Department for Work and Pensions
Caxton House
Tothill Street
London SW1H 9DA

By email: caxtonhouse.vfmconsultation2026@dwp.gov.uk

18 September 2026

Dear Sir/Madam

Re: The Value for Money Framework: Consultation

UK Private Capital is the association of the UK private capital industry. We represent 600 firms including the wider ecosystem of professional advisers and investors. Private capital consists of private equity, venture capital and private credit, which make long-term investments to grow British businesses and build a better economy. UK Private Capital has been working alongside the ABI, Pensions UK and the wider UK pensions industry for over three years, through the Pensions & Private Capital Expert Panel. This initiative has brought together senior pensions and private capital leaders, alongside key policymakers and regulators including HM Treasury, DWP, the FCA and TPR, to find solutions to the commercial, regulatory and operational challenges for UK DC schemes seeking to invest in private capital funds. Our response to this consultation is informed by insights from this and other engagement between private capital firms and the pensions industry, and we are grateful for the opportunity to contribute.

UK Private Capital welcomes this further consultation on the Value for Money Framework and the progress made since our previous response. We continue strongly to support the framework's focus on long-term value for DC pension schemes and its objective of facilitating access to a wider range of investment opportunities, particularly private capital investments. On average, UK-led private capital funds receive sixteen times more capital invested from overseas pension funds than they receive from UK pensions. Unless more domestic capital is mobilised, the UK will continue to rely on overseas investors to finance its most ambitious businesses, while UK pension savers miss opportunities to share in the value those companies create.

We are pleased to see some of our feedback to CP26/1 reflected in the proposals, in particular the decision to move forward with option 1 for considering FLMs, the removal of the third-party advice requirement for FLM assumptions, and objective of clearer sub-categories for private equity investments. We also welcome the continued recognition of herding risk, alongside the further consideration of how BLM/FLM weighting should account for investments affected by J-curve return patterns, an issue we raised in our previous response.

We have responded to selected consultation questions below, where we consider there may be private capital-specific angles to consider. We would also like to highlight the following key issues that need particular attention in order to ensure that the VFM framework helps increase DC pension capital allocation to private capital funds:

- **Maintain momentum**: While we recognise the need for a phased implementation, we think the timetable should not be extended any further, in order to maintain momentum on pensions investment policy, and to support the urgent shift needed in the DC market's focus from cost to long-term value.
- **Clearer private capital definitions**: The investment category definitions **must** be refined to reflect the characteristics of private capital investments more accurately, and the definition of UK private capital assets must be flexible enough to accommodate non-UK holding structures.
- **Charge cap consistency:** Consistency is required in the treatment of charges, including carried interest and performance-based fees, across the VFM Framework, FCA rules, and TPR/DWP's charge cap regime, to avoid creating unintended barriers to private capital investment.

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- **Hybrid schemes**: The framework should take a distinct approach to hybrid DB/DC schemes where standard operational metrics may fail to reflect the value these arrangements deliver.
- **Committed capital:** Guidance should make clear that capital allocated to a private capital fund but not yet deployed (pending drawdown) is a normal and expected element of private capital fund investment.
- **Annualised Standard Deviation (ASD) in private capital**: ASD risk metrics should account for the fact that private capital-backed companies are valued less frequently than listed assets.

We also recognise concerns around herding, including the risk that providers may seek to avoid having lower investment returns than their competitors. However, even if some herding were to occur, we consider that an overall increase in DC scheme investment and value would still be preferable to the current situation, where there is effectively herding around low-cost options.

We would be very happy to discuss our response with officials in more detail. Please contact Tom Taylor (ttaylor@ukprivatecapital.co.uk) and Karen Hurst (khurst@ukprivatecapital.co.uk).

Yours sincerely,

Tom Taylor
Head of Policy, Legal and Regulatory, UK Private Capital

UK PRIVATE CAPITAL RESPONSES TO CONSULTATION QUESTIONS:

Chapter 2: Scope and Thresholds

Question 1: Do you have any comments on our proposals for phasing?

We recognise the need for a phased approach. However, we stress the urgency of addressing the current unhelpful focus on low cost and ensuring that it does not continue to dominate the UK DC pensions landscape. This is particularly pressing given the Mansion House Compact and Accord target dates of 2030 and the UK's urgent need to generate growth and address the scale up gap, in the context of a rapidly developing technology market, especially as regards AI. We therefore recommend the timeframes should not be extended further.

Question 3: Do you have any concerns about our proposed exemptions and inclusions?

