



DC pension systems in both the US and UK are looking to private markets and other alternative assets to drive better returns. In a recent transatlantic webinar experts from both nations explored how this agenda can best be progressed. John Greenwood reports

**DCALTA** 10 YEARS OF DEFINED CONTRIBUTION ALTERNATIVES ASSOCIATION IN PARTNERSHIP WITH **corporate adviser**

CHAIR BY



**Jonathan Epstein**,  
president, DCALTA



**John Greenwood**,  
editor, Corporate  
Adviser

## ALTERNATIVES IN DC: A TRAN

**B**oth the US and UK governments are encouraging the implementation of alternatives, including private markets, into DC schemes, but are doing so in very different ways. The US is encouraging allocations to alternatives, while the UK is following a policy of quasi-mandation. So how is private market adoption progressing in these two countries, and what can each learn from the other?

In December Corporate Adviser partnered with DCALTA, the US non-profit organisation for the advocacy of alternative investments in DC pensions, to bring together experts from both sides of the Atlantic to examine the motivations, method and approach each nation is taking towards expanding the range of DC assets into alternative classes, and to explore which system is further ahead in actual adoption of private markets and other alternatives.

### State of play

Jonathan Epstein, president of DCALTA, the US-based defined contribution alternatives association, outlined the immense scale of the American retirement system, the scale of which dwarves all other nations in the world. He pointed to figures from ICI which show the US pensions market stood at around \$48.1 trillion at Q3 2025, double the size of the combined assets of the next 21 biggest global pension markets put together. Of that \$13.9bn sits in DC plans.

Epstein said: "We have minimal allocation to different types of alternatives, probably representing under 4 per cent here in the US."

The UK meanwhile has about \$4 trillion in pension assets, of which just over \$1.6 trillion (£1.2 trillion) sits in DC plans, a small fraction of US holdings. John Greenwood,

editor of Corporate Adviser, suggested while some UK master trusts are beginning to build significant allocations to private markets, overall alternative assets are similarly low.

The US is encouraging allocations to alternatives, notably through the August 2025 executive order Democratizing Access to Alternative Assets for 401(k) Investors, although there is nothing to stop these schemes investing in private markets and other alternatives at present.

The UK is adopting a more interventionist approach, legislating in the current Pension Schemes Bill for the power to mandate allocations to private market assets, including specific allocations to UK private market assets. It has backed this up with an agreement with providers to hit allocation targets both domestically and abroad through the Mansion House Accord.

### US obstacles

Anne Lester, a money mentor, non-executive director, Partners Group and former head of retirement solutions, JP Morgan Asset Management who set up that firm's target date funds decades ago, said: "There have been investments into private market assets in the US 401(k) system for well over 20 years. It is already absolutely permitted, and in fact, it's been happening for decades.

"The obstacle in the US is a combination of logistics and just how do you handle these private assets in a daily liquid environment. One could question why we're so focused on letting people trade daily in something that's supposed to be tied up for the long term, but that's a whole other conversation.

"And then the second thing that's a major issue is litigation. And basically, the U.S., for better or for worse, has decided to govern itself through litigation. Private assets tend

## SPEAKERS



**Lydia Fearn,**  
DC pension and  
investment partner,  
LCP



**Mike Ambery,**  
retirement and  
savings director,  
Standard Life



**Anne Lester,**  
non-executive  
director,  
Partners Group



**Bob Long,**  
CEO, StepStone  
Private Wealth  
Solutions



# SATLANTIC CONVERSATION

to cost more than publicly traded assets do, certainly index funds, and so whenever anybody has something that costs a bit more money, it typically attracts attention from class action litigation firms.

"I'd say most of the reluctance in the US has been this combination of figuring out how to do it, and litigation risk. You have the benefit of a clear-cut policy on the UK side, and you're a less litigious society.

"The challenges are how do we create vehicles and get everybody comfortable with how it happens."

## UK logic

Mike Ambery, retirement and savings director, Standard Life said: "We've seen public markets within the UK descend quite rapidly, between 1997 and today's date. So the level of investment that we have domestically within the UK is also low.

