Pensions Policy Institute

PPI

Pension scheme assets – how is asset allocation changing and why?

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An Independent Report by The Pensions Policy Institute

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Our INDEPENDENCE sets us apart – we do not lobby for any particular policy, cause or political party. We focus on the facts and evidence. Our work facilitates informed decision making by showing the likely outcomes of current policy and illuminating the trade-offs implicit in any new policy initiative

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www.pensionspolicyinstitute.org.uk

OR CONTACT:

Danielle Elliott

Head of External Relations

danielle@pensionspolicyinstitute.org.uk

Pensions Policy Institute

This report is authored by:

Jackie Wells
Research Associate

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Pension scheme assets – how is asset allocation changing and why?

EXECUTIVE SUMMARY:

This report provides an update to the 2024 PPI report 'Pension scheme assets – how they are invested and how and why they change over time?'. This summary draws out the key findings from this year's analysis and serves as the report's conclusions.

Policy reforms alongside market performance are key drivers of change in asset allocation

In last year's report[1] we highlighted the scope for Government policy to bring about change in the way that pension scheme assets are invested. The Labour Government, elected in July 2024, has progressed many of the proposals and announced a major review of the sector. Phase one of that review focused on investment with phase two expected to explore default pension contributions.

Alongside the review, other reforms to DB schemes and PPF have been proposed, regulators have published papers on private markets, and new solvency regulations that affect the pension annuity sector have come into force. The DC pension sector has also continued its implementation and discussions around the Mansion House Compact[2].

The Pension Schemes Bill expected to be published in late Spring 2025 is expected to contain:

- Draft legislation relating to DB superfunds.
- A new Value for Money (VFM) framework for workplace defined contribution (DC) schemes.
- The consolidation of small, deferred DC savings (small pots).
- Requirements for DC schemes to provide more support to members at retirement.

The Bill may also include changes to the extraction of surplus for DB schemes.

Reform of the Local Government Pension Scheme (LGPS) is taking place in parallel with changes expected to come into effect in 2026.

All of these reforms have the potential to change pension schemes' asset allocation.

Meanwhile, much of the industry has come together again for the Mansion House Accord which is designed to further boost investment in UK private markets. The schemes and providers expressed an intent, on a voluntary basis, to achieve a minimum 10% allocation to private markets across all main default funds in their DC schemes by 2030, with at least 5% of the total going to UK private markets.

2024 continued to see US growth dominating returns on assets[3]. Both gold and US equities posted an annual return in excess of 20%. Meanwhile bonds performed less well due to slower than expected interest rate cuts due in turn to stubborn inflation.

Equity markets, especially the US, were driven upwards by economic growth, falling inflation, interest-rate cuts, and strong corporate earnings and the artificial intelligence boom. The prospects for 2025 are less clear with US policy on tariffs, in particular, creating volatility in equity markets around the world.

[1] Wells (2024)
[2] ABI (2024a)
[3] JP Morgan (2025a)

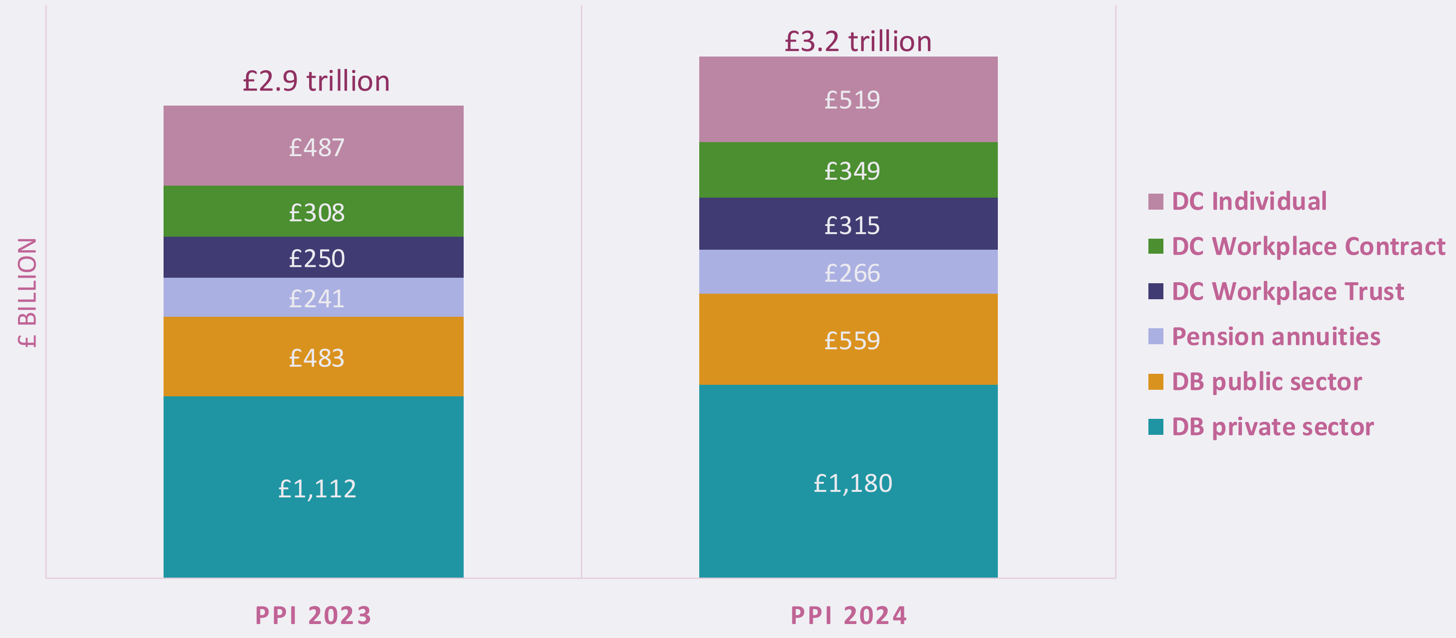
Total pension assets grow by 11% to £3.2 trillion

The PPI estimates the total value of UK pensions in late 2024 at approximately £3.2 trillion (up 11% from £2.9 trillion in 2023). Analysis of the data reveals a gradual shift in the UK pension landscape towards DC pensions. However, there is also movement between sectors, most notably funds used by members in workplace DC to buy an annuity, effectively move assets from DC to DB (since annuities have more of the characteristics of DB than DC) and, in some cases, from workplace to individual DC plans such as SIPPs at retirement.

Figure 1: £3 trillion of UK pension assets (ONS FSPS, ABI, individual company accounts, PPI estimates) £ billion.

Pension assets increase by 11% to £3.2 trillion (Sept 2023 – Sept 2024)

DC trust-based workplace grows the most over the year (27%) followed by DC contract-based workplace (13%) and public sector DB (13%)



PPI estimates based on ONS FSPS and ABI data supplemented with individual company results and PPI assumptions.
Note: Pension annuities figure for 2023 corrected to £237. Previous figure of £296 included bulk buy-ins which are also included in private sector DB.
Split remains an estimate.

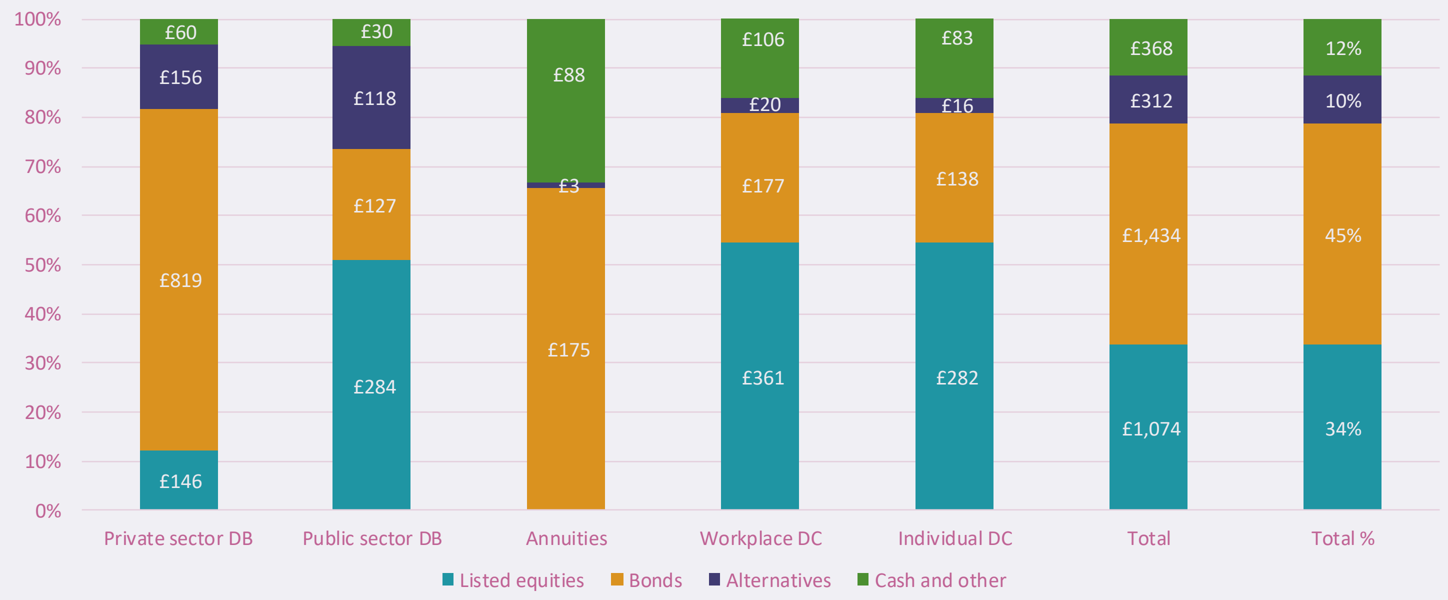
Overall, almost half of pension assets held in equities and alternatives

Looking across the different sectors of the UK pension market reveals the different asset allocation strategies at work. By far the most marked difference is between scheme types that are open to new members and contributions (public sector DB and workplace DC) and those that are largely closed (private sector DB) and between schemes that cater for members across the age spectrum and those that predominantly pay an income to those already retired (annuities).

The final two columns in the chart below show the combined picture across the £3.2 trillion of UK pension assets. Taken as a whole, bonds represent almost half of the assets with listed equities making up a third. Alternatives that include property, private credit, infrastructure and private equity account for £312 billion and 10% of the total.

Figure 2: UK pension sector, asset allocation by scheme type and overall (£billion and %)

Across the whole sector, less than half in bonds, one third in equities and 10% in alternatives (2024)



Of the £3.2 trillion, more than half invested in productive assets on widest definition

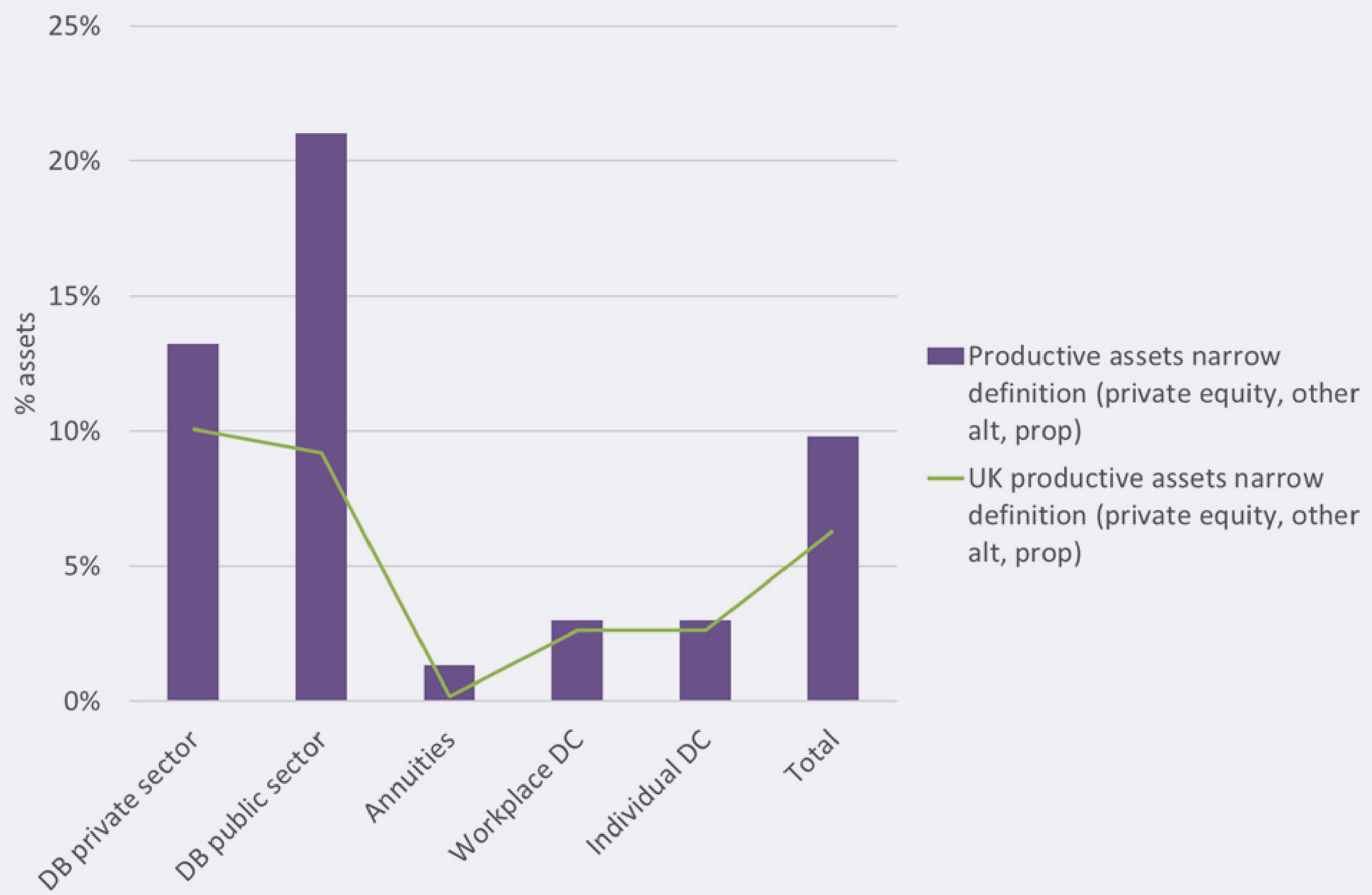
Looked at a different way, between 10% and 60% of all pension funds are invested in productive finance depending on the definition with between 6% and 20% invested in UK productive finance.

On a narrow definition of private equity, property and other alternatives, public sector DB is the most heavily invested at over 20% (almost half in the UK) with annuities the least invested (although this is largely an issue of classification of assets). DC has around 3% invested this way, almost all of which is invested in the UK.

Overall, 10% of total funds are invested in this way with 60% of this invested in the UK.

Figure 3: Share of pension funds invested in productive finance on narrow definition of private equity, property and other alternatives

10% funds invested in productive assets on narrow definition, more than half UK

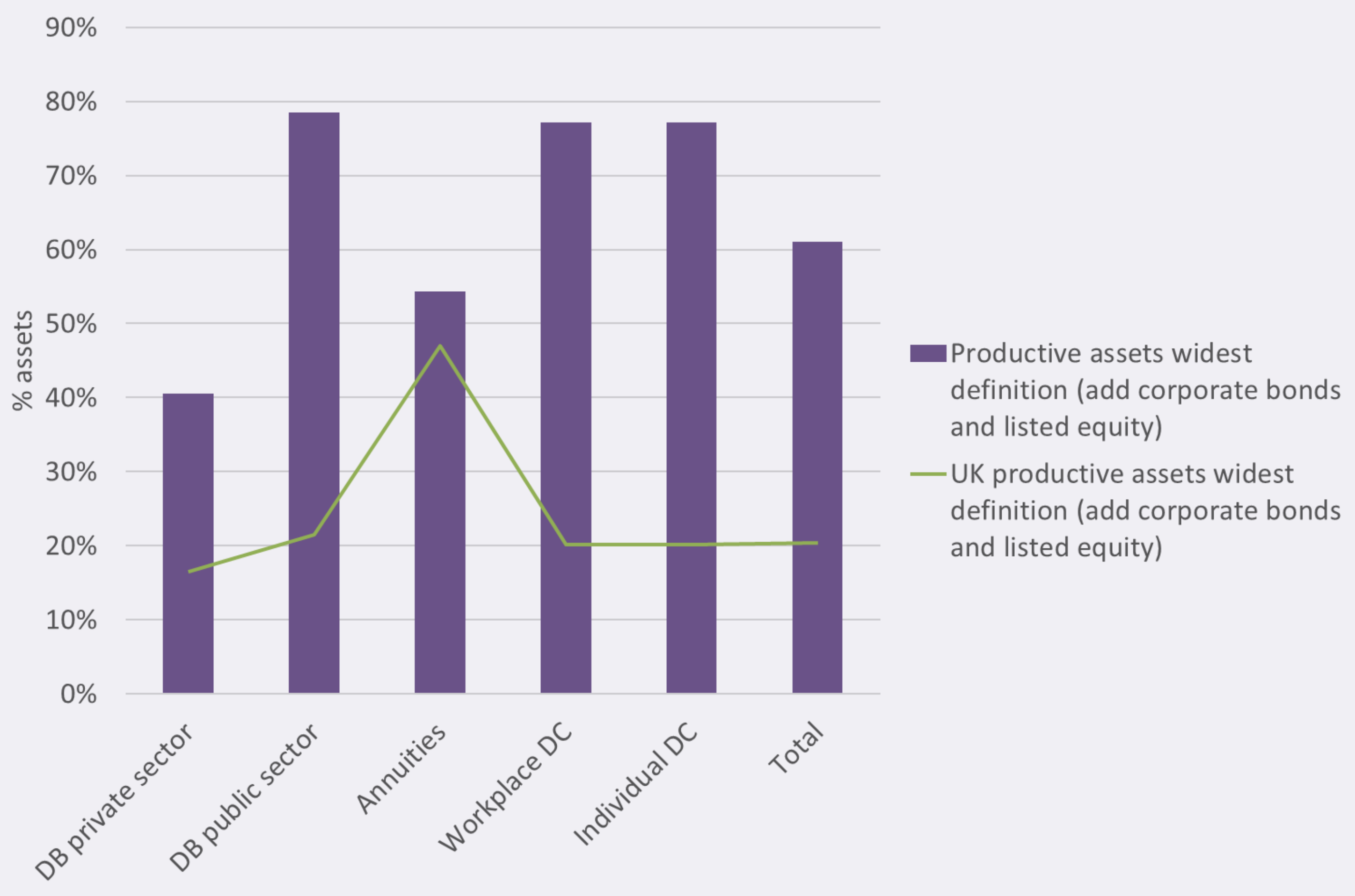


Looked at through a much wider definition of productive finance that includes listed equities and corporate bonds, the proportions are much higher. Public sector DB and DC funds have almost 80% invested in this way, dropping to 40% in private sector DB. Annuities are the most heavily invested in the UK with more than 85% of productive assets invested in the UK. Public sector DB and DC invest around 26% of their productive assets in the UK while private sector DB invests 40% in the UK.

