Defined Contribution Investment Forum

PRIVATE MARKETS

Has the missing piece of the private markets puzzle fallen into place?

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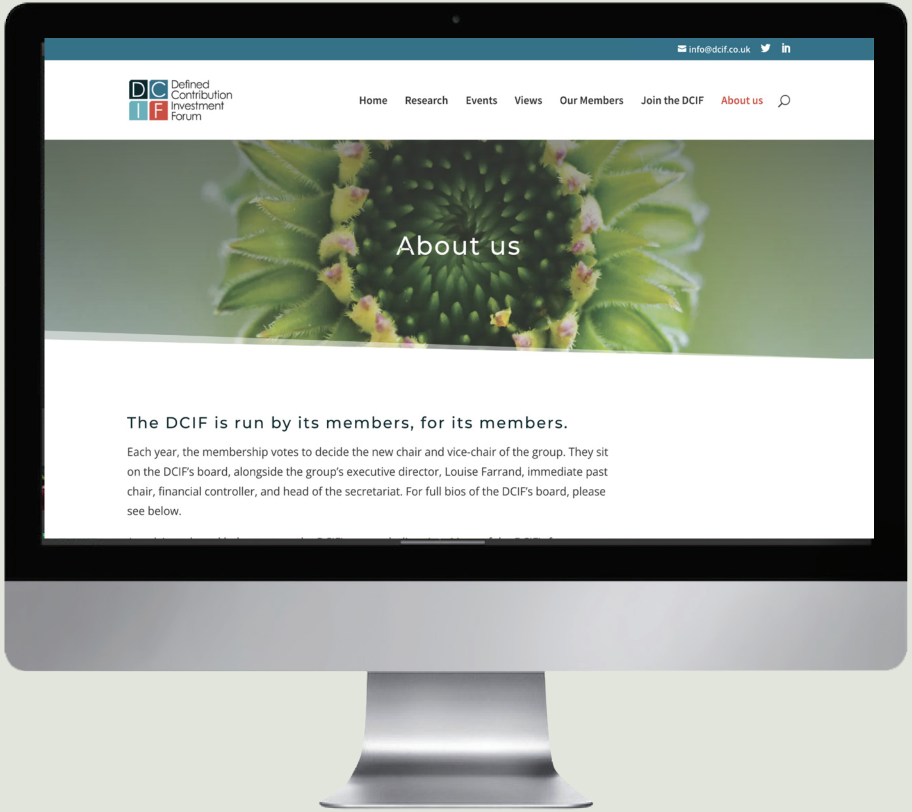

Who are we?

We're a group of asset managers who believe that a well-designed and diverse investment strategy has an important role in delivering a comfortable retirement for millions of DC savers.

A not-for-profit organisation, we commission and publish research which shines a spotlight on DC investment issues. We hope the people who determine DC pension schemes' investment strategies will use it to inform their work.

We also arrange events. From virtual roundtables to in person gatherings, they're a great way to learn more about DC investment issues and meet a like-minded community of trustees, pensions managers, investment consultants and more.

To find out more about our work and explore membership options, please visit: www.dcif.co.uk

Our members

Our members shape the DCIF's direction and steer research projects. They are:

CHAIR'S INTRODUCTION

Mark Austin

Mark Austin is chair of the DCIF

Private markets are one of the hottest topics in UK DC right now, and rightly so. Opening a wider range of investment opportunities to DC scheme members can improve their retirement outcomes. As schemes grow and consolidate, they are increasingly looking to private markets.

With new solutions on offer to break down the traditional barriers to access, the future is looking bright – as we observed in the first part of this research, for which 21 pension schemes completed quantitative research.

It's important that the voice of the UK pension scheme is strongly heard in this discussion. For this thematic review, independent researcher Elena Zhmurova interviewed twelve investment decision-makers from large pension schemes who kindly took the time to speak to us. They represented a range of UK pension schemes, from master trusts to single trusts.

In this paper, which is the second in a two-part series, we're going to discuss where schemes are on the private markets journey in more detail, picking up on some of the more narrative points which do not arise in a quantitative survey (you can read the previous report here).

We'll cover what is attracting DC schemes to private markets, how they want to invest (both now and long-term), how they are tackling pricing and the charge cap, and their views on performance fees.

We think it's important to point out that the schemes which respond positively to a request to talk about private markets are more likely to be enthusiasts. Therefore, the themes which we outline in this paper should be viewed as trends among the private markets pioneers.

