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Capital at risk.

Are private market investments a risky business for DC pension savers?

As the pensions industry edges forward in incorporating private market assets into DC investment portfolios, we at Legal & General wanted to check in with those at the sharp end – DC pension savers.

Rita Butler-Jones
Head of DC, Legal & General

We wanted to know what they knew about private market assets, if they had any preferences for which type of these assets they'd rather invest in, and where they might need reassurance around the attention being paid to assessing possible impacts on their savings.

We surveyed 2,024 people who were currently contributing to a DC pension in April 2024.[1] We found that 45% of DC savers are happy to invest in private markets but had clear favourites.

1. Research carried out in April 2024 by Ignition House on behalf of Legal & General's asset management division. The research sampled 2,024 people in the UK who were currently contributing to a workplace pension.

How we did it:
Online survey of 2,024 respondents in the UK, conducted in April 2024 by Ignition House for Legal & General, with fieldwork running from 17 April 2024 to 30 April 2024. All respondents were currently contributing to a DC pension.

We asked questions on four areas of private market investments:

Affordable housing: Investing a proportion of pension fund money to help projects which could meet a shortage of these type of homes in the UK

Clean energy: Investing a proportion of pension fund money to invest in large-scale projects, such as solar and wind farms and other forms of sustainable energy, across Europe and the UK, as well as supporting projects that help provide infrastructure to enable the UK to move away from reliance on fossil fuels and make progress towards reaching its net-zero targets

Innovation companies: Using a proportion of pension fund money to invest in spin-out businesses from university science and technology departments that are involved in a range of innovative programmes including developing clean energy technologies, sustainable food production and advances in healthcare such as robotic surgery and vaccine development

Unlisted companies: Using a proportion of pension fund money to invest in private companies that are not yet traded on any stock exchange (which means they don't sell their shares to the public) but have the potential to create more jobs and boost economic growth in the UK

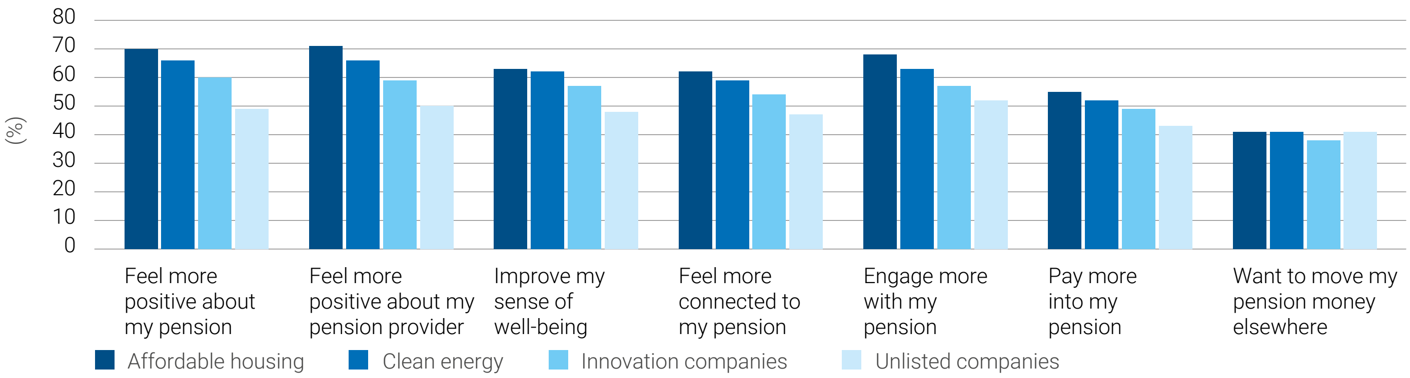
Key risks
The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

We asked DC pension savers whether they agreed with a series of statements about their pension being invested in four areas of private market assets: affordable housing, clean energy, innovation companies, and unlisted (private) companies.

Affordable housing was the frontrunner with 70% saying they'd feel more positive about their pension if its funds were being used to help support affordable housing schemes.

Investing in clean energy came a close second with 66% saying they'd feel more positive about their pension if it invested in this area, followed by 60% for investing in innovation and technology, and 49% for investing in private, unlisted companies.

