation's DC savers.

Delivering value will also require an understanding of the megatrends, themes and sectors that are coming into or going out of favour, and an understanding of which structures – open- or closed-ended – to use for particular sub-categories of private markets.

Delivering value will go beyond returns and the pounds, shillings and pence paid for them. It will also extend to cash flow management, rebalancing and maintaining suitable allocations as different asset classes ebb, flow, and in stormy markets, gyrate.

The implementation of private markets in DC is a colossal undertaking, bringing together two silos – the DC sector and the private markets community – into a new area of collaboration. To date, these two sectors often speak in different terms, around investment returns for example – time-weighted returns are very different from IRRs. Similarly, clarity around risk characteristics in the world of private markets seems to be quite different to that in listed markets.

But much work has been done and both sides are learning fast. With steady inflows lined up for the rest of the century, we have a generational opportunity to find a new way to deliver value for DC pension savers.

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BRINGING PRIVATE MARKETS INTO DC: ROUND TABLE

CHALLENGES TO INTEGRATING PRIVATE MARKETS

Both DC providers and specialist asset managers need to understand the challenges each face around liquidity and asset allocation to drive up member outcomes. **John Lappin** hears how this might be done

There is an urgent need for DC providers, private market asset managers, and general and limited partners from venture capital to increase their mutual understanding to make a success of working together.

This was one of the key findings at a recent Corporate Adviser round table event, with panellists hailing from across the private asset and DC pension sectors. All felt that this divide needs to be bridged, particularly in terms of understanding issues around liquidity requirements and the asset allocation needs of DC pensions.

There was also debate over who, within this developing set of relationships, needs to take responsibility for which areas, as pension providers establish their own approaches and demands.

Yet DC providers remain broadly welcoming of moves to embrace private

markets and expect higher returns as a result.

Jo Sharples, CIO for Aon's DC solutions, summed this up. "After fees, we want to get better returns to members and better outcomes," she said.

Ben Lewis, head of investment proposition for Mercer DC Solutions, said it is important to understand what this return is relative to. "If you want outperformance in equities, you need to be allocating to things that are at the punchier end of the private market spectrum. The initial focus is about getting access to private markets within these portfolios but getting to that next level of 'are we getting access to the right asset classes?' is going to be particularly important."

James Monk, Fidelity's investment director for workplace investing, said that



Sam Murphy, Nalaka De Silva and Oliver Little



up to now, defined contribution investing has been very cost sensitive.

"We've been going through an evolution of trying to understand exactly what value means. In the context of private assets, it's absolutely key it is driven by returns and the quality of the solution, and less by the cost of implementation. Private markets are a very good area to get a bang for your buck."

Understanding megatrends

Lushan Sun, head of cross-asset research, private markets, at I&G expects the additional premium pick-up, after an increase in fees, to be about 1 per cent and potentially higher in certain areas. Yet she believes providers also need to be aware of structural megatrends impacting specific areas, as this will affect potential returns.

"So, sector selection, thematic selection is almost as important, if not more important, than the asset class itself. As well as a strategic asset allocation, we look underneath to say what are the trends?"

Aegon's head of investment strategy Niall Aitken, also stressed the importance



Niall Aitken

of understanding the full cost of certain approaches. "Automatic allocation of cash flows, rebalancing generally and dynamic market allocations add cost and complexity to the whole default operation. Some people underestimate the complexity of reworking your system to incorporate bits that need to drift and bits that require more active cash flow management," he said.

All parts of the glidepath

Martyn James, director of investment at Now: Pensions, stressed that while there was an understandable focus on returns, it was important not to forget the diversification benefits as well.

Evan Klironomos, investment proposition manager, Aviva agreed, adding: "We're looking beyond that rigid approach to see how we can invest in private markets asset classes in a way that caters for that evolution of risks that members face along the entirety of the glide path. We're exploring what we can do in each of the private markets asset classes to essentially reflect our views that certain asset classes – and certain sub-asset classes – might

have different parts to play at a different phase of the glide path." He said it was important to maintain flexibility and to be able to "allocate in a dynamic way and to cater for that evolution of risks".

Aitken added that he is also "super-interested" in how resilience can be added to DC portfolios. "That's all the way up to and through retirement. One broad asset allocation to private markets may be right for the growth stage, but you may then need to change. So how are you future proofing your structural designs and your allocations for different glide paths?"

Oliver Little, head of UK DC pension strategy at Neuberger Berman, added that there had been less published research into private markets and the decumulation stage.

Building flexible structures

Little suggested that providers might consider an "opportunistic" bucket to access assets that could provide outsized returns, but that might not fit neatly into some definitions.

So, for example, capital solutions sitting between private equity and private credit,

or trade finance or GP-led secondaries.

Sharples noted that defaults had already come a long way from what were very static approaches.

"We talk about a more tactical shift in the context of private assets, but we all recognise that it's not necessarily that easy to shift some of them. But equally, we've got big schemes that have got lots of cash flow coming in. It does give you a bit of scope to flex," she said.

This prompted Nalaka de Silva, head of private markets at Aberdeen, to note that the investors and the practitioner community have built a lot of systems for the "smooth transition of capital from DC to private capital" in other jurisdictions.

"This community has spent a lot of time building the necessary processes to allow for kind of the smooth transition of capital from the DC environment into private capital. That comes with a cost.

"But once that investment is made, as we saw in Australia, it becomes a normal thing. It does require quite a lot of thinking about how you do pricing and valuations, given the range of asset classes we're talking about." He saw that as another aspect of the challenge. "Private markets is a catch all term for everything that's not listed. There needs to be standardisation. Parts need to converge. So, while there are special opportunities in investments, how do we give people a sense of: 'Okay, if I'm investing in this, how do I compare it to something else that looks like it on the public side, so I can judge the difference'. These are the conversion points."

Where does the buck stop with liquidity?

There was some discussion of where liquidity and other responsibilities rest. ►



Ped Phrompechrut

Monk said: "The vast majority of the structuring, the communication, reporting, and liquidity management should sit with the DC provider. That way the manager can focus on what they do best and not try to learn a whole load of new skills about dealing with DC members and liquidity requirements." He also queried some GPs' embrace of evergreen investment and potentially retail distribution.

Ben van den Tol, director, client solutions at CBRE argued there was a place for closed-ended solutions, alongside a more evergreen approach and made a distinction between private equity and infrastructure.

"Our view with open-ended evergreen [structures] is that it's great for infrastructure. You are potentially holding that asset for 30 years all the way through to terminal value. You're pumping in capital expenditure every couple of years. You're refurbishing it. You're evolving the asset and future proofing it over the longer term," he said.

Lewis added: "That's where Long Term Asset Funds (LTAFs) comes in. We've all gone through this somewhat painful process of designing and getting these LTAFs off the ground. Once you've got that in place, then you have lots of flexibility."

Sun added: "Having asked for them, some open-ended structures are obviously helpful. But in other asset classes, especially more niche areas, say digital or venture, you're not going to get open-ended funds. Therefore, you pay for managers based on their capabilities, and you manage liquidity holistically at the overall top level."

De Silva felt a hybrid approach would be required, with some agreement on cash management all the way down the chain.

"That cash management is all the way through the chain, because if equity markets fall 20 per cent, okay, I've got a

denominator effect, but I've got capital commitments, how do I fund them?"

"That's a communication line that needs to be opened up with the GPs directly. For example, don't call capital, because I don't want to reallocate from equities, because I'm going to take the bounce. But when the right time comes, we'll allocate. But that doesn't really work from the GP standpoint, because they've already committed to these projects. I think the communication channels need to be sorted. GPs are going to have to get closer to the DC providers in many ways."

Improving governance

De Silva suggested that once you get the governance right on how the allocation and deployment mechanisms work, it brings confidence across the sector.

Sam Murphy, head of client solutions and product at Future Growth Capital said: "Within product markets, from an investment perspective, when you're doing due diligence on a manager, we'll ask for a line by line on every loan, every transaction. We then torture that data, do our own analysis, have lots of back and forth to make sure we're really comfortable.

"That's a lot of heavy lifting. There needs to be better communication from provider to asset manager to the underlying GP, in terms of language used, and the agreed terms. It needs a bit of work."

Monk also raised the point about a provider perhaps wanting to communicate about an investment "when it's a really nice message for the member. That is a very different dynamic for the GP universe to think about".

A pitch in time

Aitken noted that one recent pitch contained a lot about the great investment opportunity, but didn't make it easy for him



Nalaka De Silva



Sam Murphy

to understand the return characteristics. That was, ultimately, his question to ask, but surely those working on the private markets side of things need to think about how to help him answer it, he said.