Overall, 60% of total funds are invested productively on this definition with one third of those assets invested in the UK.

Figure 4: Share of pension funds invested in productive finance on wider definition of private equity, property and other alternatives plus listed equities and corporate bonds

On wider definition, 60% fund invested in productive assets, one-third UK



Six themes shaping investment thinking in 2025

The themes identified in this year's research that relate directly or indirectly to asset allocation fall into six main groups:

- **Diversification** of the asset base of open schemes and a focus on private markets dominates much of the narrative.
- DC schemes and providers have their eye on the Government's drive for **scale** in the sector and the consequences of the proposed **value for money framework**.
- Although securing appropriate risk-adjusted returns and fiduciary duty remain the top priority for schemes and providers, many also invest in a way that **delivers a positive social impact** and improves the society that their members live in through domestic initiatives, while also contributing to economic growth.
- Most DB schemes are focused on **securing the end game** of buy-out but with a small number of large well-funded schemes awaiting the details from Government on employer access to surplus.
- LGPS commentators express **uncertainty over the outcome of LGPS reforms** but accept that radical reform seems inevitable.
- At the time of writing, the prospect of trade wars was looming in response to the uncertainty of the US position on tariffs. This and the **geo-political instability** in the Middle East, and Ukraine and Russia, all add to uncertainty of returns on all asset classes.

Investment themes and drivers of 2024/25

The search for diversification and uncorrelated returns

Investing for social impact

Securing the end game in DB

Building scale and Value for Money in Defined Contribution

Geo-political instability

Uncertainty of outcome in LGPS reforms

Government consultations not yet feeding through into asset allocation data

The UK pension sector has been likened to a huge super tanker which changes course slowly. While it is clear that the Government's desire for greater investment in UK productive assets has been heard and is, to varying extents, being acted upon, the data do not yet reveal a significant shift. The reasons for this include:

- The shift from public to private assets requires asset owners to recruit and invest in new capabilities to research and manage different asset classes.
- In general, shifts in strategy do not tend to be executed rapidly in order to minimise transaction costs.
- A rapid shift to private markets with high up-front costs could lead to accentuated fears of intergenerational unfairness in DC arrangements.
- A rapid flood of money transferring to private markets would have a negative impact on returns.
- Closed private sector DB schemes appear unlikely to move away from a buy-out strategy.
- While master trusts and providers have signed up to the Mansion House compacts, the allocations committed reflect only their growth accumulation funds. As schemes begin to mature, the later stages of accumulation and decumulation become a more important part of the assets. Private market assets are unlikely to feature in those parts of the portfolio.
- The changes to VfM will take several years to feed through to data that shapes how and where employers place their scheme.
- Changes to LGPS will take time to settle.

It may yet take several years before the effect of the reforms shows up clearly in data.

It's all about the pipeline and planning

Schemes and providers have all called for greater certainty over the pipeline of investment opportunities and see a role for Government in supporting this. We reported last year that respondents were keen to see greater clarity in the Government's industrial and climate strategies, and this remained the case this year. Schemes and providers see important roles for the National Wealth Fund[4] in mobilising investment.

One of the consistent themes coming out of the interviews conducted for this project was the cry for a loosening of planning regulations as an important precursor to greater investment in UK infrastructure, energy transition and both commercial and residential property.

There remains hope that unblocking planning restrictions will open up new opportunities for investment. At present, opportunities for investment in the UK are considered by some to be in short supply or heavily concentrated. Allied to concerns about planning are calls for clearer and coherent government industrial and energy strategies.

Calls for changes in regulations and providing incentives

A range of policy and regulatory changes have been put forward as helping support the Government reforms. These include:

- Provide policy and regulatory certainty – having stable and long term policies for both the pension sector and for investment in the UK would give schemes greater confidence in making investment decisions.
- Initiatives such as the National Wealth Fund, proposals for Long-term Investment for Technology & Science (LIFTS) and the British Growth Partnership are all seen as positive moves to encourage and facilitate investment in the UK.
- Reviewing investment regulations to remove or reduce limitations. Both trust- and contract-based regulations are felt to inhibit investment in private markets. The 2004 occupational pension investment regulations [check details] limit investment in illiquids, a limit that some respondents felt needed to be examined again. Similarly, the FCA permitted links continue to be quoted as a limitation on contract-based arrangements.
- Fiscal incentives for UK investment. Several commentators, including the PLSA5, have called for the Government to provide incentives for pension schemes to invest more domestically. Comparisons are drawn with the Australian tax benefits offered for investment in domestic shares or the US tax advantages for investment in social housing.
- Proposals for 100% PPF cover. The previous Government consulted on proposals for PPF to offer 100% cover for members of DB pensions entering the PPF. This is considered to be a way of helping trustees support employer access to the scheme's surplus. While there has not been universal support for the proposal and at the time of writing, this reform seemed unlikely to be taken forward, some stakeholders continue to see this as a key to unlocking surplus[6]. Fully securing benefits could also serve to reassure DB scheme members who, research suggests, are opposed to employers accessing surplus from the scheme[7].

Will the Government achieve its aim of encouraging greater support for UK growth?

As the data show, the UK pension sector is already a very significant investor in the UK economy through investments in corporate bonds, listed and private equity, infrastructure and other private markets. It is also a very significant investor in UK Government bonds which in turn support Government spending.

2025 will see the publication of the Pension Schemes Bill, further regulatory developments from FCA and TPR on value for money, and the drive for consolidation of LGPS pooling. All of these initiatives will, in time, be expected to drive scale, efficiencies and more diverse portfolios of assets across sectors that may soon represent nearly half of all pension assets (currently around 38%) as public sector DB continues to recede and individual DC matures further.

2025 and 2026 are expected to be years of slow change. Many DC schemes will have started to incorporate private market assets into the growth phases of their default funds and LGPS should have started the process of consolidation of assets into their pools. It will be a period of transition that may take a few years to see through and for data to reveal results.

In summary, we should expect to see the following shifts in asset allocation in the next few years, but progress will generally be slow:

- LGPS (and possibly other public sector DB schemes) can be expected, based on their stated intentions, to invest more heavily in infrastructure, particularly renewable energy, and other private markets, mainly at the expense of listed equities. Local or regional social impact investments may also attract more investment if suitable opportunities that meet return targets are made available. Overall, the asset mix may also see a greater emphasis on cashflow supporting assets as schemes begin to mature and become cashflow negative. Progress will be limited in the short term by the complex transition to full pooling and the new pool responsibilities over the next year.
- Workplace DC can be expected, given the commitment of many to the Mansion House Compact and Accord, to increase their allocation within growth default funds to private markets, particularly private equity. Once again, progress will be gradual as schemes seek to maintain strong performance and avoid the effects of the J-curve of returns of private equity on returns. Changes will also be affected by the slow but inevitable maturing of many DC schemes, particularly master trusts. This will see more assets move into the pre- and post-retirement phases with reduced levels of risk and exposure to illiquid investments.
- The strong funding position of many private sector DB schemes, with 54% fully funded on a buy-out basis[8] suggests that many such schemes will continue to focus on their endgame, which for many will be buy-out. This will see a transfer of assets to annuity providers which will result in a shift away from government bonds to corporate bonds, infrastructure, commercial real estate and lifetime mortgages. One side effect of this change is that DB schemes are predicted to be net sellers of Gilts as they derisk and either buy in annuity cover or effect a buy-out. As annuity business grows as a proportion of all UK pension assets, their asset allocation will become more important to achieving growth and investment in private markets.

When looked at overall, the picture of asset allocation has many moving parts, complicated still further by different levels of return affecting the overall values of different assets. We can expect the sector to be in transition for many years to come as both the sectors and the members of schemes mature.

[4] HMT (2024a)
[5] PLSA (2024)
[6] Daniela Silcock Research (2025)
[7] Corporate Adviser (2025b)
[8] TPR (2025a)

Introduction

This report has been informed by analysis of available data sets, desk research and interviews with industry participants[9].

In 2024, PPI published a report that sought to provide a comprehensive analysis of strategic asset allocation across the entirety of the UK pension sector[10]. In doing so, PPI delivered data on the size of the overall market, high level asset allocation in different sectors of the market, an estimate of investment in UK productive assets and narrative on the drivers of asset allocation. However, the report also highlighted the imperfections in UK data.

The subject of how UK pensions are invested remains a topical subject with several Government initiatives designed explicitly or implicitly to encourage investment in assets that support UK economic growth. It also remains a difficult subject to analyse with disparate and sometimes contradictory data sources. In our 2024 report, we called for a single view of asset allocation across the pension sector with common definitions applied to each part. We remain some way from achieving this. In this report we, not ideally but pragmatically, source data from a number of different sources, sometimes data that uses different classifications of assets. Our approach is different to that applied in last year's report but we believe that we have progressed towards a more confident assessment of the proportion of UK pensions invested in UK and productive assets.

This report provides an update on the data, attitudes towards asset allocation and emerging strategies in response to both industry and Government initiatives. Its objectives were agreed as:

- How have pension scheme investment approaches to different assets changed over the previous 12 months?
- How have policy, regulatory, market, economic and other trends affected different assets?
- Have attitudes to different assets changed and what might be driving this?
- What assets are being used, sold, bought in the bulk annuity (buyout and buy-in) market?
- What do current trends around assets mean for Government policy, regulators, and industry going forward? What are the implications?

Chapter One – Asset allocation and the policy and market landscape.

Before exploring how and where pension scheme assets were invested in 2024, this chapter sets the scene on the policy reforms which are shaping and will shape asset allocation in the UK pension sector. It also explores how markets have performed in 2024.

Chapter Two – How and where were UK pension assets invested in 2024?

This chapter describes how UK pension assets were invested in 2024 and how asset allocation differs between scheme and product types. The chapter concludes with a summary of the UK assets held by UK pensions.

Chapter Three – Pension investment themes in 2024/25

This chapter draws on interviews conducted for this report and desk research to explore recent trends in investment beliefs, asset allocation and the drivers behind recent and emerging changes.

Chapter Four – Implications for future direction and policy

This chapter considers what implications current and future trends have for policy and what impact policy could have on future asset allocation.

[9] Defined Benefit and Defined Contribution schemes and providers, LGPS, annuity specialists, trade bodies and regulator.
[10] Wells (PPI) (2024)

CHAPTER ONE:

THE POLICY AND MARKET LANDSCAPE

Before exploring how and where pension scheme assets were invested in 2024, this chapter sets the scene on the policy reforms which are shaping and will shape asset allocation in the UK pension sector. It also explores how markets have performed in 2024.

In last year's report we highlighted the scope for Government policy to bring about change in the way that pension scheme assets are invested. The Labour Government, elected in July 2024, has progressed many of the proposals and announced a major review of the sector. Phase one of that review focused on investment with phase two expected to explore default pension contributions.

Alongside the review, other reforms to DB schemes and PPF have been proposed, regulators have published papers on private markets, and new solvency regulations that affect the pension annuity sector have come into force. The DC pension sector has also continued its implementation and discussions around the Mansion House Compact[11].

Pension investment review nearing completion

The interim report of the Pensions Investment Review[12] (phase 1 of the overall review) proposes reforms for two parts of the pension sector:

- An associated consultation paper[13] proposes changes to DC automatic enrolment schemes including an emphasis on scale and reducing fragmentation, while proposals for a revised value for money (VfM) framework are progressing.
- A separate consultation paper[14] relating to the Local Government Pension Scheme (LGPS) which proposes changes to asset pooling, local investment and governance.

Alongside the interim report the Government also published feedback on the importance of pension fund investment in supporting the UK economy[15].

The final report for phase one is expected to be published in late Spring 2025.

DC reforms expected to lead to fewer, larger schemes with a more diverse portfolio of assets and a greater focus on value

The DC scheme consultation published in November 2024[16] notes the success to date in achieving a reduction in the number of DC schemes operating in the UK but suggests that further consolidation will deliver better governance, achieve greater economies of scale and facilitate investment in a wider range of assets. Rather than mandate greater investment in private markets[17], in particular unlisted equities, or in UK assets, the Government sees scale as the route to achieving this.

The findings from the consultation support the view that:

- Infrastructure and private equity investments may have a relatively high impact on economic growth.
- Scale leads to diversification of investments, in particular investment in infrastructure and private equity assets where additional resources are required to analyse opportunities.

As a result, the Government is proposing that DC schemes' default funds should operate at a minimum size (£25 billion or more) and that the number of default funds each provider uses should be limited; both moves designed to create the most productive investment environment. It is worth noting that the workplace DC sector is already highly concentrated, albeit not in one default fund. In 2024, there were only 20 players in the workplace DC market with around seven of these with DC assets in excess of £40 billion, between them controlling around 80% of the market by value.

Other reforms designed to support consolidation, diversification of assets and deliver value to members include:

- The ability to transfer members of contract-based workplace arrangement either to another contract-based arrangement or to a master trust without individual member consent.
- The removal of differential pricing within a default arrangement, although at the time of writing it is thought that this will not form part of the reforms.
- Detailed proposals for a new value for money framework applied consistently across contract- and trust-based arrangements[18], including the requirement for performance against metrics to be made publicly available. The new framework will seek to focus all stakeholders on overall value and net returns in particular rather than low costs.

The paper on Pension fund investment and the UK economy[19] provides a detailed analysis of asset allocation for both UK and overseas pension schemes. It confirms the decline in UK assets across all UK pension sectors, in particular in listed equities. However, other asset classes, in particular private markets are shown to have attracted more of a home bias. The paper also establishes theoretical and empirical links between investment in domestic private markets and domestic economic growth. Modelling by the Government Actuary's Department (GAD) suggested a relatively small (2%) increase in pot size for savers in DC schemes by greater investment in private markets.

At the time of writing, there do not appear to be any plans in place to mandate specific levels of investment in productive assets or in UK assets but the issue continues to be discussed.

LGPS reforms designed to unlock further efficiencies and increase domestic investment

The Government has proposed a number of further reforms to the Local Government Pension Scheme designed to "put the LGPS on a clearer, firmer trajectory to scale and consolidation, as well as measures to improve scheme governance and investment"[20].

Of particular interest to this project are proposals for:

- The 86 administering authorities (AAs) to continue to set investment objectives but to delegate the implementation of investment strategy to their asset pools and to take their principal advice on their investment strategy from the pool.
- AAs to transfer legacy assets to the management of the pool meaning that all assets, including local investments, will be managed by the pools.
- Boosting local investment by requiring AAs to set out a target range for the allocation and to set out their local investment and its impact in their annual reports. Pools would be required to conduct suitable due diligence on potential investments and make the final decision on whether to invest.

The proposals are due to be implemented by March 2026, a timeline recently confirmed by the Minister for Pensions[21].

[11] ABI (2024a)
[12] HMT (2024a)
[13] HMT (2024b)
[14] MHCLG (2024)
[15] DWP (2024a)
[16] HMT (2024b)
[17] Private markets are investments made in assets not traded on a public exchange or stock market.
[18] FCA (2024)
[19] DWP (2024a)
[20] MHCLG (2024)
[21] Pensions Age (2025a)

Proposals to unlock investment in the UK through DB reforms

In January 2025, the Chancellor of the Exchequer confirmed that the Government would be seeking to change the legislation on releasing surplus from defined benefit (DB) pension schemes, as part of its drive to boost UK economic growth and improve pension outcomes for members. The original proposals were set out by the previous Conservative Government[22]. Hymans Robertson has estimated that if £130bn surplus is distributed, it could raise £3bn a year for the Treasury for the next decade as well as enhancing UK investment.

As the time of writing, details had not been published.

> ***"We will introduce new flexibilities for well-funded defined benefit schemes to release surplus funds where it is safe to do so, generating even more investment into some of our fastest growing industries."***
> Chancellor of the Exchequer[23]

Other DB changes being considered include:

- Allowing the Pension Protection Fund (PPF) to reduce its levy on DB pension schemes in order to enable employers to invest more in their businesses.
- Enabling PPF to provide a 100% underpin to scheme benefits in the event of an employer insolvency as a mechanism for supporting trustees in releasing surplus to employers.
- The establishment of a public sector consolidator of DB schemes, run by the PPF and intended to enable greater investment in high-growth UK assets.