Later on in the paper, we're delighted to feature an interview with the Investment Association's Imran Razvi, who is one of the architects of LTAFs. Platforms and consultants also share their perspectives on how they can and should play a role as innovators on p11.

But first: let's hear from the pension schemes we interviewed.

INSIGHT

Why are DC schemes investing in private markets?

The primary reason to invest in private markets is to improve investment returns. Our interviewees believed that, if selected carefully, private markets have the potential to increase members' investment returns over time.

After a tumultuous few years which debunked the idea that equities and bonds behave differently in all volatile environments, it's no surprise that diversification was a key reason why schemes are investing in private markets.

Diversification came up repeatedly in our conversations with schemes, with one remarking that natural capital, for example, is not correlated with other asset classes. Another said that diversification was the major reason their scheme was seeking to invest in private markets.

Meeting climate objectives was a third reason for accessing private markets. Many schemes have set ambitious net zero objectives; they saw investing in private markets as a way to make progress towards their climate goals. "Some climate investment opportunities are only possible to access via the private markets route," noted one interviewee.

Connecting with members was the fourth reason that one scheme fiduciary gave for investing in private markets. He believes that investing in tangible assets like infrastructure could help them to bring investment to life for members.

Not every scheme felt like this. One interviewee said members of the pension scheme he looks after were "horrified by the idea of investing in high risk companies". This doesn't deter that pension scheme from investing in private markets. However, communication with members should be carefully considered, the interviewee noted.

Where do DC schemes want to use private markets?

The majority of schemes prioritized putting private markets into the growth part of the default fund, hoping to deliver higher returns to members with focus on asset classes with higher return potential, such as private equity and venture capital.

Private markets have a role to play in the consolidation phase and are likely to consist of a diversified multi-asset portfolio of infrastructure, real estate, private debt and natural capital. Several schemes indicated that diversification of the consolidation phase is their next focus.

Several schemes have an ambition to allocate to private markets throughout the default and into decumulation over time.

Initial allocations range from two percent to 10-15% of the default. Master trusts that are commercially sensitive are particularly careful to allocate to private markets in a way that does not significantly increase the overall default fund's charges.

> "Overall, there are 3 pillars in investment objectives: return, risk, SRI. Private markets tick all three."

> "Diversification was the major reason their scheme was seeking to invest in private markets."

How do DC scheme fiduciaries wish to invest?

What we learned from this research is that no consensus is emerging on a single access route to private markets. Instead, DC schemes have found a myriad of different ways to invest in private markets. "I am a huge fan of co-investment," said one. "It's definitely about the cost; program efficiency (you can get money off the ground faster); optionality; you can compose your portfolio more precisely."

Another agreed, saying they plan to use an LTAF for a period of time and eventually will move to NEST's model of investing directly. "An LTAF is a step along the way."

Co-investment was also the end goal for a third scheme. The interviewee said: "At the moment we are considering a fund of funds structure, but over time we will move to co-investments and increase our allocation to individual sleeves, potentially into those managers that are already part of the fund of fund with a GP/LP structure."

LTAFs and co-investment can also co-exist. One scheme is investing in an LTAF and looking for co-investment opportunities alongside it. The LifeSight master trust meanwhile has recently announced its plans to launch an LTAF that is built using a co-investment approach.

Some schemes are building bespoke LTAFs in partnership with investment managers. For example, one is building a segregated LTAF which will be wrapped through an external platform. The scheme will be able to control the asset allocation and managers within the LTAF using open architecture.

The plan is for the LTAF to be used in the default fund, to and through retirement, with a target private markets allocation of 10-15% of the default fund. Its open architecture allows the (large and sophisticated) pension scheme to drive asset allocations. Its first investments will be in private equity and private debt.

Another scheme is embracing LTAFs, with an interviewee saying: "We are thinking about investing in two to three LTAFs. One LTAF would be a punchy one, focused on private equity and the other one being a more diversified solution with return that could be to-and-through retirement. We'd like to include timberland, infrastructure, commercial real estate, private credit. There are bits of that could be held though the retirement glidepath."

This interviewee observed a gap in the market. Venture capital and early growth private equity are much more difficult to access through LTAFs, he noted.

> "Initial allocations range from two percent to 10-15% of the default."

