UK PRIVATE CAPITAL
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Understanding UK DC Pension Schemes

A Practical Guide for Private Capital Firms

September 2026

Introductory remarks

Since UK Private Capital established the first DC Pensions & Private Capital Expert Panel with the ABI and Pensions UK in 2024, our focus has been on identifying ways of enabling UK pension schemes to invest more into private capital funds, to improve returns for pension savers and to harness opportunities for successful UK businesses to grow. We have been determined to build a shared understanding of the landscape, to identify the barriers preventing UK pension schemes investing in UK private capital funds, and to find ways to remove them.

Some barriers are clear. The FCA rules that continue to hinder some parts of the DC landscape from investing in funds with carried interest, for example. The Expert Panel reports have set out a number of structural and technical issues that could be addressed by regulatory or policy changes. However, there are other, less tangible barriers that relate to the level of shared understanding across the industries, whether that relates to language used, risk appetites or approach to decision-making between UK pension schemes and private capital funds.

Through our work with the Expert Panels, we have aimed to raise the profile of private capital within the pensions landscape, and educate and inform pension schemes about the private capital industry, most notably through reports and cross-industry events. The previous Expert Panel's reports include guidance on how private capital funds might be integrated within a DC default funds, information on typical fee structures, lessons from Australian pension funds, and guidance on pension schemes' RfP processes. We have also hosted a number of events for pension schemes, including a venture capital showcase event, to highlight the important work of private capital funds in generating growth.

In summer 2026, we conducted a series of discussions with leaders of the pensions industry, posing question 'What do you wish private capital funds knew about you?'. This Guide sets out key themes from those conversations; sign-posts the rules we think are the most relevant for any GPs trying to navigate conversations with DC pension schemes; and provides some useful definitions.

The Guide is aimed at private capital firms, to assist them to understand DC pension schemes better, and how they might differ from other established LPs. We acknowledge that some of the challenges listed below are not easily addressable by either pension funds or private capital funds in isolation. UK Private Capital will continue to make representations on these topics in the round. The issue of a mismatch of scale, for example, is one reason reason we have proposed a NOVA scheme, and continue to make the case for the British Business Bank to find ways to crowd in more pension scheme investment. We are also persistent in our case for regulatory changes, where the rules are clearly a barrier.

Insights from UK pension schemes

What do you wish private capital funds knew about you?

UK Private Capital spoke to a number of UK pension schemes and private capital firms that have a relationship with UK pension schemes, to understand how the relations may differ from those with other LPs. Below we highlight some of the key themes.

There is no such thing as a standard pension scheme

It was evident that, in terms of structure, decision-making, governance constraints, and even regulatory requirements, there was significant variation across all schemes, including those that might appear comparable. Some noted that investment decision-making sat within the executive team, whereas others noted a bigger role for trustee boards. Some we spoke to flagged the role of consultants, whereas others that had been doing private capital investments for some time already had large established in-house teams.

There was a clear message that private capital firms should do their research on the scheme they are engaging with, and be prepared for each scheme to have a different set of needs.

Long-term partnerships are the goal

There was a strong message delivered that long-term partnerships are more important than one-off investments. One CIO reflected that the level of governance and due diligence that their team would need to undergo in order to invest in any single fund made it difficult to justify for a one-off fund investment. The goal is therefore establishing a long-term partnership that enables regular investment opportunities by the scheme. This is because of the ongoing rapid growth of UK DC schemes, driven by the inflow of monthly contributions. NEST, for example, noted that they receive contributions of around £750 million each month, and so need to consider deployment on a scale that enables them to meet ambitious private market targets.

And so, scale and ticket size are significant considerations

This preference for long-term partnerships therefore means that scale and ticket size are considerations.

Though most of those we spoke to noted that they treated private capital funds differently in terms of size of investment, with many making exceptions to their usual minimum investment size, most noted that for further justification to make investments in funds where the scheme could only make small allocations. One large scheme, with a long track-record of private capital investment across its DB sections, noted that it has not yet invested in UK venture capital funds, purely for this reason.

Overall, this certainly suggests that scale will remain a consideration, particularly given consolidation in the market. This may indicate a larger role for vehicles such as Long Term Asset Funds, and fund of funds, than we typically see used by other private capital fund investors. This is an area that UK Private Capital continues to focus on in our policy work.

Insights from UK pension schemes

Due diligence is likely to remain high

It is clear that private capital firms that have been in discussions with UK pension schemes have experienced a particularly high level of due diligence before schemes could make an investment. This has been the case even for smaller venture funds.

Our interviews suggested that pension schemes anticipate continued high levels of due diligence. One scheme noted that, though it had a very different set of expectations than those applied to listed investments when carrying out due diligence, the scheme is seeking to ensure necessary resource and expertise is in place. Schemes understand private capital is different, but they still need to get comfortable with each new relationship. Another scheme was clearly focused on the private capital firm itself, rather than individual deals, including investment philosophy, team depth, and ESG integration. This approach has been developed with a view to the scheme forming a longer-term relationship.