Reforms expected to move at pace as legislation is introduced

At the time of writing, the precise details of the forthcoming reforms are unknown. However, in March the Minister for Pensions announced that the final report on phase one of the Pensions Investment Review would be published in the Spring of 2025 with a Pension Schemes Bill expected to be introduced to Parliament before summer recess 2025[24]. The timeframe for phase two of Pensions Review has yet to be published.

At the time of writing, the Bill is expected to include the following measures:

- Draft legislation relating to DB superfunds.
- A new Value for Money (VFM) framework for workplace defined contribution (DC) schemes.
- The consolidation of small, deferred DC savings (small pots).
- Requirements for DC schemes to provide more support to members at retirement.

The Bill may also include changes to the extraction of surplus for DB schemes.

Reform of the Local Government Pension Scheme (LGPS) is taking place in parallel with changes expected to come into effect in 2026.

All of these reforms have the potential to bring changes to asset allocation of pension schemes.

Regulators' set out views on private markets

While the Government has been progressing plans for consolidation and scale to bring about diversification of assets across the pension sector and the hope that this will see greater investment directed towards the UK economy, the two main pension regulators have provided guidance to schemes and firms on investment in private markets.

TPR provides guidance to trustees on investing in private markets

The Pensions Regulator (TPR) published guidance in 2024 for trustees of schemes. The guidance stressed the importance of understanding the key differences between public and private markets, including:

- The potential for investment that is committed to the fund to be drawn down and invested over a period of time.
- The risk that the investment might suffer negative returns in the early years due to the fees being charged before any returns are realised (J-curve).
- Difficulties in predicting the timing and amount of cashflows for private market portfolios.
- Less frequent valuations.
- Higher costs of investing.

TPR encourages trustees to understand the need for higher levels of governance and due diligence along with detailed stress testing of liquidity requirements.

FCA writes to CEOs setting out concerns about private markets

In February 2025, the Financial Conduct Authority (FCA) wrote to CEOs of authorised firms setting out its intention to focus supervision on supporting confident investing in private markets, building firm and financial system resilience against market disruption, and securing positive outcomes for consumers[25].

> ***"By channelling investments into the real economy firms facilitate the delivery of good investment outcomes for investors, efficient functioning of capital markets, and contribute to economic growth".***
> FCA

While recognising the benefits of investing in private markets, the FCA has raised concerns about the way in which private markets are valued and the scope for conflicts of interest, insufficient expertise and inappropriate charging of investors.

Solvency UK seeks to unlock £100 billion

In 2024 the UK adapted (from EU Solvency II) its solvency regulations for UK insurers[26]. Solvency UK makes a number of changes aimed at releasing capital for new business growth and increasing investment in productive and higher risk assets such as sub-investment grade assets and those with highly predictable but not fixed cashflows. As a result, insurers involved in the pension and annuity sectors should have greater flexibility in asset allocation[27]. Research by the Association of British Insurers' (ABI) Investment Delivery Forum suggests that the introduction of Solvency UK could potentially unlock £100 billion for investment in a broader range of productive assets over the next decade[28].

[22] DWP (2024b)
[23] GOV.UK (2025)
[24] Pensions Age (2025b)
[25] FCA (2025a)
[26] Bank of England (2024)
[27] Norton Rose (2025)
[28] ABI (2023)

Industry continues to respond positively but cautiously to reforms

The pension sector has been active in responding to the Government's challenge for greater investment in private markets and the UK. The eleven signatories to the original Mansion House Compact of DC schemes and providers established in 2023[29] made a commitment to invest at least 5% of the assets of their DC default funds in unlisted equities by the year 2030.

The Association of British Insurers (ABI) has taken on the reporting on progress towards that goal. Their 2024 report[30] identified a low starting point of 0.36% of default funds being invested in unlisted equities (February 2024). At that point in time, almost half of the signatories had already increased their allocation with the majority increasing resources allocated to managing the asset class and having commissioned or undertaken research. Several reported developing new funds, including Long-term Asset Funds (LTAF) with several having been launched since the report.

The report also highlighted some policy changes that signatories felt could remove some of the barriers to investing in unlisted equities.

> ***"The proportion [invested, say, in illiquids] is affected by performance of other assets. When public equities do well, then our percentage invested in illiquids goes down until we restructure."***
> PPI interview

The Mansion House speech of 2024 included commitments by schemes and providers to the British Growth Partnership[31] announced by the Chancellor[32] and designed to encourage more UK pension fund investment into growing and innovative UK companies.

In May 2025, 17 pension schemes and providers signed the Mansion House Accord which is designed to further boost investment in UK private markets[33]. The schemes and providers expressed an intent, on a voluntary basis, to achieve a minimum 10% allocation to private markets across all main default funds in their DC schemes by 2030, with at least 5% of the total going to UK private markets. The intent is conditional on a number of factors:

- A pipeline of UK investment opportunities, which the Government has agreed to facilitate;
- The whole market, including intermediaries, to shift from cost to value, as well as successful delivery by the Government of the upcoming Value for Money framework;
- Alignment between the Government and FCA on that framework, on the scope of the charge cap and clarity in rules and guidance, and on delivery of the in-train policy change on bulk transfers without consent, when it is in the best interests of savers and subject to necessary safeguards;
- A pragmatic, well-sequenced approach to the scale tests proposed by Government in a way that ensures competition and innovation in the market and that does not prevent signatories from investing in private markets at scale, in the near term.

Although schemes and providers have signed up to the Accord, many continue to stress the importance of retaining a focus on fiduciary and consumer duties and avoiding negative effects on asset prices by creating an investment bubble.

2024: a good year for equities

The split of assets by value in 2024 was driven by two factors:

- Changes in investment strategy by some schemes and providers resulting in the redirection of funds to different asset classes.
- But also, and perhaps more powerfully, by the relative performance of assets over the period. The snapshot of asset values can be strongly affected by a particularly strong performance of one asset class and the poorer performance of another until schemes restructure.

2024 continued to see US growth dominating returns on assets[34]. Both gold and US equities posted an annual return in excess of 20%, the former due in part to geo-political tensions. Meanwhile bonds performed less well due to slower than expected interest rate cuts due in turn to stubborn inflation.

Equity markets, especially the US, were driven upwards by economic growth, falling inflation, interest-rate cuts, and strong corporate earnings and the artificial intelligence boom. The prospects for 2025 are less clear with US policy on tariffs, in particular, creating volatility in equity markets around the world.

[29] GOV.UK (2023)
[30] ABI (2024b)
[31] British Business Bank (2025)
[32] GOV.UK (2024a)
[33] Pensions Expert (2025)
[34] JP Morgan (2025a)

CHAPTER TWO:

HOW AND WHERE WERE UK PENSION SCHEME INVESTED IN 2024?

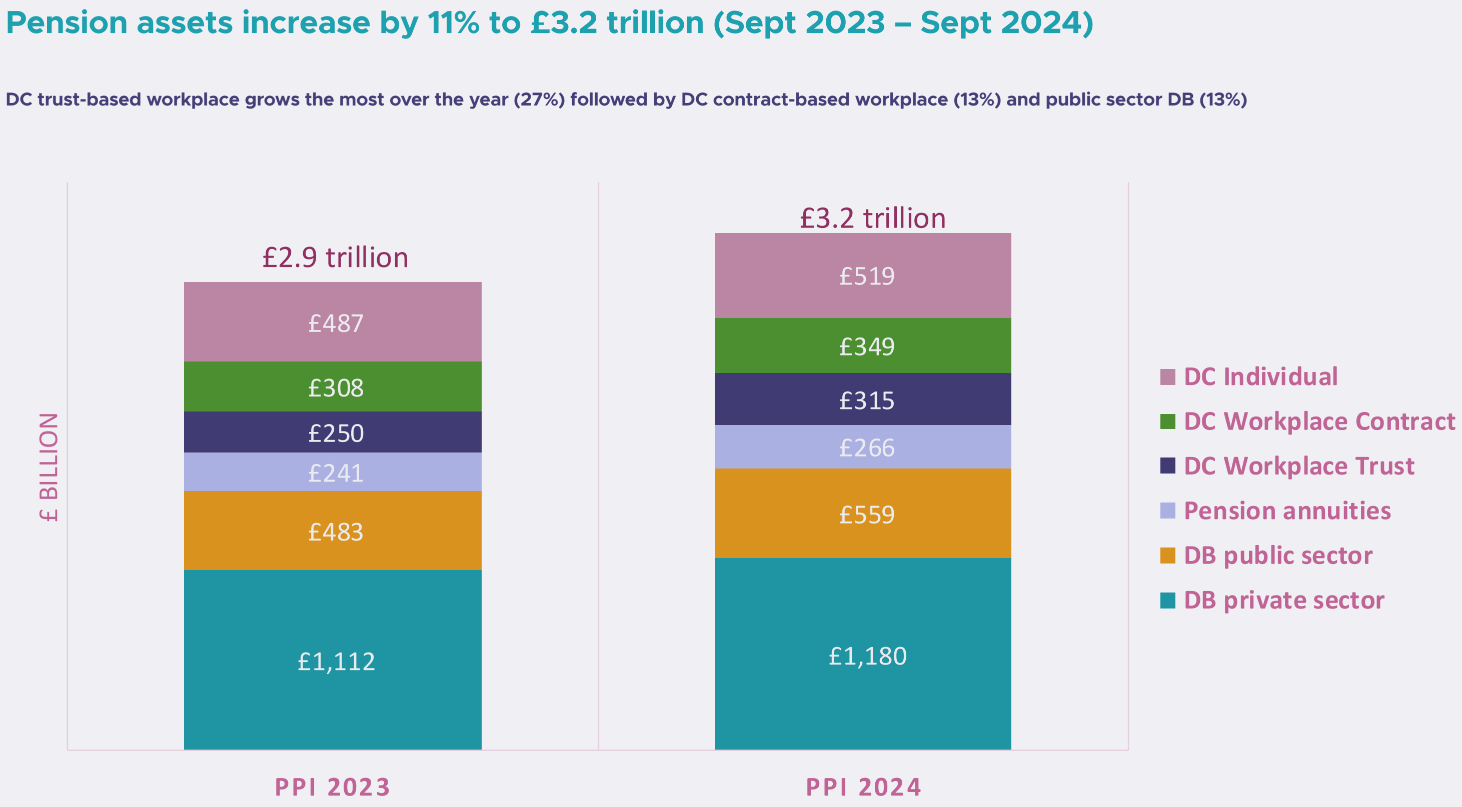
This chapter describes how UK pension assets were invested in 2024 and how asset allocation differs between scheme and product types. The chapter concludes with a summary of the UK assets held by UK pensions.

Total market grows by 11% to £3.2 trillion of UK pension assets

The PPI estimates the total value of UK pensions in late 2024 at approximately £3.2 trillion (up 11% from £2.9 trillion in 2023). This estimate is derived from a number of sources including the Office for National Statistics (ONS) Financial Survey of Pension Scheme (FSPS)[35] as the most significant source. The breakdown below has been derived largely from the same core data sources as used in our 2024 report. Where different sources have been used, these are noted.

Of all of these estimates, we are most likely to have undervalued individual DC pensions due to the disparate nature of the providers and lack of cross-industry data but believe that the value lies somewhere between £500 billion and £600 billion.

Figure 5: £3 trillion of UK pension assets (ONS FSPS, ABI, individual company accounts, PPI estimates) £ billion.



PPI estimates based on ONS FSPS and ABI data supplemented with individual company results and PPI assumptions.

***Note:** Pension annuities figure for 2023 corrected to £237. Previous figure of £296 included bulk buy-ins which are also included in private sector DB. Split remains an estimate.*

Alternative ways of viewing the data are shown in the table below. They reveal the gradual shifts in the UK pension landscape towards DC pensions. However, there is also movement between sectors in the table below, most notably funds used by members in workplace DC to buy an annuity, effectively move assets from DC to DB (since annuities have more of the characteristics of DB than DC) and, in some cases, from workplace to individual DC plans such as SIPPs at retirement.

Alternative ways of looking at the data are shown in the table below.

Figure 6: Split of UK pensions by workplace : retail and DB: DC

	2023		2024	
Split by workplace and individual	**£bn**	**% of total**	**£bn**	**% of total**
Workplace schemes (Defined Benefit (DB) and Defined Contribution (DC)) and bulk buy-out annuities	£2,211	77%	£2,466	77%
Retail products (individual pensions and individual pension annuities)	£671	23%	£722	23%
Split by pension type				
DB (including all pension annuities)	£ 1,836	64%		63%
DC (workplace and individual)	£1,045	36%	£1,183	37%

- Private sector DB and hybrid schemes remain the largest part of the UK pension sector by value at £1.2 trillion[36] but exhibited the lowest growth rate (in terms of asset values) over the year at 6%. The value of this part of the market includes buy-in annuities purchased by schemes and is a net figure after borrowing and derivative positions. While asset values have increased overall, some schemes have transferred liabilities and assets to the insurance sector through buy-out deals. Active and deferred membership and contributions have fallen, pensions in payment have risen and funding positions have improved.
- Public sector funded DB schemes grew in value by 16% to just over £0.5 trillion. LGPS represents approximately 75% of the total[37].
- Pension annuities (excluding buy in annuities) which are DB like in character and derive partly from the closure of DB schemes are estimated to have risen by around 10% over the year to £0.27 trillion. Growth was triggered by a boom in bulk buy-out business[38] as well as an increase in individual annuity business from individuals with DC savings[39]. Since our last report, the size of the pension annuity market, and the split between bulk buy-ins (which are included under DB) and bulk buyouts which are added to individual pension annuities, have become clearer. As a result, our revised estimate of the size of this sector in 2023 is smaller than estimated last year.
- The final piece of the funded DB sector is the Pension Protection Fund (PPF), which manages £32bn (March 2024) and is excluded from the chart above[40].
- DC workplace schemes, contract and trust based combined, account for just over £0.66 trillion. The gap between trust-based and contract-based DC has narrowed over the year with the former growing by 26% (to £315 billion) and the latter by 13% over the year (to £349 billion). Master trusts' assets are estimated to have grown to just short of £200 billion (from £170 billion)[41] over the year. Single employer DC trusts are estimated to be worth £116bn.
- Individual personal pensions including Self-Invested Personal Pensions (SIPPs) administered by the major wealth managers add approximately £519 billion and have grown by 7% over the year.

Excluded from all of the data sets used are Executive Pension Plans (EPP) and Small Self-Administered Schemes (SSAS), both of which are trust-based arrangements but are typically small in terms of assets but large in terms of numbers of schemes. It is also likely that some additional voluntary contribution (AVC) arrangements have been excluded from the totals.

Mapping asset allocation is an imprecise science. The analysis contained in the remainder of this chapter seeks to illustrate the map of assets broadly as it stood in late 2024. While the data on DB is gathered from government sources and is considered the most up-to-date source, we have used ONS, ABI and PPI data to show asset allocation in 2024. Confidence in the geographical split of assets remains low, in part due to inconsistent data sources and the derivation of UK assets. The split of individual DC pensions below remains the weakest area, and we include an estimate only for completeness. **All data owners recommend treating these figures as approximate and confidence in some data is greater than others.**

[35] ONS (2025)
[36] ONS (2025)
[37] Pensions Age (2025c)
[38] Reinsurance News (2025)
[39] ABI (2025a)
[40] PPF (2024a)
[41] PPI estimate drawn from a variety of sources including report and accounts of master trusts

DB and pension annuities account for £2 trillion of assets with private sector DB still the largest slice of the cake.

Private sector DB sees an increase in bonds and insurance in 2024, both in value and proportion of all assets

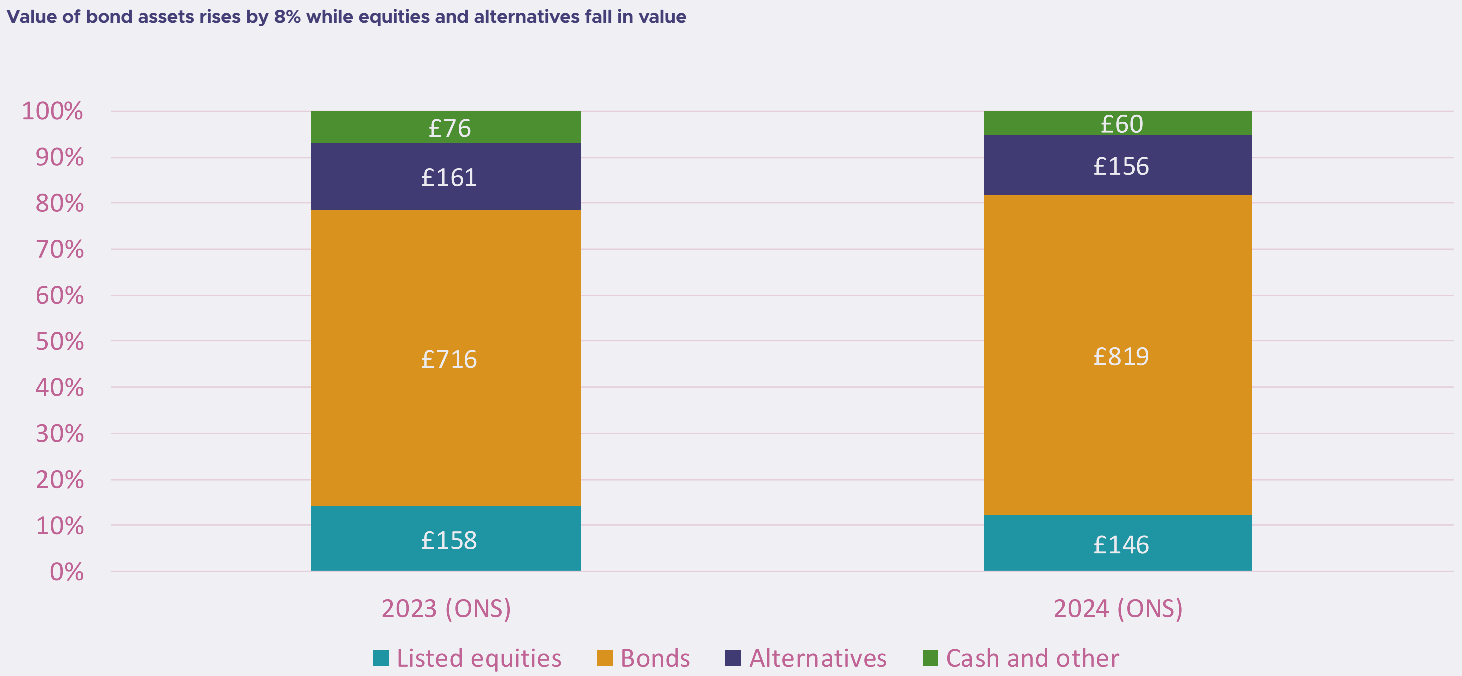
The break-down of the £1.2 trillion of private sector DB assets is first allocated listed equities[42], bonds, alternatives[43], and cash and other investments[44]. Where schemes use pooled funds (down from 33% to 30% of assets), we have adopted a simplified approach to 'look through' to the underlying assets and have added these to the direct assets held in each class. Unlike last year, we have also sought to 'look through' to the underlying assets held by insurers to back the buy-in annuities that form part of the assets of DB schemes (up from 9% to 12% of assets). We have gone back and applied the same approach to last year's data in the charts below. We have been able to do this due to a more detailed breakdown of annuity assets being produced by the ABI[45]. The data for 2023 have changed in a number of ways from last year's report, due to small changes in the numbers provided by ONS and our different approach to 'look through' (in particular buy in annuities are no longer included under cash and other investments).