> "We are thinking about investing in two to three LTAFs. One LTAF would be a punchy one, focused on private equity and the other one being a more diversified solution with return that could be to-and-through retirement."

> "Some climate investment opportunities are only possible to access via the private markets route"

Outside the realm of LTAFs

Single employer-sponsored trusts still prefer daily dealt or monthly dealt fund structures to avoid operational complexity, the governance burden and to make communication with members easier. Also, not every fund platform is ready to accommodate an LTAF or complex private market investment structures. Importantly, funds that are dealt regularly can be invested in to-and-through retirement, making it easier for members to trade in and out when they are closer to stopping work.

One scheme has a longstanding private markets agreement with an investment manager. Their funds are monthly traded on an investment platform. Members can stay invested in the private markets fund through decumulation, via two third party providers, a master trust and a SIPP.

The scheme has worked with both providers to ensure a smooth transition, in specie transfer and joined up governance. This scheme fiduciary was not as enthusiastic about LTAFs as others, blaming a long lag between the notice period and settlement.

Another scheme is moving to target date funds (TDFs), explaining: "We'll be able to include private markets in TDFs, this reduces the communication and operational challenges that comes with a standalone allocation."

At the DCIF, we observe the disparate ways in which DC schemes are accessing private markets with interest. Right now, these disparities are making it challenging for asset managers to develop solutions. While private markets are much discussed and innovation is happening, actual demand has been low due to access issues. More encouragingly: as some of these interviewees have touched on, there is likely to be more consensus as schemes grow, making it easier for asset managers to innovate.

How schemes are managing pricing and the charge cap

Master trusts are operating in a competitive environment, and they are acutely aware of this fact. Cost pressures were a prevailing theme across the interviews.

One consultant who we interviewed observed that master trusts are moving into private markets and most manager meetings are focused on private markets, but it has been slow going. “The pressure is not to increase the cost to members.”

Asked what advice they would give to asset managers seeking to create private markets solutions, most interviewees mentioned that fees were an issue. One said: “We are unlikely to invest in boutique style small managers because of the oversight/cost barrier.”

One interviewee said their scheme was dipping a toe into private markets, because they don’t want their overall investment costs to go up. “There are some operational challenges, we are working in price competitive environments. We are initially looking for a two percent allocation to private markets within our default at no additional cost to customers.”

Some master trusts are looking to reduce costs in other areas of their portfolio, including in their core equity allocations, to fund an allocation to private markets.

At the DCIF, we have long advised schemes not to race to the bottom on cost at the expense of members’ investment returns. The desire not to increase the headline fee which members pay is understandable, given commercial pressures. However, schemes should not be pursuing the cheapest investment strategies at the expense of all else.

Some of these issues are likely to soften over time. A large, well-established scheme advised that scale is critical, giving schemes the economies of scale to create a bespoke strategy.

As one scheme observed: “We are playing so far away from the charge cap, there is lots of headroom space.”

Another scheme is planning to create an alternative default, which would allocate 10-15% to private markets in the growth phase for clients who are willing to pay the additional fee for the improved outcomes that private markets could deliver. The scheme spokesperson said: “Essentially this is for clients who want to fast forward their private market experience”.

One scheme is observing a shift in the market from cost to value. Striking the right balance is a difficult feat. “From the commercial viability perspective, you can’t cut yourself out of a market that trades on costs. You want to be able to play in both markets.”

> “A large, well-established scheme advised that scale is critical, giving schemes the economies of scale to create a bespoke strategy.”

> “From the commercial viability perspective, you can’t cut yourself out of a market that trades on costs. You want to be able to play in both markets.”

Performance fees

Typically, private markets investments can come with performance fees attached, which split opinions among investors.

Those in favour of performance fees argue they increase alignment of interests, ensuring that managers and pension scheme members share both the upsides and downsides of investment performance. They can also give investors the scope to increase their opportunity set by selecting the top performing managers who are highly incentivised by performance fees or carry.

However, others argue they have no place in UK DC. One scheme spokesperson was firmly against them, explaining: “The target returns should already be aligned with outcomes you are trying to achieve and you are just paying managers to do the job they are already paid to do”

Most schemes fell somewhere in the middle. “If returns add demonstrable value to members, we are prepared to pay performance fees,” one said.

Another was supportive of a performance fee as long as the base management fee was low. “It only makes sense to pay for good performance, but not a high flat fee and high performance fee at the same time.”

