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ROUNDTABLE

PRIVATE MARKETS IN DC: THE BIG QUESTIONS

– FULL STEAM AHEAD TO 25PC ALLOCATIONS
– URGENT NEED FOR FEE TRANSPARENCY

IN ASSOCIATION WITH

FUTURE GROWTH CAPITAL

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TAKING MEMBERS ON THE PRIVATE MARKETS JOURNEY

There is a broad consensus that private markets will deliver better outcomes. But we need clarity around performance fees

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While there is broad agreement across the industry as to what scale of private market allocation is appropriate, when it comes to how this is paid for, we have a lot to iron out.

Asked at the roundtable covered in this supplement what the optimum allocation to private market is, one adviser in the room was only half joking when he said '100 per cent'. Where assets are tied up for decades, as is the case for growth phase DC pension savers, higher risk can of course be taken.

That said, while there is a lot of support for a 100 per cent equity approach for growth phase savers, an all-in approach on private markets would present an additional political and reputation risk that would be hard to stomach.

Back in the realm of reality, advisers at the event were generally comfortable with between 15 and 25 per cent.

The next question is how to pay for it. The hangover of the UK's heavy focus on charges, to an extent born of the pension selling scandal of the 1990s, means these allocations have got to fit within the 0.75 per cent charge cap. This is not an issue that has troubled Australian superannuation schemes, where 40 per cent allocations to private markets are not uncommon. But here in the UK, we have to get over this historic issue.

Scheme sponsors are on a journey towards higher fees to pay for potentially higher risk-adjusted returns, but some of them have further to go than others. That is why we are seeing so many providers offer a dual default approach, maintaining a cheap non-private markets option for those employers not prepared to fork out just yet. These employers are just putting off the inevitable. Eventually, all providers' defaults will need to scale up and include private markets.

The challenge is that there is no point doing private markets in a half-hearted way. The range of outcomes is wide, and quality is key. But quality has to be paid for. So the next question is do UK DC funds have the clout to be able to get the global private markets sector to dance to their tune?

Maybe. Nest feels it does, and has deals with big name managers that do not include performance fees. But not everyone is so sure. But for most of the market, it looks like performance fees are here to stay. And what is clear from advisers at the event covered in this report is that they want more detail on what to expect in terms of these extra charges than they are currently getting.

There is also the question as to at what level performance fees are levied. Whether they are at a manager level or the Long-Term Asset Fund (LTAF) level.

Thankfully we are starting small and phasing in allocations gradually. As allocations grow and investments mature, we will get a better sense of what is working and what needs changing to ensure that members' interests are protected.

INSIDE

ROUND TABLE: PRIVATE MARKETS - THE BIG QUESTIONS

FULL STEAM AHEAD TO 25PC ALLOCATIONS

To deliver on member outcomes, schemes need to build significant allocations to private markets, and manage them well. **John Lappin** hears more

Many DC workplace pensions schemes are set to embrace private assets urged on by the Government and the prospect of higher returns, but what, roughly, is an appropriate percentage for schemes to adopt?

This was one of the key questions debated at a recent round table, hosted by Corporate Adviser.

Consultants and advisers at the event suggested that allocations as high as a quarter of the fund appear to be the target for most providers and master trusts - although a couple of advisers discussed the theoretical possibility of a 100 per cent allocation.

But most agreed exact allocations will depend on both the scheme and employer.

Jonathan Parker, head of defined contribution & financial wellbeing, investment consulting, Gallagher said: "Somewhere between 15 per cent and 25 per cent seems to be the medium-term strategic weight that a lot of the larger master trusts and the DC providers are aiming for."

Glidepath matters

Parker also pointed to the need to consider where members are on the glidepath. "Maybe more thought needs to be given to the latter end of the glide path, where the liquidity requirements are a little more acute, and some parts of the private markets universe may not be as appropriate," whe added.

Jit Parekh, a partner in Aon's DC team, says: "It very much depends on the client, where they are, their investment knowledge and training.

"If they're looking to move to a master trust as part of their long-term strategic plan, it may make sense to have a zero allocation because of the illiquidity lock off that might come from private markets, so the answer to the question is anywhere between zero and up to 25 per cent."

Isio senior DC investment consultant Jacob Bowman pointed out schemes need to ensure the implementation is right, otherwise they might be better off sticking with public markets.

"Don't appoint a manager or a fund or a private market solution that is going to be run poorly with bad GPs, bad implementation and governance, because that will be worse than sticking with non-private markets. That's almost an asterisk against doing private markets. If you can't do it well, don't try."