"If you're the government, you want to stimulate both public and private markets. [With the Accord] the conundrum is how do we prove that we're going to deliver outperformance? Are private markets able to show and deliver that? And what are the opportunities for investment to be able to do that?

"With reference to the Pension Schemes Bill, that gives a power to mandate allocations. If [a provider] doesn't achieve these target levels, then the state is effectively saying, well, if not, why not?

"There are other measures - value for member, other consumer duty requirements, and other legislation in the UK, which means we really do focus on both fiduciary duty and outcomes. So then there is a question of what do we mean by outcomes? Are outcomes down to individual financial performance, or does it extend to other risk factors?"

## Adviser perspective

From the UK perspective, some advisers think the Mansion House Accord is pushing the industry in a direction it was going anyway, supported by new investment vehicles and rule changes around the role of performance fees within the regulatory charge cap.

Lydia Fearn, DC pension and investment partner at pensions consultancy LCP said: "There were a lot [of assets] moving anyway, with a focus on outcome and better overall diversified design strategies, on the basis that the liquid markets can get us so far, but how do we make sure that we're protecting our members as their pots are growing?

"It was starting to happen - we had the LTAF structure come in, performance fees are now excluded as part of the charge cap on the default, which was causing some problems as well. And we've had real estate investment for some time.

"So the hurdles were getting through additional cost, because these vehicles generally will cost a bit more, and outcomes, the confidence that it's going to deliver what you think it's going to deliver.

"And there is also the gating. There was a lot of experience of gating in real estate a few years ago, and some trustees of single employer trusts are a bit nervous of that.

"That said some of these structures do manage that liquidity well, and we have a lot of money coming in, so it can be managed.

"So we're seeing master trusts creating either within their existing default or new solutions to incorporate Mansion House Accord assets in some way.

"As Mike said, it's not mandated - they were looking to move this way anyway, and we are seeing, clients, and that could be the corporates, or single trusts looking at that more closely. Some have moved already. ▶

Some of the much larger single-trust schemes have created their own solutions, and that might be multi-asset, where you've got the equity and credit mixed in. Or they'll have individual sleeves, depending on what they want for their strategy. And on the corporate side, they're looking to select the master trust solution with the additional, private markets in it."

But Fearn points to some hesitancy, with questions over the availability of a sufficient pipeline of investable assets and the impact that any underperformance could have on one of the UK government's other policy initiatives, the value for money assessments, which will grade pension providers' default funds on their performance.

Fearn says: "There's a nervousness, particularly for master trusts, because you're putting in a structure that might not be completely funded, and they've got to deploy those assets and find some good investments, so it might take a little bit of time to get that performance through. In the meantime, we've got other regulations coming around value for money on performance, and so how do you compare if you're trying to build up your private allocation? So, lots of moving targets here, but, I think everybody's moving in that direction now."

### Litigious USA

The UK DC pensions is virtually free of litigation, but for stakeholders in the US looking to innovate with their product offering, this is a clear and present danger.

Epstein said: "There are efforts in the US to combat the frivolous lawsuits which have been going on for decades, in relation to just any ERISA (private-sector employer-sponsored retirement plan protected by the Employee Retirement Income Security Act) plan, when it comes to fees and cost reasonableness. Now, with private markets, there's a huge effort here to hopefully combat that."

Epstein explained that while litigation against pension providers or sponsors is widespread in the US, most of the money paid out has typically gone to the lawyers. He said: "When I looked at this about 12 years ago, the average participant was receiving about \$16 [out of \$100] from these

settlements after millions of dollars were settled on. Today that might be about \$50." He explained how those offering pension products through the workplace could find themselves on the wrong end of legal action whatever investment options they offered.

"It could be for including a stable value fund and not including a money market fund, and the same firm may bring a suit that's suing for the opposite," he added.