One noted: “Intergenerational fairness would increase, as performance fees are more frequent as opposed to paying one lumpy fee at the end of the fund life. Frequency of the fee matters!”

CASE STUDY

Anton Orlich, managing director CalPERS

THE CASE FOR CO-INVESTMENT – RUNNING THE PRIVATE MARKETS PROGRAMME AT CALPERS

Anton Orlich, managing director for private equity at CalPERS, is in charge of allocating $15 billion to buyout and growth private equity and venture capital out of its $30 billion private markets program. Orlich told us what it is like to run a private markets programme for one of the largest pension funds globally.

CalPERS is the US's biggest public pension plan, with $490 billion of assets under management. It is set to increase its holdings in private markets from eight percent to almost 20% and reduce its allocation to stock markets and bonds, which it believes will improve returns.

The private markets program at CalPERS is supported by 45 people, and there are four key functions:

1. Capital allocation and capability to manage the budget and liquidity
2. Top down asset allocation and exposure monitoring
3. Bottom up manager selection and co-investment deal flow management, all of which is done internally. 95% of the investment team bandwidth goes towards manager selection.
4. Operational support, from the capital call process to investment book of record.

A substantial proportion of the private equity allocation is implemented via co-investments versus investing in funds directly, Orlich explained. Co-investment strategy means investing in companies directly alongside a manager.

A co-investment strategy in funds massively reduces the cost of investment but requires significant inhouse expertise and capabilities. Other benefits of co-investing include being able to position your portfolio in a more targeted way, the ability to deploy cash quickly, minimising the cash drag, and finally, insights into a private market manager's due diligence and overall capabilities. However, the in house resources and expertise required should not be underestimated and is outside of the reach of the majority of DC schemes.

Part of the point of LTAFs is to democratise investment in private markets. This allows schemes to outsource manager selection, deal flow management, asset allocation, and liquidity management to an experienced provider. At the moment, the majority of the UK master trusts may lack the resources to use co-investment but going forward, they are thinking about utilising best practice that allows them to reduce fees and boost performance. Co-investment is one of the options already on the horizon.

INTERVIEW

LTAFs: where did they come from and what does the future look like?

In conversation with Imran Razvi

Louise Farrand (LF), executive director of the DCIF: Imran, how did LTAFs come about? What were the initial objectives for the regime?

Imran Razvi (IR), senior policy adviser at the Investment Association (IA): The LTAF regime has its genesis in HM Treasury's Asset Management Task Force, a forum which exists for dialogue between industry and government. The Financial Conduct Authority (FCA) sits on it as well.

Out of that group came a brief to look at the competitiveness of the UK regulated funds regime, particularly with the post-Brexit competitiveness of the UK fund management industry in mind. The UK Funds Regime Working Group emerged, which is a group of asset managers working with the IA to identify areas where the UK regulated funds regime could be improved.

The group came up with a range of proposals. One of them was the Long-Term Asset Fund regime, which was devised to democratise investors' access to private markets. The broader context for this is the shrinking number of public companies globally and the fact that more and more economic activity is taking place in private markets.

No ideal vehicle existed for retail and DC pension scheme investors to get access to private markets. This was where the concept of the LTAF was born. The IA, working with a number of our members, devised the blueprint for the LTAF regime which we took to the Treasury and the FCA in 2018.

It took around two and a half years working with the FCA to get to the point where they felt comfortable with going out and consulting on the regime. It was pretty much in line with what we had proposed, although the FCA did make some changes, notably the addition of notice periods. The FCA were also keen to start with more limited distribution than we had proposed, initially restricting the LTAF to professional investors and DC default arrangements. The distribution rules were subsequently widened last summer, with LTAFs now available to retail and self-select DC investors on a limited basis.

> "The context for the LTAF regime is the shrinking number of public companies globally ... more and more economic activity is taking place in private markets."

LF: Did you have any expectations of the number of LTAFs that would be in the market by now?

IR: No, not on pure numbers. At the time of this conversation (June 2024) there are six or seven that have been authorised, and we know that a number are in the pipeline. We were always quite realistic; these things are costly, you don't just launch one speculatively. Firms need time to understand the commercial opportunity and develop their business strategy. It wasn't a surprise to us that it was November 2021 when the regime came into force, and that the first LTAF wasn't approved until sometime later (March 2023).