Proportion of adults who agree with the following statements with regards to their pension being invested in affordable housing, clean energy, innovation companies, and unlisted (private) companies



Base: 2,024 UK adults currently contributing to a DC pension as at April 2024.

DC pension savers felt that affordable housing would be the most likely to deliver better returns – 60% felt that pensions companies investing in affordable housing would perform better than those that did not, compared with 34% for unlisted private markets:

"I think it's quite a good idea because safe and affordable housing is something which each of us needs on a daily basis. So I think it's a good investment because you'll always get good returns. If not straight away, maybe within a longer time period. Whether you're rich or poor, you always need to have a safe place to live, so it'll always be demand for this."

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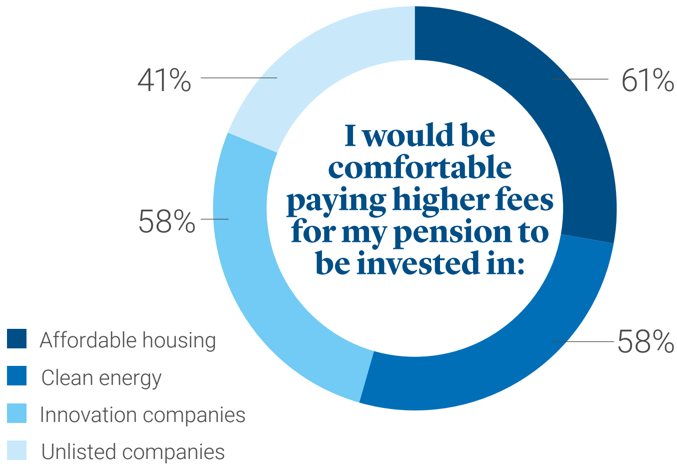
This relative unease around private, unlisted companies could possibly be explained by a perception that emerged during our interviews with DC savers that these businesses are still ‘learning’ and investing in them might be risky:

> **“I would say that new businesses always are higher risk businesses. We have seen a lot of new businesses come into the market and they go quickly. So I personally feel it's not a good idea to pay our pension to the companies which are learning.”**



Base: 2,024 UK adults currently contributing to a DC pension as at April 2024.

Over half of our respondents (58%) believed that investing in clean energy would result in better financial performance and slightly over half (51%) felt that investing in university spin-out companies working in innovation and technology would lead to better results.

Some of those we interviewed would pay more into their pension schemes to invest in certain areas.

Affordable housing evoked the strongest response with 55% of respondents saying they’d be prepared to pay more into their scheme if it was being invested in this way.

For clean energy, the figure dropped slightly to 52%, while 49% would consider increasing their pension contributions to support university spin-out companies involved in innovation and technology.

The least popular investment category was unlisted companies where 43% said they’d consider increasing their contributions to see their savings invested here.

It was a similar picture for whether DC savers would be comfortable paying higher fees for their pension to be invested in these areas. Once again, affordable housing came out top with 61% prepared to pay more.

For clean energy, 58% of our respondents said they’d consider paying higher fees while for innovation companies, the figure was also 58%, and for unlisted companies, 41%.

In all categories, the vast majority of those who would be prepared to pay higher fees would consider an increase of over £50 a year with fewer prepared to go beyond £100.[2]

2. In terms of how much savers would be prepared to pay, the vast majority of those who said they’d pay more would consider an increase of over £50 a year, with 78% willing to pay more than £50 a year for affordable housing investments, 74% for clean energy, 81% for innovation companies and 73% for unlisted companies. Fewer would be prepared to pay more than £100 a year (36% would pay more than £100 a year for affordable housing assets, 36% would also be willing to pay more than £100 for clean energy, 38% for innovation companies and 33% for unlisted companies.