James also noted that a huge number of players want to pitch for business and yet the lack of understanding of the needs of the DC market remains huge. He said: "There are a handful that are really looking for the partnership and looking to understand your needs, coming to discuss how you structure the portfolio and the deployment of capital, understanding the sustainability needs, understanding the fees, and being DC friendly."

Interestingly many panellists felt that a range of trade bodies from the British Private Equity and Venture Capital Association to the Investment Association have a role to play in helping foster improved mutual understanding.

Murphy remained optimistic that this was improving. "In our experience in the last 10 months, tier one, world class managers, with hundreds of billions of assets under management, get that this is a huge pool of capital coming.

"The world is moving to having better data, more transparency and more flexibility in structuring. And the best organisations will have an investment platform and structuring platform where they will be able to put different assets into different products for different investors and provide them with the reporting and support they need."

As he concluded, some challenges still remain, but huge progress has already been made to date. Both DC providers and specialist private market asset managers "are on a journey", he said but he remained confident of arriving at a destination that would help deliver better outcomes for members. ■

BRINGING PRIVATE MARKETS INTO DC: ROUND TABLE

DELIVERING PERFORMANCE – ON FEES AND UK INVESTMENTS

DC funds are changing their approach to performance fees and higher allocations to UK markets. **John Lappin** reports

The pensions sector is fully embracing performance fees, with no fundamental objections among panellists at a recent Corporate Adviser round table event, looking at the challenges of incorporating private markets within DC portfolios.

That attitude was summed up by Ben Lewis, head of investment proposition for Mercer DC Solutions.

He said: "To get access to the right asset classes within the DC world, performance fees are a necessity. It's part of the toolkit."

Yet all panellists were clear that managing fees within a price-capped DC pensions context brings huge challenges.

Sam Murphy, head of client solutions and product at Future Growth Capital, said that you can't approach the fees issue "in any short and easy sound bite way, because every asset class is different."

He pointed out that there are also different valuation methodologies used. "Ultimately, you need a highly experienced team, who are ideally seeing lots of transactions and who are separate to the investment team and who can make a judgement."

"You are paying fees where there's a higher risk/return in certain asset classes at certain times, while trying to minimise the AMC being collected, and maximise outcomes, in a structure that is appropriate."

Fee transparency

Martyn James, director of investment at Now: Pensions said it is not about whether to use performance fees or not. It is about the operational side.

"If performance is good, the fees that you will pay will be extremely high, and if

that's baked into the headline fee that you're reporting, that's extremely challenging for master trusts.

"The performance fees have to be transparent. They have to be reported, so everyone can see them, but not part of the headline fee. Then when they're charged, it's about making sure that members that get the performance are charged the fee, and whether you can accrue them in certain way to make that fair."

The challenge was noted that some investments might not pay off before some members have left.

James said: "It's never going to be perfect, and some members are going to benefit and some are going to be disadvantaged. But if you're looking at something like a default, you have to look at the overall membership. Is this good for the overall membership – and the answer we've agreed is probably yes." He added if there was some unfairness that trustees and scheme providers need to look at how to mitigate it.

James Monk, Fidelity's investment director for workplace investing, also highlighted inconsistent regulation regarding performance fees.

"Performance fees sit outside the charge cap within a master trust environment, but they don't within a contract-based environment, and they're still working to try and align that."

"If you're looking to provide a scale solution, you ought to really be considering the same solution across both of those structures."

Jo Sharples, CIO for Aon's DC solutions, added: "It feels as if we could do more around fee disclosure, because there's all sorts of weird, wonderful fee structures cropping up to hide things or make things go away, but the costs are still there. It will come through in the net performance. It's about how you're disclosing."

"The fees can be hideously complicated. I worry we're creating a potential monster for ourselves further down the road. But if we think about what we would like to see, we might be able to get a better, kind of transparent, consistent way that actually works for us all," she added.

Yet while acknowledging these challenges, panellists were generally optimistic about how these might work in practice.

Ben van den Tol, director, client solutions at CBRE says: "Master trusts are in a really fortuitous space, both with your scale today and your growth trajectory, you're able to have those institutional discussions, and to be able to say: ►



Ben van den Tol, Martin James and Niall Aitken

'All right, we're going to pay you an AMC that is low. It's enough to break even, it's enough to wash your face.'

"But if you reach these hurdles and you're over and above that, that's when the performance fee can be triggered. That same narrative can then be expressed to the members."

Valuation challenge

Ped Phrompechut, chief investment officer of Future Growth Capital, discussed the adjustments required for marking to market.

"From a valuation standpoint within private markets, where there's no regular trading at all, we end up in a world where we're marking to fundamentals and we're marking to a widely accepted modelling approach. As a baseline, you end up with much smoother valuation outcomes compared to listed where there's ongoing price discovery every day through trading, albeit in thin volumes.

"In terms of how assets are marked and held, each holder of the assets should adjust the value for where they have a strong view. We don't see a problem with assets being held at different valuations by different owners. We already see it within private equity and within venture. It's all about ownership and conveying why that mark makes sense."

Lushan Sun, head of cross-asset research, private markets, at Legal & General added: "We have defined benefit pension schemes in a rush to do buyouts. Lots of them are selling their private markets assets in the secondary markets. Perfectly decent, high-quality assets in sectors that a long-term investor might like. But because of the liquidity issue with the buyout, they're willing to sell these stakes at a discount. There's a great opportunity if you have the capital to deploy."

She added that in infrastructure, where they may be a huge queue to invest, you may be able to pick up the asset from a secondary market seller, though perhaps selling at NAV rather than NAV minus.

"If I'm happy with the price, I transact and still get a decent long-term return, but that might not be the valuation. We often think about returns in that sense, because of the valuation, but it's also very subjective private markets."

Nalaka de Silva, head of private markets at Aberdeen, said that price discovery doesn't really exist. "The managers who are managing those assets have to have robust processes to be able to articulate why the mark is the mark, whether it's a model, whether it's transaction value or it's an independent valuation."

He added that the real asset valuations for private equity can cost huge amounts of money. The DC market will have to do some policy work to sort out its own processes and procedures for transferring between schemes, which require both time and investment being put in.

Pricing of LTAFs

Aegon's head of investment strategy Niall Aitken raised the issue of LTAFs. "You need a certain degree of confidence, if you're to say most LTAFs in the market will be monthly or quarterly valued, but they'll be daily priced. It creates a mechanism by which you can let those members come and go. But there still remain questions about "should you?"

He noted that there are a lot of protections where there are big market movements: "Does the LTAF manager mark differently than the marks they're receiving from underlying fund holdings?

Potentially? Then you've got the other fair value pricing of the insured fund level, and if it's wrapped too? There are quite a few protections there and points people can make adjustments."

He said that insurers do have experience of direct property investment funds in multi-asset strategies.

"We're not getting to 20 per cent allocations overnight. This is a five-year journey. There will be wobbles along the way, because every year or two, there's at least a 10 per cent drawdown. I'm seeing a chance to test some of those operational issues when you're not at your target allocations."

There was some discussion of gating, but it was felt to be less of an issue for DC pensions, than say private assets investments aimed at the retail market.

Sun said: "You need to be careful if you offer it as self-select. Most people are not trying to jump in and out of the default, so I think that gives another safety mechanism.

Sharples suggested that "you would need to be really clued up to try and game this".

Appeal of UK investments?

The demands of the Mansion House Accord especially around investing in UK private markets could be tested amid the appeal of other global markets.

Oliver Little, head of UK DC pension strategy at Neuberger Berman questioned the Accord demanding 50 per cent UK investment.

"If you look at the UK allocation as part of the global equity index, it is about 3 per cent, so is 50 per cent of your private markets allocation, the right number?" he asked.



Ben Lewis



Jo Sharples

"I spend a lot of my time talking to the bulk annuity providers who are looking to the UK for matching adjustment eligible assets, and they're struggling to find enough eligible assets to put money to work. Ultimately, when all of you scale up to the right size, there is going to be a similar sort of scenario where there just won't be enough good assets in the UK to be invested in, so having the global diversification will be important.

"We should be thinking about using pension capital to facilitate the growth in the UK economy. That's a noble cause, but it does come with a pretty heavy caveat about the number of productive assets that we can actually deploy into."



Evan Klironomos



Lushan Sun



Ben van den Tol



James Monk

Sun added: "The ultimate objective of any DC pension fund is to maximise the member outcomes. That for me is the ultimate target. At L&G we love investing in the UK, but we want to tilt our capital towards the assets that are attractive to generate a long-term return."

"We are not concerned about creating price bubbles, but there needs to be enough high-quality assets, with enough downside protections for us to invest in them."

That said, she suggested the UK has some very strong sectors – real estate is broad and deep, and it is a leader in digital.