When we set out to create the LTAF regime, we had the support of a number of members that are active in the UK DC and wealth space. LTAFs were driven by the firms, and it's been great to even see some firms, which hadn't necessarily been as engaged with them initially, since deciding to launch one.

There are a few reasons for that. Some of it is the sheer flexibility of the vehicle in terms of its investment powers, but it is also heavily influenced by the rules governing its distribution. It is well suited to the UK market in a way that other, non-UK funds aren't, in terms of what you can sell in and what you can't. It will also function well for UK investors seeking access to EU domiciled private asset funds post-Brexit: LTAFs are flexible, you can use them to invest into European Long Term Investment Funds (ELTIFs), for example.

I think also the LTAF brand, and the fact it is FCA regulated, help. There is a lot of protection and due diligence around the LTAF because asset managers seeking to launch one go through a rigorous and robust authorisation process. We see the LTAF as the gold standard for DC and retail investors who wish to access private assets.

> "We were always quite realistic: LTAFs are costly, you don't just launch one speculatively."

LF: Speaking to platforms and other market participants, there's a sense that there will be a significant increase in the number of LTAFs available over the next few years. Does that ring true to you?

IR: We do expect to see more launched. I think our sense is the LTAFs that are currently available are more of a multi-asset, one stop shop approach to private markets. But increasingly you might see more asset class specific products as well.

The retail side hasn't had the same level of exposure or penetration as DC. But again, we're starting to hear about firms thinking about products for that part of the market. It could well be that retail and DC vintages look a bit different depending on what wealth managers and advisers, as well as retail investors, want.

LF: What does the approval criteria look like for LTAFs at the moment? Have you seen that evolve?

IR: The FCA wants to see detailed information about the product proposal. However, we don't have a sense that they have any particular ideas about what they want products to look like. It is more a case of the fund manager coming to present the different elements of what they are doing. These include the investment objectives, policy and strategy, how they satisfy issues like the regulatory requirement for a prudent spread of risk. It's very principles based; it is up to managers to come and present the product they want to be authorised and then the regulator will make a determination.

They are also interested in understanding the distribution strategy, who the clients are, and the dealing terms. In relation to fees, the FCA is not there to make a commercial judgement. It's purely: are these fees reasonable relative to the cost of the service being provided?

The FCA wants to see quite a bit of detail about the individuals who are managing the LTAFs: their skills and experience. Finally, they are keen to understand the liquidity management strategy, redemption processes, valuation points, those sorts of issues.

LF: Is the FCA looking for LTAF applications from asset managers who already have a seed client?

IR: The impression we have had is that yes, they want to see some money in there. They are not keen on the idea of LTAFs being set up without a clear idea of the target investors. But I think from a manager's perspective it's the same feeling, because of how much time, cost and resources LTAFs take to set up: you wouldn't set one up without having a client to seed it

LF: At the moment, we are seeing quite a few multi-asset LTAFs. Do you think we'll see more specialist LTAFs coming to market?

IR: I think so. Multi-asset exposure is a good way to get used to private assets. As schemes get more confident and start to understand the different asset classes, we might start to see more of a focus on single asset class LTAFs.

LF: Schemes are evolving in their approaches to private markets. Some see LTAFs as a long-term part of their future; others see co-investment as the ultimate route forwards. Still others might do a bit of both. What do you think the future looks like for LTAFs?

IR: LTAFs are just a structure, and the bigger picture is that more access to private assets is a good thing. I think there is a thesis where if you're in a DC scheme that is getting bigger and looking to do more in house, if you are going to build that expertise, then co-investment with more direct control and lower fees make sense. But this is conditional on your scheme being big enough to do it.

While there may be a desire to manage more in-house, it isn't always straightforward, and it comes with additional regulatory requirements and cost. That is why you often outsource investment management. Ultimately, I think you may see some schemes getting big enough to [pursue co-investment]. But then equally, I think we will continue to have schemes which want to outsource to an LTAF because it is more straightforward.

Another big determinant is how big your scheme's private markets allocation is going to be. If you're going to allocate 30 or 40% of your assets like the Australian Supers, then maybe it does make a lot more sense to manage that capability in house. However, if you're sticking to the five to 10% that seems to be where UK DC schemes are typically aiming, you're probably better off outsourcing. The LTAF remains probably the vehicle of choice for doing that.

LF: What are your top tips for schemes which are seeking to invest in LTAFs?