However, he suggested that up to 25 per cent could for the largest schemes be appropriate if using "best-in-class implementation, good managers, broad diversification and a global approach".

Mark Searle, head of DC investment at XPS Pensions, added: "It depends on what you measure, because we all agree the prospective returns are higher which might mean a much higher allocation to private markets.

"But it's the constraints. It's your cash flow requirements, that type of thing that starts pulling that allocation back down. Yet I'd agree with everyone here. I think 15 to 25 per cent, is a very sensible allocation."


Sam Murphy


Gareth Doyle

Market consolidation

Roger Breeden, trustee executive at BESTrustees, said one issue will be the relative maturity of the market. "As the market consolidates down to fewer providers, there's massive cash flow going into schemes. So, from where we are now, these sorts of numbers seem appropriate, but if the market gets to a smaller number of schemes, with lots of cash flow, there is potential for it to go higher."

Rob Skelton, head of retirement research at First Actuarial, said: "The optimal theoretical is probably 100 per cent, because they offer higher returns. You've got a long timeframe, more risk but over that time with returns, risk will disappear or diversify away. But it's back to the constraints. How much illiquidity can we cope with? How confident can you be on those predictions? People might take the money elsewhere and then you're stuffed as you have no way of getting the assets out."

Nigel Dunn, partner in the defined contribution team at LCP, also pointed to higher allocations in Australian superfunds. "There's a lot of appetite for private markets, and that's why people look at initial allocations of 15 to 25 per cent. But you can look to Australia. The Hostplus superfund has an allocation of 40 per cent. They say that's because their membership is relatively young, with relatively low salaries, so they are looking to maximise returns as much as possible, and that makes them quite different from the rest of the market."

He added: "We've got the same considerations here. Maybe we don't have industry funds, but we still have different memberships in different schemes. You could make the case as the market matures to look at 40 per cent allocations to private markets. If you already look at schemes like USS, for example, they're already at that number, albeit from a DB perspective.

"We're definitely at the stage of 'We want to invest. We want to make it meaningful, but let's not get burned in the process. Let's make sure we allocate a reasonable number and watch how performance comes through.'"

Searle added: "You're giving up liquidity and want to be repaid for that. So, we're looking for something that's going to be returning in the teens. You can accept that there are some risks. You're going to get a few zeros in that mix as well. So, you need to be at least outperforming equities. That's your target really with investing in private markets."

Gradualism, not force

From a provider's point of view, Mike Robinson, business development director at Standard Life UK, said: "We've set out where we sit on this with a fairly high conviction approach and a solution that we're launching early next year.

"But equally, there are market participants and members that aren't ready to have that forced upon them, so we've got to take the market on that journey. So there's a part of the market that will want a gradual transition to this brave new world."

Finding value while meeting Mansion House

Future Growth Capital's chief investment officer Ped Phrompechrut set out how FCG finds relative value trade in three strands.

He said: "The first is what are the core building blocks to allow you to be truly strategic and cross-cycle, rather than try to time and tactical trade.

"The second is what's attractive at the moment, based on actual sourcing, what is coming through. I might mention the kind of late cycle indicators that we're seeing. So what does that throw out now?

"Liquidity is a bit slower. You see things from continuation vehicles all the way


Ped Phrompechrut


Jonathan Parker & Jacob Bowman


Jit Parekh

through to a kind of hybrid capital structure. So, these are the areas where you toggle towards, that you create new allocation for, or you move down some of the core exposure to create room for that relative trade.

"The third is the toughest, because it's very highly contextualised to individual portfolios. We're basically GBP nominal portfolio or USD nominal portfolio. So, then the relative trade is not cash plans; it's not inflation linked. It's 'if we need to hit that number and there are assets that on a risk-adjusted basis start to look better, then we can trade for it'. More specifically, there are just a lot of very good assets coming to the market every year, in certain areas like private credit."

Parker added: "It will depend on age cohorts of investors to a certain extent. But with the DC master trusts, there are lots of ways they can manage liquidity. Look at Aviva: £100bn of assets, money in and out all the time.

"If you look at the platform levels of the bigger master trusts and DC providers, there are different ways of managing the liquidity.

"It is important you stress test portfolios for different scenarios and market events, or large pools of money coming out, but it is quite rare, if you are big DC provider with tens of billions of pounds of assets, that a single client taking money out is going to swing things that much."

