

How to start thinking about integrating Private Assets into your Portfolio

For decades, the bedrock of UK pension fund strategy was a simple formula: gilts and bonds to match liabilities, complemented by public equities for growth. This comfortable model is undergoing a fundamental recalibration. In its place, a more complex yet potentially more rewarding architecture is emerging, built upon the foundation of private assets.

A Practical Guide for Pension Fund Trustees and Managers -

Recent analysis from CACEIS's Cost Transparency & Benchmarking Universe, encompassing £725 billion in UK pension scheme assets, reveals the scale of this shift. Between 2019 and 2024, the average allocation to public markets decreased from 91% to 74%, while private market exposure nearly tripled, from 9% to 26%. This is not a marginal adjustment but a strategic pivot, driven by policy levers, the search for yield, and the need for long-term, inflation-resistant returns.

This case study provides a structured approach to help your fund navigate this transition, outlining the practical steps to integrate private assets and highlighting how specialist asset servicers can support this critical evolution.

The Drivers Behind the Shift to Private Markets

Understanding why this shift is happening is crucial for building a compelling case to your board and stakeholders.

- For Mature DB Schemes: The 2022 market shocks accelerated de-risking, creating a "return deficit". Private assets - particularly income-generating ones like private debt and core infrastructure - are now being deployed to supplement returns without reintroducing excessive volatility.
- For DC Master Trusts & LGPS: Free from immediate liability-matching pressures, the focus is on long-term growth and diversification. The limitations of the traditional 60/40 portfolio in an inflationary world have become clear. These schemes are embracing illiquidity to capture the associated premium, a move explicitly encouraged by the government's UK Pension Investment Review (2025) and backed by initiatives such as the Mansion House Accord.

The ambition is significant, with leading funds publicly targeting private asset allocations of 30% or more. The question seems no longer if to invest, but how.

PRACTICAL STEPS

The Start:

DEFINE YOUR STRATEGY AND BUILD YOUR GOVERNANCE FRAMEWORK

Before committing a single pound, the most critical step is to define the strategic role private assets will play in your portfolio. A purposeful allocation is the foundation of success.

1. Define the Strategic Role of Each Asset Class:

- Private Equity: Seen as the engine for high growth. Accept higher fees (often 200+ basis points) for the potential of double-digit returns, but understand and plan for the classic "J-curve" effect.
- Infrastructure: A source of stability and inflation-linking. Can offer steady, resilient returns and align with net-zero ambitions and sustainability targets.
- Private Debt: A yield solution. Potential for reliable, income-focussed returns that have become increasingly attractive in a rising rate environment.

2. Establish a Clear Governance Model: Private assets demand a long-term perspective and more sophisticated oversight. Establish clear policies for:

- Investment Horizon: Commit to a longer-term view (10+ years) to realise the full illiquidity premium.
- Risk Appetite: Define your tolerance for illiquidity, leverage, and underlying asset risk.
- Reporting Expectations: Determine what data you need (cost, performance, ESG, valuations) and how often you will review and stress test these metrics.

Step Two:

CONSTRUCT THE PORTFOLIO AND EXECUTE WITH SCALE

With a strategy in place, the focus shifts to execution. In private markets, scale and access are paramount.

1. Embrace Scale and Cooperation: The dominance of large LGPS pools and master trusts in this space is no accident. Scale provides negotiating power on fees, access to top-tier fund managers, and crucial diversification.

- For smaller schemes, leveraging pooled vehicles like fiduciary management or multi-manager funds is becoming a necessity to gain efficient exposure.

2. Plan for Cost Cycles, Not Just Return Cycles:

The data shows that cost spikes in private markets are often cyclical and event-driven (e.g., during fund launches or market events like COVID-19). Forward-looking schemes build these cycles into their financial modelling and member communications, avoiding panic over temporary increases in costs that don't necessarily correlate with performance.

3. Pursue Cost Efficiency: Actively explore levers to enhance value for money. This includes:

- Co-investment: Investing directly alongside a fund manager to reduce fee layers.
- Long-term Partnerships: Building relationships with managers for potentially better terms.
- Rigorous Tender Processes: Ensuring competitive pressure on fees for new mandates.

Case in Point: One prominent LGPS pool successfully constructed an £8 billion private markets portfolio in under five years through disciplined, multi-cycle investing, demonstrating what is achievable with a structured approach.

Step Three:

IMPLEMENT RIGOROUS MONITORING AND REPORTING FOR “VALUE FOR MONEY”

The introduction of new “Value for Money” regulations has the potential to change to strengthen governance and bolster member outcomes. It is no longer sufficient to simply report costs; trustees must now demonstrably link them to risk, returns and member outcomes. This demands a sophisticated approach to monitoring and reporting over longer time horizons.

1. Adopt an Integrated View of Cost and Performance:

Isolate the performance of your private asset allocations and evaluate them against their public market equivalents and their own strategic objectives over an appropriate long-term horizon.

2. Look Beyond Short-Term Noise: A temporary fee spike during deployment should not be judged in isolation. The key is to track whether the long-term return profile justifies the cost structure.

3. Demand Transparent, Actionable Data: You need more than raw data; you need insight. This includes:

- Cost/Return Reports: Analysing performance net of all fees over 5-10 year periods.
- Historical Cost Trends: Understanding how your costs are evolving as the portfolio matures.
- Scenario Analysis: Modelling the impact of various market events on both public and private allocations.

This transparent insight enables trustees to make better-informed investment decisions and confidently explain the strategy and its outcomes to all stakeholders.

Conclusion: A Permanent Shift Towards a More Resilient Portfolio

The shift from public to private markets is more than a fleeting trend; it is a fundamental and likely permanent feature of the modern pension fund landscape. It demands a new skillset, a more sophisticated approach to risk and cost management, and a steadfast, long-term perspective.

For pension managers and trustees who can successfully navigate this transition, the reward promises to be a more resilient, diversified, and ultimately better-performing portfolio, capable of delivering on the long-term promises made to their members. The journey requires careful planning, but by following these steps and leveraging expert support, your fund can confidently integrate private assets to secure a stronger financial future.