

Private markets within DC schemes

Is the market ready?

Paul Armitage 4 Minute Read



'In Depth: Regulators begin work on private markets as interest grows'
Pensions Expert, December 2025

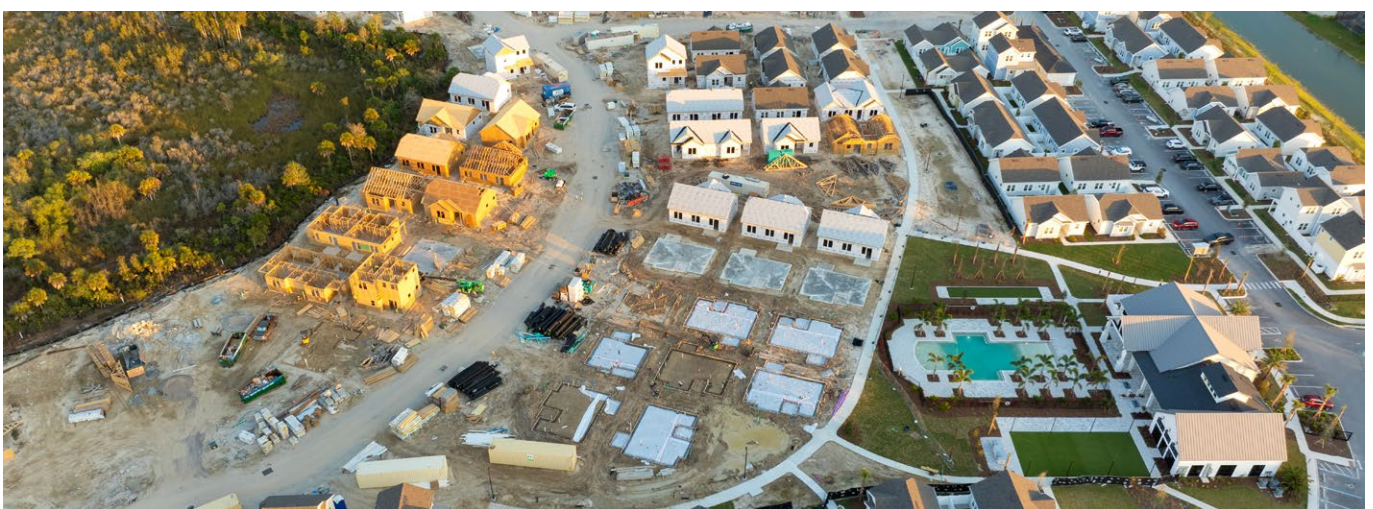
Private markets are very much the "hot topic" in DC pensions, hotly debated and constantly in the media, for better or worse.

Discussion of Government pressure to invest and scheme announcements on rising allocations are commonplace. We can also add a TPR investigation into conflicts of interest within private markets managers, alongside the Bank of England (BoE) exercise to stress test private equity and debt assets.

So what do we mean when we refer to private markets?

We are referring to investments that are not traded on public stock exchanges, and which frequently focus on projects and assets delivering returns over the medium to long-term. These can include:

- **Private equity:** Investments in privately-owned companies, which can range from start-ups to established firms;
- **Private credit:** Loans provided to small and medium-sized companies, often with higher risk but offering potential for higher returns;
- **Green infrastructure investments:** Focus on sustainable projects like renewable energy and decarbonisation efforts;
- **Real estate and other infrastructure:** Investments in land, buildings, and related services that can provide capital appreciation and rental income.





Private markets investing is not new in the UK. Defined benefit schemes have been investing in private markets for decades; it is their inclusion in DC that is newsworthy. DC asset allocation has been dominated by listed markets, typically using equities for growth and government or corporate bonds to reduce volatility closer to retirement. It has long been accepted that private markets can offer attractive opportunities alongside listed securities, but there have been barriers to achieving this in the past which are being rapidly overcome.

The benefits offered by private markets

- **Potential for stronger returns vs other publicly traded assets over the medium to longer-term;**
- **Reduced market volatility, often less affected by short-term market movement and offering more consistent growth over the long-term.** This is a concern currently where many commentators point to valuation multiples far above previous averages;
- **Access to high-growth opportunities,** investing in dynamic businesses with significant potential for growth, not accessible through other forms of investing;
- **An opportunity to invest into the fabric of the UK,** improving the financial and social environment that we all retire into.