As we noted in response to CP24/16, we would like further consideration to be given to the position of hybrid schemes (those with connected DB and DC offerings). There are concerns regarding the treatment of these arrangements, where DC members also hold DB benefits, as disentangling operational activity between the two for the purposes of VFM operational metrics can be very difficult and may generate misleading outcomes. We recognise that there are examples of those arrangements already offering diversified investment strategies and strong returns, and we would urge the FCA, TPR and DWP to ensure the final framework does not inadvertently penalise these schemes, including by considering how the operational metrics and their assessment could be adapted to better accommodate hybrid arrangements.

Chapter 3: Investment performance – Backward-looking metrics (BLMs)

Question 6: Do you agree with the proposed updated methodology? Do you envisage any issues with calculating investment performance metrics on a basis that tracks members experience over time, while excluding contributions? Please specify where problems might arise, if any.

We support the proposed updated methodology. The move away from arithmetic averaging towards an annualised return tracking a hypothetical non-contributing member appears a sensible refinement responding to previous consultation feedback.

We do not have a particular view on the calculation mechanics, which are better addressed by the wider pensions industry. We also consider the exclusion of contributions to be sensible, as contributions would otherwise inflate apparent investment performance rather than reflect investment return. We do not envisage issues specific to private capital arising on this basis.

Question 8: Are you comfortable with ASD as a risk metric for all arrangements, or should some arrangements calculate their volatility metrics differently. Please specify under what circumstances and what modified calculations you would recommend.

We are comfortable with the use of ASD as a risk metric for some arrangements. However, it is worth noting that private capital is typically valued quarterly (and sometimes less frequently), unlike listed markets where volatility can be observed directly from continuous daily pricing. As a result, ASD calculated for private capital will tend to appear lower than for listed assets. We recommend the framework makes it clear to decision-makers that this is important context for the interpretation of ASD figures, and allow flexibility in any instances where ASD produces misleading results for private capital.

Chapter 4: Investment performance – Forward-looking metrics (FLMs)

Question 12: Do you agree with the proposed requirements for FLM disclosures and safeguards? Why or why not?

We agree with the proposed requirements for FLM disclosures and safeguards, which we consider a considerable improvement on earlier, more prescriptive iterations of the proposal.

We welcome the approach of allowing providers to make their own assumptions, rather than applying a blanket set of industry-wide assumptions. Forward-looking metrics can be challenging in a private capital context, as is the case in public markets, it cannot be assumed that past performance predicts future performance. A blanket set of industry-wide assumptions would also not suit the differing characteristics of private capital assets: venture capital, private equity and private credit have different risk and return profiles and sector focuses and therefore require different assumptions. Enabling providers to set their own assumptions will also be helpful in mitigating concerns that a blanket approach could encourage herding of investment strategies.

We would also note that projected risk assumptions for private capital carry greater inherent uncertainty than those for listed assets, given the more limited observable history available against which to calibrate them. Where a projected risk figure is disclosed for private capital, we would recommend this is to be accompanied by an explanation of the basis for the assumption, so that it is not interpreted as carrying the same level of confidence as a projection for listed assets, that benefit from extensive historical performance data.

We would also encourage further consideration of whether a ten-year projection period will allow appropriate projections for all types private capital fund. Most private capital funds are closed-ended and typically follow a J curve pattern of net returns with positive returns being demonstrated later in a fund's life, following an initial period of potentially several years where investment and execution costs may not reflect expected overall returns. Different funds have different durations, private credit funds often have shorter lives (often seven years), whilst private equity and especially venture capital funds typically have ten-year initial period with extension options of two or more years and so will often extend to or beyond twelve years before their full, overall performance can be determined. The previous consultation's suggestion of a 15-year period might ensure a wider range of fund types can be assessed effectively.

We recognise the concerns around 'gaming' of the system and believe it will be important to monitor how the framework operates in practice, including how providers respond to the requirements and whether further direction may be needed in future to ensure that FLMs are being appropriately applied.

As noted in our response to CP24/1, we recommend providing guidance on how FLMs might be assessed internally, for example through review by a team or committee independent of the investment team, as it is essential that the assumptions being used are reasonable.

Chapter 5: Asset Allocation Disclosure

Question 13: Do you agree with our revised proposals in relation to Asset Allocation? Please provide details of any concerns you have relating to our proposals.

We support the principle of standardised asset allocation disclosure. We would note that it is important for there to be sufficient clarity regarding the timing of when a scheme should record an investment in a private capital fund as an allocation. This proposal specifies that deployed, rather than committed, capital should be used. We recommend the guidance makes clear that capital allocated to a private capital fund (i.e. contractually committed) but not yet deployed (pending drawdown) is a normal and expected part of the investment strategy, so this is not misread as under-allocation during the ramp-up period.

Question 14: Do you have any comments on the definitions used above? In particular, do you have any comments on the definition of 'UK-based entity'? Is there an alternative definition you would suggest?