### Fiduciary duty

Bob Long, CEO, StepStone Private Wealth Solutions said the US system made it easy for law firms to target plan sponsors. He said: "In the US, the plan sponsor - think the employer, or someone to whom it delegates - is a fiduciary, which is the highest standard known under law, a requirement to put the interests of plan participants first. And so the bar, the threshold to bring a lawsuit to claim that a plan sponsor has done something not in the very best interest of plan participants is frankly low. There are logistical challenges and legal challenges, most of which can be solved, but the linchpin is litigation reform, which DCALTA are actively advocating for."

### Safe harbour

Given the limited evidence that litigation is doing much to protect the interests of scheme members, what support is there for the concept of government legislating to create safe harbour regulations to protect plan sponsors acting in good faith from legal challenge?

For Long, this is the central question for DC pension investment reform in the US. "It's fair to say that the industry in the US, major players, are divided. Some believe that a safe harbour is the right way to go. Others believe that under ERISA, it is unlikely to withstand legal challenge."

Since the webinar took place the US Department of Labor (DOL) has submitted proposals that could move the dial on making life easier for alternative assets, but final rules have not yet been issued.

Any ultimate rule change that may emerge in the wake of Trump's August 2025 executive order could take the form of what DCALTA calls 'asset class neutrality'.

"In other words, assuring plan sponsors that it's okay to look at an asset class that might be more expensive from a fee

perspective if it provides the appropriate return. Of course, you're responsible as a fiduciary to prove that you had a proper process and you made a prudent decision," said Long.

For Lester, the industry needs to be proportionate in how they present what private markets and other alternative investments can do in terms of boosting after-costs returns.

She said: "When we run back-tests on well-diversified portfolios, take the classic 65-35, or a target date fund, or a life cycling glide path, you end up with something net of all fees north of an extra 100 basis points, an extra 1 per cent. And over someone's lifetime, that will mean a huge improvement.

"But I don't think that we should be counting on an extra 1 per cent. I think, in your head thinking 'can we get 50 basis points more return?' is probably a more reasonable metric going forward."

### UK cost contrast

While US policy US is in a stage of evolution, the UK government is firmly on the side of 'spend more to get more', pushing against a culture amongst trustees, advisers and employers of low cost at all costs. But how can we be confident higher charges will bring higher returns?

Ambery said: "There are trustees who are in charge of some of the larger master trusts and some in single occupational trusts that will all be asking the same question: What's the performance going to be here? Why should I pay more? How can you guarantee I'm going to get a better outcome?"

"Particularly in the areas of investment in private markets, can I get better return for members, and is it right for every member, including those who maybe don't want to take a risk?"

Ambery noted providers have looked around the world at markets that have used alternative assets within DC schemes, to test whether the UK system could do better. "The introduction of private markets and other different asset classes, is down to trustees and advisers saying, actually, we can deliver more. That's the whole purpose of the Mansion House Accord - delivering better performance."

So if a 20 per cent private markets allocation is the best way forward, and is



already being done in the DB world, then why are people not getting sued for not doing that? Lester said: "I've asked myself for years why, if it's good enough when your company assets are at risk, how come you're not getting sued for not giving it to your participants? I am still perplexed that that lawsuit hasn't been brought."

### US lobby project

For Lester, there is a need for the US pensions community to formulate clear objectives as to what it wants the US tax, regulatory, legal and other systems to do to achieve better retirement outcomes.

"I said something at a conference in the UK a couple of years ago, and I almost got [bread] rolls thrown at me. I said I had pensions regulation envy. But, one of the challenges we grapple with in the US is that everything to do with how we are saving for retirement is built off of our tax code. There is actually very little coherent [thinking around] what outcome are we defining as success, and then how do we get there? It's because we slid into this whole system in an incremental, step-by-step basis.

"First was social security, and then the creation of the tax incentives that were given during World War II to people to provide benefits. The 401 system was never designed to provide retirement income. It was designed as supplemental savings.

"We keep running into this fundamental challenge: we're tinkering around the edges of something that was never designed to do this properly, and we have never actually defined success," said Lester.

"One of the things the industry can do, and I think what DCALTA is doing, is trying to get consensus among providers and plan sponsors. This should mean we are better at articulating what we're trying to do. And from that you can then start getting more concrete about how we're going to do it."