Mandation concerns

Panellists still have misgivings about mandation, especially around allocations to the UK.

Parekh said: "This is the issue with mandation is the extent to which you are basically saying you have to have a certain amount in the UK. The opportunity cost of investing that is losing a global opportunity, that's where a lot of clients will look and say, 'well, hold on a minute'.

"If the UK is the right place to invest for all the right reasons, that absolutely makes complete sense. But as soon as you put a mandation on it, you need to ignore some of these other aspects to hit this magic number. That is where people start to get uncomfortable."

Searle also had doubts about mandation. He said: "What's the ultimate game? With DC pensions is it to get members their pension pot, or is it to boost the economy, or is it to improve UK infrastructure and quality of life?

"If you ask members — do you want to have better local schools, but you're going to have a smaller pension pot because of it, or do you want to have a bigger pension pot — it starts to bring in political risks and personal views, like we saw with ESG over the last few years."

Barnett Waddingham principal and senior investment consultant Gareth Doyle added: "You're hoping to be in a better environment when somebody retires. In reality, if it turns out not to be, the member says, well, you could have got me better returns if you hadn't focused on that."

It was noted that there was a potential for forced demand reducing returns in the venture capital sector. Too much mandated money flowing into VC and related assets could dent returns in this asset class.

Skelton said: "There could be a risk to the asset class created by a drive to meet political objectives. It's a difficult balance to strike between the politics and the member outcomes."

Breeden added that you could end up in a complicated debate about what is and what isn't UK.

Opportunities knock

But Phrompechrut said that there were lots of opportunities. "Talking of mandation, it is trying to solve a problem. The problem is that a lot of UK innovation growth is being starved of capital from the UK, so, it is taking capital from international investors - North Americans, Australians, Europeans, the Middle East, Asia.

"I think the question mark should be how do you solve this problem without forcing the issue — in other words, it is still incumbent upon providers to pick the right managers to execute well, and ideally they have to be aligned to a good outcome. And if they're doing that, if that whole chain is working properly, you wouldn't see a bad outcome."

He added that across private equity, venture, real assets and debt, there are really attractive pockets of opportunities.

"Within our deal pipeline just within two of our six strategies, this year alone, we saw the top of the funnel being more than five times the aggregate vehicle size. We can be really selective, so there's certainly no forcing the issue."

Murphy agreed that the private markets universe is expanding, due to very few IPOs in the equity market, and an expansion of private credit, due to banks restricting some of their lending.

He says this is good news for the DC market, looking to divert allocations into private markets.

"You've got a situation where the money coming in is not as big as people think and you've got an expanding opportunity set, we just don't think the supply and demand is as out of whack as a lot of people say," said Murphy.

While there were concerns about mandation, and the focus on UK markets, the consultants at the event were optimistic that significant allocations to private markets across the global economy, carefully implemented, would help drive better returns for members, without exposing them to undue risks. ■

Q&A

SCOPING THE OPPORTUNITY: ARE THERE ENOUGH UK PRIVATE INVESTMENTS FOR THE INCOMING DC CAPITAL?

» **Ped Phrompechrut**, chief investment officer, Future Growth Capital and **Sam Murphy**, head of client solutions & product, Future Growth Capital

The Pension Schemes Bill and Mansion House reforms mark a turning point for UK DC pensions, but is the drive to invest more in UK private markets matched by the potential opportunity set? The industry is mobilising behind the government's agenda. DC allocations are shifting from 80–100% in low-cost global passive equities to 0–30% in private markets across master trusts, where the top 12 providers cover 95% of assets.

A wall of money?

How significant is this capital inflow? We assume the Master Trust market will exceed £500bn by 2030 [1] and the average allocation to private markets will be c.15%. Of this allocation, we assume 50% will be invested in the UK. That provides a run-rate of £4-4.5bn p.a. investment by 2030. If we add a similar level of UK investment from Local Government Pension Schemes (LGPS), we reach a net-new £10bn p.a. flow of capital to UK privates, or £40bn cumulatively between now and 2030.

How does that stack up against the size of UK private markets?

Overall, that is less than 3% of current UK private market investment volumes, based on industry estimates.

Though not all areas of UK private markets will be affected in the same way, in aggregate this suggests UK DC has substantial room to grow its UK private markets investment allocation.

