DC consultation – illiquid assets, master trusts, performance fees and DC consolidation

Matthew Swynnerton comments on a consultation relating to several key issues facing pension schemes today

The DWP has recently published a consultation in relation to (i) the accessibility of illiquid assets for DC occupational pension schemes and (ii) employer-related investments in respect of master trusts. The consultation also outlines the government's response to two other recent consultations.

Illiquid assets

The consultation sets out two policy proposals. The first is a requirement for trustees of DC schemes to include an explanatory statement on their policy on investment in illiquid assets in their Statement of Investment Principles. This would apply to default arrangements of DC schemes and the DC section of hybrid schemes. The consultation sets out two options for defining illiquid assets for these purposes: (i) at the fund/vehicle level; or (ii) at the more granular asset level. It also provides that the statements should include reference to: (i) what illiquid assets are; (ii) whether the trustees choose to invest in illiquid assets; (iii) which members will be invested in illiquid assets; and (iv) why the trustees decided to make an allocation to illiquid assets.

The second proposal is a requirement for trustees of schemes with over £100 million in assets under management, and who are required to produce a chair's annual statement, to disclose their default asset class allocation in the chair's annual statement. The trustees will have to disclose the percentage of assets allocated in the default arrangement to each of seven asset classes: cash; bonds; listed equities; private equity; property; infrastructure; and private debt.

The DWP states that the policy proposals attempt to break down some of the systemic barriers to illiquid investment and give the opportunity for trustees to consider investment in private markets but that, "it must still be the responsibility of trustees to decide where they invest".

Master trusts and employer-related investments (ERI)

The consultation also proposes draft regulations amending existing legislation in relation to ERI made by DC master trusts. The DWP notes that existing legislation reflects an outdated assumption about the structure of DC master trusts; it is now much more common for master trusts to include a large number of unconnected participating employers. The DWP also notes the government's wider objective of opening up all asset classes to DC schemes and states that it believes a change here should make it easier for master trusts to access private credit markets.

The proposals include that: (i) the changes will apply to authorised master trust schemes with 500 or more active participating employers; (ii) for hybrid master trust schemes, the change will only apply to the DC part of the scheme; and (iii) for schemes in scope of the changes, restrictions on ERI will only apply in relation to investment in the scheme funder, the scheme strategist, or a person who is connected or associated with them. It is proposed that the regulations will come into force on 1 October 2022.

Performance fees – government response

In November 2021, the DWP published a consultation, which sought views on proposals to add "well-designed performance fees that are paid when an asset manager exceeds pre-determined performance targets" to the list of charges currently out of the scope of the charge cap. The government has responded by noting the mixed reaction to its proposal and stating that it will explore how it might address concerns in the future design of the policy.

DC consolidation – government response

In June 2021, the DWP published a call for evidence in relation to: (i) how to build on the new value for members assessment and further accelerate the pace of consolidation for schemes with assets under £100 million; and (ii) the barriers to, and opportunities for, greater consolidation of schemes with between £100 million and £5 billion of assets under management.

The government noted that the consensus was for it to slow down the process of consolidation and wait to see the impact of the new value for members assessments undertaken by small schemes. The government also said that it is encouraged by the healthy pace of consolidation and, therefore, would not be introducing any new regulatory requirements with the sole purpose of consolidating the market in 2022.

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