**BVCA's written submission to the Work and Pensions Committee on Progress with automatic enrolment and pension reforms (October 2014)**

The British Private Equity and Venture Capital Association (BVCA) is the industry body and public policy advocate for the private equity and venture capital industry in the UK. With a membership of over 500 firms, the BVCA represents the vast majority of UK based private equity and venture capital firms, as well as their professional advisers. The percentage of total private equity funds raised that came from pension funds in the UK more than doubled for the period 2005-2012, growing from 5% to 11%. In 2011-2012, the proportion of funds from pension funds grew at its fastest rate since 1997, therefore demonstrating the increasing demand for private equity from pension funds.

The BVCA welcomes the announcement in Budget 2014 over automatic enrolment and the changes allowing people greater freedom and choice over how to access their defined contribution pension. We also acknowledge the need to ensure transparency over transaction costs but argue that charges must be considered in the wider context of improving outcomes for defined contributions pension savers. We are therefore pleased to submit evidence in relation to point 4) of the inquiry – i.e. progress with improving workplace pension governance and administration, including charge levels.

The introduction of a 0.75% charge cap on default funds of defined contribution qualifying schemes is of particular concern to BVCA member firms as it would make it overly difficult for scheme managers of those funds to allocate capital to more resource-intensive asset classes, such as private equity. It is our opinion that the proposed measure in relation to charging would prevent savers in such default funds from benefiting from a highly profitable investment strategy, including an appropriate allocation into alternatives like private equity, real estate or infrastructure. A professional and skilled fund management team is crucial to make the key decisions that minimise the risks of investing whilst achieving greater returns than competing managers.

Instead we suggest that the emphasis in the charge cap debate should be shifted from upfront costs and on to returns, as increasing retirement income for scheme members is better achieved by catalysing access to alternative growth strategies. Private equity is a high performing and long-term asset class, which not only delivers returns for our investors, but also has demonstrable economic benefits in the UK and across Europe. In our latest BVCA performance measurement survey[1], the annual internal rate of return (IRR) in 2013 for all funds was 19.2%. This compares to the Total UK Pension Fund Assets of 11%. Private equity is also a long term asset class. If we take total returns for the last ten years, we see returns of 15.7%. Again, this level of return has shown itself to be highly competitive and superior to other asset classes, far exceeding pension fund assets which have returned 7.8% over the same period net-of-fees. We strongly believe that ultimately, maximizing net-

[1] BVCA Performance Measurement Survey, 2013
http://www.bvca.co.uk/Portals/0/library/documents/Performance%20Measurement%20Survey/PMS%20Summary%204pp%20Jun14-web.pdf

of-fees returns must be the policy objective since it is this metric which will drive ultimate retirement income, decrease reliance on the state and end pensioner poverty.

Owing to its long-term, sustainable, high returns and relative outperformance compared with public markets, pension fund managers are increasingly viewing private equity as a profitable investment vehicle in which to allocate capital and diversify their portfolio[2]. By investing in a diversified portfolio, pension fund managers can reduce their risk whilst still outperforming the market. Our concern with a low charge cap is that it would undermine the diversification of risk by making more expensive, access to alternative growth strategies like private equity.

The link between scheme charges and investment returns also affects the debate around scheme quality. As the then Office of Fair Trading has warned against in September 2013[3], a charge cap set too low can create incentives for providers to lower quality (by delivering poorer quality of services, less choice and loss of investment in innovation and development) and/or impose less visible charges elsewhere. It should also be recalled that a previous calculation by the Department of Work and Pensions showed the potential effect of a 1 per cent charge cap on an individual's pension fund.

We would welcome the opportunity to discuss this issue further to demonstrate how a low charge cap of 0.75% could ultimately prove counterproductive.

[2] NAPF, Private equity made simple, October 2014, http://www.napf.co.uk/PolicyandResearch/DocumentLibrary/~/media/Policy/Documents/0403-Private-Equity-made-simple.pdf

[3] OFT, Defined contribution workplace pension market study, September 2013