Giving the market a push

Given all of the above, why has it taken until now for DC schemes to take action? A number of technical challenges have stalled progress for many years:

DC schemes have traded in listed assets offering

daily valuations long thought to be an essential requirement for DC – this is difficult for most private markets to offer;

Liquidity has been a concern given the unpredictable nature of member encashments and the long-term nature of private market investments (not to mention the gating of property funds causing difficulties in recent times);

The investment charges for these assets are normally far higher than for listed markets creating concerns over both value for members and the competitiveness of commercial schemes for whom pricing of the default fund is a potential competitive advantage or weakness. The charge cap also comes into play here.

These challenges have gradually been overcome – but events have been accelerated by intervention from government. They see pension schemes as playing a crucial role in helping to drive economic growth by placing holdings in UK “productive finance” and have been vocal in this expectation; the ante was yet further upped in the Pensions Schemes Bill 2025 (not yet regulation) by the creation of “reserve powers” that can set target allocations to defined assets for workplace qualifying schemes such as Master Trusts and Group Personal Pensions that are used to comply with Auto Enrolment.

Despite the Eversheds Sutherland Cushon opinion, how this ‘mandation’ would work in tandem with the fiduciary duties of Master Trust trustees obliging them to act in the best interests of members is very unclear! The industry has real concerns, fearing that whilst the percentage of assets having to be invested in the UK and in prescribed asset classes may start low, over time this could be ratcheted up, to potential member detriment.

This intervention has energised the marketplace and led to the Mansion House Compact in 2023 where 11 providers made a voluntary commitment to holding 5% of their default funds in unlisted UK equities by 2030 – and the Accord which followed in 2025 expanded the group, making similar commitments across 17 providers.

Do private market investments create new governance challenges for Trustees and providers?

The short answer to this is “yes”...

The first issue centres around knowledge and who has it. Private market investment professionals understand what sits inside their funds and why; getting access to this information and being able to interrogate and analyse it is very difficult for Trustees and their investment consultants, who in an environment such as this take on a crucial role. In short, there is a large imbalance between the knowledge of the seller and the buyer.



That imbalance is exacerbated by the government pressure on DC schemes to act quickly, making them an easy target for managers looking to pass on investments that would otherwise be hard to sell.

DB schemes, both private and public sector (and also overseas pension funds) do not have the same pressures – they can take their time and use their experience and existing relationships with private markets players to make sure they are investing in assets delivering good returns. Many commentators have pointed to the relative lack of assets to invest in and although the government has recently announced some major projects open to investors, the mismatch between demand and supply is a concern if this continues in the future.

It also takes time to deploy money in these markets even once it is allocated – raising the spectre of real VFM challenges as members are charged the higher upfront and ongoing fees associated with private markets for money actually sitting in cash or in passive equity funds.

Allied to this is the level of transparency available in private markets on the component parts of funds and how they are being valued. Significant regulation sits around data disclosure in public markets that does not exist elsewhere – making the task of conducting due

diligence very difficult. Trustees are used to governing investments with a sea of data to support the process – not so easy in this new world.

We also see that investment consultants themselves are having to upskill quickly in order to serve their clients effectively – some firms will not have the depth to research this market and identify attractive opportunities for some time.

Lastly, there is the issue of the behaviour within private market firms and the robustness of the asset classes. The FCA has recently started a major review of the sector with concerns about conflicts of interest and the issue of Treating Customers Fairly that is not a sign of a healthy market place. The BoE has its own concerns about how these assets fare in a severe downturn.

What should trustees do in response?

In short, we believe that being cautious and undertaking due diligence here has never been more important. Whilst the asset class with all of its subclasses isn't new, successful deployment in DC still has many unanswered questions. That due diligence extends to all aspects of the process, from the evaluation of an investment adviser through to manager and asset selection.

We also see investment in collective vehicles as a way for smaller schemes to access these assets without having the scale to negotiate deals or the manpower to research individual offers in the market.

Summary

If all of this sounds rather downbeat, we do see the potential for real improvement in members' outcomes in the longer-term.

Whilst there is a government agenda at play here, there is also a strong investment case to support DC investments in these assets, so that they too can benefit from improved returns. Selecting the right investment consultant has never been more important for the Trustees of DC pension schemes.



For more information please contact
Paul Armitage at:
paul.armitage@museadvisory.com