bvca
Invested in a better future

Public Bill Committee
House of Commons
London
SW1A 0AA

By email: scrutiny@parliament.uk

27 August 2025

Dear Sir/Madam,

Re: Pension Schemes Bill: call for evidence

With a membership of around 600 firms, the BVCA represents UK-based Private Capital, as well as the wider ecosystem of professional advisers and investors. Private Capital consists of Private Equity and Venture Capital which make long-term investments to grow British businesses and build a better economy. Private credit and venture debt also provide active and engaged debt finance to businesses. The Private Capital industry backs 13,000 UK businesses, nine in ten of which are small or medium-sized enterprises (SMEs). Businesses backed by the industry employ 2.5 million people across the UK and contribute 7% to GDP. In 2024, £29.4bn was invested by Private Capital into UK businesses in sectors across the UK economy, ranging from consumer products to emerging technology. This increased investment has fuelled the growth of businesses across the UK, with six in ten (58%) of the businesses backed in 2024, located outside of the capital. These investments are long term, with an average investment period of six years, in contrast to less than a year in public markets.

We respond to this Call for Evidence to highlight the perspective of private capital investors in terms of how the UK's current pensions landscape impacts the private capital sector, and the consequences this has on wider economic growth. Below we have focused our comments on some areas within the Bill relating to DC schemes and the Local Government Pension Scheme.

The UK's scale up challenge

Currently, despite their size, the UK's pension funds invest very little in UK private capital. UK pension funds are investing less in private markets than comparable asset managers, including pension funds, in other countries. Indeed, sixteen times more capital from pensions around the world goes into UK private capital than UK capital[1].

The reasons for this are complex and differ across different types of pensions. However, the evolution of the UK pensions industry – the move away from DB to DC funds (now the most common form of pension saving), and the continued evolution into larger Master Trusts - has made it harder for pension savers to benefit from private capital investments within their pots.

---

[1] BVCA-Pensions-and-Private-Capital-Expert-Panel-Interim-Report.pdf

If we look elsewhere, the largest Canadian pension schemes typically allocate on average 21% of their capital to private equity, and major US schemes average around 14%. Large asset owners typically have 20-30% invested in private markets.[2] In contrast, the Local Government Pension Scheme (LGPS) currently has 6% invested in private equity, and in DC we believe the most recent figure to be 0.36%[3].

This impacts the wider UK economy, which is undoubtedly impacted by the lack of domestic scale up capital that often drives successful businesses to relocate and, in many cases, even list elsewhere, to ensure access to funding. However, this also means that pension savers miss out on the strong returns that private capital generates for investors. As of December 2024, UK private capital funds delivered a 10-year horizon return of 15.8% compared to 6.2% for the FTSE All Share and 8.0% for the MSCI Europe index over the same period[4]. Given the well documented concerns about both public policy challenges, the BVCA is of the view that there is a compelling case to reform the pensions landscape to address both. We therefore welcome the Government's clear commitment to achieving increased private capital investment by UK pension funds through significant reform to this landscape, as set out in the Pension Schemes Bill.

We should recognise the significant industry-led activity in recent years that has aimed to facilitate more investment into UK private capital, and we welcome this. For example, we know that the government established-Productive Finance Working Group secured a number of significant regulatory changes that meant that private capital was an investment option in DC for the first time. The BVCA led Pensions & Private Expert Panel also made a number of recommendations in 2024 and 2025, and demonstrated the value in bringing different industries together.

In 2023, 11 of the largest pension providers signaled their ambition to allocate £50bn of their default capital to unlisted equities by 2030 as part of the Mansion House Compact, and over 100 private capital firms signed the Investment Compact for Venture Capital and Growth Equity the same year. However, as of July 2024, signatories to the Mansion House Compact held the equivalent of 0.36% of the total value of their DC default funds in unlisted equity assets (just £793m out of £219bn) - and at the time of writing no further annual updates have been provided. This is largely consistent with the anecdotal feedback from the BVCA's members, who note an increase in interest from pension funds in private capital investment opportunities, though feel that there remain considerable barriers. These barriers can be linked to lower levels of understanding of pricing and the wider private markets, and a lack of in-house resource and expertise which pension funds can draw upon to execute such investments.

The BVCA therefore takes the view that we need to move from commitment to execution with some urgency and believes that the proposals in the Pension Schemes Bill will help facilitate this. Below we have set out more detailed views on some of the provisions within the Bill relating to DC and the LGPS.