The analysis reveals a continued shift towards bonds in 2024 as many schemes, most of which are closed to new members and/or accruals, continue towards an endgame of buy-out[46], a trend that we discuss in the following chapter of this report. Bonds now represent 70% of assets compared to 65% in 2023. Of these bonds, approximately 78% are government bonds and 22% corporate bonds (with very little change over the year). Equities have fallen in value (£158 billion to £146 billion) and proportion of assets (14% to 12%). Alternatives (just over a quarter of which is property) have also fallen in value and proportion while cash and other investments has stayed broadly the same in proportion.

Figure 7 High level asset allocation of private sector DB schemes. (PPI estimate based on data from FSPS Q3 2023/24) £billion.

Private sector DB shift towards bonds over the year

(£ billion Sept 2023 to Sept 2024)



A survey of DB schemes conducted for TPR sheds some more light on assets held by schemes and plans for the future[47]. Investments in private equity, infrastructure, renewables or venture capital were held by just over a third of schemes with private equity the most commonly held and venture capital the least popular. Only a small proportion planned to increase investment in the next year, most commonly citing the scheme's endgame as the barrier to further investment.

Private sector DB pensions are heavy investors in UK assets

We have adopted a slightly different approach to the geographic split of assets in 2024. ONS provides the most comprehensive split by geography but, as noted in last year's report, appears to overstate the UK allocation. In the ONS FSPS where schemes are asked to classify directly held assets as overseas (these are then deducted from the total and applied to the assets above to provide an estimate of UK assets). In other surveys where respondents are asked to specify UK assets, the allocation to the UK is lower than the derived figure from ONS. Where alternative sources are available we have therefore used the lower proportion and have applied it to ONS total data. We feel that this presents a more accurate picture of UK assets but continue to believe that greater confidence still could be achieved through a comprehensive review of the data.

In the case of private sector DB, we have applied ONS figures where we have no other but have used the PPF Purple Book[48] splits where they are available, specifically in relation to UK listed equities and UK corporate bonds. For this reason, the numbers below are not comparable to last year's report.

Gilts dominate the UK investments held by private sector DB schemes at 52% of their value. UK equities by contrast represent just 1% with UK alternatives, including property accounting for 10% of the total.

UK assets: Private sector DB

Using ONS and PPF data on geographic distribution[49], we estimate that of the £1,180 billion in private sector DB schemes, 68% is invested in the following UK assets:

- **£58bn is invested in UK corporate bonds (5% of private sector DB)**
- **£17bn is invested in listed UK equities (1% of private sector DB)**
- **£43bn is invested in UK property (4% of private sector DB)**
- **£76bn invested in UK private equity and other alternatives (6% of private sector DB)**

On this basis, we estimate a total of £194bn is invested in UK productive assets (UK corporate bonds, listed equities, property, private equity and other alternatives) representing 16% of private sector DB assets and 6% of total pension assets (£3.2 trillion). 10% is invested in UK private markets.

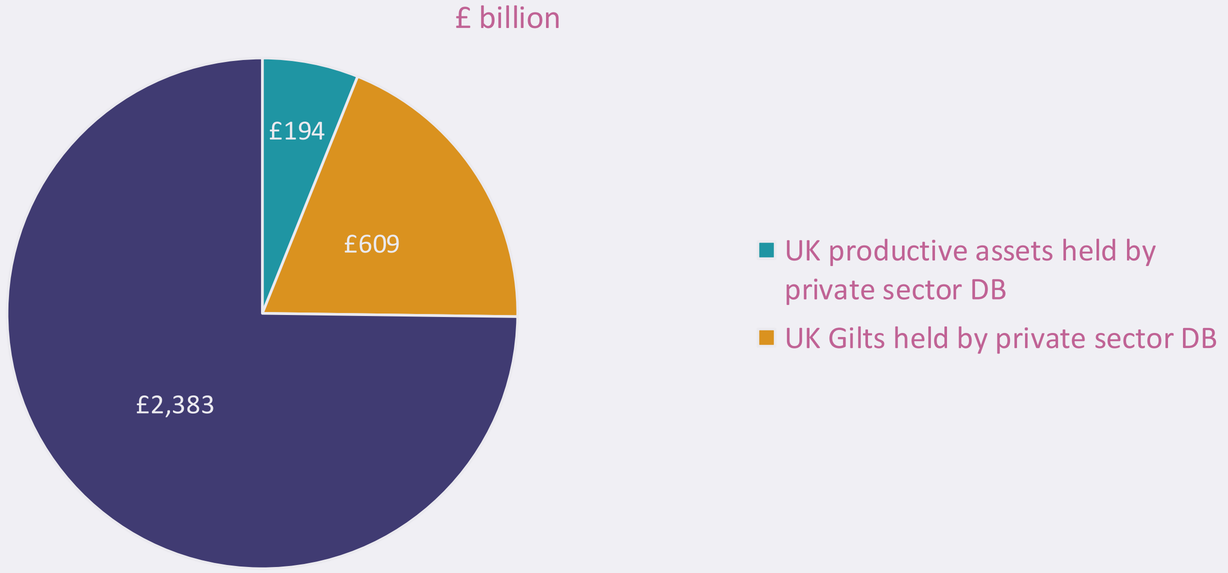
- **£609bn is invested in UK government bonds (52% of private sector DB)**

Totalling £803 billion, representing 25% of total pension assets (£3.2 trillion)

[42] Listed equities is used as short-hand in this and the following charts derived from ONS statistics. In fact, this includes equities on AIM which are technically unlisted. It does not include private equity which is included under alternatives.
[43] Alternatives includes private equity, property, Secure Income Alternatives (SIA), infrastructure, private debt and venture capital.
[44] The value for cash and other investments includes the net derivative position and also nets off any other (non-pension) liabilities
[45] ABI (2025b)
[46] LCP (2025)
[47] OMB Research / TPR (2025)
[48] PPF (2024b)
[49] FSPS geographic data relates only to direct investments and those held by private sector and public sector DB and a small slice of occupational DC schemes assets. However, in the absence of any better data, we have applied the split to the entirety of holdings including the inferred pooled assets, except where noted we have applied PPF geographic splits.

Figure 8: Share of total pension assets invested in UK by private sector DB schemes

Private sector DB schemes invest £194 billion in UK productive assets* (6% of all pension fund assets)



** Productive assets defined as listed and private equities, property, corporate bonds and other alternatives.*

Listed equities still dominate public sector DB schemes asset mix

As open, but maturing, schemes, public sector DB has a more evenly balanced portfolio of assets than private sector DB schemes.

As with private sector DB, we have adapted the methodology slightly to look through the small amount of insurance policies held by these schemes and have gone back and replicated the methodology for 2023 data. Once again, there are changes when compared to last year's report but, given that insurance policies represent only 1% of the assets, the changes are small.

This survey reports that in Autumn 2024, 57% of public sector DB assets (£323 billion) were held in pooled funds[50], with 42% invested directly.

The analysis below looks through the pooled funds to provide an overall high-level view of the split of assets. This reveals that, unlike schemes in the private sector which are generally maturing at a faster rate, public sector DB schemes hold around 51% of their assets in equities (down very slightly from 2023) with just 23% held in bonds (up from 19% in 2023). One fifth of the assets are held in property, private equity and other alternatives (down from 23%).

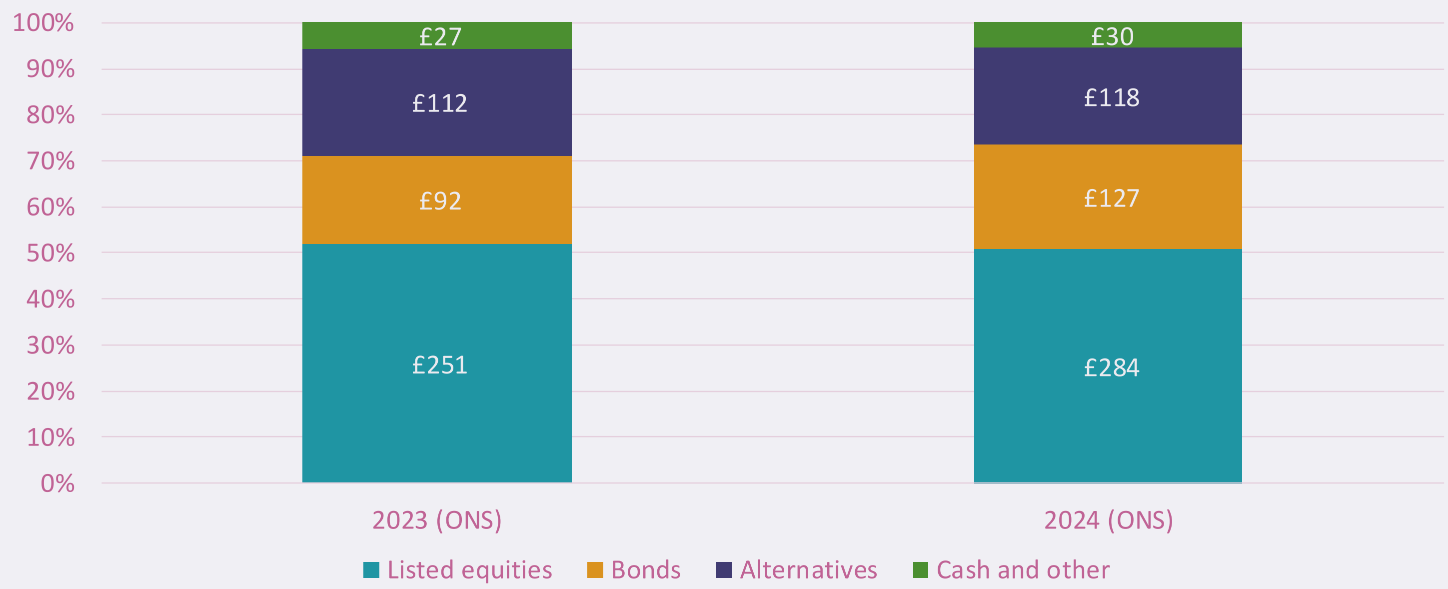
The largest part of public sector DB schemes are the LGPS funds. Analysis by the Ministry for Housing, Communities and Local Government (MHCLG)[51] suggested a similar breakdown with 50% invested in listed equities, 17% invested in bonds, 25% invested in private equity, property and other alternatives.

Figure 9: High level asset allocation of public sector DB schemes, (PPI estimate based on data from FSPS Q3 2023/24) £billion

Public sector DB has also sees slight shift to bonds over the year

(£ billion Sept 2023 to Sept 2024)

Equities still dominate asset mix at 51% of public sector DB but bonds have risen slightly from 21% to 23% at the expense of alternatives



Public sector DB schemes significant investors in UK productive assets

As with private sector DB, when it comes to assessing the geographic spread of data, there is no perfect source.

Data from FSPS indicates that public sector DB schemes hold approximately 59% of their value in UK assets, dominated by UK equities. However, separate data from MHCLG for LGPS funds (which represent around 75% of public sector DB schemes) suggests a lower overall figure of 28% and a very different mix. We have chosen to apply the MHCLG figures (data that is acknowledged as being incomplete) to the ONS totals to achieve a view on UK assets for public sector schemes.

UK assets: Public sector DB

Combining ONS FSPS and MHCLG data on geographic distribution, we estimate that of the £559 billion in public sector DB schemes, 27% is invested in the following UK assets:

- **£20bn is invested in UK corporate bonds (4% of public sector DB)**
- **£48bn is invested in listed UK equities (9% of public sector DB)**
- **£29n is invested in UK property (5% of public sector DB)**
- **£22bn invested in UK private equity and other alternatives (4% of public sector DB)**

On this basis, we estimate a total of £120bn is invested in UK productive representing 21% of private sector DB assets and 5% of total pension assets (£3.2 trillion). 9% is invested in UK private markets.

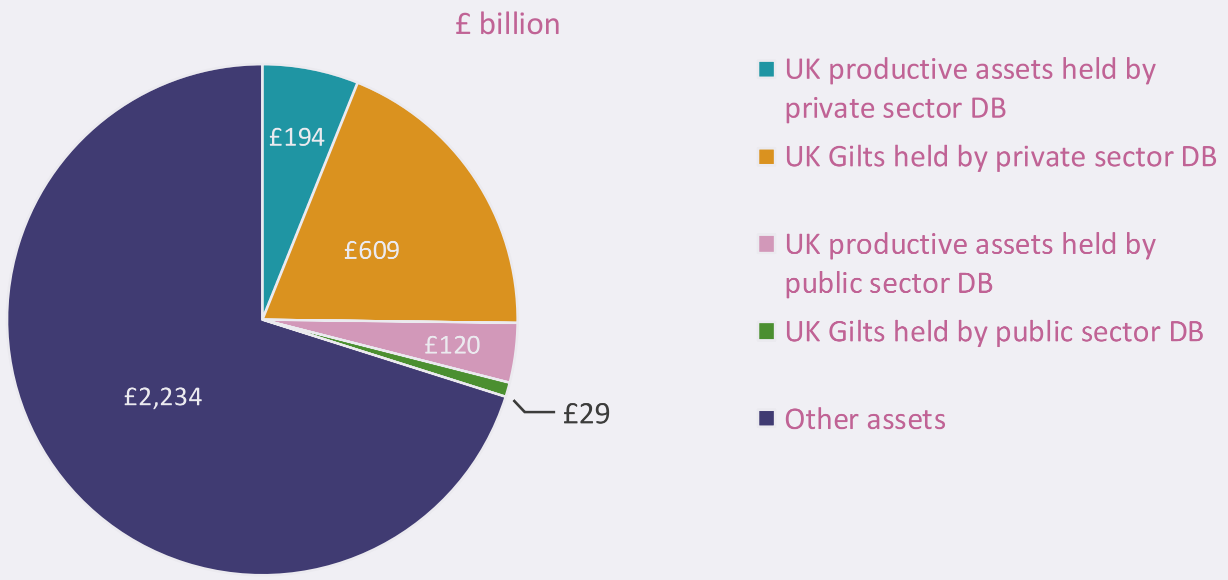
- **£29bn is invested in UK government bonds (5% of public sector DB)**

Totalling £149 billion and representing 5% of total pension assets (£3.2 trillion)

[50] This number is not the same as the proportion of LGPS assets invested through the LGPS pools which offer both pooled funds and directly invested assets
[51] DWP (2024a)

Figure 10: Share of total pension assets invested in UK by private and public sector DB schemes

Public sector DB schemes add £120 billion in UK productive assets* (5% of all pension fund assets)



** Productive assets defined as listed and private equities, property, corporate bonds and other alternatives*

Annuity assets invested heavily in corporate bonds, loans and mortgages.

We estimate the total pension annuity market (excluding bulk buy-ins, which are included above under DB) to be worth approximately £266 billion towards the end of 2024, up 10% on 2023. Data from the ABI on the split of assets in 2023 has been applied to 2024 data and suggests that equities feature little in the asset mix with corporate bonds being the largest asset class (42% of the total), followed by mortgages and loans. Approximately £3 billion is invested in alternatives such as property (either directly or through real estate funds) and private equity (including almost £200 million invested in infrastructure projects).