Lewis said: "We want to give managers the flexibility to buy UK deals where they are appropriate for a mandate, but we are not

going to put a gun to their head. We are not going to say we need you to allocate, where you get crowding round a smaller pool of deals. The whole Mansion House Accord was contingent on there being sufficient opportunities."

Monk made the point that the UK economy has been globalised for decades now. Any forcing of UK demand could be temporary, and "it would be much better to sort the longer-term supply dynamics so that it will also appeal to the global investor".

Phrompechrut added: "This is about forward looking at indicators. Relative value can be assessed. The same PE deal flow in the UK at what valuation, debt

levels, growth trajectory. They can see that side by side with other regions.

"Separately, the pace and the quantum of the marginal capital that is coming in and going out. There are pockets, where there might be intense competition, but we see lots of pockets that are starved of capital, because other players have left."

Social housing was also seen as having a strong investment case, though even there, supply and regulatory challenges persisted. But infrastructure and certainly high tech and biotech growth saw unfavourable comparisons with other countries' investment ecosystems.

Appeal of infrastructure

There was, however, support for infrastructure, not least in that it can help with engagement with members.

Van den Tol said: "A level of tangibility is so important for the member base. You can actually visit these complexes, and see the real-life difference they're making. So, it's almost about investing in the future for the member and, albeit the risk return trade off might be a little less attractive versus the US, that social dividend is really important. When you go to Canada, Australia or Scandinavia, you can see bright and shiny infrastructure courtesy of private pools of capital. I'm almost a patriot to a degree, in terms of reinvesting back into the local community."

However, it was felt that even here, approaches might have to change.

De Silva said: "You have to make it a place that foreign investment capital is attracted to. Mandating is perhaps the wrong answer instead of letting it naturally play out via high quality FDI capability being delivered. Then tell the stories to investors."

"But on the risk appetite, it needs to be calibrated, we are not seeing the same level of enthusiasm from UK pension funds or long-term pools of capital to say we are happy to take economic infrastructure risk relative to something else. We need to sort the supply side."

De Silva also pointed out big challenges in other areas mentioned by Mansion House – such as high growth tech and biotech. The UK may produce a phenomenal amount of IP, but at later stages it is scooped up. He said: "The allocators have to feel comfortable with VC risk. You have to see an ecosystem. If the UK wants to see higher inflows you have to have an ecosystem delivering strong, positive returns year on year."

Although there were reservations about these UK weightings, many remained positive this influx of money from DC would help further develop this sector. ■



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OPINION

BUILDING RESILIENT PORTFOLIOS:
A SMARTER APPROACH TO
PRIVATE MARKETS

» Nalaka De Silva head of private markets solutions, Aberdeen Investments



As UK defined contribution (DC) schemes evolve, the need for diversified, resilient portfolios has never been greater. With traditional asset classes under pressure and member outcomes increasingly scrutinised, private markets are emerging as a compelling solution. Yet, integrating them into DC strategies requires careful planning, robust governance, and a clear understanding of the unique dynamics at play.

Private markets offer the potential for enhanced long-term returns, inflation protection, and ESG alignment. But they also come with challenges: illiquidity, cash flow complexity, and performance dispersion. To navigate these, DC schemes must adopt a structured approach to portfolio construction that goes beyond simple asset allocation.

One of the most compelling reasons to consider private markets is their direct link to the real economy. Investing in infrastructure projects, sustainable housing, renewable energy, and growth-stage businesses means DC members' savings are not just chasing returns - they're helping build the future. This tangible connection can enhance member engagement and make the pension proposition more meaningful.

However, the dispersion of returns across private market segments is significant. Unlike listed markets, where performance tends to cluster, private markets show wide variability depending on manager skill, access route, and asset type. This makes manager selection critical. Schemes must look beyond headline IRRs and assess track records, deal attribution, and value creation strategies. Access routes - whether primary funds, secondaries, co-investments or direct investments - also influence outcomes and should be chosen based on scheme objectives, liquidity needs and cost envelope.

Cash management is another key consideration. Private markets require committed capital over multi-year horizons, with drawdowns and distributions occurring

unpredictably. Poor cash management can lead to performance drag or forced selling of liquid assets. Schemes must model expected cash flows, maintain appropriate buffers, and consider fund financing tools. Open-ended structures like Long-Term Asset Funds (LTAFs) offer flexibility but demand rigorous liquidity oversight. The ability to stay invested while maintaining liquidity is essential to avoid diluting returns.

The "J-curve" effect, where early-stage investments show negative returns due to upfront costs and delayed value creation, is a structural feature of private markets. For DC schemes, where member fairness and sequencing risk are key, smoothing the return journey is essential. This can be achieved through diversification across asset classes and maturities, secondary market participation, and phased deployment. A well-designed pacing plan spreads commitments across vintage years and sectors, reducing exposure to single-cycle shocks and supporting long-term resilience.

As DC schemes increasingly adopt semi-liquid structures, the issue of intergenerational fairness becomes more prominent. Members enter and exit default funds at different times, and without careful design, they may be exposed to uneven cost and return profiles. For example, performance fees often accrue at the end of a fund's life, potentially benefiting one cohort while disadvantaging another. To address this, schemes should consider mechanisms such as dilution levies, NAV-based accruals, and diversified J-curve profiles across the portfolio. These tools help ensure that costs and benefits are fairly distributed, supporting equitable outcomes for all members, regardless of when they join or leave.

Private markets also offer a powerful route to ESG and net zero alignment. With growing regulatory and member focus on sustainability, these investments can help schemes meet their climate goals. From renewable energy to

green real estate, private markets enable targeted capital allocation to projects that drive real-world impact. However, data transparency remains a challenge. Schemes should engage with managers using frameworks like SASB and demand clear KPIs linked to ESG outcomes.

Risk management in private markets requires a different toolkit. Idiosyncratic, market, and macro risks must be assessed through scenario modelling and asset-level analysis. Sophisticated models like the one developed by Aberdeen (PRISM) help decompose risks and optimise allocations. For DC schemes, this supports better governance and member outcomes, ensuring that portfolios are not only resilient but also aligned with long-term objectives.

DC schemes can harness the full benefits of private markets - delivering growth, resilience, and sustainability. But success depends on thoughtful portfolio construction, active management, and a commitment to fairness across member cohorts. As the industry continues to innovate, schemes and their advisors must stay informed, ask the right questions, and partner with managers who understand the nuances of DC investing. The opportunity is clear - but so is the responsibility. ■

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OPINION

SPEAKING THE LANGUAGE OF UK PENSIONS

» Paul Forshaw, chief executive, Future Growth Capital



Open architecture, scale and a distinctly UK focus are essential if DC schemes are to make a success of investing in private market assets

How has Future Growth Capital come about and what is it aiming to achieve?

Schroders and Phoenix Group set up Future Growth Capital to address a key challenge – how to help UK DC pensions funds access the higher return potential of private markets efficiently. Private markets offer significant return potential, but they are also more complex and challenging to navigate – trustees and pension schemes often need specialist support.

Future Growth Capital provides the specialist expertise in areas such as asset allocation, portfolio construction, manager research, and risk management. In addition, the backing of our parent companies provides complete operational and governance assurance. Our aim at Future Growth Capital is to support pension trustees by providing them with everything they need to feel confident about their private markets investment journey.

What do you bring to the market that can't be sourced elsewhere?

We've thought carefully about what may be missing in the marketplace from a trustee perspective. We have an open architecture approach, investing with a range of high-quality managers, with the ability to switch managers if needed. We feel it is reassuring for trustees to know they are not going to be locked into managers who may underperform in the future.

We've brought a different pricing philosophy to the market. We do not want to screen out high-quality managers by making them limbo under a very low fixed fee bar, which may have consequences for performance. It's the net return, and the probability of achieving that return, which matter most in our view, and we prefer our fees to be linked to the performance we deliver.

You have launched a bespoke UK-focused Long term Asset Fund, why is that?

There are great investment opportunities in the UK's private markets to take advantage of.

But we also wanted to empower trustees in one key area – to decide how much of their portfolio should be invested in the UK. Our sense is that while they want to outsource many areas of decision-making to a manager, trustees prefer to make the UK exposure decision themselves.

We've launched separate, complementary UK and Global ex-UK funds, side by side, giving trustees the ability to decide for themselves how much of each they want, and the ability to change those weightings in future, as and when they want.

There's no shortage of investment opportunity in the UK's private markets and they offer attractive risk adjusted returns

How important is scale in managing private market assets for DC pension funds successfully?

Scale is important. It can take a while to ramp up and fully diversify new private market strategies, you want that period to be as short as possible. Having substantial foundation capital to invest from our parent, Phoenix, allows us to diversify our funds quickly and de-risk them for investors.