Reporting, data and ESG expectations depend on maturity, asset class and mandate

Pension schemes have varied expectations when it comes to reporting, data and ESG matters. Most of those we spoke to recognised that, though their own expectations are generally more detailed than many other investors because of the regulatory expectations placed on UK DC schemes, they recognised the need for proportionality in their own requests to private capital funds (see "Reporting" below).

Venture capital faces particular challenges, but is also helpful for saver engagement

It was clear that scale poses a particular challenge for pension funds looking to invest in venture capital funds, given they are typically smaller than other types of private capital fund. A venture capital firm we spoke to, with some experience of working with pension funds, also identified the challenge pension funds had in understanding the sector and how to choose managers.

Nevertheless, it was noted that venture capital remains an area of interest to pensions. This is not just because of the wider Government growth agenda, but also because of the strong opportunities the asset class presents for pension saver engagement. This is certainly a factor for pensions schemes, given long-term challenges they have experienced in engaging their members in their pensions and saving more for their retirement. UK Private Capital will continue to focus on finding solutions to many of these issues through our policy work.

UK DC pensions: an overview

Different types of UK DC scheme

A DC scheme structured either as a **trust-based scheme**, or as **contract-based** (often known as a Group Pension Plan (GPP)).

- **Trusts** are regulated by TPR, within rules set directly by the Department for Work and Pensions (DWP). In general, this means that significant rule changes are subject to Parliamentary approval. However, both the DWP and TPR often publish non-statutory guidance that determines how these schemes operate. Trusts are governed by a board of trustees.
- Master trusts are trusts set up to serve a diverse range of employers. These are the fastest growing part of the market, with the flexibility they afford often cited as the reason for their popularity.
- The other main type of trust is a single employer trust, which tend to be smaller. In recent years there has been increased scrutiny of small trusts in terms of the value they offer to savers.
- **Contract based schemes (GPPs)** are regulated by the FCA, based on FCA regulations. This means Parliament does not need to approve rule changes, but can pass legislation that would impact them. GPPs are required to have an Independence Governance Committee in place, to scrutinise decisions and outcomes.
- The is often alignment between the two sets of rules (FCA rules for contract-based and DWP/TPR rules for trust-based schemes), and there has been growing recognition in recent years of the benefit of the two regulators working together. However, there are notable examples of this not being the case. As set out below, the charge cap rules currently differ across the two, meaning private capital is usually considered an easier investment within trusts than in GPPs.
- Often providers offer both types of scheme, and design investment strategies that are compatible with both. In effect, this means some trust-based schemes are restricted by rules that are not technically appliable to them because of the need to accommodate a parallel, contract-based scheme offered by the same provider.
- In general, there is not a significant divergence in the investment strategies of trust and contract-based schemes. It has been noted, however, that master trusts may be more likely to invest in illiquid asset classes, including private capital funds, because there are fewer regulatory restrictions in place.

UK DC pensions: an overview

Charge cap

There are two sets of rules in place for the DC landscape in relation to charges. At the time of writing they are not aligned.

- For trust-based schemes, the rules are set by the DWP, and implemented by TPR. This limits charges to 0.75%. These rules allow for the exclusion of 'well-designed performance fees'. Guidance on the operation of the cap generally can be found here, and on the treatment of performance fees and carried interest here.
- For contract-based schemes (GPPs), the rules are set by the FCA. The limit is the same, but no exclusion currently exists for performance fees and carried interest, which remain part of the cap calculations. The FCA has committed to consulting on changing this. The current rules can be found here.

In reality, many providers offer both types of schemes, and so may seek to design investment strategies to be appropriate across both. This means that the FCA rules will effectively influence a number of trusts indirectly and therefore act as a more significant barrier than is at first apparent.

It is also important for private capital firms to be aware of the Value for Money framework, which proposes new rules on cost disclosure. Most pension schemes will start reporting on the framework in 2028.

Long Term Asset Funds

Long Term Asset Funds are an FCA regulated, open-ended, evergreen structure, designed specifically to meet the needs of DC pension schemes (and retail investors) in accessing illiquid assets. Since the framework was introduced, a number of LTAFs have been launched, and the LTAF is increasingly seen as the most common vehicle for DC to access private capital. It is notable that many of the firms launching LTAFs are also the providers of master trusts and GPPs.

LTAFs offer some benefits to DC schemes because they have specific requirements around liquidity, and are compatible with the FCA's "permitted links" rules (see below). They are also sometimes considered a more attractive route than pension schemes directly investing as LPs in closed-ended private capital funds, because of their potential to scale.