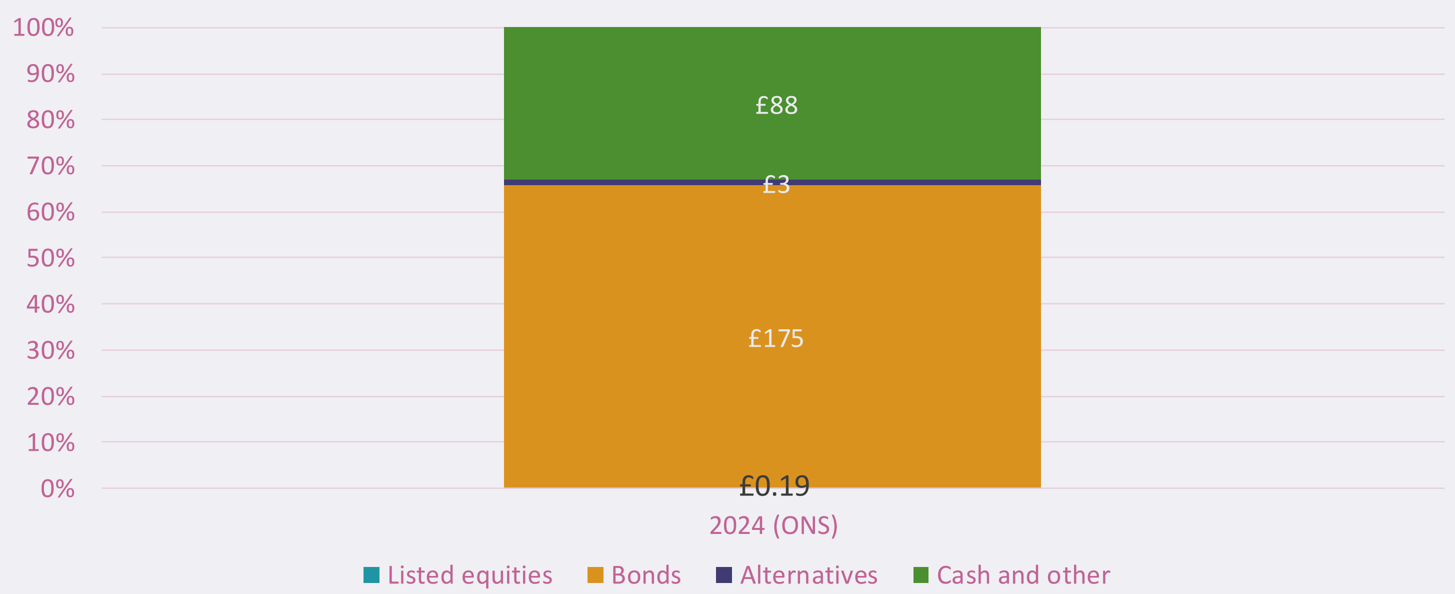
Having compared the ABI data with published data from some individual annuity companies, we believe that there is once again a difference in classification of assets between different data sets. What are classified as corporate bonds and loans in the ABI data may be classified as private debt or more specifically infrastructure debt in the financial reports of individual companies. ABI has used data collection aligns with the definitions from the EIOPA Registers annex IV: Complementary Identification Code (CIC) Table. This is the reporting standard for assets backing annuities and is consistent with what insurers provide for Solvency reporting. We therefore believe that, although ABI data provides us with the first industry-wide data, it underrepresents the proportion invested in private markets and productive assets. By way of example, PIC reports having 18% invested in private credit with Rothesay investing 10% in infrastructure.

Figure 11: High level asset allocation of pension annuities, (PPI estimate based on ABI and other published data) £billion

Annuities asset mix weighted heavily to fixed interest assets

(£ billion Sept 2023 to Sept 2024)

Corporate bonds dominate asset mix at 42% and mortgages and loans (classified here as 'other') accounting for 21%



ABI data on investment in the UK applied to individual and buyout annuities only for 2024 suggests that £146 billion is invested in the UK with corporate bonds and UK mortgages and loans making up the largest slice.

UK assets: Pension annuities (excluding bulk buy-in)

Using ABI data on geographic distribution, we estimate that of the £266 billion in individual and buyout annuities schemes, 55% is invested in the following UK assets:

- **£49bn is invested in UK corporate bonds (18% of annuity assets)**
- **£0.2bn is invested in listed UK equities (0.1% of annuity assets)**
- **£0.2bn is invested in UK property (0.1% of annuity assets)**
- **£0.2bn invested in UK private equity and other alternatives (0.1% of annuity assets)**
- **£49bn in UK mortgages and loans (19% of annuity assets)**

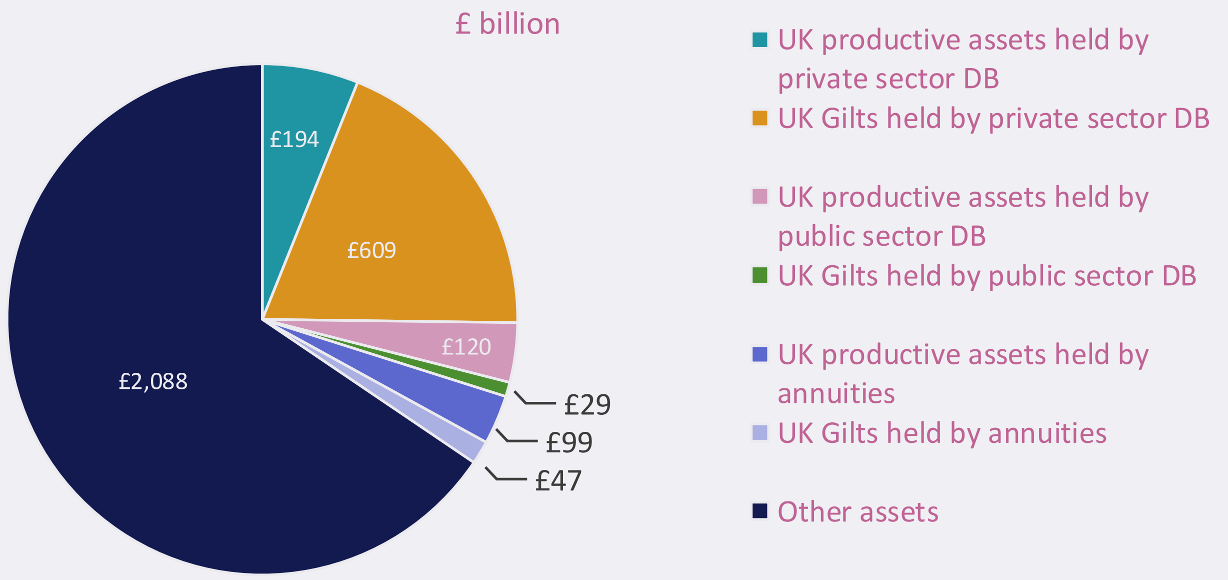
On this basis, we estimate a minimum of £99bn is invested in UK productive assets (UK corporate bonds, listed equities, property, private equity and other alternatives but also including here mortgages and loans) representing 37% of annuity assets and 3% of total pension assets (£3.2 trillion).

- **£47bn is invested in UK government bonds (17% of annuity assets)**

Totalling £146 billion and representing 5% of total pension assets (£3.2 trillion)

Figure 12: Share of total pension assets invested in UK by private and public sector DB schemes

Pension annuities add up to £99 billion in UK productive assets* (3% of all pension fund assets)



** Productive assets defined as listed and private equities, property, corporate bonds and other alternatives. Also includes UK mortgages and loans for annuity business.*

Data for DC remains imperfect

In last year's report we relied on ONS data for trust-based schemes for the split of assets and an estimate of UK investments. This year we have used the ONS report for the high-level asset allocation and have turned to the responses to the PPI DC survey for some of the breakdown of UK and overseas investments. Both surveys have strengths and weaknesses:

- The ONS survey provides data on the trust-based DC sector which we apply to the whole workplace DC below, on the grounds that main default funds are often the same for both their contract-based and master trust within an individual provider, while recognising that differences may exist. However, it also implies that employers' own trusts also invest in a similar way. In order to produce the split of assets, we 'look through' the pooled funds to an estimate of their underlying assets and add these to the split for direct investments. The survey provides some insight into the split of assets between overseas and UK but the data mixes DB and DC and is based only on direct investments. We have shown the results of the UK Overseas mix below by applying the percentage split from ONS to the asset mix of DC.
- The PPI survey collects data on both trust and GPP sectors in terms of total assets managed and then collects data for the largest default fund (this may be a master trust, GPP or both). The survey provides more granularity on the types of alternative assets held. The survey collected data for approximately two thirds of the DC workplace sector and was collected slightly earlier in the year than the ONS and ABI aggregate data. The PPI survey suggests that, of the assets held in DC workplace pensions, just over half of the value is held in the largest default funds.
- Other published surveys such as Corporate Adviser collect data for default funds split by growth and near and at retirement sections. These show that the near and at retirement phases are typically weighted more towards lower risk assets such as bonds. However, assets are heavily weighted at present to the growth phase of default funds. Over time, as more savers enter retirement with DC, this weighting can be expected to shift.
- Data on the asset allocation of individual pensions remains unavailable.

Workplace DC assets differ according to whether they relate to the main default funds or total funds managed

As the chart below reveals, there is a considerable difference in the asset split between the DC workplace sector overall and the growth phase of the largest default funds. Looking at the whole sector, there has been a reduction in listed equity investments, an increase in bonds (largely corporate bonds) and no change to the proportion invested in alternatives[52].

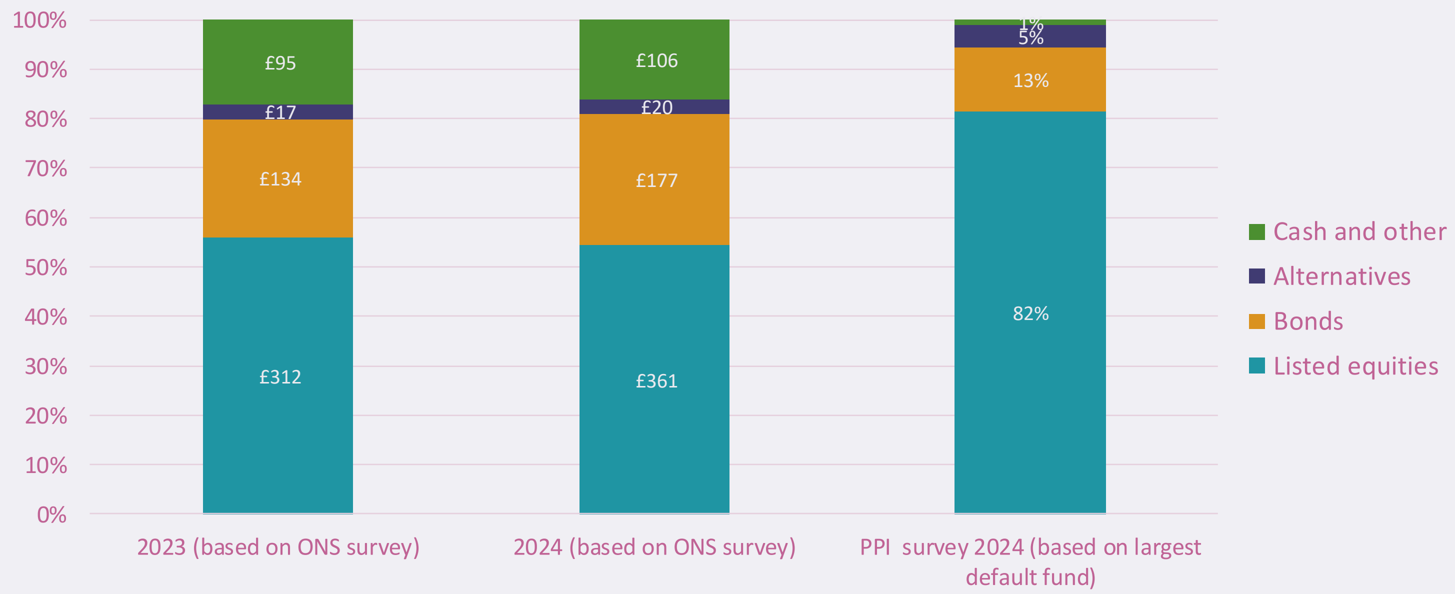
In 2024 PPI collected data relating to the assets of the main default fund for trust and contract-based DC workplace pensions – the answers suggest that many respondents answered in relation to the growth phase rather than the aggregate. By contrast, the ONS based analysis includes assets held for members of trust-based schemes in later stages of saving, all default funds, assets of employers' own trusts and assets of members who self-select their funds and so is closer to the overall picture but doesn't cover the contract-based sector. In the chart below we show both the weighted PPI data and the ONS split applied to the whole of the workplace DC assets. PPI estimates that main default funds currently make up around half of all DC workplace assets. Over time, this proportion is likely to grow but for the growth phase to decrease as a share as more DC members move towards and into retirement.

The analysis below shows a greater weighting to bonds than the PPI default fund data and a greater use of cash and other investments. This reflects both the more mature profile of employer's own trusts included in the ONS data as well as the inclusion of later phases of defaults.

Unsurprisingly, the investments held in the growth phase of default funds are weighted more towards growth assets such as equities and alternatives. Very little is held in cash and proportionately less in held in bonds. Whereas just 3% is shown as invested in alternatives in the ONS data in 2024, the figure is 5% in the PPI survey, perhaps suggesting greater diversity of assets in modern schemes. We might expect this proportion to rise as Mansion House discussions progress.

Figure 13: Split of workplace DC assets (PPI estimate based on data from FSPS) £billion and % for PPI survey

Little change in workplace DC asset allocation but marked difference between all DC workplace and default funds Sept 2023 – Sept 2024 (£bn)

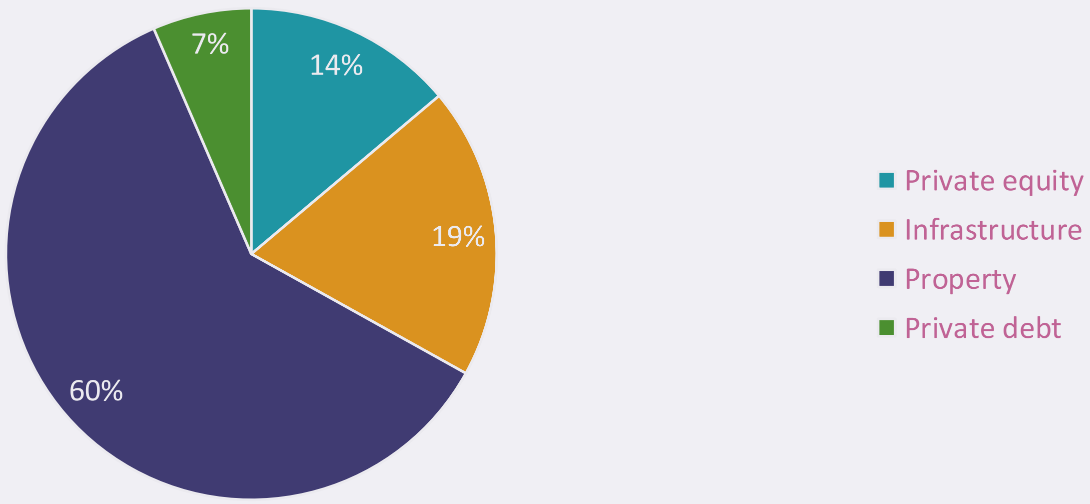


The PPI survey also provides a breakdown of the types of alternative assets held in the growth phase of default funds and reveals property as the dominant class or asset, followed by infrastructure. It implies that less than 1% of default funds are currently invested in private equity, while around 3% is invested in property.

[52] Alternatives include property, private equity, private credit, venture capital, infrastructure.

Figure 14: Alternative investment split in growth phase of default funds (PPI survey)

Alternative investments dominated by property (£bn)



Identifying the value and proportion held by DC workplace schemes in UK assets is not easy and so the data below are best estimates based on the information available from ONS and the PPI survey. It is important to note that a different methodology has been used in this year's report and so data are not comparable to the previous year. It is also important to note that the basis for these data is different to the base for the Mansion House Compact and Accord which relate only to the main default funds.

UK assets: Workplace DC

Using ONS and PPI data on geographic distribution, we estimate that of the £664 billion in workplace DC pensions, 27% is invested in the following UK assets:

- **£87bn is invested in UK corporate bonds (13% of workplace DC assets)**
- **£29bn is invested in listed UK equities (4% of workplace DC assets)**
- **£12bn is invested in UK property (2% of workplace DC assets)**
- **£5bn invested in UK private equity and other alternatives (1% of workplace DC assets)**

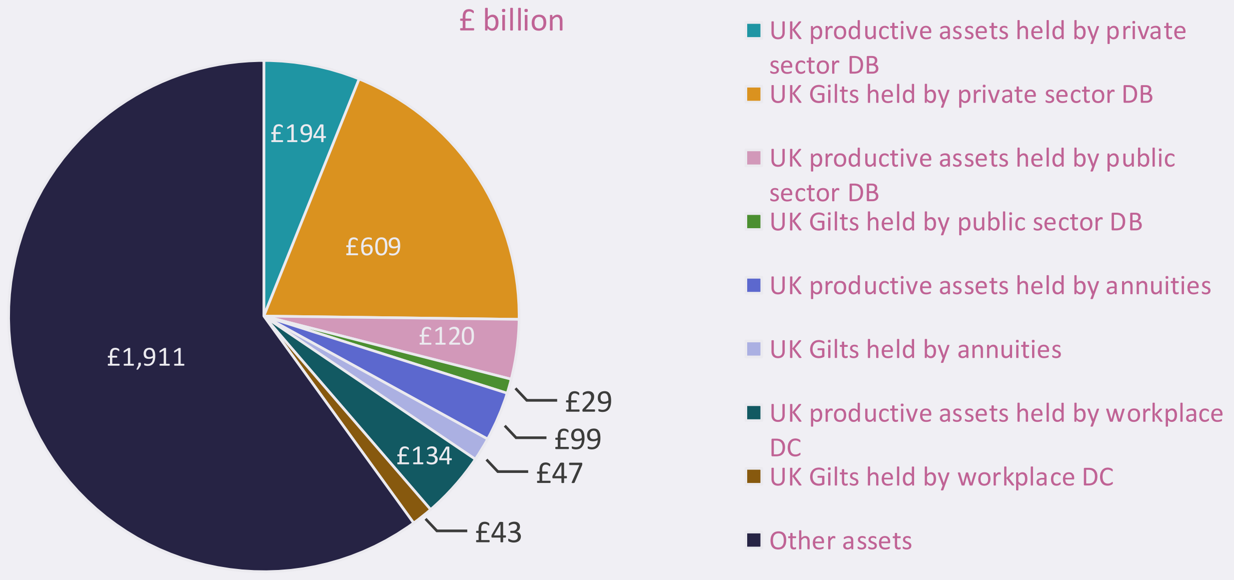
On this basis, we estimate a minimum of £134bn is invested in a wide definition of UK productive assets (UK corporate bonds, listed equities, property, private equity and other alternatives) representing 20% of workplace DC assets and 4% of total pension assets (£3.2 trillion).