We haven't made detailed comments on provisions within the Bill relating to DB surplus release, the consolidation of dormant small pots, FCA contractual override, or DB superfunds. However, we would note

---

[2] BVCA analysis of Preqin database
[3] ABI The Mansion House Compact Year one progress update
[4] BVCA Performance Measurement Survey 2024

our support for the general direction of travel, and believe that most of these initiatives, if executed well, could positively impact UK investment levels.

Defined contribution pensions

The BVCA supports the proposals to set a minimum level of assets under management for multi-employer schemes. This is consistent with our recommendations in the Pension Investment Review[5] and other consultations. There is real urgency to the matter.

Though consolidation is already happening, it is concentrated in the smaller end of the market. We do not take the view that sufficient consolidation is likely to happen at the speed needed to achieve the Government's ambition, or that of the Mansion House Compact, without intervention. Given the relatively conservative levels of returns and low engagement in DC pensions, the BVCA does not consider that the complexity and fragmentation of the existing DC landscape is best serving savers – it is denying many the benefits of scale in their pension pots. That lack of scale makes it difficult for savers to engage in their pensions and stifles any competition in the market that might drive up demand for alternative, more returns-focused investment strategies. We note that the Australian landscape is reasonably comparable to the UK's DC system, and appears to achieve this much more successfully.

The minimum size threshold for DC multi-employer schemes should be informed by existing market experience. Nest has begun to make private capital investments with a scale of around £50bn and is forecast to pass £100bn assets under management (AUM) by 2030.[6] This is also consistent with the experience of Canadian pension schemes, which report realising significant benefits of this scale at an estimated Can$80bn, or £44bn at current exchange rate.

We are therefore supportive of the proposed thresholds as set out by the Government.

The BVCA also welcomes the proposal to allow the bulk transfer of FCA-regulated pension providers, as is currently the case in the trust-based market. This is important in ensuring that the Value for Money framework applies across the DC pensions landscape, and to address fragmentation of legacy GPPs, which are not working in the interests of savers.

Approvals in respect of asset allocation

Section 28C of the draft Bill introduces a time-limited power that would enable the Secretary of State to introduce future regulation that would effectively mandate certain investments. The proposed wording of the Bill suggests that this would be introducing a route to enforce the agreements of the Mansion House Compact and Accords, with a focus on private markets and UK-based investments.

The BVCA has noted previously that we are not seeking 'mandation' of investment into certain asset classes, and we continue to take this view. We recognise that fiduciary duty is an important function in pension fund investment and continue to support this obligation. Practically, we also have reservations about how this reserve power would work. For example, although BVCA evidence suggests that UK private

[5] Pensions Investment Review: Final Report - GOV.UK
[6] NEST Press release, May 2024

capital funds have a strong 'home bias' in relation to investments, almost all funds have an element of geographical diversification to minimise the risk associated with them. This would potentially make it challenging for pension fund investors to pursue 'UK' Only investments, whilst ensuring investment selections always meet fiduciary duty obligations.

We also note that not all DC schemes that would fall into the criteria set out in the Bill have signed a Mansion House commitment, and so we remain unclear as to the Government's intentions with regards to those schemes.

Smaller investment commitments

Though this is not directly addressed in the Bill, we would like to take this opportunity to comment on the importance of all pension funds having the ability to make smaller investments. This will be central to the UK's growth ambitions.

Pension funds will need to be able to make fund commitments of £10-50m if the Government wants them to invest in the smaller, often regional segments of the UK economy where local economies, growth and jobs are supported by smaller private capital funds. In general, investors will typically not invest in any private capital fund if their capital would constitute more than around 10% of the fund's total capital, alongside other investors, due to the possibility of concentration risk. The optimal size of smaller private capital funds (which is based on the size of the smaller companies they invest in) is typically around £100-500m. This means that the maximum commitment any single investor will make is typically around £10-50m (known as the fund's maximum "ticket size"). It is important that consideration is given to how a consolidated £25bn+ DC pension scheme can make individual investments of £10-50m. There is a powerful efficiency rationale, as an investor grows in size, for its minimum ticket size to increase. This is because large pools of capital need to deploy large amounts of capital, and it can seem inefficient for larger pools to make lots of smaller investments (rather than fewer, larger investments). This can lead to the investor's self-defined minimum ticket size exceeding the maximum ticket size of smaller private capital funds.

