

### Summary

- UK equities used to make up the lion's share of pension schemes' portfolios but today their place has been vastly reduced.
- The Maxwell scandal and other shocks to the system pushed regulatory reform and changed the ways in which pensions invested.
- Portfolios have a global approach and the British market is proportionately small, meaning UK equities are inevitably not highly weighted – and indeed UK companies have a global reach.
- Successive governments have moved to increase pension investment in the UK in different shapes and forms.
- Investment in the UK's listed companies continues to be an important part of pension portfolios, but they arguably earn their places by being attractive investments rather than being British.

Back in the mid-1990s, the average UK defined benefit (DB) fund held three-quarters of its assets in equities, and most of that (70 per cent) was invested in UK stocks. As a result, 50 per cent of a typical fund was invested in shares listed on UK stock exchanges. Things have changed drastically since then, for a whole raft of reasons.

In 2025, equities in all markets made up only around a third of pension portfolios, according to the Pensions Policy Institute, although there is a big difference between scheme types. According to the government's report, *Pensions fund investment and the UK economy*, UK pensions' share of equities held domestically was around 8 per cent in defined contribution (DC) in 2024, 11 per cent in DB, and 17 per cent in the Local Government Pension Scheme.

The UK is one of the least domestically orientated markets, according to a report by thinktank New Financial, which says: "The UK's

# The UK equity question

**Sandra Haurant examines the shift from UK-focused equity allocations to global portfolios, and what it means for pensions and the domestic economy**



allocation to domestic equities is among the lowest of any developed pension system around the world with only Canada, the Netherlands, and Norway having a lower allocation." In Canada, domestic shares make up 22 per cent of equity holdings, while that proportion is 42 per cent in New Zealand and 45 per cent in Australia.

### A regulatory ripple effect

One of the triggers for a move away from UK shares was also one of the biggest financial scandals of the century: Robert Maxwell's £460 million raid of his employees' pension funds. "That was a butterfly flapping its wings and setting off a chain of regulatory events," says Lane Clark & Peacock (LCP) partner, Steve Hodder. "We were in a world where DB pension promises did not have the same degree of iron-cladded security that they do now." As a result, DB schemes have since been adopted a much more short-term approach, says Hodder:

"which leaves less of a role for things like equity, and more of a role for getting the schemes incredibly well-funded and investing in bonds, for example."

Hodder also cites Gordon Brown's 1997 decision, when he was the brand-new Chancellor, to remove tax credits from UK company dividends, as well as the removal of certain barriers in currency hedging, which opened the doors to international markets.

**"Investing in UK equities does not necessarily equate to investing in UK growth"**

Things have moved on, then. "Today, UK equities represent only a small fraction of portfolios, both because DB schemes hold less equity overall and because the UK is a relatively small part of the global market," says Isio chief investment officer, Barry Jones. "In DC

schemes, equities still play a central role, but allocations are typically global by design. The UK accounts for a limited share of global indices, meaning domestic exposure remains structurally low.”

And L&G co-head of asset allocation and head of multi-asset, John Roe, agrees that multiple factors have played a part in the changing role of UK equities for pensions: “Where pension schemes own equities, there’s been a gradual march towards diversifying more – with less of a home bias. This has been coupled with a shrinking weight for UK equities in global markets, from over 10 per cent in the 1990s to less than 4 per cent today,” he says. “Diversification has also led to the introduction of a wider range of growth assets over time, including global infrastructure, property and private equity, which all reduce the UK weight further,” he adds.

And, crucially, time is a big issue for DB, in particular, says Roe. The changing needs of members, along with a more robust regulatory framework ensuring the likes of the Maxwell scandal cannot be repeated, have all contributed to the evolution of schemes’ relationship with UK stocks. In the end, he says: “Nobody can outrun time and as schemes have aged their investment mixes have changed away from equities towards bonds to match the liabilities.”

### Slow and steady

It may be a relatively small market, globally speaking, but the UK has its strengths. While the US is known for its tech giants, with the so-called ‘Magnificent Seven’ tech companies dominating the markets (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla, as if any reminder were needed), the UK’s top stocks are of different nature. Some of the best-performing companies in the FTSE100 arguably sit outside of the direct risk of a potential AI bubble, and with a more defensive selection of sectors on offer, including energy, pharmaceuticals and

finance, for example, there are strong arguments in favour of higher allocations, says Hodder: “It’s harder to cut back on your healthcare, or your energy costs, than it is to maybe not by the next iPhone or more discretionary types of spending.”

## “The UK’s allocation to domestic equities is among the lowest of any developed pension system around the world”

### Carrot and stick

With equity allocation now firmly global, is there an optimum percentage of domestic shares for a UK pension? There is no one-size-fits-all answer. “It’s easy to explain why some allocations probably aren’t best, like highly concentrated portfolios, but it’s more of an art than a science on the exact weight investors settle on,” says Roe. “To give a sporting analogy, it’s easy to outline why a lot of people won’t win Sports Personality of The Year, but a lot more subjective to decide who should.”

Nonetheless, he says: “As a starting point, some people use the market cap weight of about 3.3 per cent. But diversification’s core principle for us, so we normally target a higher weight. It varies by portfolio but, for pension funds, it ranges from about 6 per cent in global growth focused strategies up to over 10 per cent for those putting greater weight on risk management and diversification.”

There has been an increasing emphasis placed on the idea that the UK would benefit from more pension fund money being directed into the home market. Mansion House has created a push for UK-based private equity, and more recently the Pension Schemes Bill’s ‘mandation’ proposals have aimed to give the government ‘reserve power’ to direct pensions cash into specific assets. Roundly rejected by the House of Lords, and branded “poisonous” by Lord Lucas

and “not in the interest of savers” by Baroness Stedman-Scott, the mandation powers were amended, with ‘guardrails’ now in the Pension Schemes Act.

But there are ongoing questions about just how much support pensions can really give to the UK economy through investment in UK shares. “More broadly, there is a misconception that increasing allocations to listed UK equities would directly support the UK economy. In reality, it’s very hard to put capital to work that actually stimulates the UK economy through public markets alone,” says Jones.

After all, in a world filled with companies that have truly global reach, it’s hard to even pin down what a ‘UK company’ really is today. “Much of the capital in listed equities has already been raised, and with a significant proportion of FTSE100 revenues generated overseas, investing in UK equities does not necessarily equate to investing in UK growth,” Jones says.

A global approach to equities within a portfolio has largely supplanted the domestic bias that used to reign in UK pensions, then, and it’s unlikely that the industry will return to what was once a standard weighting. However, there are potentially ways in which UK schemes’ approach to domestic equity markets could evolve.

“To increase listed UK equity investment, without impairing potential outcomes, we need to change investors’ incentives to align with that objective,” Roe says. “This could mean increasing the UK’s attractiveness for listing as well as supporting private, domestic champions that later IPO. Alternatively, some countries use tax incentives on domestic equities, which will push up holdings.”

Ultimately, though, Roe argues: “You can’t unlock pension capital with patriotism, while mandating it risks impairing outcomes.”

 Written by Sandra Haurant, a freelance journalist