The Mansion House Accord indicates a 5 per cent UK private markets allocation. What opportunities does the UK offer and what can this do for the UK?

UK private markets are broader and deeper than often thought. When you look at the evidence, there is plenty of private markets investment activity going on in the UK, and it is a fertile ground to invest in.

From our perspective, the UK is a hub of innovation – it has more than its fair share of

world-ranked universities, an active and growing spin-out industry, and is now the third-largest venture capital market in the world. Some £18bn of VC deals were transacted in 2024, and a further £30bn-£50bn of private equity, in industries that employ more than 2m people in the UK. On top of that we saw £100bn in UK infrastructure deals last year, and £50bn into UK real estate.

So, there's no shortage of investment opportunity in the UK's private markets and they offer attractive risk-adjusted returns. International investors are already taking advantage, and we think it's time for UK pension investors to have the opportunity to do so as well.

If you had to sum it up, what do UK private markets offer DC members?

Better retirement incomes and a better UK to retire into. Over the long term, if members pension savings are one-fifth invested in managed private asset solutions, we expect to see a 20 per cent uplift in their pension pots at retirement.

That's meaningful, and importantly, it doesn't require people to save more, at a time when they may be finding it difficult. At the same time, they will have the deep satisfaction of knowing their savings have been used to invest in growing UK businesses, creating jobs and prosperity in their own society. That's a well-rounded definition of a good member outcome in our view. ■



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NEUBERGER

BERMAN

Enhancing DC Outcomes with Private Equity

Private equity has long been recognised for its appealing risk/return characteristics. As product innovations reduce barriers, we believe it's time for DC scheme sponsors to take a fresh look at the asset class.

For professional clients only.

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**Learn more about
Neuberger's DC Solutions**

OPINION

UNLOCKED POTENTIAL:
ENHANCING DC OUTCOMES
WITH PRIVATE EQUITY

» Oliver Little client advisor — UK DC strategy, Neuberger Berman



Defined contribution (DC) schemes have over the years looked for ways to increase participation, enhance investment choices and help participants reach better retirement outcomes. However, one area that has at times proved a struggle is introducing investments that can meaningfully enhance diversification beyond traditional equities, fixed income and cash. Private equity, which has historically provided an attractive risk/reward relationship in the context of defined benefit plans, has been an enticing but elusive category when it comes to the DC world, where inclusion has been limited by structural impediments such as illiquidity, limited transparency, regulation and fees.

With structural improvements on all these fronts, combined with the ambition to introduce private market asset classes into DC schemes, highlighted by the signing of the Mansion House Compact in 2024, we believe that it is now appropriate for schemes to consider the addition of private equity, alongside other private market assets. There are still hurdles, and investors should be aware of the range of investment outcomes that are possible in private markets. It is therefore important to understand the impact of selecting between different managers and approaches to private equity investing.

While investing in primary funds can help to build a well-diversified portfolio over time, they typically incur significant fees at the LP level and can take considerable time to fully invest the committed capital. Investing via

secondaries can speed up capital deployment, but the fees are similarly high. In both cases, the LP has little control over what goes into the portfolios.

In comparison, we believe co-investments, which are direct investments into private companies made alongside a private equity manager rather than through a fund, offer significant benefits for DC schemes

In comparison, we believe co-investments, which are direct investments into private companies made alongside a private equity manager rather than through a fund, offer significant benefits for DC schemes. Co-investing enables managers to be more actively involved in the investment selection and due diligence processes. And co-investment capital is typically offered with lower management and performance fees than a traditional fund, and sometimes with no fee.

Though co-investing is more resource-intensive compared to a primary or secondary approach, having control over investment selection enables managers to better align portfolios with scheme objectives, by targeting specific sectors or regions, for example, or balancing growth equity and buyouts.

Picking a co-investment partner that can provide consistent and high-quality deal flow is an important requirement for a successful co-investment strategy. We believe that being able to draw on an established private markets platform with strong relationships across numerous private equity managers is vital. We also believe that partners need to understand the specific challenges of UK DC schemes and have the skills to structure the appropriate solutions to meet those challenges. ■

Read our whitepaper:



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OPINION

MID-MARKET INFRASTRUCTURE IS A MUST FOR WELL-DIVERSIFIED PORTFOLIOS

» Ben van den Tol CFA, director, client solutions, CBRE Investment Management



Institutional investors have gradually increased their average allocation to infrastructure, prompting a more thoughtful approach to optimal portfolio construction. Increasingly, investors seek diversification by geography and sector, complemented further by size, as a path to reduce a portfolio's sensitivity to macro factors, as well as financial and other external shock events. CBRE Investment Management's research indicates that mid-market infrastructure, which we define as unlisted infrastructure companies with an enterprise value of \$500 million to \$2 billion,

is a compelling addition to established infrastructure portfolios.

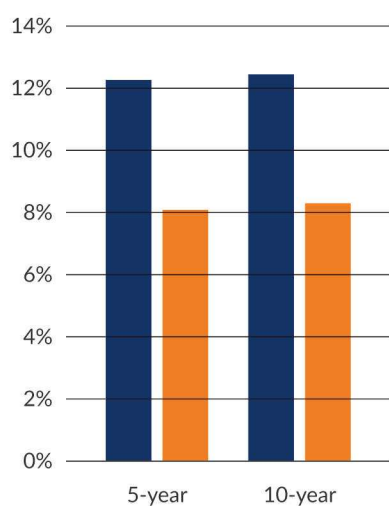
The largest 100 unlisted mid-market infrastructure companies have historically outperformed the core infrastructure market across five- and ten-year periods, both on an absolute and risk-adjusted basis. The chart below shows that imputed annualised returns for the top 100 mid-market companies over these time periods were strong and consistent at 12.2 per cent and 12.4 per cent, respectively. Below we investigate the reasons for the mid-market return advantage.

Sizable opportunities set

Contrary to the perception that infrastructure investing is limited to large-scale assets like airports or utilities, the mid-market is vibrant and diverse. Over the past five years, mid-market transactions have averaged nearly \$600 billion annually across more than 1,500 deals. These opportunities are concentrated in sectors aligned with global megatrends such as; renewable energy, electrified transport, and digital infrastructure.

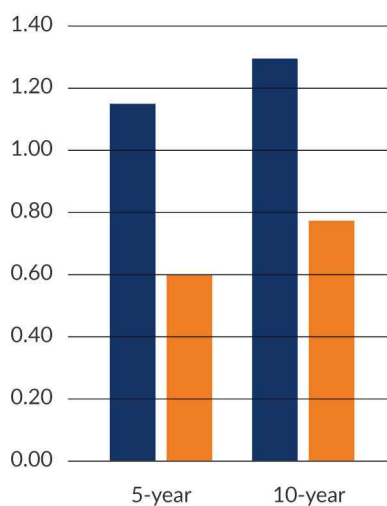
In Europe, mid-market infrastructure is well-established, particularly in Germany and

Annualised returns



■ Infra100 mid-market
■ Infra100 core

Sharpe ratios



■ Infra100 mid-market
■ Infra100 core



Source: EDHECInfra 100 Mid-market, market capitalization \$28 billion and EDHECInfra 100 Core, market capitalization \$238 billion. As of May 30, 2025, gross of fees, equally weighted, in local currency.

the Nordics. However, the UK and US are seeing rapid growth. In the US, one in ten mid-market deals involves fiber networks, data centers, or wireless towers, sectors benefiting from surging digital demand.

More attractive entry multiples

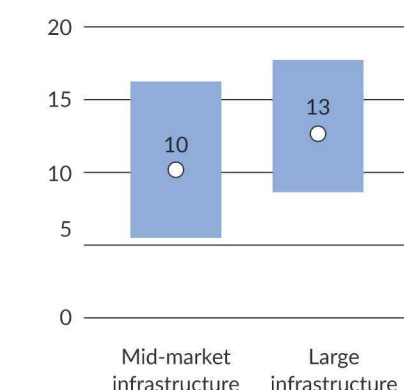
The rise of mega infrastructure funds (over \$5 billion) has led to increased competition for large, trophy assets. In contrast, mid-market deals face less competition, allowing investors to acquire assets at more favourable entry multiples, typically measured by enterprise value to EBITDA. These transactions are often relationship-driven, enabling bilateral negotiations and avoiding auction processes that can inflate prices.

Powerful engines of economic growth

Mid-market companies are vital contributors to economic activity. In the U.S., they represent one-third of private sector GDP and consistently outperform the S&P 500 in revenue growth. While macroeconomic headwinds in 2024 slowed growth to under 2 per cent, mid-market infrastructure businesses remain agile and innovative, with strong potential for recovery and expansion.