Scoping the opportunity set

To put this in context, we've scoped the scale and nature of opportunities across UK private market asset classes:

■ **Private equity and venture capital**

Private equity and venture capital form the growth engine of the economy, backing over 13,000 UK businesses from start-up to mature buyouts. These investments support 2.5 million UK jobs, nearly 8% of UK employment and generate around £200 billion annually, or 7% of GDP [2]. The British Private Equity and Venture Capital Association (BVCA) recorded £30 billion of capital directed into UK-based businesses via private equity in 2024, across more than 2,000 deals, up 44% from the previous year.

■ **Private debt**

The UK private debt market, now the largest in Europe, provides essential non-bank lending to corporations, real estate developments and infrastructure projects, originating approximately £90 billion annually [3] in various forms of debt financing. UK-based fund managers oversee $126.7 billion (£93.7 billion) in direct lending strategies alone [4].

Private debt has been one of the most significant capital market trends since the financial crisis. New regulations curbing bank risk-taking increased their cost of capital, prompting private lending funds to step in.

■ **Infrastructure**

UK infrastructure represents a compelling opportunity for long-term investors, attracting major pension systems globally. The Government's Infrastructure Pipeline identifies £530 billion of projects over the next decade, with £285 billion requiring public sector funding and the remainder seeking private capital [5].

The renewable energy transition alone demands extraordinary capital deployment. The UK Government's Achieving Clean Power 2030 targets require £40 billion of investment annually through 2030 – £30 billion for generation and £10 billion for transmission networks. [6] With £150 billion already invested in renewable generation assets and the UK possessing the world's largest offshore wind potential, the sector offers both scale and technological leadership [7].

So why the scepticism?

The UK's private markets are a vast and expanding ecosystem of opportunities. Why then do we hear such scepticism about the opportunity set? Investors need to be able to access opportunities from across the entire market (open-architecture), and crucially have the fee budget to access many of these opportunities, criteria which are often not in place. Our contention is that constraints may lie with managers, not the market itself. ■

1. FGC estimates based on the estimated growth rate 18% per annum (based on government forecasts) of Master Trusts, which includes flows and asset growth, from the current starting point for in-scope assets of £252 billion.
2. BVCA Report on Investment Activity 2024. "Private capital investment into UK business tops £29bn in 2024." British Private Equity and Venture Capital Association, 2025.
3. Future Growth Capital estimates, including deal flow across senior secured corporate direct lending, real estate debt, and higher returning infrastructure debt.
4. Preqin data referenced in "Private debt's steady rise in the UK." BVCA, 2024.
5. UK Government. "Infrastructure Pipeline kicks off new era of infrastructure delivery." GOV.UK, July 2025.
6. Department for Energy Security and Net Zero. "Clean Power 2030 Action Plan." Referenced in UK Infrastructure: A 10 Year Strategy, 2025
7. Schroders Greencoat estimates.

ROUND TABLE: PRIVATE MARKETS - THE BIG QUESTIONS

URGENT NEED FOR FEE TRANSPARENCY

Advisers are concerned that schemes are not always upfront about performance fees — and their potential impact on performance. **John Lappin** reports

Corporate advisers could bar providers from pitch exercises if they do not fully disclose performance-related fees paid on private markets investments.

This was a key issue for advisers at a recent round table debale, with many calling for more transparency around this issue.

There was realism however, that the UK DC pension sector is not going to radically change market practices in a sector benefiting from global flows of money.

Advisers said no-one is asking for these fees to be dropped but they do want to see better disclosure and more flexibility.

Nigel Dunn, partner in the defined contribution team at LCP said: "The live issue we have got at the moment is disclosure. We're had plenty of master trust selections over the past six months and not once did any of the providers quote what their performance fees were in their tender documentation.

"We have been pushing back, and they have said no-one asked us, or we will publish them in six months' time, but we can give an estimate.

"We are getting to the stage of saying we are not going to put you in the selection exercise unless we know what the performance fees are, an estimate of what they have been since you've been running, and your expectation for being fully scaled up.

"Although they are not in the total expense ratio (TER), they are part of the costs. L&G has started to put performance fees on the fact sheets for their Lifetime Advantage funds. I would expect all providers to be doing the same, by the end of this year. That should now be the case across the board. We've been giving these providers an easy life."

Aware of status

However, the panel understood performance fees could be necessary for access to the best managers and investment opportunities.

Roger Breeden, trustee executive at BESTrustees added: "We'd be arrogant if we felt that the UK DC pensions market could overturn years of operating models in private markets. There are other sources of capital, so, we need to be aware of our status in the market.