- **£43bn is invested in UK government bonds (7% of workplace pension assets**

Totalling £177bn and representing 6% of total pension assets (£3.2 trillion)

Figure 15: Share of total pension assets invested in UK by private and public sector DB schemes

Workplace DC adds up to £134 billion in UK productive assets* (4% of all pension fund assets)



* Productive assets defined as listed and private equities, property, corporate bonds and other alternatives. Also includes UK mortgages and loans for annuity business.

Individual pension asset allocation data remains limited

There are limited data on the asset allocation of the £519bn invested in individual pensions. The Investment Association (IA) reports on trends in net flows by asset class across all retail investors (not just pensions) but not the stock of assets. Its latest report[53] published in 2024 suggests the following trends:

- A general shift away from higher risk to lower risk assets, perhaps as savers in this part of the pension market age.
- Net outflows from equity funds, particularly actively managed funds and a shift away from UK equities and into US equities (in large part due to the use of index trackers which have become more weighted to US equities).
- Positive flows into fixed interest funds, particularly corporate bonds.
- More money flowing into cash through money market funds as interest rates remained relatively high.

In last year's report, we assumed the same allocation as workplace DC. In fact, there are reasons to believe that individual pension savers may favour domestic assets more than they do workplace scheme, although this is shifting with the increased use of global tracker funds. Were individuals to mirror workplace DC, the amount invested in UK assets would look as shown in the numbers below.

[53] Investment Association (2024a)

UK assets: Individual DC

Using ONS and PPI data on geographic distribution of workplace DC, we estimate that, of the £519 billion invested in individual pensions, 27% is invested in the following assets:

- **£68bn is invested in UK corporate bonds (13% of individual pension assets)**
- **£23bn is invested in listed UK equities (4% of individual pension assets)**
- **£8bn is invested in UK property (2% of individual pension assets)**
- **£5bn invested in UK private equity and other alternatives (1% of individual pension assets)**

On this basis, we estimate a minimum of £104bn is invested in a wide definition of UK productive assets (UK corporate bonds, listed equities, property, private equity and other alternatives) representing 20% of individual DC pension assets and 4% of total pension assets (£3.2 trillion).

- **£34bn is invested in UK government bonds**

Totalling £138bn and representing 4% of UK pension assets (£3 trillion)

Overall, 44% of pension assets held in equities and alternatives and more than half held in UK assets.

Looking across the different sectors of the UK pension market reveals the different asset allocation strategies at work. By far the most marked difference is between scheme types that are open to new members and contributions (public sector DB and workplace DC) and those that are largely closed (private sector DB) and between schemes that cater for members across the age spectrum and those that predominantly pay an income to those already retired (annuities).

The final two columns in the chart below show the combined picture across the £3.2 trillion of UK pension assets. Taken as a whole, bonds represent almost half of the assets with listed equities making up a third. Alternatives that include property, private credit, infrastructure and private equity account for £312 billion and 10% of the total.

Figure 16: UK pension sector, asset allocation by scheme type and overall (£billion and %)

Across the whole sector, less than half in bonds, one third in equities and 10% in alternatives (2024)

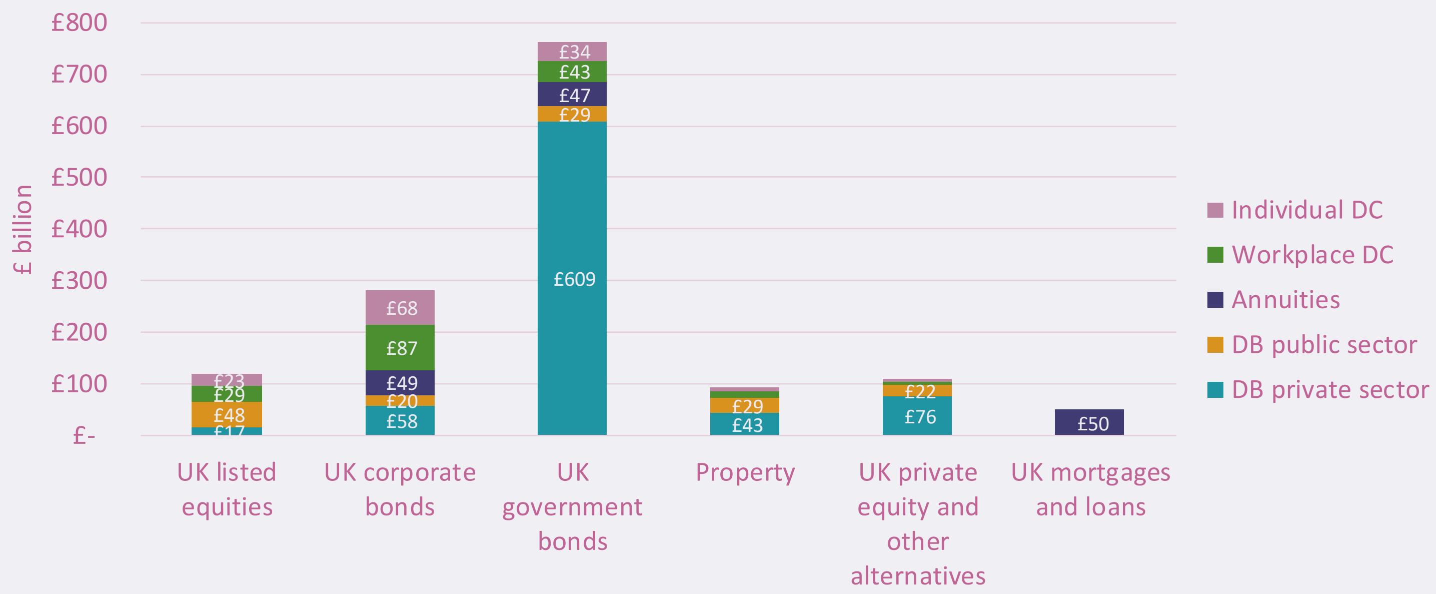
More than £1.4 trillion (44%) of UK pensions held in UK assets

Looked at overall, and using the ONS, ABI and PPI split of assets between overseas and UK, more than half of UK pensions (£1.4 trillion) are invested in UK assets and, of those, just under one third is invested in growth assets (equities and alternatives):

- £761 billion in UK Government bonds, 80% of which is held by private sector DB schemes.
- £282 billion in UK corporate bonds, 21%% of which are held by private sector DB schemes and 31% by workplace DC.
- £118 billion in UK equities, 41% held by public sector DB schemes.
- £109 billion in UK private equity and other alternatives (ex property), 70% held by public sector DB schemes.
- £93 billion in UK property, 46% held by private sector DB and 32% by public sector DB.
- £50 billion in UK mortgages and loans, held by pension annuity providers.

Figure 17: Overall allocation of UK pension assets to UK assets 2024 £billion.

£1.4 trillion invested in UK assets, two-thirds bonds



As the charts above and below reveal that:

- The biggest investors in UK equities as a proportion of assets are DB public sector schemes and DC workplace schemes.
- Workplace DC are the largest investor in UK corporate bonds followed by private sector DB.
- Private sector DB are also the largest investors in UK government bonds by both value and proportion of assets.
- Private and public sector DB schemes are the largest investors in alternatives by value, but public sector schemes invest a higher proportion of their assets.
- DC and annuities are relatively small investors in the UK with UK corporate bonds being the largest category.

Figure 18: UK investments held by UK pensions by asset class 2024 £billion

Private sector DB the biggest investors in UK assets, public sector DB the biggest investors in UK equities

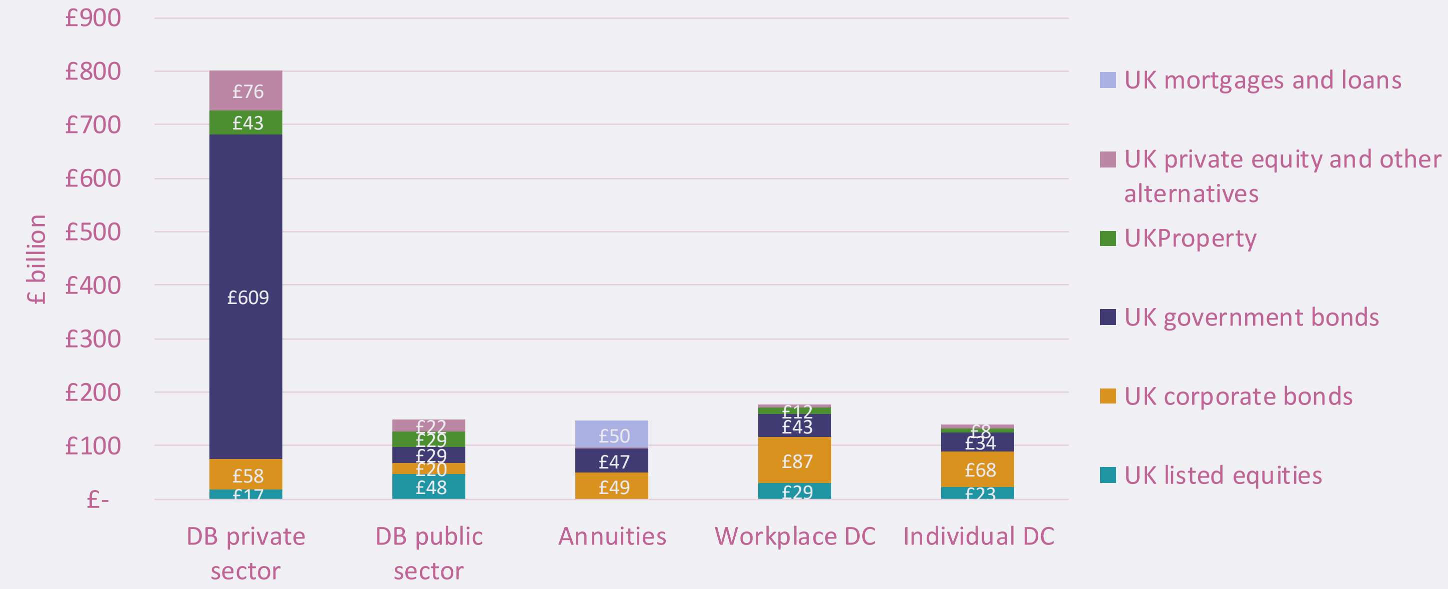
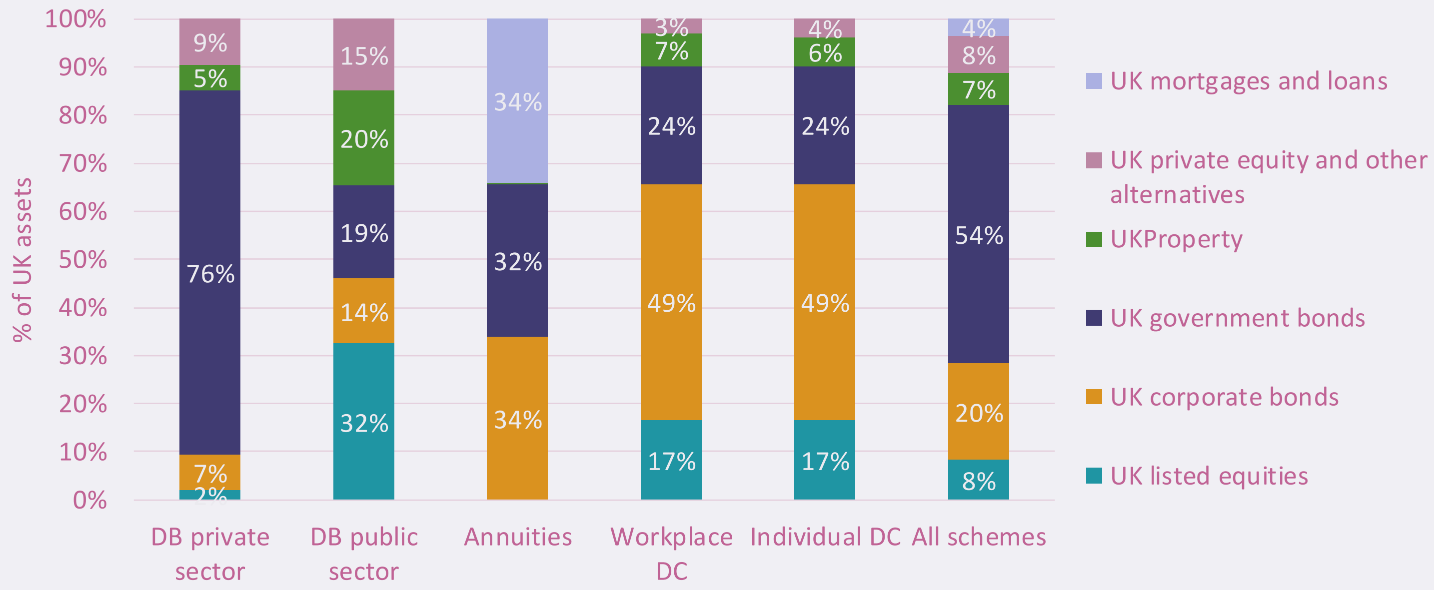


Figure 19: UK investments held by UK pensions by asset class 2024 % of UK assets

UK Government bonds represent the largest share of UK assets overall but UK corporate bonds more popular in annuities and DC



Of the £3.2 trillion, more than half invested in productive assets on widest definition

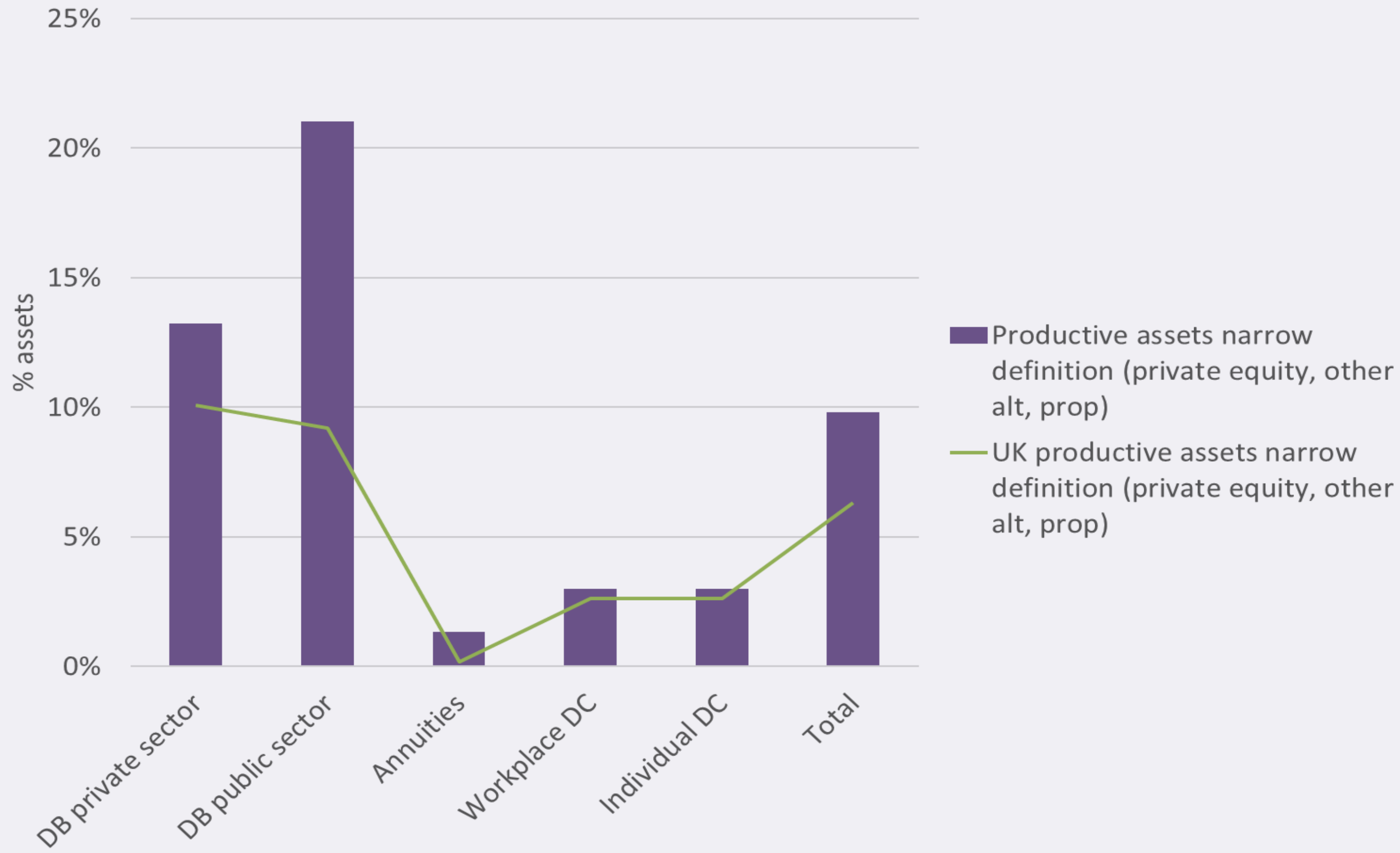
Looked at a different way, between 10% and 60% of all pension funds are invested in productive finance depending on the definition with between 6% and 20% invested in UK productive finance.