### Capacity issues

Finding investable assets could present a challenge, if all DC systems, including the US behemoth, adopted big private market allocations. But speakers at the event thought allocations could be manageable.

Lester said: "It is notable that Australia, the market that has arguably done the most in defined contribution private investing, is

not a very big market, so there's plenty of capacity for them. If somebody like the US starts moving into a 10, 15, 20 per cent allocation to these assets, which you could argue theoretically makes sense, that's a lot of money.

"The other half of this hypothesis is, will we continue to see more companies choosing to raise money in the private markets. We have certainly seen that trend over the last 5 to 10 years and I don't see any reason for that trend to stop," said Lester.

Long added: "I've had the pleasure or the pain of being the CEO of a publicly traded company twice, once in Europe, once in the US. And I can tell you, it's for the birds. The capacity issue Anne raises is a critical one. It's something we evaluate constantly as we continue to raise substantial amounts of capital. But what I see is, first and foremost, there are fewer and fewer reasons for companies to go public. Today, the private capital markets are deep enough to support enterprises of massive size and scale.

"When I came out of school, if you wanted to build something as capital-intensive as building rocket ships for example, you couldn't have done it without going to the public markets. You could not have raised \$10 billion plus without going to the public markets. And so, that has completely changed," said Long.

### Operational challenge

Placing private assets in DC plans creates a host of operational challenges, such as valuation of assets that don't trade on an exchange, liquidity for participants reallocating their investments, and fee levels, which tend to be higher for private assets in comparison to public assets.

Valuing alternative assets is a complex area, and pricing for UK schemes will be a real issue when they are benchmarked for performance under the incoming value for money regime. Many UK providers are using the Long-Term Asset Fund Structure (LTAF) to manage private market assets.

Long asserted that "valuation techniques have improved dramatically over recent years. We, along with other industry leaders, provide daily valuation on a range of private assets through processes that have been accepted in the wealth management market

and should translate to DC plans.

There is a misconception that DC plan investors will invest principally in newly formed private market funds, Long noted.

"That's not what's going to happen here. We believe that DC plans will access the private markets through evergreen funds, an existing pool of mature, diversified assets. Evergreen funds are designed to have a shorter duration of those assets towards their own liquidity events, so they're organically producing liquidity, which can be used to meet redemptions, and also provides the opportunity to invest in new deals, and maintain vintage diversification, which is critically important to get the type of outcomes we're all seeking to see for defined contribution participants."

So are UK DC pension schemes and providers big enough to achieve the scale required to get access to the best private market assets at fee levels they will accept?

For Long, absolutely. He said: "We need to be thoughtful around it. The asset manager needs massive scale in order to not lose money at these lower level fees, but we're prepared to do that, as are others. But yes, in a world where firms like ours can get access to no-fee co-investments, and blend that with traditional evergreen fund pricing, for one example, and you can achieve scale, we can fit you in that box and provide what we think is critically important – a level playing field with the institutional investors."

Long further emphasised the level playing field issue that is key for DC pension schemes looking to invest in alternatives.

He said: "It's the most important thing to ask anytime - as an individual investor considering a private market investment, through a defined contribution plan or otherwise - to sure you're on the same footing with the institutions, with regard to the allocation of deals policy. DC plan investors should have access to the same calibre deals, at the same price, at the same time, as the institutions, and not just the leftovers. That's what we're offering, it's what other high-quality providers offer, and frankly, regulators should insist on on transparency around allocation policies.

"A level playing field is critical for DC participants to enjoy the historical performance of private market assets that has benefited institutions." ■



## Q&amp;A

## CAPITALISING ON PRIVATE MARKET OPPORTUNITIES

» Mike Ambery, retirement savings director, Standard Life



**Private market allocations can deliver better outcomes for members, but only if schemes have a robust approach to selection and management.**

#### Why are private markets becoming increasingly relevant for the DC sector?

Private markets have become a key part of most DC investment strategies. This has been driven by policy momentum and recognition this asset class can help deliver better outcomes for members.

Both Conservative and Labour Governments have encouraged this, via the Mansion House Compact and Accord. This has seen major DC providers pledge to increase both UK and overseas private market allocations.

