ABI

The Mansion House Compact
Year one progress update

The ABI, in collaboration with the 11 signatories[1] and the City of London Corporation, is annually tracking progress towards the Mansion House Compact. One year since its launch, this update sets out progress so far.

The Compact is a voluntary industry-led initiative to secure better financial outcomes for Defined Contribution (DC) savers by increasing pension investment into unlisted equity. The ambition is to allocate at least 5% of the DC default funds to unlisted equities by 2030 and increase the proportion of UK pension and other relevant investments in unlisted equities.

Photo: Clive Totman

Executive summary

- In the one year since signing the Mansion House Compact (MHC), **signatories have made significant strides towards the ambition of the Compact** in order to deliver better customer outcomes. Schemes have secured resourcing, rallied client support, undertaken research and developed investment solutions to increase their allocation to unlisted equities.
- **Signatories currently hold £793 million of unlisted equity[2] assets in their DC default funds**. This is the equivalent of 0.36% of the total value of their DC default funds, currently standing at £219 billion. The ambition of the Compact is to allocate at least 5% by 2030.
- Signatories hold £5.7 billion infrastructure assets structured as unlisted equity in their default funds; this rises to £7.0 billion in broader UK pensions and other savings vehicles[3]. Although infrastructure unlisted equity investments are not strictly included in the Compact, **investments in infrastructure make an important contribution to the economy,** and are central to the evolution of growth companies.
- More investment in unlisted equity has been committed and is expected to grow. This is despite **key operational and technical barriers to investment in private assets, which have been identified by individual signatories.** Responses to our survey identified several policy recommendations. Multiple respondents highlighted the need to focus on value for money instead of solely cost.

£793 million

Unlisted equity assets held in default funds as of February 2024, out of a total of £219bn assets

£5.3 billion

Unlisted equity assets held more broadly in **UK pensions and other savings[3]**

Methodology

The figures and commentary contained in this update were informed by a quantitative and qualitative questionnaire completed by all Compact signatories between March and April 2024. Figures are based on the most recently available asset valuations as of Feb 2024. Further information on definitions can be found at the end of this update.

1 The 11 signatories of the Mansion House Compact are: Aegon, Aon, Aviva, Legal & General, M&G, Mercer, NatWest Cushon, NEST, Phoenix, Scottish Widows and Smart Pension.

2 This excludes investments in infrastructure & real estate, according to the Mansion House Compact FAQs, and relates only to funds managed on behalf of the customers of MHC signatories as of Feb 2024.

3 “UK pensions & other savings” encompasses a broader scope than DC default assets, and includes assets in workplace DC schemes, drawdown, crystallised assets, customer assets administered by third parties, and with profits assets in DC structures.

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Growing investment in unlisted equity

MHC signatories are currently managing nearly £800 million of unlisted equity investments on behalf of their DC default customers. This is the equivalent of 0.36% of the total DC default assets managed by these companies, currently standing at £219 billion.

The steps taken by signatories in the past year are expected to translate into more capital being deployed in future years. Just under half of signatories (5 out of 11) have already stated that the value of **capital committed to investment in unlisted equities has increased** since signing the Compact[4]; indeed, signatories noted separately that they had been working on increasing unlisted equity investment for some time, even prior to signing the Compact.

Meaningful progress towards the Compact

Enabling steps to increase investment in private capital show that meaningful progress is being made.

To increase investments in private assets, pension providers and schemes have to undertake various steps before capital can be deployed. These may include ensuring they have the right expertise and capacity, undertaking research into the investment opportunities, making operational preparations and getting their clients on board with asset allocation changes. These enabling steps take time and require input from different parts of the value chain and decision makers (see the process flow on the right).

Our survey highlighted several areas where signatories have made meaningful progress towards growing unlisted equity investment, set out below. Since the survey was concluded, some firms have taken additional steps towards increasing unlisted equity investment, including launching funds.

Resource and capability

- Nearly all signatories (10 out of 11) have expanded or reallocated staff to support unlisted equity investment since the start of the Compact.
- Similarly, the same number (10 out of 11) have also commissioned or undertaken research into prospective unlisted equity investments.

Solution development

- 8 out of 11 firms have started developing solutions to enable increased unlisted equity investment. They are at different stages of developing new funds or vehicles, including Long-Term Asset Funds (LTAFs) to increase investment in private markets, including private equity, and early-stage companies.

Client support

- 7 out of 11 firms agreed that clients appear to be supportive of increasing investment of their schemes into unlisted equities.

Making changes to asset allocations involves a multi-step process and several decision makers:

Strategic Asset Allocation (SAA)

The investment case for a change in asset allocation must first be made. Advisers may help trustees determine the SAA.

Target allocation

Unlisted equity may be obtained from multiple sectors. External research will often be needed to identify the desired exposure. Training and resource may be needed.

Fund/manager selection

Eligible fund(s) must be identified, a proposal requested from each, fund(s) identified, due diligence carried out, any issues remediated.

This step may be repeated if the fund does not meet requirements

Onboarding

The fund is admitted onto the investment platform. This may require operational changes.

Capital committed

The amount to be invested is agreed in writing. Capital will be drawn down by the fund according to its rules (portions of committed capital can be drawn down throughout a period of several years).

4 According to a survey run by the ABI with all 11 signatories. See the note on ‘Methodology’ on page 1.

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Progress made despite barriers

Barriers to investment in private markets have reduced in recent years and a lot of progress has been made from an operational and regulatory perspective. Nevertheless, all signatories have encountered or are aware of significant remaining operational/technical barriers to increasing investment in unlisted equities. This is reflected in the survey answers detailed below.