This is something we have commented on in more detail below, as we feel it is a more urgent matter for the LGPS given its very different starting point. Nevertheless, as DC starts to increase its allocations to private capital this needs to be a relevant consideration for the sector. We recognise that the Government's role in facilitating investment through institutions such as the British Business Bank – also discussed below – may provide at least part of the solution.

Value for money

The BVCA is strongly of the view that Government policy needs to ensure UK pensions investment is focused on achieving the best long-term returns for savers and move away from short-term cost considerations. As the Government recognised in its Pension Investment Review, the pensions industry has become extremely focused on short-term, low-cost, investment products, and this is to the detriment of savers. For this reason, we welcome the implementation of a Value for Money framework, as proposed in the Bill.

Because of the dual regulator approach across DC pensions, the framework would need to be implemented separately across the trust and contract-based markets by The Pensions Regulator and the FCA. The indications given by both regulators to date suggest that they will seek to implement identical rules, and we strongly support this approach. As the committee will be aware, however, the specific provisions within the Bill would apply only to those schemes regulated by TPR.

The last consultation on the framework was undertaken by the FCA in 2024, and provided a lot of detail on how the framework would work in practice. The BVCA responded to this, setting out a number of concerns which we strongly feel need to be addressed in order to avoid further short term investment considerations , here. There has been no further update on that from the FCA, though it is our understanding that a further joint consultation is planned, and that some of the proposals would be reconsidered in response to the feedback received from industry.

The draft Bill does not offer as much detail as the earlier consultation, which is clearly appropriate for primary legislation. However, we do note that the drafting appears to suggest that the framework will be identical to that consulted on by the FCA, and we remain concerned that this could hinder, rather than encourage, long term investment.

In particular, we flagged the following concerns in our response to the FCA consultation in 2024:

- We think it is important that the FCA considers further how forward-looking metrics might be incorporated into the framework. There remains a risk that, without some consideration of forward modelling, the framework will not be effective as regards long-term private capital investments for some years. This will be a drag on the Government's ambitions to boost pensions investment in private capital funds.
- We have some more significant concerns about the assessment approach which we urge the FCA to address. We think the current proposal for the assessment process may even result in penalising schemes that are investing over the long-term in alternative asset classes. It is important that the framework allows IGCs/trustee boards sufficient flexibility to take a more holistic and forward-looking assessment of investments. At the moment the proposed assessment process does not appear to allow for this. In our view, this not only risks failing to change the approach to long-term value, but may actually further discourage DC investment into long-term investments such as private capital. We do not want to see this happen.
- As regards the proposed Amber and Red ratings, we recommend that such a system is used in a way that encourages and allows improvements to be made by schemes. We support the proposal that schemes set out clear plans for improvement and make some suggestions for further refining this system. We look forward to seeing these refined and are happy to input to that process.

It is important that legislation and regulation continue to be shift to enable – and where possible foster - more diverse and sophisticated investment activity. It is our strong view that well-intentioned regulatory and policy changes should not inadvertently encourage pension schemes away from private capital investments through lack of clarity or over-emphasis on short-term performance and risk.

Local government pension scheme

The BVCA welcomes the Government's direction of travel on the LGPS, given the relationship between scale, as set out above, and the ability to invest in private markets, and the clear ambition for the role of the LGPS in generating regional and UK growth. The LGPS is currently underinvested in private markets compared to other funds of their size. Pooling has had some success in promoting LGPS investment in UK productive assets. The LGPS has around 15% allocation to private markets and 6% in 'private equity'[7]. However, the UK scheme as a whole has a combined value of over £400bn, putting it amongst the largest pools of capital in the world. Asset owners of that size often have around 20-30% invested in private markets.

The steps being taken by the Government to remove the fragmentation of funds across the scheme are therefore positive.

However, consideration needs to be given to the impact of fewer, larger pools of capital on the scheme's ability to continue to support local and regional growth opportunities. Given the need for UK-wide economic growth and the LGPS' strong regional ethos historically, it is essential that the right measures are in place to ensure that pooling supports and improves the scheme's ability to invest in the UK economy.