On a narrow definition of private equity, property and other alternatives, public sector DB is the most heavily invested at over 20% (almost half in the UK) with annuities the least invested (although this is largely an issue of classification of assets). DC has around 3% invested this way, almost all of which is invested in the UK.

Overall, 10% of total funds are invested in this way with 60% of this invested in the UK.

Figure 20: Share of pension funds invested in productive finance on narrow definition of private equity, property and other alternatives

10% funds invested in productive assets on narrow definition, more than half UK

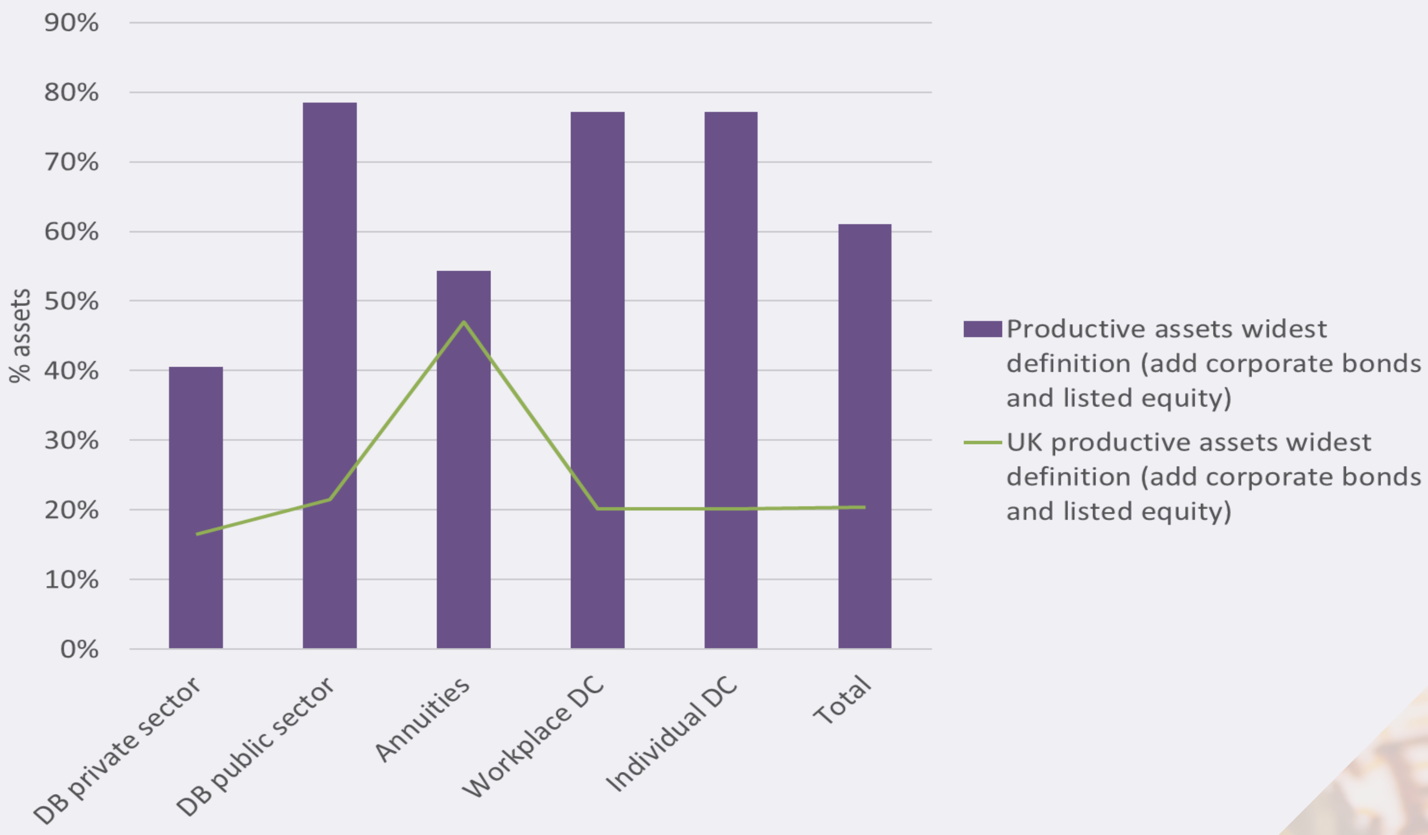


Looked at through a much wider definition of productive finance that includes listed equities and corporate bonds, the proportions are much higher. Public sector DB and DC funds have almost 80% invested in this way, dropping to 40% in private sector DB. Annuities are the most heavily invested in the UK with more than 85% of productive assets invested in the UK. Public sector DB and DC invest around 26% of their productive assets in the UK while private sector DB invests 40% in the UK.

Overall, 60% of total funds are invested productively on this definition with one third of those assets invested in the UK.

Figure 21: Share of pension funds invested in productive finance on wider definition of private equity, property and other alternatives plus listed equities and corporate bonds

On wider definition, 60% fund invested in productive assets, one-third UK UK equities



CHAPTER THREE:

PENSION INVESTMENT THEMES IN 2024/25

This chapter draws on interviews conducted for this report and desk research to explore recent trends in investment beliefs, asset allocation and the drivers behind recent and emerging changes.

A sector still in transition

In last year's report, we referred to the UK pension sector as being one undergoing a significant transition and that transition being one of the causes of a shift in strategic asset allocation. This remains the case in 2025. The transition is characterised by a number of important shifts, all of which have been documented in great detail in other reports:

- **Private sector DB** schemes continue to be dominated by schemes closed to new accruals and/or new entrants. This has a significant effect on asset allocation in two ways. Firstly, these schemes are maturing rapidly, and the regulator and trustees' foci have shifted towards investing to reflect the scheme's liquidity and cashflow requirements. This has resulted in a high allocation to government and corporate bonds and a low allocation to growth assets. The second force at work relates to the ambition of many sponsors and trustees to secure a buy-out of the scheme's liabilities with an insurance company. As the scheme approaches buy-out, this can result in the scheme shifting assets towards those that will be accepted by the insurer as part of the transfer. In some cases, this can lead to a shift away from Gilts towards other cashflow generating assets but typically limits investment in private markets. Both the bulk purchase annuity (BPA) and the access to surpluses are discussed in more detail below.
- The small number of, sometimes very large, **open private sector DB schemes**, continue to exhibit very different allocations to asset classes with growth assets, both public and private markets, forming a significant part of the portfolio.
- Similarly, **funded public sector schemes** which remain open to new entrants and accrual have a diversified portfolio. However, respondents to this project noted that asset allocation is having to shift even here as a result of the maturing of LGPS funds as staffing levels have fallen over time and schemes become cashflow negative (pensions paid out exceed contributions paid in).
- **Annuities** account for more than 8% of the sector. Sales are driven by two main levers: the maturing and transition of DB schemes to the annuity sector through buy-in and buy-out annuities with record sales in 2024; and recent growth in the sale of individual pension annuities, triggered in part by improvements in rates, in turn resulting from higher interest rates and yields[54]. In the long term, the BPA sector will begin to mature as the number and value of schemes reaching buy-out and the number of lives covered shrink. However, the individual pension annuity sector could see continued growth as more individuals with significant DC savings reach retirement and, potentially, as a response to the Government's plans to make DC savings subject to inheritance tax[55]. Asset allocation in this sector is very much aligned to cashflow needs while also being subject to solvency regulation.
- **Workplace DC** represents 21% of total pension assets. It continues to benefit from the effects of automatic enrolment and the shrinkage of the open DB sector. Contract-based workplace continues to be larger than the trust-based sector. However, as master trusts grow in size and if the proposed regulations on bulk transfers are implemented, the balance will shift towards trust-based. The trust-based sector is now clearly dominated by the master trusts [estimated at nearly two-thirds of trust-based assets] and the number of single employer trusts continues to shrink (particularly smaller schemes) in response to government intervention. As scale emerges across the DC sector, so asset allocation is becoming more sophisticated. The impact of government proposals on consolidation, value for money and the Mansion House compact have yet to show up in aggregate scheme data but do have implications for the future.
- **Individual DC**, often the forgotten piece of the pension jigsaw, represents 16% of total pension assets. The sector is broadly split into contracts arranged by individuals through direct investment platforms and those arranged through a financial adviser. The sector is mature with many of the contracts set up at the height of personal pensions in the 1990s and up to the introduction of automatic enrolment. With more assets staying in workplace schemes into decumulation, the sector could see further shrinkage over the medium term.

[54] ABI (2025c)
[55] HMT (2024c)

Six themes shaping investment thinking in 2025

The sections that follow describe themes and drivers that have emerged from the interviews and desk research conducted for this project. The themes that relate directly or indirectly to asset allocation fall into six main groups:

- **Diversification** of the asset base of open schemes and a focus on private markets dominates much of the narrative.
- DC schemes and providers have their eye on the Government's drive for **scale** in the sector and the consequences of the proposed **value for money framework**.
- Although securing appropriate risk-adjusted returns and fiduciary duty remain the top priority for schemes and providers, many also invest in a way that **delivers a positive social impact** and improves the society that their members live in through domestic initiatives, while also contributing to economic growth.
- Most DB schemes are focused on **securing the end game** of buy-out but with a small number of large well-funded schemes awaiting the details from Government on employer access to surplus.
- LGPS commentators express **uncertainty over the outcome of LGPS reforms** but accept that radical reform seems inevitable.
- At the time of writing, the prospect of trade wars was looming in response to the uncertainty of the US position on tariffs. This and the **geo-political instability** in the Middle East, and Ukraine and Russia, all add to uncertainty of returns on all asset classes.

Figure 22: High level investment themes and drivers of 2025

The search for diversification and uncorrelated returns

While in some parts of the pension sector, assets have become more concentrated in certain classes, in others diversification of assets has been more of an historical norm, while others are beginning the process of diversification.

A small number of open DB schemes and LGPS funds have, for many years, invested in both public and private markets and across a wide range of investment sectors. Railpen, for example, has a well-researched and comprehensive framework for managing investments in private markets[56]. LGPS funds have sought to invest locally as well as globally and have significant private market assets. Annuity providers are also seeking to widen their spread of investments as BPA business expands their asset base. The ABI's Investment Delivery Forum[57] was set up to help industry, government and key stakeholders work together to accelerate large scale infrastructure projects invested in by insurers and others.

As DC schemes increase in size, they too are beginning to diversify their asset base. TPR research found that 75% of master trusts and 57% of other large DC schemes already invest in private markets.

Infrastructure debt has an attractive cash flow profile for backing liabilities, and often has a number of other useful features, such as credit security and strong responsible investment credentials

One of the main attractions of certain types of private markets is their lack of correlation with the returns available in public markets, as shown in the chart below[58]. Infrastructure projects, as well as bringing other benefits, are particularly noted as having delivered strong and uncorrelated returns. This lack of correlation derives partly from the less frequent valuations and the resulting lower levels of volatility. Analysis by JP Morgan suggests a very low correlation between infrastructure and a 60:40 equity bond portfolio.

Infrastructure can deliver strong returns and is proving popular with many schemes and providers. In the first half of 2025, NEST[59] seeded £446 million into an infrastructure debt fund; Royal London announced its intention to acquire an infrastructure specialist; and LGPS and the MP's pension scheme contributed an initial £100m to a social infrastructure fund[60].

However, some commentators expressed caution about:

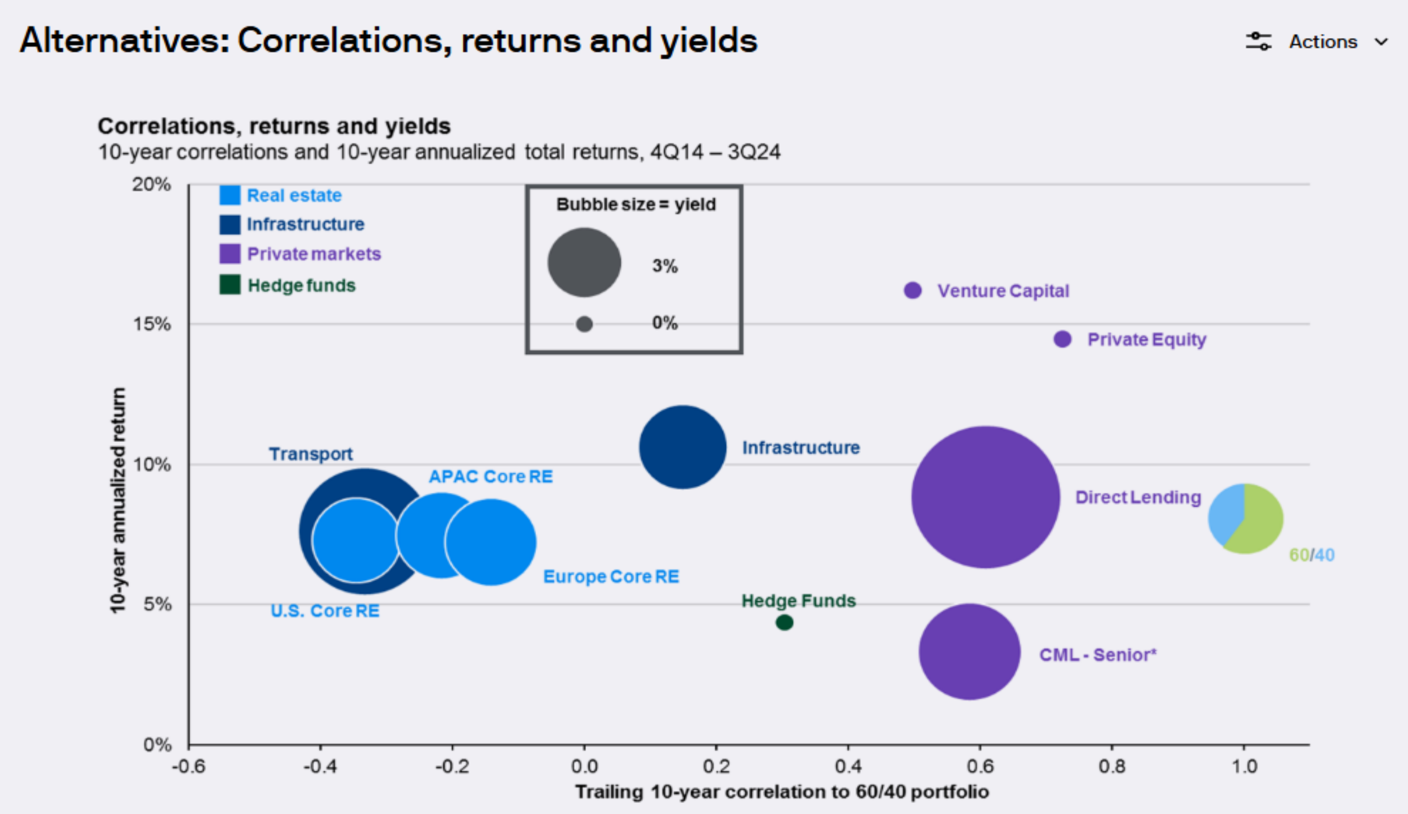
- The carbon intensity of some infrastructure projects. SWECO estimates that in the UK, infrastructure projects contribute 16% of carbon emissions, rising to 53% when use of the projects is included[61].
- The potential for certain sectors to attract too much funding thus creating an investment bubble with negative consequences for returns.
- Poorly judged investments with the example of UK water utilities was often given as an example of what can go wrong.

UK water utilities are a prime example of it going wrong. The achieved premium is much lower than expected due to investors misjudging the cost of debt, higher than expected inflation and a tougher regulator. Water sector is poster child for investors having pushed in too much money.

Figure 23: JP Morgan analysis of correlation between asset classes

Diversification can deliver less correlated and higher returns

JP Morgan analysis 2025



Private equity and direct lending have shown higher returns and a stronger correlation with a 60:40 equity bond portfolio but are a significant or growing part of some portfolios. Several individuals interviewed for this project reported a gradual ramping up of investments in private equity and private credit.

Research by Schroders points to LGPS funds increasing their allocations to private markets and reducing their use of listed equities. Renewable infrastructure and nature-based investments (e.g woodland) remain attractive with at least a half of funds expecting to increase their allocation[62].

"The launch and inclusion of LTAFs are a big theme and one of the most significant changes. All major [DC] schemes have launched or are accessing them. They give members access to active through private markets in a way that they haven't had before."
PPI interview

2024 might be described as the year of LTAFs Long Term Asset Funds (LTAFs), which are typically multi-asset but focused on private rather than public markets, with several being launched or in the development[63], in large part in response to Government calls for DC schemes to invest more heavily in private equity. Analysis by JP Morgan suggests that DC schemes may need to invest 10% of their growth stage default funds to private markets in order to meet the original Mansion House target of 5% of default funds[64]. They estimate an increase in expected return of 0.18% by replacing listed equities with a mix of private markets (50% private equity).

Several DC workplace schemes and providers have announced a commitment to invest up to 15% of their growth fund assets into private markets[65] either through direct or co-investment, through LTAFs or through working with the British Growth Partnership[66].

[56] Railpen (2023)
[57] Investment Delivery Forum (2025)
[58] JP Morgan (2025b)
[59] Professional Pensions (2025d)
[60] Pensions Expert (2025b)
[61] SWECO (2020)
[62] Schroders (2025)
[63] IPE (2024)
[64] DCIF (2024)
[65] Pensions Age (2024)
[66] Corporate Adviser (2024)

While writing this report, the DC sector were in discussions concerning commitments to Mansion House II, with participants reported to being committed to investing 10% of growth default funds into private markets by 2030[67]. Master trusts and providers are also bolstering their expertise as part of their commitment[68].