These companies are well-positioned to benefit from structural megatrends such as

Enterprise value to EBITDA (x)



■ Interquartile range

○ Median

Source: EDHEC Valuation metrics for mid-market assets (between \$100 million and \$1 billion) and large assets (above \$1 billion) as of May 30, 2025. Entry level enterprise value to EBITDA is imputed based on recent transactions and a risk factor model.

energy transition, digitalisation, and demographic shifts. For example, the International Energy Agency projects that global power demand from AI-driven data centres could double or triple by 2030, with renewables expected to supply half of this additional demand.

Defensive play

Despite perceptions of higher volatility, mid-market infrastructure has demonstrated strong defensive characteristics. Risk metrics, including historical volatility and maximum drawdown are comparable to or better than those of core infrastructure. Many mid-market assets operate under long-term contracted models, such as availability-based concessions, which provide predictable, inflation-linked cash flows.

Opportunities for value creation

Mid-market deal sizes allow for more tailored financing and active asset management. Fund sponsors can unlock value through platform build-ups, bolt-on acquisitions, and strategic capital structuring. During periods of market dislocation, such as recent clean energy devaluations in the U.S., mid-market investors have capitalised on discounted valuations and recycled capital through asset sales and minority stake dispositions.

Infrastructure managers can further enhance stability by structuring inflation-linked contracts. Examples include electricity-as-a-service models in heating and cooling infrastructure, and long-term subscription agreements for EV charging depots serving logistics fleets.

Conclusion

Infrastructure is an asset class that has delivered strong performance. Core plus and value creation strategies focused on downside protection and secular growth can go further to help maximise infrastructure's attractive risk-return profile. Maximising performance can be achieved by being nimble and flexible, investing globally in mid-market assets operating in next-generation infrastructure sector and by using an optimal fund structure. We believe that in today's challenging economic and geopolitical environment, next-generation infrastructure core plus strategies through an open-end fund is a timely investment opportunity. ■



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Tangible.

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solutions that help you thrive.



BRINGING PRIVATE MARKETS INTO DC: ROUND TABLE

PRIVATE MARKETS PRAGMATISM

Advisers are 'cautiously optimistic' about the implementation of private markets into DC defaults, but say challenges persist, particularly around manager selection and the focus on the UK. **Muna Abdi** reports

The push to boost private market allocations in defined contribution (DC) pensions is gathering pace, although implementation is still at an early stage. Corporate Adviser's latest report on private markets found that fewer than half of the UK's largest multi-employer DC pension providers had introduced private market exposure into their biggest default funds at the end of 2024, 17 months after the Mansion House Compact was introduced.

Advisers and trustees are approaching the opportunity with a mix of enthusiasm, caution and pragmatism. At a recent Corporate Adviser round table, industry experts discussed progress and challenges to date, with a focus on expected returns, manager selection and the specific issues around UK-focused allocations and delivering wider social impact.

A question of timing

Delegates highlighted that private markets present opportunities for diversification and strong long-term returns, but this fundamental shift in asset allocation presents significant challenges for the providers and the intermediary sector. They argued that the complexity, illiquidity and higher fees on these investments require careful assessment. They stressed that considering both market conditions and regulatory or political factors was key as DC schemes could not afford to wait for the "perfect economic moment" to invest.

XPS senior investment consultant Joe Howley reflected on the necessary balance between caution and opportunity. He said: "We are very cautious. If you look back over the last few years, it's difficult to make a strong case for private markets on returns

alone, given what we've seen in equity markets. However, over the long term, as a DC investor myself, I do want to access private markets. It's about figuring out which strategies will deliver over these longer time horizons, in terms of return, diversification, and value for money, given the increased fees."

Hymans Robertson partner and head of DC investment Alison Leslie noted that while past DB experiences showed exits don't always go as planned, the current economic environment is very different.

She said: "Given the level of due diligence I've seen, and because we are in a very different economic environment, I'm more comfortable looking forward. It may not deliver the spectacular returns of the past, but there is an opportunity to pick up the liquidity premium."

For advisers, timing extends beyond markets to include political and regulatory developments. Zedra client director Joanne Fairbairn said: "I'm looking at the long-term future. I'm proud to have these types of investments as part of the DC portfolio, with big caveats. The caveats are liquidity and pricing issues. In terms of timing, I watch the political environment. We can't afford to wait for the perfect economic moment, because by then the government may have mandated actions that we'd rather approach on our own terms."

Aviva Investors director Joachim Sudre also highlighted the importance of timing ►

across market cycles. He noted: "Premiums on private debt, for example, can vary significantly across different market cycles. It can really differ by asset type and market cycle and that can be very important for allocations."

Manager selection

One of the biggest challenges in private markets is manager selection and transparency. Fidelity International investment director James Monk explained that the quality of managers chosen will drive outcomes across the investment lifecycle.

He said: "Manager selection, from origination right through to exit, is a huge driver of returns. Ideally, there should be transparency, but in reality, it is often difficult to establish the true valuation of assets. That quality-marking process is absolutely essential."

Leslie reinforced this point, noting that internal mandates require heightened scrutiny but can work effectively when paired with external managers.

She said: "Using multi-managers and multiple sub-asset classes within the portfolio is what we would expect for this market, because it is so complicated. Manager selection is really important here."

Advisers highlighted the complexity of private markets, stressing that future assumptions about returns or risk are difficult to make. Isio senior DC investment

consultant Adam Fisher warned: "Private markets are huge. The range of asset classes and managers is massively different. What happens going forward could have a huge impact."

Meanwhile, Legal & General head of diversified strategies Martin Dietz noted that the industry needs expert advisers to navigate private markets. He said that unlike liquid markets, private assets move slowly and involve highly idiosyncratic strategies, making it difficult to judge performance or value for money. He said that DC advisers can benefit from collaborating with their DB colleagues, as DC strategies have traditionally been simpler.

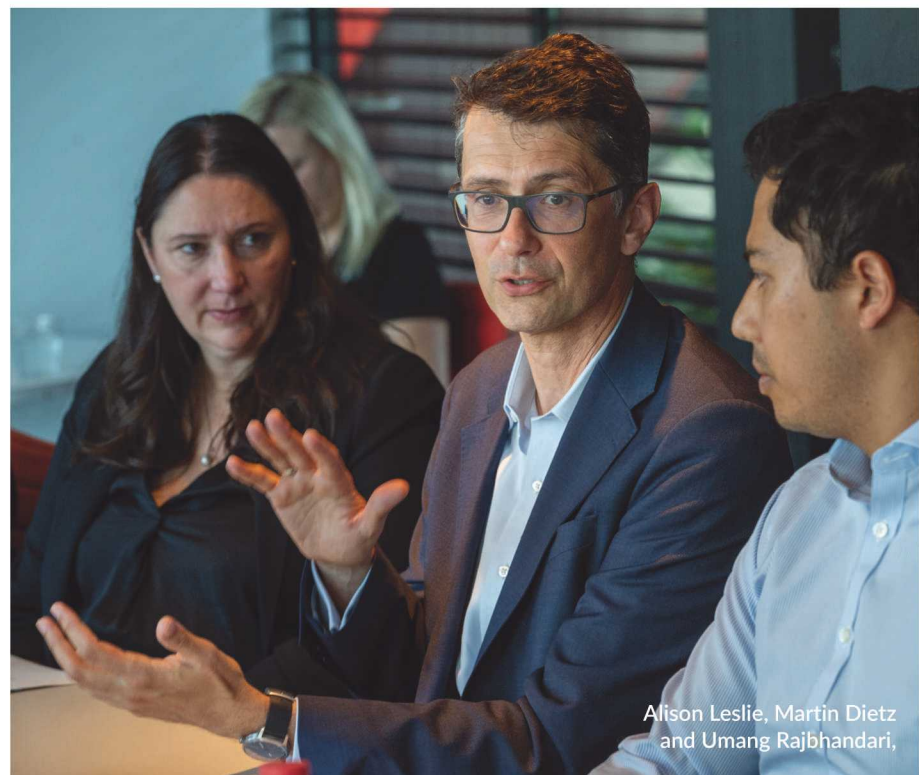
He said: "Looking forward, it's hard to say which particular private assets classes or private market sectors will perform and deliver value for money."

Despite these challenges, trustees acknowledged that careful manager selection and expert guidance around private market allocations could unlock additional benefits for members, particularly when it comes to infrastructure and other socially valuable projects. Quantum Advisory principal Paul Francis noted that trustees often preferred to wait and observe outcomes before committing, but many recognised the broader advantages. "The key is how we deliver those benefits practically."

Delegates also emphasised the importance of provider expertise. Barnett



Joachim Sudre



Alison Leslie, Martin Dietz
and Umang Rajbhandari,

Waddingham investment consultant and head of alternative investment research Umang Rajbhandari cautioned against over-reliance on internal funds, noting the importance of choosing providers with the right expertise.

