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Pension funds must note risks attached to private market investment

One investor strategist called the initiative 'window dressing' © Bloomberg

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Pensions funds will need to take note of the additional risks involved in private markets, according to Ros Altmann, former pensions minister.

Seventeen of the largest pension providers have pledged to unlock up to £50bn for the economy by allocating more to private markets.

While the industry has welcomed the initiative, some warned it came with new risks.

Neil Wilson, investor strategist at Saxo UK, believed the Mansion House Accord was "just window dressing" adding that investing in private companies was a definite positive but it had a lot of conditions attached to it.

"Fund managers won't be deviating from their risk models to satisfy some voluntary code. Note that any investments would be 'subject to fiduciary duty and the consumer duty' and 'assuming a sufficient supply of suitable investable assets'.

"Plenty of caveats to mean this lofty £50bn seems more like a ceiling than a target.

"There needs to be more focus on boosting capital markets. Pension funds have gone from owning about 50 per cent of UK equities to 5 per cent in the last couple of decades, this is an urgent problem area that they ought to focus on."

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NEIL WILSON, SAXO UK

Altmann noted how unlisted assets had much higher costs and risks with funds needing to be aware of this, especially the liquidity risks of small firms and infrastructure projects.

“The government needs to ensure these funds have access to a diversified range of investments, so they spread the risks across many different areas of the economy.

“The upcoming final report of the Pensions Investment Review should clarify what the government proposes to do, to help this initiative.

“There has been much talk of establishing LTAF to provide pension funds with investment vehicles for illiquid and unquoted assets, but there are dangers in the open-ended structure that may be used,” she explained.

James Floyd, managing director at Alltrust, felt the areas that needed further work on was how the reforms would work with current guidelines and regulations.

“Infrastructure and PE, especially with greater than 30-day lock-up means that retail and platform investors will not be able to access them as they will be non-standard. Therefore will there have to be a watering down of protections or a carve out in a different policy?” he questioned.

Threat of mandation

Although the pact made by the pension funds is voluntary, the possibility of it perhaps becoming mandatory one day was “deeply concerning”, according to Lisa Picardo, chief business officer at PensionBee.

In an interview with Bloomberg TV today, chancellor Rachel Reeves said “never say never” when it came to the government mandating pension funds to invest in UK assets.

“The threat of mandation forcing schemes to allocate capital is deeply concerning, especially when it relates to private markets assets, where returns can be opaque, costs can be high and liquidity is limited.

“Whilst we support efforts to boost UK investment and growth, and to improve returns, legislation must not override a schemes’ duty to act solely in the best interests of its members. That principle must be respected and upheld,” she added.

As part of the pact, providers have committed to invest at least 10 per cent of their DC default funds in private markets by 2030, with at least 5 per cent of this being invested in the UK.

According to the Treasury, the Mansion House Accord will unlock up to £50bn and is expected to release £25bn directly into the UK economy by 2030.