"The reality is performance fees have existed for many years. I don't think we can say, this should be scrapped tomorrow, because those good deals will have performance fees attached. If you want those best deals, then this is something you've got to be able to tolerate."

However, many felt discussions around these fees had evolved in recent years.

Jonathan Parker, head of defined contribution & financial wellbeing, investment consulting, Gallagher said: "We are starting to see a willingness to be adaptable in how the fees are structured. Perhaps to keep the headline AMC within a level that's palatable." He added that across the sector 'no-one blinks anymore' when such fees are discussed. Three years ago he said they weren't used at all due to regulation.

The discussion on performance fees was part of a wider debate about manager comparison, and on what basis providers might decide to use internal or external managers.

Compare the LTAF

Barnett Waddingham principal and senior investment consultant Gareth Doyle summed up some of the dilemmas facing advisers, using the example of the LTAF market.

"LTAFs specifically, are very different. If you get a bar chart and compare all 26 it's remarkable how different they all look, despite the fact the majority are meant to be used in the growth stage of a DC arrangement."

Isio senior DC investment consultant Jacob Bowman added: "They bring governance complexity for reporting, rather than just one known fee that's easy to measure against everyone else.

"If you've got someone who's doing 70bps with a performance fee versus someone who's doing 165bps with no performance fee, that's quite difficult to compare."

Sam Murphy, head of client solutions and product at Future Growth Capital added: "On the point about paying 70bps or 165bps, the experience that I have had is that going from a performance fee to a flat fee, you can't necessarily access the same investments. We can't do it in that structure and that actually will reduce your opportunity set.

"So, it isn't a case of which do you prefer? It's actually that if you want to play, these are the rules in which you will need to do it."

He said that at FGC they look at fees across the portfolio. "We don't want to be in a scenario where private equity returns 25 per cent and they charge their performance fee — and then private credit and real assets returns minus 20, for example.

"What we've done is keep the fee lower, and pay it away to managers. But we take the investment risk almost for the entire private market book. We think that transfer of 'we're responsible for the outcome' is better. Notwithstanding, when you look at performance fees in private markets, you're always toggling between different competing elements to try and optimise things."

Breeden added: "It is going to be quite complicated, isn't it? Maybe we should be giving the providers a little bit of latitude. They're ramping up at the moment in terms of allocations [to private markets. So getting a meaningful answer to that question on fees is quite difficult. As a trustee, I'm in the same boat trying to say, what are we paying here and what's the actual cost, year on year. It's just going to be all over the


Jacob Bowman


Tony O'Brien


Rob Skelton

place to begin with. It's going to take time for this to settle down."

Those at the debate pointed out that performance fees don't apply to all private market assets, and certainly not in private credit.

Murphy noted: "Not all private credit is created equal. You will have it in private equity, but in private credit if it's a core type of mandate, direct lending, and it's high single digit returns that may or may not have this fee. Some parts of private credit may have a 15 per cent return, and then it would have [this performance-related fee]. So, it's about judging where are you getting bang for your buck."


Nigel Dunn

Conflicts of interest

Advisers have suggested that there may be conflicts of interest which arise from the need to keep costs down, although external specialist expertise was generally seen as a better option.

Doyle added: "Whether it's managed internally versus externally, I'd have more faith using an externally managed or at least an appointed external fund-of-fund approach, when compared to internal [management], where perhaps they don't have the resources, capabilities, experience to do it. That's kind of obvious."

Bowman added: "What starts to materialise, and where this fees' point rears its ugly head, is that providers or LTAF designers are saying we need the price point to be low enough to get it into a default and not scare off the competition for our own trust or master trust book of business. How do they keep it low cost? They can use some of our internal capabilities because that's cheaper.

"Is that the right thing to do? It might be because there's obviously some very good in-house capabilities around the market, but it might not be.

"But if you've done it for a commercial reason you're compromising on quality of managers or the quality of the asset allocation.

If your in-house capabilities are very focused on private debt, you might then put a lot more private debt in there than, say, private equity, which again, is kind of swings and roundabouts.

"What is right at the right time? That's then when the fees start to come back in and drive the wrong decision making."

Those at the discussion acknowledged that higher fees, and performance fees in particular would inevitably be a feature of DC investments, as schemes boost their private market allocations and target their Mansion House commitments.

But greater thought needs to be given as to how these shape investment decisions, alongside greater disclosure to consultants and clients. ■


Sam Murphy


Mark Searle


Mike Robinson