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INSIGHT

Private markets in UK pension defaults

Paul Armitage September 2026 5 Minute Read

A wider range of investments could improve long-term outcomes. There is, however, an associated challenge that members may face higher charges before anyone knows whether the benefits will follow.

The central challenge: Private markets may widen investment opportunities, but they are also likely to increase costs. *Schemes will need to show members why paying more could be worthwhile.*

Private markets are becoming a bigger part of UK defined contribution pensions.

The Mansion House Accord asks signatories to work towards investing at least 10% of their main default funds in private markets by 2030; and 50% of this is intended for UK assets.

The direction of travel is clear, but important questions remain: How will these investments affect charges? Will members receive better outcomes after all costs? And how can schemes explain the change in a way that feels relevant and trustworthy?

1. Why consider private markets?

Private markets include investments such as infrastructure, private credit, private equity, venture capital and specialist property. Many of these opportunities are not available through listed shares or bonds.

The case for using them is not that private assets are automatically better, but rather that they can give members access to a wider range of businesses and long-term projects. Companies are also staying private for longer, so a scheme invested only in listed markets may miss out on this growth.

Private assets may also play different roles within a portfolio. Infrastructure, property and some forms of credit can provide long-term income; private equity can give access to business growth; private credit can add another source of return alongside traditional shares and bonds.

These features may be particularly suitable for younger members, who often have many years before retirement and make regular contributions. Their long time horizon may allow a pension scheme to hold some investments that cannot be bought and sold quickly.

Large master trusts look to be ideally placed to make these investments. They can spread costs across many members, negotiate institutional terms, employ specialist expertise and manage liquidity across substantial cash flows. Even so, scale does not guarantee success. The aim must be better outcomes after all costs, not simply a larger private-markets allocation.

The real test is simple:

Does the expected return, diversification and member experience justify the extra cost and complexity?

2. Members are likely to pay more

Private markets usually cost more to research, select, manage, value and oversee than listed investments, whether those listed investments are managed passively or actively.

Costs can arise in several places. These may include manager fees, performance fees, transaction and legal expenses, specialist custody or platform costs, valuations and additional governance. Some costs will appear in the annual management charge. Others may be shown as transaction costs or deducted within an investment fund.

Scale should reduce the headline price, but a default fund with a meaningful private markets allocation is still unlikely to be as cheap as one built mainly from low-cost public market funds.

This creates a difficult balance for trustees and members. Higher costs are immediate and visible. Any benefit is uncertain, may take years to emerge and can only be judged properly with hindsight.

Private assets are also valued less often than listed securities and valuations require more judgement. This can make reported returns look smoother, but it does not necessarily mean the investments are less risky. Liquidity must be carefully managed, manager selection matters greatly, and committed capital may take time to be invested.

Trustees and providers therefore need to show that the additional cost buys something valuable, such as access to investments, specialist skill or diversification that members could not obtain more cheaply elsewhere.

3. Explaining higher charges will be difficult

For years, lower charges have been an important part of the master trust story. Moving towards more expensive investments changes that message. The challenge is not only the level of the cost – it becomes asking members to pay more for an investment idea that many will not know or understand.

Most members do not actively choose their default fund. Many are unfamiliar with listed shares and bonds, let alone private credit, infrastructure funds or the trade-off between liquidity and potential return. If schemes say that charges are rising because they are buying assets that members cannot easily see, trade or compare, the change may look as though it benefits the investment industry more than the saver.

Each increase may have a reasonable explanation - but presented separately, members may feel they are facing repeated price rises. If they are combined into one figure, members may not understand what they are paying for.

4. Start with what matters to members

We suggest that clear communication should answer **five questions:**

- **What is changing?**
- **Why could it improve my pension?**
- **How much more will I pay?**
- **What are the risks?**
- **How will the trustee decide whether it is working?**

The language should be plain and specific. Schemes will be unable to promise higher returns, but they can explain that the default fund will invest in a wider range of businesses and long-term projects, while making clear that returns are not guaranteed and some investments cannot be sold quickly.

Charges should be shown in pounds and pence for a representative pension pot, as well as in percentages. Members should also see the combined effect of all charge changes, rather than having to piece the total together from several notices.

The ideal explanation should connect cost to purpose. If members are being asked to pay more, they should be told what the extra money is intended to buy and how its value will be assessed.

5. A higher standard of oversight

The final decision must be based on evidence. Before investing, trustees should set out why each private-market allocation is being made and what role it is expected to play.

They should then monitor performance after every layer of cost. They should test whether the fund can meet requests for cash in difficult markets, challenge how assets are valued and compare the results with a credible lower-cost alternative.

If the expected benefits do not appear, the strategy should be able to change. Private market investment should not be protected simply because it supports a wider policy objective.

Private markets could be a valuable next step for UK DC pension defaults, especially for members who are many years from retirement. But they could also become an expensive story attached to uncertain results.

The industry must hold both ideas in mind. A wider investment opportunity set can be useful, but complexity is not the same as value. The promise to members should remain straightforward: if they are asked to pay more, the scheme must explain, measure and, ultimately, justify what the extra money is intended to achieve.

Sources and context

- Mansion House Accord and implementation context, Freshfields, 30 May 2025
- Pension fund investment and the UK economy, Department for Work and Pensions, updated 27 November 2024
- UK default funds currently 8.9% invested in private markets, Corporate Adviser, 15 July 2026

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Paul is backed by a team with extensive consulting experience – several members have worked inside master trusts, running or supporting them. They bring strong practical experience in the area of DC.