Making private markets work for members: a guide for DC trustees

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To capture the potential that private markets offer DC schemes, trustees need to ensure they have absolute clarity on fees, fund structures and liquidity.



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Defined contribution (DC) pension schemes are increasingly adding private market assets to their default portfolios. The trend is gaining momentum: we have seen single employer schemes making public commitments to invest in private assets, and in May 2025, most large DC master trusts signed the Mansion House Accord. This set sector-wide expectations for how much private markets exposure DC default funds should target.

Private markets give DC schemes access to asset classes – including infrastructure, private credit and private equity – that are difficult or impossible to access via public markets. Companies today are staying private for longer, and the vast majority will never be listed on a public market, meaning an increasing share of the economy sits outside traditional portfolios. Adding private market assets also diversifies members' savings across more asset classes and can enhance risk-adjusted returns.

But in seeking to capture these benefits, trustees face a complex landscape – particularly around the level and nature of fees associated with private market investments. This complexity can make it challenging to reach a clear view of the maximum cost they will incur on behalf of members, and to compare the value of one private market proposition against another.

So how can they be sure they have a clear picture on costs and fees? How do they know that when they assess different propositions they are comparing apples with apples?

They need clarity, which begins with a clear understanding of how costs are presented, how liquidity is managed and what trade-offs are involved in accessing private markets within a DC default.

Cost transparency is key for all structures

Probably the biggest challenge for trustees is cost transparency. Fee structures for private market funds vary considerably: some managers will quote an annual management charge, others a total expense ratio, and performance fees – which may be applied in different ways – are common. Sometimes these are applied at the overall strategy level; in other cases, they are charged separately against individual assets in the fund. Understanding what is and is not included in any quoted figure is therefore essential.

In addition, private markets strategies tend to involve a range of expenses that trustees must unpick beyond the fund management fee. These include third-party valuations, administration, custody and audit and legal costs. For DC schemes, trustees may also incur platform fees.

If a scheme is investing via a fund-of-funds model – essentially a fund that invests in a range of underlying funds – there may be multiple layers of fees for both the top-level fund and the funds in which it invests. This naturally pushes up the overall cost of ownership.

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed.

Source: Pension Schemes Bill 2024-25, House of Commons, 3 July 2025.

However, this model has advantages in that it allows investors to pick specific managers for different asset classes and to diversify across a range of managers.

Most asset managers tend to operate single funds that can hold different private market assets – such as private equity, infrastructure and private credit – without placing each in a separate fund structure with its own management fees and running costs.

For scheme trustees more familiar with public market investments, the issue of costs and fees in private markets can appear complex. But those who ask the right questions can cut through complexity and reach well-informed decisions on how to proceed.

Costs versus value

Doing so is doubly important now because of new regulation that requires DC schemes to focus on value for money, rather than simply total cost of ownership.

This is particularly significant given that DC defaults operate within a charge cap – meaning any allocation to private markets requires careful consideration of cost trade-offs across the wider portfolio.

To assess the net value scheme members receive from their investments, trustees must have an accurate view of their total cost of ownership as well as an assessment of expected returns.

This will vary according to the asset class involved. Private credit, infrastructure and private equity have different return profiles and involve different fee and cost structures. So transparent, fully comparable cost breakdowns are vital in making judgments about net value for members.

The liquidity question

For many DC schemes, access to a degree of liquidity within their private markets holdings is another key consideration. Traditional private markets funds are illiquid, providing no certainty that cash can be withdrawn if needed.

DC schemes find it challenging to invest in long-term, illiquid fund structures because they need to be sure of meeting their obligations to provide pension payments to members and to facilitate transfers of assets when required.

This is why they usually favour the FCA-approved LTAF structure that has been designed for DC schemes and gained traction in the UK over the past few years. LTAFs provide a limited degree of liquidity, usually at quarterly intervals, which addresses a major concern among DC trustees.

LTAFs typically provide this by holding an allocation to liquid assets – such as cash, fixed income and public equity – alongside their private market holdings to ensure they have enough liquidity on hand to meet redemption requests.

The percentage of liquid assets they hold will depend in part on the private asset classes involved. For instance, private credit has an inherently different liquidity profile to private equity because its borrowers make regular interest payments, generating a predictable stream of income to the fund. Private equity, on the other hand, is much less liquid and will not necessarily deliver regular cashflows.

Trustees must therefore understand how managers determine the level of liquidity their LTAFs will hold – and what stress tests the manager has performed to be sure that, even in periods of market stress, the fund will be able to provide the liquidity its investors require.

Again, knowing the right questions to ask is vital. Trustees need to understand how liquidity levels have been determined – and what effect holding that level of liquid assets in the fund will have on its overall returns.

Private markets offer DC schemes a significant opportunity to improve long-term member outcomes. Well-informed trustees who establish clear expectations around fee transparency, cost expectations and liquidity management – and who hold managers to those expectations – will be well placed to capture that opportunity on behalf of their members.

MKTG0426-5355678-EXP0427-2/3

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