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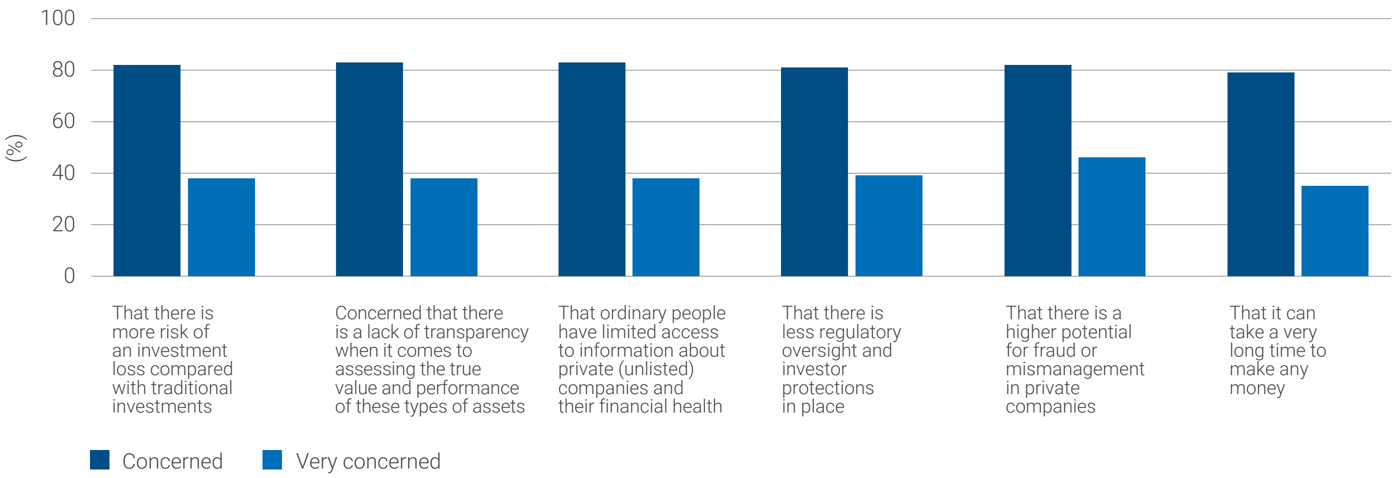
What do DC savers think about the risks?

We showed DC pension savers a list of risks associated with private market investments. Our respondents were concerned about all of them. Just 4% had no concerns.

When asked to rank their top three concerns, the potential for fraud or mismanagement in private companies was first (48% ranked it as either their first, second or third concern), investment loss (43%), long time to make money (40%), lack of transparency (40%), less regulatory oversight (37%), and limited information (35%).

There could be some potential disadvantages to investing in the types of things we have been looking at. To what extent would you be concerned about the following:



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Despite awareness of risks, most DC savers supportive
Despite being made aware of the risks, investing in private market assets still seemed to appeal to most of those we surveyed, as only a quarter did not want their money invested in any of the areas tested.

Three in 10 (30%) would need to know more to feel comfortable while a quarter (24%) simply trusted their pension provider to make the right decisions.

One in five (21%) felt that pension money should be used to improve society, while 45% were happy to see a small part of their fund being used to support economic growth.

Reassurance and building trust are key
In July 2023, Legal & General joined several UK pension providers in signing the Conservative Government's Mansion House Compact, committing to allocate 5% of default pension fund investments to unlisted equities by 2030.[3]

In July 2024, the incoming Labour Government announced a pensions review including plans to unlock investment from DC pension schemes to support the UK economy and help boost DC savers' pension pots.[4]

But at the heart of the debate are DC savers themselves. This is their financial future after all, and they deserve to be heard.

For those we interviewed, using pension funds to invest in private assets that could help support wider society is generally something they'd support.

But there are concerns that need to be addressed if we're to take DC savers with us down this road. We should be clear on details such as the percentage of these type of investments being included in defaults, and make the argument that despite some undeniable risks, there could also be benefits – such as from portfolio diversification* and investing in higher growth areas.

Most of all, we need to reassure DC savers that those in charge of pension strategies will maintain due diligence in keeping them under continual review.

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3. UK Government news story, 10 July 2023: http://www.gov.uk/government/news/chancellors-mansion-house-reforms-to-boost-typical-pension-by-over-1000-a-year
4. Chancellor vows 'big bang on growth' to boost investment and savings Government press release, 20 July 2024. https://www.gov.uk/government/news/chancellor-vows-big-bang-on-growth-to-boost-investment-and-savings.
* It should be noted that diversification is no guarantee against a loss in a declining market.

Contact us

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