Signatories and the ABI have been working to find solutions to some of these challenges including as part of the Pensions & Private Capital Expert Panel led by the British Private Equity & Venture capital Association (BVCA).

Performance fees

Multiple signatories said that performance fees are a challenge. It was noted that managing appropriate fee structures remains problematic, and that certain fee models commonly used in private capital markets may be financially unfeasible. The absence of FCA guidance for Group Personal Pensions, equivalent to regulations from DWP that allow exclusion of performance fees from the charge cap, was noted.

Permitted links

Multiple signatories cited permitted links as barriers to investment. The majority of fund structures suitable for private assets do not comply with permitted links rules, making it too challenging for providers to invest in unlisted equities, one noted. Another stated that these challenges mean that alternative structures need to be developed to allow access to typical VC/PE funds, working around or outside the investments offered via life insurance companies and their platforms.

Long Term Asset Funds (LTAFs)

Although multiple respondents noted that LTAFs overcome the permitted links rules barriers, they also raised challenges. For instance, one said that LTAFs remain expensive, have a lengthy approval process and are cumbersome, so schemes may need to look beyond this vehicle.

LTAF features such as redemptions and subscriptions, which do not neatly fit with an automated environment, as well as platform/admin providers' capability were raised as barriers. Furthermore, multiple respondents queried how LTAF rules apply to default savers who leave employment, if they are then treated as individual customers.

Other barriers identified by individual respondents

Cost

The main barrier cited is cost: employers' and consultants' focus on fees rather than value, versus the known higher cost of private capital.

Liquidity

Managing appropriate liquidity remains challenging.

Pricing and fairness

There is a potential trade-off between efficiency and fairness in pricing mechanisms and therefore guidance/assurance from the FCA may be helpful, for example on the use of stale (older) valuations.

Notifying customers of changes

Notifying some customers in default funds of changes to their investments can be difficult and expensive due to the complexity of legacy terms and conditions, and where communication by post is needed.

Look-through for ESG purposes

It is difficult to get look-through for ESG purposes for all underlying investments where investments are historical, so were agreed before ESG considerations were explicitly taken into account. This is a historical challenge which will decrease over time.

The Mansion House Compact signatories:

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Policy intervention may still be needed

Much policy and regulatory progress has been made to reduce barriers to productive and illiquid investment in recent years. These include the introduction of the LTAF, updating rules to allow broader access to them, the conditional permitted links rules and allowing exclusion of performance fees from the charge cap and the new disclosures for trust-based schemes.

However, survey responses indicate that policy change may still be needed in some areas (Please note: the policy interventions suggested are collated from individual responses, and do not represent the views of all signatories).

Shifting away from cost minimisation and towards value appears to be central to enabling signatories to achieve the ambitions of the Compact. A majority of respondents mentioned the need to refocus on value, demonstrated in long-term return expectations, strong investment design and performance.

Several signatories note that a value-focused approach is needed on the entire value chain, with references made to trustees, sponsors (employers) and advisers. Signatories also mentioned regulating advisers and the value for money framework as levers. The need for a culture shift and education for all parts of the value chain, is also noted.

Other policy interventions suggested in signatories' responses

- Review LTAF regulations to ensure they are not burdensome and do not go against consumer outcomes.
- Change permitted links rules to enable access to frequently used fund structures.
- Consider increasing minimum contributions alongside the aims of the Compact as increased inflows of new money will allow a greater level of Compact related investment.
- Clarify the fiduciary duty to encourage a universal ownership approach and enable trustees to consider the wellbeing of their members beyond financial factors.
- Allow performance fees to fall outside of charge computation for Group Personal Pensions in the same way that is permissible for Occupational Pension Plans.
- Encourage investment in a 'range' of productive assets, such as infrastructure and real estate, rather than emphasising primarily private equity and venture capital.

Next steps

The Compact is a long-term objective. Some of the findings reflect how signatories are working towards this shared ambition, and others will be incorporated into cross-industry work with government and regulators to identify and resolve barriers.

Definitions & Scope

The quantitative metrics focused on two scopes, with the value of own-customer unlisted equity investment captured within each:

DC Default:

Growth phase assets in DWP compliant DC-default options that signatories control.

UK Pension & Other:

Broader DC pension assets (outlined in footnote 3).

Data was additionally collected on the value of infrastructure/real estate investment, separate to the core definition of unlisted equity.

"Unlisted Equity" defined

Unlisted equity was agreed to consist of direct or indirect equity stakes in qualifying organisations.

A "qualifying organisation" is one that is not listed on the Official List of the United Kingdom Listing Authority, or for overseas investments, the equivalent authority/list.

"Equity stake" included shares or convertible loans, but excluded purely debt-based investment.

Indirect holdings through investment trusts/special purpose vehicles were permitted, however look through was applied when valuing these investments.

This report does not aim to set out the ABI's policy position; instead it reflects the results of the data collection and individual responses to a survey conducted by the ABI to monitor the progress towards the Mansion House Compact ambition.

The ABI is the voice of the UK's world-leading insurance and long-term savings industry, which is the largest sector in Europe and the third largest in the world. We represent more than 300 firms within our membership, including most household names and specialist providers, providing peace of mind to customers across the UK.

A productive and inclusive sector, our industry supports towns and cities across Britain in building a balanced and innovative economy, employing over 300,000 individuals in high-skilled, lifelong careers, two-thirds of whom are outside of London. Our members manage investments of £1.5 trillion, pay over £17.2 billion in taxes to the Government and support communities and businesses across the UK.

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