He said: "Given where rates are, it becomes really important to select the right provider, one with the expertise to find the right opportunities. Some providers just use internal funds, and those may not always be the best."

Government influence

The Mansion House Accord requires signatories to invest 10 per cent of their DC default funds in private markets, of which half should be in UK-based opportunities. Those on the panel said this focus on UK assets is forcing trustees and providers to confront practical challenges.

However, many delegates said that despite this concentration, there was still an opportunity to offer diversification for members, and ensure that private market allocations worked effectively, aligning with members' longer-term retirement goals.

Joe Howley



Umang Rajbhandari



Master trusts, which typically manage a single default fund at scale, face particular pressures, as adding private market exposure inevitably increases costs. In contrast, a number of contract-based providers already offer a multi-default strategy, with higher cost 'premium' defaults and lower cost options. Some providers will be looking to add private markets to their 'premium' default offering.

Fairbairn noted: "It's quite hard for master trusts because they can only afford one default fund. They'll have to achieve scale and include private markets, otherwise the government will question their approach. That pushes costs up, making it harder to compete against providers who offer cheaper options without private markets."

Despite the added costs, uptake of private market strategies has been strong. Dietz said: "We have seen lots of support from advisers and consultants and many clients have opted in or followed guidance. There's been a huge amount of uptake of this strategy."

The discussion highlighted that, even with higher costs, trustees and providers

are increasingly willing to navigate the complexities of private markets to meet government expectations and secure long-term benefits for members.

Member impact

Trustees are placing greater emphasis on factors beyond pure financial returns, with fiduciary duty increasingly encompassing social and environmental considerations. Corporate Adviser's private markets report found that seven in 10 advisers believe DC trustees should take these wider impacts into account, using investments as a means to support the society in which members will retire.

Monk highlighted the responsibility trustees and providers bear in guiding members through complex decisions.

"Private assets are complex, and members rely on providers' solutions. It's our duty to deliver and show courage in our convictions about what is best. Members may not have a preference over private assets, but we need to act in their long-term interests. This is especially important when considering beliefs

such as Shariah compliance, which are fundamental to some members rather than financial principles."

The round table revealed that while members may not fully understand private assets, trustees and advisers are willing to embrace solutions that reflect long-term impact, provided they are communicated effectively and structured responsibly.

Private markets are increasingly on the radar for DC schemes, offering the promise of diversification and enhanced long-term returns. But delegates were clear that these opportunities come with significant complexities and realising their potential requires a disciplined approach.

They noted that selecting the right managers and communicating risks, costs, and benefits clearly is essential. Given this complexity, it is unlikely that private markets will ever be a one-size-fits-all solution, but schemes that combine strategic timing, expert manager selection and clear value-for-money considerations can deliver sustainable outcomes aligned with trustees' fiduciary duties and members' retirement goals. ■

BRINGING PRIVATE MARKETS INTO DC: ROUND TABLE

PAYING A PREMIUM FOR PRIVATE MARKET STRATEGIES

Will advisers and their clients accept significantly higher fees in what has been a very cost-conscious DC market? **Gill Wadsworth** listens to the debate

Sweeping government reforms are set to change the face of the UK's workplace retirement schemes. Out with the rigid DC default schemes, beholden to charge caps and expectations of daily liquidity, and in with investment strategies free to invest more widely, with a focus on delivering value for money.

Specifically, the new Pension Scheme Bill is designed to encourage DC schemes to invest in private markets, predominantly those investing in the UK, simultaneously supporting the nation's growth ambitions while delivering better outcomes for members.

Yet there is no such thing as a free investment lunch, and with greater access to private markets with their necessary sophistication, expertise and complexity, comes an inevitable increase in fees.

At a recent round table event discussing the role of private market assets in DC pensions, delegates debated the challenge

for providers, advisers and trustees in finding a fee structure that is palatable to both employers and members and succeeds in delivering value for money.

Joe Howley, investment consultant at XPS Pension Group, said: "Private markets investments are not set and forget strategies; we need to know which assets are going to deliver for members in terms of return, diversification, and crucially fees. How do we make sure that members gain the best value for money? We've got to try and figure out as an industry, and it will take a few years to work through."

The June 2025 Corporate Adviser Private Markets report finds just over one-fifth (22 per cent) of advisers are 'very comfortable' with the higher costs of investing in private market assets, while 59 per cent say they are 'fairly comfortable'.

However, more than half (56 per cent) of advisers predict that employers will only accept an increase of 5 to 10 basis



James Monk and Joanne Fairbairn

points in fees to accommodate a private markets allocation.

Accepting performance fees

The reality of moving to performance fees is also contentious for a DC market used to set annual management fees, which are capped in default schemes.

Corporate Adviser's Private Markets report finds 55 per cent of advisers believe performance fees should be allowed in DC schemes.

Joachim Sudre, client solutions director at Aviva Investors, said: "Attitudes to fees change on a case-by-case basis, but simpler flat fees tend to be preferred by DC investors. That can be complex to apply when there are different layers of costs to consider within private markets, for example acquisition fees within real estate."

Joanne Fairbairn, client director at Zedra, welcomed a straightforward approach to charges, but added members should not sacrifice returns for the sake of simplicity.

Fairbairn said: "It's always nice to have simple solutions to explain to members



and for reporting and governance purposes, but actually, I wouldn't exclude paying performance fees if it means getting better returns."

Martin Dietz, head of diversified strategies at Legal & General, warned that dismissing performance fees could restrict DC schemes' ability to attract the best private markets managers.

"We have tried to limit the application or use of performance fees, but we have not drawn a red line. Private markets is an area used to performance fees, and if you say you are never going to accept them, you shrink your investment universe potentially, and that is not in the interest of the underlying members," Dietz added.

Aligning interests

Dietz also made the point that, if constructed correctly, performance fees align the investment team with the member, which he says "makes managers really focused on delivering returns".

James Monk, investment director for workplace investing at Fidelity, agreed that

accepting performance fees both opens the market and provides essential alignment between manager and investor.

"We absolutely don't exclude performance fees. There are huge swathes of the private markets sector that see performance fees as non-negotiable, so accepting them is about gaining access to quality managers," Monk said.

Umang Rajbhandari, investment consultant at Barnett Waddingham, said he favours the performance fee model over annual management charges, but noted that trustees and employers should use their ever-increasing fund sizes to demand better terms.

"DC schemes are gaining more power to negotiate on fees. There is a lot of money going in there, which means there is more influence," Rajbhandari added.

The way fees are applied to schemes varies across providers, a factor Alison Leslie, partner and head of DC investment services at Hymans Robertson, said makes price comparisons a challenge.



Alison Leslie

"I still see polarisation from trustees in their attitudes to performance fees. I also see different ways of treating them. Some providers include them within the member charge, some don't, and then there's a spectrum in how they are applied. You need to be careful to make sure that you're comparing like with like."

Paul Francis, principal investment consultant at Quantum Advisory, said advisers need to interrogate fee structures and ensure they are not obscuring hidden costs.

"The devil is in the detail on performance fees, particularly in how they are structured. You need to look at the agreements and see where the hurdles are, what the benchmark is, and what period it works over, because that headline rate might be different to what you're going to pay in the end."

Multiple defaults

Switching members successfully from existing lower costs DC default to more costly arrangements containing private markets, will require some deft communication, particularly where there are multiple defaults on offer.

The panel discussed the practicalities of running multiple default arrangements, and the pros and cons of giving members choice between different price points.

Dietz said: "We want to give people a choice; nobody's being forced to pay the higher fees. We offer a higher fee default fund that has a material allocation to private markets. We have seen lots of support from advisers and consultants for this new strategy and in turn lots of clients have selected this fund. Others want to wait and see how the strategy performs."

However, Adam Fisher, senior DC investment consultant at Isio, questioned ►

Martin Dietz, Umang Rajbhandari,
Paul Francis and Joe HowleyJames Monk and
Joanne Fairbairn

whether offering additional defaults was valuable to members.

"If we start having multiple defaults to cater to private markets, when do we stop? Every time something new comes along do we build a new default?"

He continued: "There are a lot of legacy investment strategies in the contract-based DC world that still target annuities, and these need to be sorted. There's a potential that we can lose members because we're building new things and there isn't the governance to oversee a shift in strategy."

Given the high levels of inertia and lack of active engagement from members in their DC schemes, Monk noted that it is incumbent on providers to stand by their decision to invest in private markets - and the necessary increases in costs this brings - and focus on delivering value for money.