IR: Have a clear idea about where you're going to use private markets. That is going to dictate which asset classes you're interested in, and that, in turn, will then inform your view of what kind of an LTAF you want to seek.

Don't get overly focused on the level of liquidity within a particular LTAF. In the course of the work we've done with the FCA and the Productive Finance Working Group, liquidity has loomed large. There are requirements around the minimum level of liquidity that is needed in the LTAF. The guidance says the FCA expects that over time, a minimum of 50% of an LTAF's assets will be invested in long-term assets, which makes sense.

While liquidity within the LTAF is important and the asset manager needs to demonstrate how they're going to manage it, if I were a pension scheme, I wouldn't be looking for too much liquidity within the LTAF vehicle. I'd be looking to manage liquidity in the default both through the liquid assets already held by the scheme, as well as the pension contributions that are coming into the scheme.

"As schemes get more confident and start to understand the different asset classes, we might start to see more of a focus on single asset class LTAFs."

BIRDS EYE VIEW

Has the missing piece of the private markets puzzle fallen into place?

Platforms are becoming proactive innovators in the private markets space. Their involvement could be the missing piece in the access jigsaw that the industry has long struggled to solve

Platforms used to be 'execution only' parties taking instructions from clients and consultants. Today, frontrunning platforms have moved from the periphery to become central players, taking on an important role in helping schemes to access private markets.

However, it's still a mixed picture. We have interviewed supportive platforms and consultants for this paper, who are keen to talk about the work they are doing. Not all the platforms are shifting to accommodate private markets at the same pace. We hope this paper will add to the clarion calls for change, and illustrate that progress is possible.

Opening access to a wider range of asset classes is in savers' best interests; without consistency, we risk creating a two-tier pensions system, with some savers benefitting from opportunities which others cannot access.

Let's turn to the conversations we've had with innovators. We've asked how many LTAFs they see in the pipeline. Plus, what other ways are they finding to help their scheme clients incorporate private markets? Are the barriers to investing in private markets truly coming down? Read on to find out the answers to these questions and more.

Supply and demand

Let's look at supply first. How many LTAFs are in the pipeline? Industry chatter would suggest that much is happening behind the scenes – which rings true among the conversations we had with platforms.

Mithesh Varsani and Hugh Cutler from Mobius Life estimate: "There are about 20-30 managers who approached us and are at different stages – some are to be imminently approved by the FCA and some are still in the concept stage. There is a mix of multi-asset managers, a handful of them using open architecture, and a number of managers seeking to offer single asset class capabilities".

Jess Williams, head of Phoenix CIS, agrees, saying: "We are having regular discussions with a number of managers around their private market solutions and are aware of a number of LTAFs currently sitting with the FCA for approval."

Similarly, platforms are seeing a lot of interest from pension schemes, with schemes in different stages of readiness. Cutler says: "I would say 100% of [our clients] expressed interest and those with over £1bn AUM are either working on a private solution or have done it already."

Williams adds: "On the demand side, the majority of our existing and prospective clients are considering their approach to private market allocation, and we are working with them to

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>
> **Hugh Cutler, Mobius Life**

> "A recent XPS survey showed that over 63% of clients wanted between a 5-15% allocation and 85% wanted more than five percent,
>
> **Mark Searle, Consultancy XPS**

realise their requirements. In fact, we already provide a private market solution for one of our large DC clients."

Mark Searle, head of consultancy XPS' DC pensions group, said: "We have not got to the stage where we go live with a client, but are having simultaneous conversations with clients, managers and the platform."

A recent XPS survey showed that over 63% of clients wanted between a 5-15% allocation and 85% wanted more than five percent, added Searle.

The different ways to incorporate private markets

Platforms are accommodating private markets solutions in different ways. Hugh Cutler explains that Mobius Life can implement an illiquid allocation in a DC default as an LTAF, as a blend of another illiquid sleeve along a liquid asset within the life structure, or as a directly owned asset or co-investment outside of the life structure.

Phoenix CIS' Jess Williams adds: "There are a number of ways to approach incorporating illiquid or semi illiquid private market funds within DC defaults via an investment only platform. One method is to hold the illiquid element within a blended fund structure alongside a liquid element - the Phoenix CIS platform then automatically enables cashflows into/out of the daily dealt liquid element, with a regular review vs target allocation to instruct a fund level trade into the illiquid element to realign to target. This allows you to utilise your cash flow without having to worry about trading the illiquid elements of your portfolio."