Investors in private capital funds often do not want their capital to form more than around 10% of a fund's total capital for risk pooling and diversification reasons. As investors grow in size, there is pressure for the minimum amount they invest in any one fund (the "ticket size") to grow as well, as it can seem more economical to make a smaller number of large investments than it is to make a larger number of small investments. The combination of the 10% concentration limit and the pressure towards larger minimum ticket sizes means it can become more challenging for larger investors to invest in smaller private capital funds (typically £100-500mn) unless those investors consciously structure themselves in a way that enables them to continue making smaller investments. Examples of this may be dedicated teams managing smaller more focused investments.

As set out above, though this is a consideration across all pension funds, there is significant concern amongst some of the BVCA's venture capital and growth equity fund members about how this could play out in the LGPS, given the scheme's historical focus on regional investment.

Smaller UK private capital funds (venture capital and growth equity funds under £500m, including regionally focused private equity funds in the UK's lower mid-market) are a critical motor of the UK economy and drive strong returns for investors. LGPS pooling (and UK pensions consolidation more broadly) will only meet the Government's ambitions to boost UK economic growth if policy development focuses intently on ensuring that UK pension capital can be invested in these smaller funds, even as pools of pension capital grow larger.

We therefore take the view that the focus should not just be on more pooling, but also better pooling.

[7] LGPS Scheme Advisory Board - Asset Allocation

For example, and as set out in the BVCA's response to the Pensions Investment Review, the proposed new requirement that pools would be required to be FCA-authorised investment management companies should help in ensuring that they have the right expertise and sufficient capacity to construct sophisticated and diversified investment portfolios including private capital fund investments. We welcome the inclusion of this within the Bill. The pools themselves also should consider how they can be set up to maximise not just returns, but impact and regional focus. This has been recognised as a positive feature of the LGPS by organisations such as the Impact Investing Institute[i] (albeit one that has not necessarily been maximised). The pooling that has occurred to date has seen a number of different types of pools emerge. Moving forward, with fewer, larger pools becoming established, we hope that consideration can be given to how they can use their additional resource and scale to positively impact regional investment, including working with a wide range of managers. We note that Border to Coast, which is set up to operate more like a commercial asset manager, frequently is flagged to us by members as an example of a well-functioning pool. For example, from an (existing) pool of £45bn, it has around £10bn invested in the UK and partner fund commitments of £16bn to its private markets programme.

With regards to the subject of the Government either mandating or targeting specific allocations, the BVCA takes the same view as we do in relation to DC schemes, in that we believe fiduciary duty should take precedent. We recognise there is some precedent for 'soft' target setting in the LGPS, and strongly take the view that Administering Authorities and pools need to work closely to ensure the needs of the former and fully considered and accommodated by pools (including regional investment). We agree that the detail of this should not necessarily be set out in the Bill. However, we strongly support measures that enable AAs to set out investment objectives, and to enable them to monitor and scrutinise whether these objectives are being met.

The BVCA also takes the view that pools should be required to report against their UK-wide investment allocations, rather than granular local investment targets. This would support UK economic growth whilst embedding sufficient flexibility to reflect the range of circumstances and objectives of different local authorities, without precluding partner funds from requesting their pool aim to deliver more immediately local investments.

Other considerations

Below we have set out some other areas of focus that are important in terms of the Government achieving the aims of the Pension Schemes Bill.

Application of the DC charge cap to FCA-regulated schemes

The BVCA welcomed DWP's changes to the Occupational Pension Schemes (Charges and Governance) Regulations 2015, which enable some performance-based fees to be excluded from the definition of 'charges' in default arrangement charge cap calculations in the trust-based environment.

However, this change applies only to the trust-based market, and the equivalent change has not been made to FCA rules, to enable contract-based DC schemes to exclude performance-related fees. At the moment COBS 19.6.6R limits all administration charges to 0.75%. This causes additional complexities for providers with a default investment strategy that is used by both master trusts and contract-based DC clients. It also restricts access to a more diverse investment strategy according to the legal structure of the scheme.

We understand that this impacts a number of providers, and is proving to be another barrier to implementing private market investment for those providers. Given the equivalent change has already taken effect in the trust-based market, and in light of the FCA's wider work around Value for Money in contract-based DC pensions, the BVCA strongly advocates for the same change to be made to the FCA framework. This would be a sensible regulatory change in support of growth and investment.

