Jon Moulton's Diary

Pushing DC pension funds into the hands of private capital may not be such a good idea

Veteran financier Jon Moulton has been involved in buyouts, turnarounds and venture capital since 1979 with firms such as CVC, Permira, Apax, Alchemy. He now has a family office, Perscitus.

'I don't think many DC pensioners want diversification – they would prefer the certainty of a defined benefit scheme'

I will start off by saying I am always sceptical about government involvement in free markets. And mostly my initial scepticism turns out to be inadequate.

Politicians and private equity funds alike look at the massive cashflows being funnelled into pensions – there is apparently around £800bn in defined contribution (DC) funds with around £160bn a year of further contributions being added to them. To give some comparison, UK Private Capital reported £29.4bn being invested in companies in 2024, and UK GDP is £4tn.

Both politicians and PE moguls alike would like some of that cashflow!

Mostly the politicians cannot distinguish between the economic benefits of a venture deal and a buyout – which is perhaps fortunate for buyout funds.

The positive headline from UK Private Capital is that "better access to private capital funds can help pension savers benefit from diversified long-term returns".

However, the return history of private vs public investing over any reasonable time period simply is not convincing in either direction. It depends on which geography or market you select. For example, public markets were more responsive to changes in valuations during the Covid-19 pandemic while private equity valuations based on judgements were slower to respond; then there is the huge out-performance of giant US technology stocks in recent years.

In fairness, it does seem that in recent years UK public equities have underperformed UK-listed companies.

One generally accepted belief is that private returns are weakening as the arrival of more capital competes for an inelastic supply of target companies.

You can see why UK Private Capital uses the conditional "can"!

I don't think many DC pensioners want diversification – they would prefer the certainty of a defined benefit scheme, but sadly this luxury is nowadays largely available only to civil servants.

There have been a couple of high profile initiatives – the first was the 2013 Mansion House Compact, which saw 11 big investors commit (subject to fiduciary duty and government actions) to invest 5% of their DC funds into unlisted equities.

Both the Mansion House Compact and Mansion House Accord have attempted to get pensions to invest more alongside PE funds

Readers will be aware that this term includes investments in infrastructure, property, overseas assets and many other investments that do not look like UK traditional private equity.

Given the broad types of investment mentioned, it's quite probable that some of the signatories to the Compact were already meeting the objective.

The likelihood that the Compact was largely a public relations exercise was shortly recognised and a further Mansion House Accord signed by 17 investing institutions came into force in 2025.

The signatories "commit, subject to fiduciary duty and the Consumer Duty, to the ambition of: allocating at least 10% to private markets across all main DC default funds by 2030; and within that, at least 5% of the total going to UK private markets, assuming a sufficient supply of suitable investible assets for providers. The commitment is dependent on implementation by the Government and regulators of critical enablers."

A few thoughts:

- Allocating is not investing – or irreversible.
- "Private markets" include holding companies for all kinds of passive assets.
- At least some of the signatories are clearly being nudged in a direction they do not want to go. The reference to a "sufficient supply" implies their doubt as to the availability of good returning assets.
- HMG has undertaken to provide "enablers" including a pipeline of UK investment opportunities – I've no idea how.
- There are ongoing regulatory discussions about fees and costs of private investments. If we limit ourselves to typical PE funds, it is likely there will be pressure on carried interest. The politics of supporting fee structures that have delivered in excess of £5bn of carry to a handful of managers in a single UK firm are not easy.

However, the basic economic argument against more pension funds investing into a finite pool of UK PE opportunities is that returns will be driven down – and the arrival of any serious increase in DC funding could turn less than compelling returns into poorer ones.

Which is not in the interests of either pensioners or PE generally.

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