

Private markets present opportunities for pension schemes seeking diversification and long-term returns. However, while the potential benefits are often talked about, the challenge has always been cost. Without the right scale or approach, high external management fees can cancel out most or all the benefit of the underlying assets.

The People's Pension announced its intention to invest up to £4 billion in private markets by 2030, making it one of the first UK master trusts to take this step at scale. But we're approaching it with a clear priority: ensuring members benefit from these investments.

With £32 billion in assets, The People's Pension now has the scale to access private markets efficiently. These are complex, long-term investments that require expertise. We want to make available the full suite of access options including direct ownership, co-investment and pooled funds. That's why we are expanding our investment team, bringing private market specialists to help us build the right internal capabilities to manage these assets efficiently. By strengthening our expertise, we can control costs, optimise investment selection, and ensure value flows to members.

Our recent research, conducted by investment expert Toby Nangle¹, informed the approach, which examined how UK pensions can invest in private markets without letting high fees eat into returns. His research highlights three critical lessons:

First, external management fees present a significant challenge. Investing 10 per cent of UK master trust assets in private markets through external managers could result in fees of between £560 million and £1.5 billion per year. Private market investments risk delivering more value to fund managers than pension savers without careful structuring.

Second, international comparisons

Unlocking the value of private markets

➤ **Private markets offer strong returns – but the industry needs to make them work for savers, not just fund managers**

show a better way. Canadian and Australian pension funds have successfully internalised private market management, reducing costs and delivering stronger net returns for members.

Third, UK pension schemes must adapt by adopting co-investment and direct management models, potentially reducing costs by up to 60 per cent. Developing in-house private markets expertise can unlock savings and deliver better long-term outcomes for members.

These insights are shaping our strategy. We are exploring hybrid models that allow us to access private markets cost-efficiently.

Making the most of productive assets

The role of pension funds in supporting the UK economy through productive asset investments is a key part of the discussion. We identify four fundamentals which are key to making these assets work effectively:

1. Prioritise financial returns

Our focus is on risk-adjusted returns that protect and grow members' savings. We will invest in UK-based assets only when they offer the best value without compromising returns.

2. Expand productive assets to include infrastructure and real estate

While much of the focus has been on venture capital, pension schemes should explore infrastructure, real estate, and energy—sectors that offer established allocation approaches and good value for money at the scale needed for large

master trusts.

3. Unlock the supply of assets

Industry alignment and government support are needed to realise the full potential of productive assets. Regulatory reforms are needed to make development easier, so quality assets are available for investment.

4. Build internal capabilities beyond pooled funds

Pension funds need the internal capacity to evaluate complex deals. A hybrid approach inspired by Australian and Canadian models could be tailored to the UK's context and involve collaboration between asset owners to build shared resources, avoiding inefficiencies.

The People's Pension is among the first UK master trusts to plan investment in private markets at scale – we're doing it cost-effectively, and with members' interests at the core. This long-term strategy requires expertise, careful investment selection, and cost control. By expanding our investment team and refining our approach, we're ensuring private markets play a meaningful role in delivering strong, sustainable returns for our 6.5 million savers.



➤ **Written by The People's Pension chief investment officer, Dan Mikulskis**

In association with

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¹ Achieving critical mass, understanding how workplace pension schemes can achieve best value when investing in private markets, The People's Pension