Further changes to the 'permitted links' rules

The Pensions and Private Capital Expert Panel, convened by the BVCA in partnership with the ABI and the PLSA, has published an interim report identifying further such changes that the FCA could make to the permitted links rules in order to facilitate access to private capital funds for DC schemes that invest through insurance platforms. The Expert Panel is comprised of senior leaders from both the pensions and private capital industries with a remit to explore how UK DC pension investment into UK private capital funds can be facilitated, in line with the Mansion House Compact.

The LTAF framework has offered a route for DC schemes using life insurance platforms to invest more easily in illiquid assets. However, this route complicates the market infrastructure for DC investment in private capital by inserting an intermediate vehicle between DC schemes and underlying private capital funds, which brings additional administration costs and liquidity requirements that cause a 'drag' on DC investors' returns, relative to investing in private capital funds directly.

These additional costs are not experienced by DC schemes that do not invest through life platforms, despite both types of scheme being professionally managed and having underlying beneficiaries with the same profile. This is because non-life schemes are not subject to the permitted links rules and so do not have to establish LTAFs to access illiquid assets. This is why the LTAFs that have been established so far are overwhelmingly targeted at DC schemes investing via life platforms, whilst non-life platform schemes have not typically invested through LTAFs. This means there is not a level playing field between different types of DC schemes, which the BVCA, building on the conclusions of the Expert Panel, believes should be rectified by amending the permitted links rules.

Cost disclosure

Though there have been significant changes to the DC charge cap in recent years to better enable DC schemes to invest in private capital, we would also flag the findings of the Pensions & Private Capital Expert Panel, which noted that cost disclosure continued to be an area of uncertainty that is impacting DC schemes' confidence in private capital investing. The Panel noted, for example, that there continues to be uncertainty over how the charge cap should be applied, and how to apply 'look through' in more complex fund-of-fund structures. This results in DC trustees needing to make a judgement on how to consider costs and charges and results in them erring on the side of caution and restricting which investments can be included in default arrangements. This will not be solved only as a result of pension schemes increasing in scale and so we would welcome further consideration of whether the cost disclosure requirements are clear and proportionate in DC.

British Business Bank

We welcome and positively support the important role played by the recently expanded British Business Bank in facilitating UK pension fund investment in a way that will address the scale up gap. While the recent Spending Review announcements suggest that the Bank has flexibility to invest at a later stage, we feel that, given the nature of the scale up gap, there is a strong case for the Bank's remit to be formally extended to cover small UK-focused private equity growth strategies (accompanied by an increase in investment capital to allocate to this part of the market).

There is a degree of consensus that the BBB should be able to invest in small growth equity funds, as well as venture, like the EIF used to in the UK and still does in the EU. This expanded role will ensure UK pension funds are better able to support the growth of successful UK businesses.

Government vehicles and facilitation

More broadly, the Government also has a role in supporting market participants to convene, share best practice and develop tools to help schemes meet those expectations. The BVCA has been working with stakeholders over the past few months on the development of the NOVA - a proposal for a new marketplace way to facilitate pensions investment into private capital. NOVA would address the challenges of scale and pace head on by creating a delivery mechanism for the commitments made by pension schemes in the Mansion House Compact/Accord to deliver progress.

NOVA draws from France's successful 'Tibi' Scheme and would see the establishment of a marketplace of accredited private capital funds overseen by a partnership between the Government, the British Business Bank (BBB) and industry experts. We would be happy to provide more details to the committee if required.

ERI/ERL restrictions

We note that some Master Trusts are seeking an exemption from the existing Employer Related Investment (ERI) and Employer Related Lending (ERL) rules. We note the argument that the rules create a significant monitoring burden for Master Trusts serving hundreds of employers, with limited potential for concentration risk.

The BVCA is not best placed to comment on the practicalities of applying the rules within a Master Trust. However, we are minded to agree that the ERL rules, in particular, could potentially prove to be an additional barrier for pension schemes looking to support SMEs through private credit opportunities. We note that the restrictions on ERL are also not subject to a threshold in the way that ERI rules are. Given the criminal implications of a breach, we are minded to agree that there is a case for them to be reviewed in light of increasing private capital investments by pension funds.

Please do not hesitate to get in touch if you have any questions on any of the areas covered above, or if you would like to discuss it in more detail (please contact Tom Taylor ttaylor@bvca.co.uk / Karen Hurst khurst@bvca.co.uk).

Yours sincerely

Sarah Adams and Isobel Clarke, Directors of Policy, BVCA

[i] Delivering Government missions using impact-led venture capital and private equity