Jon Moulton's Diary

Despite good intentions, there are solid reasons why the Mansion House Accord may not deliver a large pipeline of capital

Veteran financier Jon Moulton has been involved in buyouts, turnarounds and venture capital since 1979 with firms such as CVC, Permira, Apax, Alchemy and, most recently, Better Capital, where he has been the chair since 2009

Recent days have seen the much publicised Mansion House Accord attract high profile signatories.

The Accord (which is mercifully short) has been signed by most of the large defined contribution (DC) pension managers in the UK. This is a huge pool of capital with about 31 million beneficiaries that had assets under management of more than £200bn at the end of last year. Most schemes are immature, so they are growing quickly as contributions exceed withdrawals.

The Accord does not affect the much larger defined benefit pension plans, which are around six times the size.

At headline level, the Accord signatories "intend on a voluntary basis" to "allocate" 10% of their assets into private market assets with at "least 5% of the total" (I think they mean half of the 10%!) going to UK private markets. The detail is quite important. The "allocation" is to be in 2030. So, no rush. And allocation is not investment.

Actually, some DC schemes already have quite an allocation to private assets so signing this document may not be much of an event for them.

The signatories to the Mansion House Accord represent funds with some 31 million beneficiaries and total AuM of more than £200bn

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> ***'The Accord is not going to make that big a difference in the next few years — even assuming the "critical enablers" etc come into existence'***

Noteworthy are the findings from surveys done recently for the pensions regulator that revealed that around two-thirds of smaller DC funds did not know if they had any private assets.

The commitment of the DC managers to the Accord is "dependent" on the Government and regulators providing "critical enablers", which include regulators and Government not getting in the way and, even less likely, having "clarity in rules and guidance" from both of these.

There are more ifs and buts. The fee framework has to be acceptable. "The whole market including intermediaries has to move from cost to value." "A pipeline of UK investment opportunities which the Government has agreed to facilitate". And more.

Obvious delays

The reasons for delaying the commitment become obvious. A lot needs to happen and probably it will not all happen.

Confusingly, this Accord does not supersede the 2023 Mansion House Compact – which requires DC default funds to invest funds to at least 5% in unlisted equities (anywhere.) It is far from clear why that Compact survives.

The Association of British Insurers (ABI) has undertaken a year one progress report on the Compact.* It shows that at the end of the first year £793m of unlisted equity assets were held by all default fund managers (including non-signatories), some 0.36% of total value managed. It doesn't state a corresponding level of investment that they had at the date the Accord started with, but whatever, progress is not very significant.

The progress report also lists the numerous issues, both practical and regulatory, that are obstacles to more rapid progress.

Trustees, and many commentators, question any preordained or mandatory investment policies rather than managing a simple pursuit of seeking the highest returns at a tolerable level of risk. It's a legitimate concern – showing convincingly that private assets will outperform, or even match, historical performance of other asset allocations in the future is beyond human wit.

Trustees and DC managers may have issues with private equity on cost and valuation issues, and the need for specialist staff. They will also worry about the extensive use of leverage in private equity – they can, of course, invest into that leverage to fulfil their obligations under the Accord, though I'm sure the politicians would not see that in a good light.

Venture investing

The politicians have tried to portray this Accord as providing oodles of capital for "Britain's world-leading science and technology businesses". I wonder if many managers will actually choose UK high-tech venture capital to fulfil the Accord. The historic returns from investing in this area have mostly been weak, which is generally regarded as a sign of too much money being available to invest rather than too little.

The Accord seeks 5% into UK private assets. Say £10bn. Maybe 10% of this might go into high-tech venture capital, which would be £1bn over each of the next five years to 2030 or £200m a year.

Just UK venture funds raised £4bn in 2024. There are other types of investor active in venture.

The magnitude of the effect of the Accord will be similarly only marginally significant for the rest of private equity assets.

The Accord is not going to make that big a difference in the next few years – even assuming the "critical enablers" etc come into existence. Let's wait to see if the Accord ever makes a useful difference.

More on the Accord and pension funds investing, pages 24-25

* ABI one-year progress report available at https://www.abi.org.uk/news/news-articles/2024/7/mansion-house-compact