For GPs, this may mean that they will more commonly encounter LTAFs backed by DC capital seeking to invest in LP-GP funds as part of their Mansion House commitments, rather than pension schemes investing directly in limited partnerships. Overall, this trend has the potential to increase deployment of DC pension scheme capital into private capital funds. However, there is also a risk that operational matters including liquidity buffers could impact the performance outcomes experienced by pension schemes investing via LTAFs, and indirectly could mean costs continue to be a key area of scrutiny.

The Productive Finance Working Group produced guidance for pension funds on the use of LTAFs.

UK DC pensions: an overview

Permitted links rules

Permitted links rules schemes that are administered by life insurance companies as unit-linked products. They therefore impact only a section of the DC market.

The rules seek to protect retail-type investors from riskier, illiquid assets. The use of an LTAF to access private capital would be considered a 'conditional permitted link' (and therefore a permitted investment for a unit-linked pension product), as the structure was designed specifically to accommodate those rules. However, these restrictions may mean that some schemes are not able to invest directly in private capital funds. UK Private Capital does not agree with this position and, given the professional governance arrangements in place at DC schemes, we are seeking changes to the rules.

Due diligence

Though there is no standard approach to this, private capital funds should expect due diligence by pension schemes to be very comprehensive. Anecdotally, we understand that templates such as the ILPA Due Diligence Questionnaire may inform the initial level of assessment.

Pension Schemes Act

In 2026 the Government passed the Pension Schemes Act. The key changes to be aware of in relation to DC investment decision-making include:

- Value for Money: The Act grants powers to TPR to introduce a Value for Money framework with trust-based schemes (this will also happen for contract-based schemes, but the FCA can introduce this without legislation). The first assessments will run in 2028. This effectively means that DC providers assessed as not providing long-term value will not be able to continue as auto-enrolment pension providers.
- Scale: By 2030, all multi-employer schemes will have to have a default fund of at least £25 billion AUM. There is also a transition pathway available for those schemes only likely to meet this requirement by 2035. In practice, this is likely to encourage consolidation in the DC pensions landscape in the coming years, and significantly larger pools of capital.
- Investment mandation: The Act gives the power to introduce regulations that would require pension schemes to make certain investments. The wording is designed to align with the Mansion House Accord. However, there are a number of conditions attached to the power, and the Government has given strong indications that it would be unlikely to use it. The existence of the power is being seen as a signal to DC schemes that they need to ensure that the commitment is met on a voluntary basis.

Further summaries are available on The Pensions Regulator website.

UK DC pensions: an overview

Fiduciary duty

Fiduciary duty is the obligation of trustees and providers to act in the interests of pension scheme members. There is no single definition, or necessarily agreement, on what it looks like in practice.

In general, there are no asset classes in which investments would automatically be considered in breach of fiduciary duty, and it should not be the case that meeting fiduciary duty obligations should result in, for example, a scheme making only liquid investments. However, there is often a debate around whether investment decisions can and should be made based on a wider range of factors than simply financial performance (for example, investments made with an impact focus, or indeed making larger allocations to growth assets). There have been legal opinions supporting the position that the consideration of a wider range of non-financial factors is compatible with fiduciary duty, including from the Financial Markets Law Committee and Eversheds Sutherland.

At the time of writing, the Government is developing new guidance clarifying fiduciary duty for pension schemes. This is expected to be consulted on in late 2026.

Reporting

Reporting to and by UK pension schemes tends to be significantly more onerous than many other LPs, mainly because of UK regulation. However, many of the requirements have been designed for a landscape that to date has almost exclusively invested in public markets. UK Private Capital therefore takes the view that this would not be proportionate to or appropriate for private capital fund investments, particularly venture capital. We therefore encourage dialogue between private capital firms and pension schemes on how reporting requirements can be applied proportionately.

ESG reporting requirements for pension schemes are regulated by either TPR or the FCA. In addition to climate reporting, pension schemes are subject to separate reporting on stewardship and engagement, including on AGM voting. In general we take the view that these requirements should only be applied fully in a listed setting.

Later this year, UK Private Capital will launch a LP-VC ESG reporting template, designed in partnership with sustainability professionals from across the landscape, to enable the proportionate flow of ESG data.

On cost reporting, the Cost Transparency Initiative includes a private markets template developed by Pensions UK, with input from UK Private Capital, to report on costs, based on a simplified version of ILPA's fee and expense reporting templates.

List of recommendations

- UK Private Capital's Pension and Private Capital Expert Panel provided two reports, Interim and Final, on DC investment, which include significant commentary on the implementation challenges for DC. This may assist in understanding the challenges schemes face, and potential solutions.
- The Pensions Regulator has published private markets guidance here.
- Pensions UK publishes Made Simple Guides, which are high level overviews of a range of topics relevant to pension trustees and IGCs.
- The House of Commons Library often publishes guides to pensions related topics, particularly if there is a topic being debated in the House of Commons.
- The Pensions Policy Institute conducts independent research on a range of issues relating to pension investment.
- The Productive Finance Working Group published two reports on the issues on DC investment – a roadmap, and guidance on integrating less liquid assets.

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