We strongly recommend that the FCA review the proposed definitions alongside those used in other contexts and policy initiatives, such as the Mansion House Compact/Accord and Chair's statements, to ensure consistency in how investments are classified across different policy frameworks.

Question 15: Do you agree with our proposed definitions? In particular, do you agree with our definitions of UK assets? Are there any areas where definitions need to be tightened to ensure consistency of measurement?

It is very important that several of the key investment category definitions are amended to reflect the core characteristics of private capital investments more accurately and ensure greater objectivity. This will facilitate consistent and straightforward categorisation, which needs to underpin the framework. We recommend some alternative definitions below, and set out our views on the proposed UK asset definition, and request further discussion with policymakers on these definitions ahead of finalising the approach. We are keen to assist with this in order to make the definitions as accurate and useful as possible.

<u>Private equity</u>: *"Equity, or equity-like investment in companies that are not publicly traded on a stock exchange."*

We recommend adding "equity, or equity-like" so that the definition does not capture debt or credit instruments in private companies, which would otherwise fall within the current wording. "Equity-like" is intended to capture instruments such as shareholder loans.

<u>Venture capital</u>: We recommend defining venture capital by reference to the size of the investor's shareholding (minority) in an investee company and the purpose of the investment (financing business development, commercialisation or expansion), and distinguishing it from growth equity primarily by risk/return profile, rather than by business size or stage alone.

Recommended wording: *"A form of minority private equity or equity-like investment into innovative early stage businesses with the aim to finance business development, commercialisation or expansion. This type of investment is typically characterised by a higher risk/return profile compared to growth financing."*

<u>Growth equity</u>: We recommend clarifying that growth equity relates to investment in mature businesses seeking primary capital to accelerate growth, rather than describing them simply as businesses that are growing. We also recommend specifying that growth equity is typically a minority investment, and noting its risk/return profile relative to venture financing.

Recommended wording: *"A form of minority private equity or equity-like investment into relatively mature businesses that are looking for primary capital to expand production, improve operations or enter new markets* *to accelerate the growth of the business. This type of investment is typically characterised by a lower risk/return profile compared to venture financing."*

Buyout/Leveraged: We recommend removing the reference to whether the investment is made "with own funds or using debt (borrowed money)." We do not think this distinction is necessary to establish whether an investment constitutes a buyout, and note that "own funds" is itself ambiguous, since it is unclear whether this refers to investor capital, the vehicle's own capital, or debt raised by the vehicle. The reference to "leveraged" should also be removed as this is not a condition for an investment to be described as a buyout.

Suggested wording: *"A form of private equity or equity-like investment where the purchaser acquires a controlling stake in the private company."*

Private credit: We recommend that "private debt/credit" be referred to simply as "private credit", consistent with industry usage. We also recommend clarifying the general definition to specify that private credit is non-bank lending and that it creates an obligation to repay within a specified time period, to distinguish it more clearly from equity or equity-like investment. We would ask policymakers to clarify whether private credit is intended to be limited to lending to private companies, since some private credit arrangements are also made to companies that are otherwise publicly quoted.

Recommended wording: *"Non-bank lending to private companies, creating an obligation to repay within a specified time period."*

For further insight, the descriptions of venture, growth equity and buyout strategies that are set out in the Pensions and Private Capital Expert Panel Interim Report (pp. 91–92) may also be helpful.

UK classification of private capital-backed companies:

We are broadly comfortable with the proposed approach to classifying private capital investments as UK assets for the purposes of the VFM framework, including private equity, venture capital, growth equity, buyout and private credit, though we recommend the definitions make clear that overseas holding structures do not affect a company's UK status.

In our response to CP24/16, we recommended further guidance on determining whether a portfolio business of a private capital fund is a UK company or partnership, noting that it is common for a UK-headquartered company to be held through shares in a non-UK parent company (registered in the EU, US or other jurisdiction). We recommended that this determination should focus on the location of a company's head office rather than the domicile of the company whose shares the fund owns. We use a similar method in UK Private Capital industry-wide reporting, for the purposes of our annual Report on Investment Activity.

We consider this consultation's alternative approach of using "UK-registered company or partnership" to be workable but strongly recommend that the rules make it clear an investment made in a UK company through a non-UK holding structure, where the underlying operating company is UK-registered, still qualifies as a UK company for the purposes of the framework. This would ensure clarity that the use of overseas holding structures does not exclude companies that are UK companies in substance.