Williams adds: "There are other methods such as utilising investment trusts or ETFs – which are more regularly traded – but may not offer you exposure to the sectors you are interested in."

Whichever approach a scheme chooses, there are advantages and disadvantages to ponder. Schemes should think about how readily available they need their investments to be, as well as their overall cash flow positions and investment horizons, says Williams.

"Schemes should think about how readily available they need their investments to be, as well as their overall cash flow positions and investment horizons.

Jess Williams, Phoenix CIS

When it comes to putting private markets in DC defaults, independent consultant David Porter sums up the most common ways for pension schemes to do it: "The options available are really quite simple. They can blend the LTAF with a liquid fund to form an 'LTAF management bucket' to manage liquidity within their own environment. Alternatively, they can outsource it to another provider to send the blended LTAF management bucket back and absorb it like any other fund into the strategy. The blended fund can then be absorbed into the lifestyle or target date fund structure."

The barriers to private markets

We've already explored the barriers to DC pension schemes investing in private markets. But what's platforms' take on the often-lamented barriers that still exist?

Education still needs to improve among pension schemes, says Williams. "Ensuring that trustees have the right information to make the decisions as to what illiquid solutions work for them and their members. There are still challenges as to understanding and overcoming the value of these investments versus their cost, and this is where net performance modelling and comparisons will be so important."

David Porter adds: "Most trustees are interested but the hard part is to convince a client that liquidity is not a problem, especially in allocating into the growth phase."

"Most trustees are interested but the hard part is to convince a client that liquidity is not a problem, especially in allocating into the growth phase."

David Porter

Ben van den Tol, director, business development at Carne Group, says: "One of the challenges for alternative asset managers is creating UK authorised funds that must be structured as open ended and evergreen, purpose built for the requirements of DC schemes and their respective platforms."

Van den Tol adds: "A very important criteria for the authorisation process is to show a fundamental understanding of the target market, delineated for DC schemes and wealth investors. This extends into liquidity mechanisms that can be implemented such as lock up periods, gating, valuation and dealing terms."

Platforms also face multiple challenges, says Porter. "It really depends on each individual platform, how their operational stack is designed and how they manage any defaults, whether they be in a lifestyle or target date fund. The operational stack includes the member administration / policy system, the trading dealing functionality and oversight, the ability to use smart allocations to ensure you can manage cash flows and how easy it is to rebalance portfolios while taking into account the illiquid element."

Porter adds: "I also think it's a mindset thing, and embedded, long-established systems need to find some flexibility within all of that as well as their governance and risk committees to absorb this change in the processing and control environment."

From a consultant's perspective, smaller schemes which are looking to add a private markets allocation need standardisation, says Searle. "We may have only three to four illiquid funds that we recommend, making sure they are operationally ready to go, and with scale the pricing can also go down. The lower fee to the platform means we can get a higher allocation to illiquids."

To conclude: barriers do still exist – but they are coming down, aided by the advent of LTAFs, creative thinking among the pensions community, and ultimately, scheme demand.

The future of private markets looks bright, with conversations moving beyond the barriers to investing. These days, the industry is occupying itself with how best to build and implement private markets solutions which will meet schemes' needs.

As Cutler says: "Conversations with managers are evolving. Some multi-asset LTAF managers are thinking about diversifying their sleeves, offering an opportunity to those managers that are for a variety of reasons not going to launch their own LTAF. 90% of the conversations last year were about launching an LTAF, now we are talking with managers about how to get exposure within DC defaults more generally."

> "I think it's a mindset thing, and embedded, long-established systems need to find some flexibility"
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>
> **Hugh Cutler**

FINAL THOUGHTS

Much is changing - but there's still work to do

Thanks so much for reading this paper. It's clear that much is changing in the private markets world, with DC fiduciaries thinking hard about how to include this wider range of asset classes in their portfolios, and what an allocation might look like.

Much work is going on behind the scenes as schemes create bespoke LTAFs with managers, explore co-investment and work out their views on performance fees.

Innovative platforms are playing an important role. However, not every platform is as supportive as the innovators; platforms which are still unwilling to look beyond daily traded funds should step up or risk being left behind.

As a forum, we support the efforts of pension schemes and the wider industry and look forward to working together to create a new and more sophisticated era of DC investments, resulting in better outcomes for end investors and helping plug the DC adequacy gap.

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