"Members look to providers to provide the best possible solution for them. It is beholden to us to try and deliver that and show courage in our convictions. Ultimately, most members don't necessarily have a preference for investing in private assets or not. It is important that we deliver strategies that provide better outcomes for our membership; that's the whole purpose of the new value-for-money framework."

Yet, Fisher noted that providers will face obstacles in convincing cost-conscious employers of the value in paying more for private market allocations.

"When provider selections are trustee led, cost comes further down the list of

considerations. When it is employer led, there is a natural inclination to focus on how much they can negotiate fees down. They might be the wrong way of looking at it, but it is the reality."

Competitive playing field

Multiple default funds also present challenges for master trusts, particularly those at the smaller end of the market.



Adam Fisher

Fairbairn said: "There's a lot of master trusts that want to get to £10bn AUM by 2030. Can they afford to have two different default funds? The answer is probably no."

The Mansion House Accord saw 17 larger providers agree to allocate at least 10 per cent of their default funds to private markets. Fairbairn said this means smaller trusts have scant alternative but to follow suit.

"It is quite hard for those master trusts, because they are going to have to put private markets in, otherwise the government's going to want to know why. This means they're going to have to put the fees up, which makes it harder when they go out and compete for business against larger master trusts," Fairbairn added.

While all eyes in the DC sector are on private markets, advisers say they need more clarity from providers on how implementation will work in practice, not just in terms of cost but also performance.

XPS's Howley said: "It's quite challenging to look across all the providers and say who is offering value in private markets strategies, because it is still early days. It will take time for clear frameworks to be in place."

Overall, advisers remained positive about this fundamental shift in the DC market, but said this new approach is likely to have far-reaching implications for the industry, and the way it prices products. ■

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OPINION

PRIVATE DEBT FOR DC PENSIONS: THE MULTI-SECTOR OPPORTUNITY

» Dominique Ellis CFA, Aviva Investors



As the search for better retirement outcomes for the UK's 28 million DC pension scheme members continues, private debt offers compelling opportunities for enhanced risk-adjusted returns and diversification.

Private debt has evolved from the times of merchant banking to modern financial systems. Post-2008, insurers and DB pension schemes became key lenders. Now, DC schemes are increasingly exploring illiquid assets like private debt,

facilitated by vehicles such as Long-Term Asset Funds (LTAFs).

Private debt's heterogeneity allows access to different risk drivers and predictable income streams, especially relevant for those nearing retirement. It also offers diversification benefits due to its lower correlation with public markets.

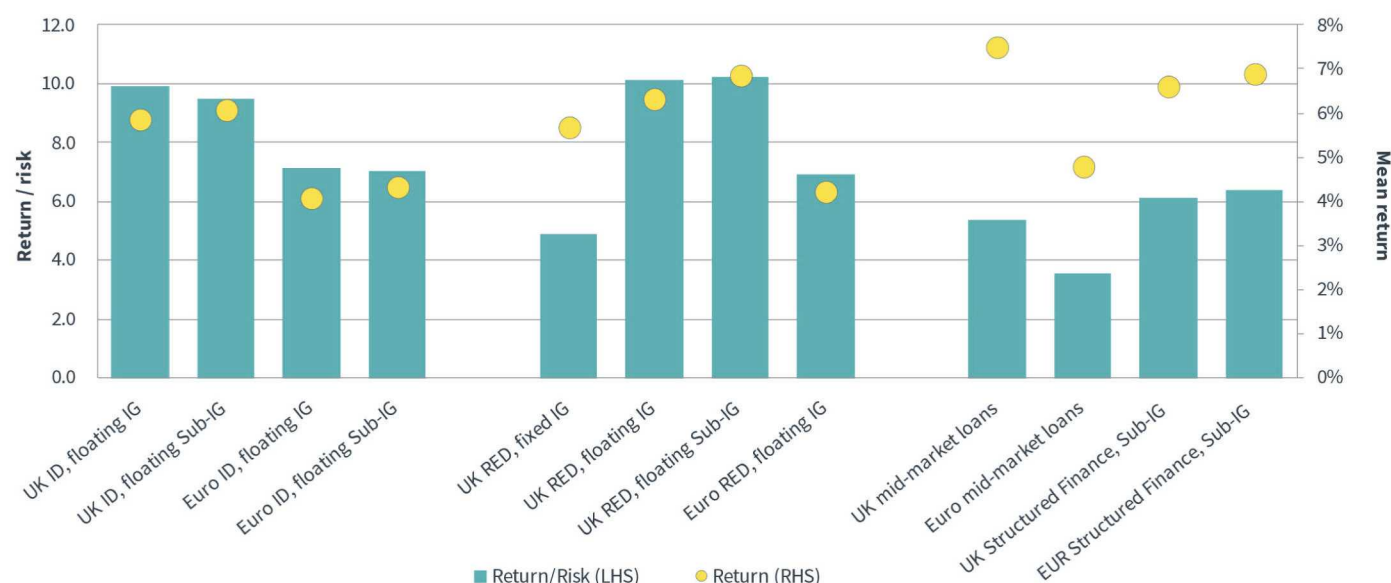
Our article highlights three key takeaways: sector and return dynamics in a multi-sector approach, investment considerations for DC schemes, and implementation strategies.

Private debt encompasses more than direct corporate lending. Indeed, lending across sectors and capital structures provides access to unique risk/reward profiles and diversification opportunities.

Pricing dynamics vary across sectors. Real estate debt reprices slowly, while corporate debt and structured finance adjust quickly.

Infrastructure debt lies in between. These dynamics help buffer market fluctuations.

Figure 1: Private debt sectors continue to offer the highest risk-adjusted returns within private markets (per cent)



Past performance is not an indicator of future returns.

Note: Graph is illustrated for a fiveyear horizon. Risk is ex ante, based on the standard deviation of the forward looking, 5,000 internal rate of return (IRR) simulations. Private Markets inherently have different hold periods; this results in differences between the fulllife term modelled for each sector. As such, assumptions are required to normalise the fiveyear IRR.

Source: Aviva Investors, Q3 2025

A multi-sector approach leverages diverse risk drivers, combining fixed/floating rates, maturity profiles, and credit ratings. This enhances deployment speed, captures relative value, and improves diversification.

Private debt can be effective across the DC glidepath. Scenario modelling shows potential benefits in Growth, Balanced, and Drawdown phases, improving risk-adjusted performance.

Implementation challenges like product fit, fees, and liquidity are being addressed. Multi-sector strategies simplify governance and enhance transparency and cost concerns are shifting towards value for money and member outcomes.

In short, a multi-sector private debt strategy offers DC schemes enhanced returns, reliable income, and diversification across the glidepath, helping navigate market volatility. ■

Read the full article on our website for deeper insights and supporting data:

<https://www.avivainvestors.com/en-gb/views/aiq-investment-thinking/2025/02/dc-pensions/>

Key risks The value of an investment and any income from it can go down as well as up and

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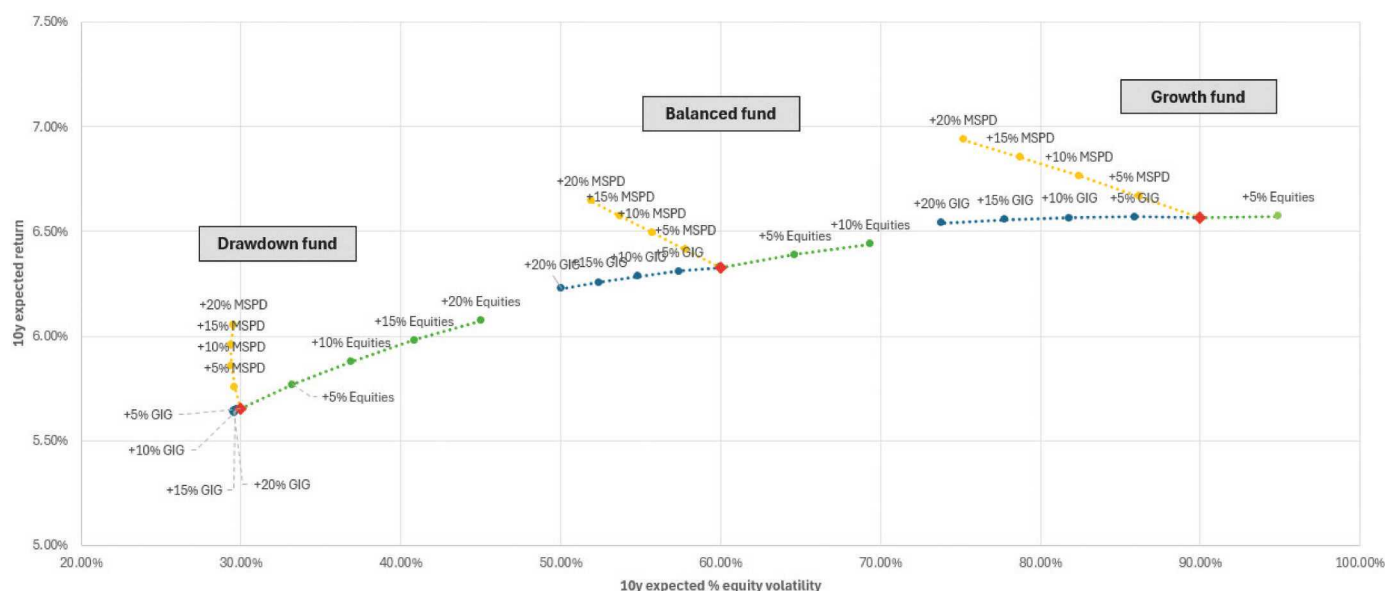
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Figure 2: DC illustrative portfolio outcomes (per cent)



Forecasts are not a reliable indicator of future performance. The value of an investment and any income from it can go down as well as up. Investors may not get back the original amount invested.