A further alternative approach could be to classify assets by reference to the location of the fund manager, rather than the underlying company. This would provide a more straightforward administrative approach, as schemes would only need to identify where a fund is managed, rather than look through to individual portfolio companies. It would also facilitate attributing specific allocations to specific returns (disaggregating fund returns into individual portfolio company returns being much more challenging). However, this approach comes with the challenge that the fund manager's location does not necessarily reflect the geographic allocation of the underlying investments. A significant proportion of a private capital fund's assets may be invested outside the UK, meaning that a fund managed from the UK is not necessarily a UK investment in its entirety (the proportion of fund capital invested in UK companies will vary).

Chapter 6: Costs and Charges

Combined answer to Chapter 6:

We are concerned that the VFM Framework's definition of "investment charges" in regulation 2(1), which includes "any performance-based fees," is inconsistent with the current treatment of performance fees under the DWP's DC charge cap rules and undermines a policy change that was intended to facilitate DC investment in private capital funds.

The charge cap exemption applies to "specified performance-based fees," a defined category subject to structural conditions set out in the 2023 Regulations. By contrast, the VFM Framework's definition of "investment charges" captures "any performance-based fees". This means the VFM Framework would count in full the carried interest and other performance-based fee structures deliberately carved out of the charge cap.

It is particularly important that this issue is resolved with respect to investments in private capital funds, where carried interest arrangements are ubiquitous. If the DWP regulations and VFM definitions are not aligned, these arrangements could report higher investment charges and total costs and charges in periods when carried interest or a performance fee is paid. This could reduce their VFM rating even where the higher costs reflect higher net value delivered to members, potentially reproducing the same disincentive to invest in private capital funds that DWP's 2023 charge cap reform was intended to remove. This outcome would fundamentally undermine and count against the Government's wider objective of increasing DC investment in private capital.

We are aware that DWP and the FCA is already cognisant of the current lack of consistency between the treatment of carried interest and performance-based fees in the DWP rules for trust-based schemes and the FCA's rules for contract-based schemes. Creating consistency between these two existing frameworks was a recommendation of the DC Pensions and Private Capital Expert Panel report published in September 2026. We therefore strongly recommend that the VFM framework reflect the existing approach to private capital funds' treatment under the DWP charge cap rules (subject to any further FCA review of the contract-based rules) and would welcome confirmation of this as soon as possible.

On the wider issue of cost disclosure for DC investment in private capital, our September 2026 report on DC Pensions & Private Capital found that the current disclosure framework, built for listed, liquid markets, hinders comparability, creates potential disincentives to invest in private capital funds, and can make such investments appear structurally more expensive than is warranted by their underlying costs and value. That report recommended that the FCA and DWP establish an industry working group to develop a consistent private capital cost disclosure standard. We would welcome the Value for Money framework's treatment of costs being developed consistently with, and feeding into, this wider work. See DC Pensions & Private Capital: The State of the Market, September 2026, pp.17–19.

Chapter 8: Assessment Process

Question 28: Does the second factor for consideration proposed for weighting BLMs and FLMs risk excessive use of FLMs? If so, should we restrict this factor more explicitly? For example, to significant investments in assets affected by 'J-curves'?

We do not think the second factor risks excessive use of FLMs, and we would not support restricting it more explicitly, including to J-curve-affected assets specifically. We strongly support the current approach of enabling trustee/IGC judgement depending on the factors in the table, rather than narrowing the factor to a prescriptive category. This represents a considerable improvement on earlier, more prescriptive iterations of this proposal, and we would encourage this approach to be retained.

As FLMs can never be weighted more than BLMs, the minimum weighting BLMs can receive under the "near equal" band is 50%. For investments in the early part of the J-curve, where subdued or negative actual returns are an expected and normal feature of the investment structure rather than an indicator of poor future value, a 50% floor on BLM weighting may still place more weight on backward-looking data than is informative for these assets.

We do not think it would be proportionate to request further carve-outs or adjustments to the table at this stage, particularly given that most DC schemes access private capital through fund-of-funds structures, which, by pooling multiple vintages, naturally smooth J-curve effects at the point of member exposure and reduces the practical significance of this issue in most cases.

Chapter 9: Actions for arrangements offering poor value

Question 33: Do you agree with the proposed actions for not value arrangements? Why or why not?

In general, we agree with the proposed actions. Requiring red-rated arrangements to close to new business, submit action plans, and transfer members where this is in their best interests is necessary and proportionate where there is genuinely poor member value.

We would ask the FCA, DWP and TPR to ensure the mechanics of transfer accommodate private capital fund investments appropriately, in particular in relation to disposal and timing risk. Transfer plans for arrangements holding closed-ended funds, LTAFs or direct co-investments should allow for in-specie transfer or for assets to be sold off gradually over time. Without this flexibility, transfers could otherwise force disposal within a short window, risking sales at a discount to the detriment of members. .