"It's important to remember that there is no inherent right to a premium on private markets. Complexity, liquidity and few buyers support it at present."
PPI interview

Commentators continue to have mixed views about the illiquidity premia offered by private markets. 2024 saw the premia vary by asset type with private equity reported to be experiencing a reduced premium due to money flooding into funds in earlier years. Some of those interviewed expressed concern about the same happening to private credit.

There is some evidence that the barriers to investing in private markets identified in last year's report are falling away. Unlike last year's report, DC respondents to this year's report no longer see daily pricing as a barrier to private markets as platform providers are beginning to accept longer pricing periods[69]. Concerns about valuations should also reduce as the FCA increases its focus on the way in which private markets are valued[70]. The continued development of open-ended and semi-liquid funds can also help with liquidity issues[71]. However, levels of fees continue to offer some concern but with some schemes countering this through direct and co-investment.

"We do a lot of co-investing – the advantage is lower fees."
PPI interview

Building scale in DC and preparing for new VfM framework

The Government's drive for scale across the pension sector is felt particularly strongly in the DC space as automatic enrolment continues to drive scheme sizes upwards with several master trusts and contract-based providers now exceeding £30bn in assets under management.

"Bigger funds equal more capability and more buying power. It will help us build the pension structure for the future."
PPI interview

Schemes and providers agree that scale allows them to build expertise and diversify assets, albeit with some additional costs, recruitment of market expertise, additional governance costs and the increased costs of investing in private markets.

"Scale equals efficiencies as costs are partially fixed – they don't vary proportionately as size of scheme grows."
PPI interview

The new value for money framework is also seen to be a factor in consolidation of schemes as the emphasis on net performance rather than charges takes effect.

Some commentators fear that the changes, particularly the focus on net returns and the consequences of a red rating will drive schemes and providers to employ similar investment strategies with a trend towards mean returns. Others felt that initiatives such as the Mansion House Compact would help to counter some of the fears of homogeneity.

Investing for social impact but pipeline of opportunities is critical

While securing the best risk-adjusted returns remains the top priority for schemes and providers, non-financial aspects such as benefits to society also form part of decision making. For some schemes, the impact that investments make on members' lives, either directly or indirectly is also a consideration.

The theme is particularly evident among LGPS funds where investing in the UK already forms a significant part of the portfolio[72]. LGPS funds recognise the potential for conflict of interest in making local investments. However, the Government reforms for LGPS stress the importance of local and UK investments, stating that "LGPS can make a distinctive contribution to UK and local growth".

"Asset allocation is first and foremost about looking at risk-adjusted returns."
PPI interview

Infrastructure projects based in the UK along with investments such as care homes, social housing and build to rent are seen to combine strong returns, social responsibility and direct improvements to people's everyday lives. Several respondents referred to the growing importance of the "S" in environmental, social and governance (ESG) issues. Others remarked on the greater resilience that some real assets have against economic shocks.

"There are both risks and opportunities in an allocation to real assets. Energy transition and its expected acceleration are attractive. There are lots of opportunities for good returns and it's nice to contribute to world that our members live in."
PPI interview

Annuity providers and workplace DC providers have also stressed the importance of creating social value through their investments in assets such as affordable housing, buy to rent and care homes.

For some the barriers to investing more in social impact or economic growth schemes in the UK remain:

- The perceived lack of investible UK opportunities. Several respondents called upon the UK Government to ensure a strong pipeline of investment opportunities, structured in a way that pension schemes can work with. Local authorities also need to work more closely with pension schemes if more pension scheme assets are to be invested in local and regional opportunities.
- Difficulties with local planning and working with local stakeholders, a subject that we return to in the next chapter.
- The need for UK investments to compete with global opportunities and the returns that they offer in order to minimise any conflict with fiduciary and consumer duties.

[72] MHCLG (2024)

Securing the end game in private sector DB

The past two years have brought about a significant change in the funding position of DB schemes. Higher yields have reduced the value of liabilities leading to many schemes (around half[73]) having a surplus on a buy-out basis and almost two thirds targeting buy-out as their long-term objective[74].

> ***"Moving to buy-out is probably the biggest decision a scheme will make and hence carries a proportionate level of focus, with speculation over surplus access and the forthcoming Pension Schemes Bill leading some schemes to wait until the detail of the government's reforms is known."***
> PPI interview

While there remains some debate about the effect of pension reforms, the consensus among those interviewed is that, barring the small number of open schemes, in private sector DB the end game for most remains buy-out, whether in the short or longer term. Targeting buy-out has already had a significant effect on asset allocation as schemes seek to secure funding and position assets as closely as possible for transfer to an insurer.

The picture on whether allowing surplus extraction will deliver growth opportunities for the UK remains unclear. Some of those interviewed were sceptical as to whether surpluses would find their way into investments in UK growth. It was felt more likely that they would fund dividends or share buy-back arrangements. Even where surplus is sought, it is not expected to have a significant impact on asset allocation with the desire to maintain the option of buy-out.

> ***"The difference between run on and buy-out portfolios might not be as stark as you might think."***
> PPI interview

Some of those interviewed for this project believed that a small number of employers of larger, very well-funded schemes might be expected to seek surplus extraction once the detailed regulations are known. However, trustees are expected to remain cautious about such moves and are likely to seek benefit improvements before agreeing to release any surplus, and taxation at 25% further reduces the funds available to employers. One trustee interviewed suggested that both CFOs and trustees, having secured a funding cushion, and achieving a good night's sleep, would be reluctant to lose this by extracting surplus. Another expressed some concern about buy-out, in particular the long-term risks to trustees if insurers re-insure to offshore arrangements that later collapse.

Smaller to medium sized schemes are expected to continue to target buy-out where they can and to maintain a matching and risk averse approach to asset allocation.

> ***The de-risking market has never been hotter as rising yields have brought many pension schemes in range of transactions. This means that pension schemes may well be big sellers over coming years, potentially very big sellers.[1]***
> LCP

All of this points towards limited scope for diversification of assets in closed DB schemes and a continued emphasis on matching assets classes.

However, as reported in last year's research, the picture remains very different in the small number of open private sector DB scheme where assets continue to be invested in a diverse range of assets through growth mandates. Open schemes interviewed for this research reported significant investments in private markets, in particular infrastructure, real estate and private credit with scope to invest more if OPS regulations permitted.

Pooling reform and diversifying LGPS assets

Several of those interviewed for this project expressed uncertainty about the impact of the Government reforms on LGPS, in particular requirements to fully delegate the implementation of investment strategy to the asset pools and to take principal advice on investment strategy from the pool. While some could envisage benefits arising from the reforms, particular concerns included:

- The lack of expertise residing in the asset pools to enable a rapid implementation of the proposals.
- The inability of those at fund level to scrutinise the work of the pool.
- Difficulties in determining which local investments are successful in attracting investment.
- The timing of the reforms, coinciding as they do with devolution reforms and pools still being in build mode themselves.
- The scope for diseconomies of scale as pools become larger and finding sufficient return opportunities can become more challenging.

Several respondents touched on the potential for tension between consolidation and a desire for funds to continue to invest locally. The appointment of more regional mayors with a responsibility for identifying local opportunities for economic development could mitigate the concerns.

In terms of asset allocation, both PPI interviews and other surveys[75] highlight the increased focus on private market assets with renewable infrastructure, private debt and natural capital[76] the most popular. By contrast, listed equities are less favoured.

Geopolitical uncertainty

At the time of writing this report (Spring 2025), the prospects for asset growth in 2025 look much less rosy than in 2024. Several factors, including continued conflict in the Middle East and Ukraine, are contributing to uncertainty among investors. The prospect of a global trade war triggered by the US imposition of tariffs and the potential for recession in the US and elsewhere have created the greatest unease.

> ***"The geo-political landscape has widened the funnel of doubt for investors."***
> PPI interview

Trustees speak of an increased focus on stress testing but also of the importance of taking a long view on assets and 'riding out the storm'. Scenario planning has taken on a new urgency with schemes seeking to understand how markets will stand beyond the current US administration. One interviewee reported reviewing whether global market capitalisation would continue to appropriate in benchmarking performance.

Uncertainty and volatility are also reported as bringing DB discussions on endgame to the fore with schemes seeking to lock in funding positions[77].

73 TPR (2025b)
74 OMB Research / TPR (2025)
75 Schroders (2025)
76 Natural capital includes certain stocks of the elements of nature that have value to society, such as forests, fisheries, rivers, biodiversity, land and minerals. Natural capital includes both the living and non-living aspects of ecosystems.
77 Corporate Adviser (2025c)

CHAPTER FOUR:

IMPLICATIONS FOR FUTURE DIRECTION AND POLICY

This chapter considers what implications current and future trends have for policy and what impact policy could have on future asset allocation.

Government consultations not yet feeding through into asset allocation data

The UK pension sector has been likened to a huge super tanker which changes course slowly. While it is clear that the Government's desire for greater investment in UK productive assets has been heard and is, to varying extents, being acted upon, the data do not yet reveal a significant shift. The reasons for this include:

- The shift from public to private assets requires asset owners to recruit and invest in new capabilities to research and manage different asset classes.
- In general, shifts in strategy do not tend to be executed rapidly in order to minimise transaction costs.
- A rapid shift to private markets with high up-front costs could lead to accentuated fears of intergenerational unfairness in DC arrangements.
- A rapid flood of money transferring to private markets would have a negative impact on returns.
- Closed private sector DB schemes appear unlikely to move away from a buy-out strategy.
- While master trusts and providers have signed up to the Mansion House compacts, the allocations committed reflect only their growth accumulation funds. As schemes begin to mature, the later stages of accumulation and decumulation become a more important part of the assets. Private market assets are unlikely to feature in those parts of the portfolio.
- The changes to VfM will take several years to feed through to data that shapes how and where employers place their scheme.
- Changes to LGPS will take time to settle.

It may yet take several years before the effect of the reforms shows up clearly in data. It is also worth repeating what was said in last year's report that the data on asset allocation, particularly geographically, remains weak and is in need of greater consistency.

If Government policy reforms have their desired effect, data should start to reveal higher allocations to private markets and to UK assets, particularly among DC schemes and providers.

The paragraphs below describe the changes that schemes and providers believe could help with taking greater risks, diversifying assets and investing in the UK economy.

It's all about the pipeline and planning

Schemes and providers have all called for greater certainty over the pipeline of investment opportunities and see a role for Government in supporting this. We reported last year that respondents were keen to see greater clarity in the Government's industrial and climate strategies, and this remained the case this year. Schemes and providers see important roles for the National Wealth Fund[78] in mobilising investment.

"If the Government wants more investment in the UK, it needs to look at the pension regulations and planning. We need a stable political landscape and cross-party consensus in order to build and invest with confidence."
PPI interview

One of the consistent themes coming out of the interviews conducted for this project was the cry for a loosening of planning regulations as an important precursor to greater investment in UK infrastructure, energy transition and both commercial and residential property. Analysis by the Purposeful Finance Commission[79] found significant delays to planning decisions in recent years, in part due to underfunded planning departments.

Grid connectivity is a big issue and the backlog is huge. Starmer has made bold statements and now needs to see it through.

The rhetoric and actions to date of the Labour Government, including the Planning and Infrastructure Bill[80], are considered positive but concerns linger about the resistance of local authorities. To date schemes and providers are not seeing the commitments to planning policy coming through as reality.

There remains hope that unblocking planning restrictions will open up new opportunities for investment. At present, opportunities for investment in the UK are considered by some to be in short supply or heavily concentrated. Allied to concerns about planning are calls for clearer and coherent government industrial and energy strategies.

Calls for changes in regulations and providing incentives

A range of policy and regulatory changes have been put forward as helping support the Government reforms.

Provide policy and regulatory certainty

Asset allocation strategy has, by definition, a long-term perspective. Investing in private markets brings further long-term commitments.

Having stable and long term policies for both the pension sector and for investment in the UK would give schemes greater confidence in making investment decisions.

"We need a stable political landscape and cross-party consensus in order to build and invest with confidence"
PPI interview

Initiatives such as the National Wealth Fund, proposals for Long-term Investment for Technology & Science (LIFTS) and the British Growth Partnership are all seen as positive moves to encourage and facilitate investment in the UK.

Review investment regulations to remove or reduce limitations

Both trust- and contract-based regulations are felt to inhibit investment in private markets. The 2004 occupational pension investment regulations [check details] limit investment in illiquids, a limit that some respondents felt needed to be examined again. Similarly, the FCA permitted links continue to be quoted as a limitation on contract-based arrangements.

"You can't have cautiously invested open DB schemes … but OPS regulations are a constraint on how much can be invested in unregulated markets."
PPI interview

78 HMT (2024a)
79 Purposeful Finance Commission (2025)
80 UK Parliament (2025)
81 PLSA (2024)

Fiscal incentives for UK investment

Several commentators, including the PLSA[81], have called for the Government to provide incentives for pension schemes to invest more domestically. Comparisons are drawn with the Australian tax benefits offered for investment in domestic shares or the US tax advantages for investment in social housing.

"Aussie Supers have bought up the Australian stock market and infrastructure [due partly to tax benefits]. It would be good to have a tax incentive to keep UK infrastructure in UK hands"
PPI interview

Proposals for 100% PPF cover

The previous Government consulted on proposals for PPF to offer 100% cover for members of DB pensions entering the PPF. This is considered to be a way of helping trustees support employer access to the scheme's surplus. While there has not been universal support for the proposal, some stakeholders continue to see this as a key to unlocking surplus[82].

"The most influential announcement [to trigger distribution of DB surplus] would be if government announces that PPF will provide full cover."
PPI interview

Fully securing benefits could also serve to reassure DB scheme members who, research suggests, are opposed to employers accessing surplus from the scheme[83].

Will the Government achieve its aim of encouraging greater support for UK growth?

As the data show, the UK pension sector is already a very significant investor in the UK economy through investments in corporate bonds, listed and private equity, infrastructure and other private markets. It is also a very significant investor in UK Government bonds which in turn support Government spending.

In last year's report we stated that achieving the goal of more investment in private equity, and in the UK economy would require LGPS, the small number of other open DB schemes, and workplace DC schemes to take up the challenge. In all of these sectors there appears to be enthusiasm for achieving higher allocations to private markets, not just private equity, and for UK assets. However, this enthusiasm is always tempered by the view that risk-adjusted returns, net of fees, are what matter most to members and should not be compromised.

2025 will see the publication of the Pension Schemes Bill, further regulatory developments from FCA and TPR on value for money, and the drive for consolidation of LGPS pooling. All of these initiatives will, in time, be expected to drive scale, efficiencies and more diverse portfolios of assets across sectors that may soon represent nearly half of all pension assets (currently around 38%) as public sector DB continues to recede and individual DC matures further.

2025 and 2026 are expected to be years of slow change. Many DC schemes will have started to incorporate private market assets into the growth phases of their default funds and LGPS should have started the process of consolidation of assets into their pools. It will be a period of transition that may take a few years to see through and for data to reveal results, due to the time lag between actions and reporting. Moreover, given the lack of consistent and comprehensive data across the sector, it may be difficult to track changes across the sector. Publication of default schemes asset allocation across both trust- and contract-based DC will help to provide some of the data on a consistent basis but, as yet, it is uncertain when these regulations will be fully implemented.

In summary, we should expect to see the following shifts in asset allocation in the next few years, but progress will generally be slow:

- LGPS (and possibly other public sector DB schemes) can be expected, based on their stated intentions, to invest more heavily in infrastructure, particularly renewable energy, and other private markets, mainly at the expense of listed equities. Local or regional social impact investments may also attract more investment if suitable opportunities that meet return targets are made available. Overall, the asset mix may also see a greater emphasis on cashflow supporting assets as schemes begin to mature and become cashflow negative. Progress will be limited in the short term by the complex transition to full pooling and the new pool responsibilities over the next year.

- Workplace DC can be expected, given the commitment of many to the Mansion House Compact and Accord, to increase their allocation within growth default funds to private markets, particularly private equity. Once again, progress will be gradual as schemes seek to maintain strong performance and avoid the effects of the J-curve of returns of private equity on returns. Changes will also be affected by the slow but inevitable maturing of many DC schemes, particularly master trusts. This will see more assets move into the pre- and post- retirement phases with reduced levels of risk and exposure to illiquid investments.

- The strong funding position of many private sector DB schemes, with 54% fully funded on a buy-out basis[84] suggests that many such schemes will continue to focus on their endgame, which for many will be buy-out. This will see a transfer of assets to annuity providers which will result in a shift away from government bonds to corporate bonds, infrastructure, commercial real estate and lifetime mortgages. One side effect of this change is that DB schemes are predicted to be net sellers of Gilts as they derisk and either buy in annuity cover or effect a buy-out. As annuity business grows as a proportion of all UK pension assets, their asset allocation will become more important to achieving growth and investment in private markets.

When looked at overall, the picture of asset allocation has many moving parts, complicated still further by different levels of return affecting the overall values of different assets. We can expect the sector to be in transition for many years to come as both the sectors and the members of schemes mature.

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[84] TPR (2025a)

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Contact: Chris Curry, Director
Telephone: 07718 647 567
Email: info@pensionspolicyinstitute.org.uk

Pensions Policy Institute
Thanet House
231-232 Strand
Temple
London WC2R 1DA

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All enquiries regarding the Pensions Policy Institute's activities should be addressed to Chris Curry, Director at:
Pensions Policy Institute, 231-232 Strand, Temple, London WC2R 1DA

t: 07718 647 567
e: info@pensionspolicyinstitute.org.uk
w: www.pensionspolicyinstitute.org.uk

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