There is a strong economic rationale for doing this. Many areas critical to UK growth – such as infrastructure, energy transition, regeneration, housing, and science and technology – require private capital alongside public funding. Pension schemes, which invest over long time frames, are well placed to provide this capital, with a view to generating stable, long-term returns.

By looking beyond listed equities and bonds DC schemes can access growth opportunities not available in public markets.

#### What benefits do private markets offer?

The key benefit is this potential for outperformance. But this requires a DC scheme to take a more active, research-led investment approach, particularly when compared to the lower-cost passive strategies that are often deployed when investing in publicly-listed equities and bonds.

Private markets offer a very different risk and return profile. For DC schemes to successfully invest in this area requires thorough due diligence and careful asset selection, alongside and a clear understanding of issues around liquidity and duration.

Private market investments typically aim to generate returns over the longer term, so there is a natural alignment to DC saving horizons and their broader investment objectives. This can also help schemes move away from the “herd mentality” that can be created when focusing

on shorter-term market movements. It is also worth noting that while private markets are a relatively new addition to DC, they are not a new asset class at all. These investments are a well-established component of DB schemes in the UK, and part of DC schemes in the US, Australia and Canada.

Private market investments typically aim to generate returns over the longer term, so there is a natural alignment to DC saving horizons and their broader investment objectives

#### What challenges do DC schemes face when it comes to building allocations to private markets?

Institutional investors have been investing in private markets for decades. The challenge for the DC market has been adapting structures to allow unitisation and daily pricing. There has been significant progress on this though, with the launch of new fund structures such as Long-Term Asset Funds (LTAFs). This has helped address challenges around liquidity, although the current net positive inflows of contributions into DC schemes also helps mitigate these risks.

Finding quality investments, particularly in the UK may be a challenge, given the sums the DC sector is looking to invest over the next few decades.

There is also the question of transparency around costs. Private markets have higher charges and may levy performance fees. These need to be clearly set out and explained to trustees, advisers and members. Measuring the performance of private market assets has historically been more difficult, particularly given their limited track records in DC. The development of forward-

looking value-for-money metrics, alongside tools such as CAPAdata, should help schemes assess both past and expected performance more effectively.

Finally, it's important to remember not all private market solutions are the same. Some fund structures will hold higher levels of cash, for example, which can dilute genuine private market exposure. Education and governance underpin all of this. Trustees and advisers need to understand how private markets work, and the potential positive impact on longer term outcomes.

#### What is Standard Life's approach to private markets?

Standard Life has partnered with Schroders Capital to create Future Growth Capital (FGC). This combines our experience in DC markets with Schroders' expertise in selecting and managing private market assets.

FGC offers two LTAFs: one focused on UK private market opportunities and one global fund. These are open architecture LTAFs, allowing access to other asset managers where appropriate.

In terms of allocations, Standard Life expects private markets initially to make up around 5–10 per cent of default fund assets. Higher allocations – potentially up to around 25 per cent – may be appropriate over time for more adventurous investors, but only where sufficient high-quality opportunities exist.

Choice is a key part of this. Standard Life will offer a range of strategies, to reflect different client needs. However we want to ensure in time that defaults include some private market exposure.

While private markets may involve higher fees, the aim is to deliver better long-term retirement outcomes. As the DC market matures we see it shifting towards a more value-orientated approach, with schemes judged on performance and outcomes, not just price. ■

**Standard Life**



**FUTURE  
GROWTH  
CAPITAL**

A Phoenix  
and Schroders  
Company

# Paving the way for private markets in DC pensions

At Standard Life, we're creating a path to private markets for employers, trustees and members.

Our Future Opportunities solution, supported by industry experts at Future Growth Capital, is the foundation for this new route to more diversification.

To find out more about how we're aiming for better outcomes, please contact one of our team.

**Money invested is at risk.**



[standardlife.co.uk](http://standardlife.co.uk)

Phoenix Life Limited, trading as Standard Life, is registered in England and Wales (1016269) at 10 Brindleyplace, Birmingham, B1 2JB.

Phoenix Life Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

7816 0126