PRESS RELEASE

EMBARGOED UNTIL 0001 THURSDAY 9 MARCH 2023

"Economic uncertainty increases the relevance of alternative assets in DC investment strategy" says Pensions Policy Institute

Today, Thursday 9th March, **The Pensions Policy Institute (PPI)** is publishing **What role could alternative assets play in DC investment strategies in the future?** This report explores the topic of Defined Contribution (DC) scheme investment in alternative assets, particularly in light of new opportunities and the potential benefits that could be gained from the use of these types of assets during times of economic uncertainty. While allocation to alternative investments remains relatively low, this is not unexpected given the last decade has focused on the implementation of automatic enrolment and building scale. However, schemes appear increasingly focused on evolving and improving investment strategies, building quality, incorporating sustainability objectives and demonstrating Value for Money. Meanwhile, the Government is also working to facilitate and encourage greater investment in alternatives, particularly illiquid assets. This may lead to an increasing focus on alternative asset classes beyond the traditional passive equity and bond split that has dominated DC investment, particularly within the context of current economic uncertainty which is expected to have long-term impacts on the investment landscape.

Lauren Wilkinson, Senior Policy Researcher at the PPI said "Greater engagement with alternative assets could provide DC schemes with enhanced portfolio diversification, which in turn could increase the level of risk mitigation within the investment strategy. This is especially important during periods of economic uncertainty. Many alternative assets have a low correlation with public markets, so are not generally subject to the same market forces, meaning they can provide a hedge against losses experienced during market downturn.

Changes in policy and regulation, industry and the economy could mean that there is significant progress on alternative investment in coming years. But some, particularly smaller schemes, may need greater support to overcome barriers:

- Scale continues to be a challenge for many schemes, particularly on the illiquids side, although growth and consolidation in the DC market are reducing this over time.
- Knowledge and understanding can also be a barrier in some cases, with some schemes needing to rely more heavily on the expertise of external consultants and advisors if they are to increase their engagement with alternative investments and could also benefit from stronger regulatory guidance.
- It is also important to recognise the dynamics of the DC market around competition on charges.

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Alleviating these challenges to facilitate greater alternative investment will require an industry-wide shift in the way that cost and value are evaluated and communicated with stakeholders. This is a key priority for the Government, with the Value for Money (VfM) consultation ongoing and an overarching aim to shift the discourse away from just low costs and charges towards a greater focus on the quality of service provided and the value added from investments, which may see alternative investments growing among DC schemes."

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