Source: Aviva Investors & ORTEC Finance as at September 2025. Outcomes assessed over a 1-10y horizon as per June 2025 CMA release. Estimates are based on internal assumptions and simulations. Targets may not be achieved. Data used for assumptions are based on objective data and takes into account scenarios in different market conditions. Returns are stated gross of fees. Please note the effect of fees would reduce the overall performance 'GIG' refers to Global Investment Grade, 'MSPD' refers to Multi-Sector Private Debt (HY Private Debt).

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OPINION

HOME TRUTHS: PENSION SAVERS' VIEWS ON THE AFFORDABLE HOUSING CRISIS

» Jayesh Patel head of UK DC distribution, L&G



Traditionally, affordable housing was seen as the remit of governments and charitable organisations. But demand has outgrown public funding's reach. What role can pension providers and asset managers play in addressing the UK housing crisis? And, importantly, what do pension savers think about their retirement savings being used in this way?

Our latest DC research – ‘*Savings to shelter: Pensions' role in addressing the UK housing crisis*’ – explores this theme with 4,411 UK pension savers¹.

The UK's housing challenge is stark. Compared to European averages, there is a shortfall of over six million homes². Bridging this gap requires not only ambition but urgency – current build rates fall far below the level needed to meet long-term demand.

The ripple effects are broad and costly. According to the National Housing Federation, poor housing conditions cost the NHS £1.4 billion annually, with wider social costs exceeding £18 billion³.

Solving the affordable housing puzzle requires a multi-sector response across public and private players.

Recognising this, in 2023, the UK government launched the Mansion House Compact – an agreement between major pension schemes (including L&G) and the treasury to unlock long-term capital for national priorities.

In May 2025, a new Mansion House Accord was formed, committing signatories to allocate a greater share of assets into private markets, with a focus on UK-based investments. While

aimed at stimulating domestic growth, the initiative also paves the way for substantial funding in affordable housing.

The idea is to align pension funds' objectives to deliver for long-term, inflation-linked returns for pension savers, with the country's need for sustainable, affordable places to live.

Raising the roof

Importantly, attitudes are shifting at the individual level too. Our research found that 97% of those surveyed believe addressing the housing crisis is vital – whether for buying or renting.

These concerns are deeply personal: one in five renters surveyed doesn't believe they'll ever be able to afford to buy a home. Even among homeowners, over a third worry someone in their household could be affected by the lack of affordable housing.

Rising rents and unaffordable mortgages are leaving many behind. And for those approaching retirement, the prospect of renting into later life adds further complexity to financial planning and costs.

Beyond examining the societal need for affordable housing, we also sought to gauge respondents' broader views on it as an investment.

Approximately two-thirds said that investing pension money in affordable housing is a “win-win” situation, offering potential returns on investment while also helping to address the high costs of housing.

Over half of pension savers noted they would pay a little bit more for a pension which included investments in affordable housing, rising to 67%

of Gen Z. From a monetary perspective, 83% said they would pay more than £50 extra a year and 33% said they would pay more than £100.

Overall, 73% of all pension savers surveyed said they were happy with pension companies using their money in this way.

When asked to prioritise areas for affordable housing, savers pointed to homes for low-income families, first-time buyers and retirees – groups most affected by market imbalances. These choices underscore the demand for housing that serves both current needs and future resilience.

This widespread concern spans generations and genders, highlighting a deep, national appetite for solutions.

This all reflects a broader shift: pension capital can go beyond growing retirement pots and also help support and rebuild the nation's infrastructure. And as pension savers seek long-term returns through their investments; it's not just about retirement, but about the society they'll age into.

The ‘*Savings to shelter: Pensions' role in addressing the UK housing crisis*’ research report can be read here: am.landg.com/dcprivatemarkets ■



¹An online survey of 4,411 pension savers (those aged 22-65 who are currently contributing to a pension). We also asked the same questions to a sample of 550 DC pension holders aged 55-75 who are now in decumulation to determine whether there are any differences in attitudes when people start to take their pension money – this detail can be read in the full report. The online survey was conducted in May 2025, by Ignition House on behalf of L&G. ²Centre for Policy Studies. ³National Housing Federation.

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OPINION

A SINGULAR APPROACH TO PRIVATE MARKETS

» James Monk investment director, workplace investing, Fidelity International



FutureWise has included private assets in its one-and-only default strategy since the beginning of 2025, focusing on diversified but specialist implementation. Many LTAFs have adopted vastly differing approaches to meeting the needs of defined contribution (DC) schemes, and through extensive research Fidelity has identified key dynamics to improving member outcomes.

Fidelity's approach leverages the experience of the most sophisticated private asset solutions globally (Australia, Canada, US and South Africa) to identify solutions with the best risk return profile for DC pension investors. We believe the critical design principles for any private market investor should be:

1. Maximising the investment universe

It is essential that any selection process focusing on better returns must start with a wide universe, being careful to minimise constraining factors wherever possible. When building our Fidelity Diversified Private Asset LTAF, we were mindful of:

- The UK private market only being £1.2trn of \$15.5trn (i.e. around 10 per cent), according to the FCA at the end of 2024.

- Less than 20 per cent of 25,000 private asset strategies open to investment today are evergreen, according to Prequin. With the average track record very limited in comparison to the closed ended universe.

Additionally a focus on internally managed solutions can significantly constrain regional or sector focus and result in a limited view of the investment opportunities available in the market. It is important for DC to consider its need to deploy on an ongoing basis, while private markets may not offer up the same number of opportunities year on year.

As many DC LTAFs focus on underlying evergreen structures, we must be careful not to transfer DC's need for liquidity on to GPs, where experience is limited, allowing GPs to focus on what they do best in order to improve member outcomes.

2. Liquidity is best delivered by DC, supported by considered valuation of GPs

With around 85 per cent liquidity in DC, the real need for private market liquidity is actually from a public market shock scenario, creating out-weighted exposure to private markets (given valuation lag), thereby creating cost and diversification sensitivity.

However unfortunately, private assets are notorious for not offering liquidity in turbulent markets, irrespective of structure and implementation. So the structure of open-ended vs closed-ended does not deal with the liquidity requirements of DC.

Often it can be more helpful for the GP to focus on valuation adjustments than providing liquidity during these turbulent market conditions, so that DC isn't forced to re-balance to maintain strategic asset allocation.

3. Treating investors fairly

The best managers will not forego performance fees, nor should DC be pushing these managers for flexibility as it creates outcome alignment. So we are focusing on finding ways to treat DC investors fairly who enter and exit on a daily basis, even considering equalisation charges and J-curves to ensure investors receive value.

Increasingly the more sophisticated DC investors have acknowledged that this challenge must be overcome. The Fidelity LTAF deals with the operational fairness of

equalisation and performance fees that are typical for quality closed ended funds and are essential to DC receiving better outcomes amidst complexity.

4. Level of external and sector focused implementation

The metamorphosis of DC is yet to complete as it transitions from a 'cost' to 'value' orientated approach, with the Value for Money framework set to land in 2028.

But the long-term success of private assets will be driven by the rigour of portfolio selection processes and how it applies to both internal and external mandates, with significant risks arising from allocating internally to reduce portfolio manufacture costs.

With the distribution of outcomes in private markets being five times larger than public markets, the importance of quality selection, data and origination networks is paramount in driving better outcomes. This argument is further enhanced by Cambridge Associates research, highlighting sector specialists outperform generalists by around 5.7 per cent p.a. to 30 June 2023, illustrating the importance of sector knowledge in deal sourcing, due diligence, data and legals in order to drive long term value.

We are excited to bring these aspects to FutureWise and our Fidelity Diversified Private Asset LTAF and look forward to providing more information in the future. ■





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