

# DC buyers' guide for private markets

## Part 1. Structure, diversity and scalability

We believe that adding private market investments to a portfolio could add long-term value to a pension fund. For many years, this advantage was primarily the preserve of Defined Benefit (DB) schemes, rather than Defined Contribution (DC) investments. The challenge was how to offer these investments to DC savers. We spent a number of years carefully evaluating the options available for DC arrangements, and in July 2024, we launched our Private Markets Access Fund (PMAF).

Prior to our fund launch, the development of the Long-Term Asset Fund (LTAF), which as a permitted link allows pension schemes to access private markets through a life insurance platform, heralded the start of a new era in DC, as private market assets became more widely available in DC world. However, while the LTAF removed some of the constraints for DC schemes to invest into this asset class, it didn't remove them all. Questions of pricing, dealing, taxation, time to market, diversification and scalability remain, unless care is taken with the way that we access this multi-faceted asset class.

These were all questions we considered when building the PMAF. Leveraging this experience, and our knowledge as a market-leading DC provider<sup>1</sup>, we have prepared a 'DC buyers' guide for private markets'.

The aim is to help schemes navigate provider selection for private markets investments.

In this first instalment, we discuss:

structure

diversity

and

scalability

1. Largest by AUM. Broadridge, UK Defined Contribution and Retirement Income report 2021. 2021 UK DC Assets: £515 billion AUM. Also 5.5 million members making us the largest by number of members L&G Annual Report March 2025

# Introduction

There are many things to consider when selecting a private markets fund for a DC scheme. In the second part of this guide we will discuss pricing, the appropriateness of a fund for DC schemes and how leverage can be used in these solutions. First though, we will examine the importance of the fund structure. Essentially, there are three key questions to ask when selecting a provider.

1. What is the structure of the private markets fund? Is it set up in a way that is beneficial for DC schemes?
2. How diversified<sup>2</sup> is the offering? One of the benefits of private markets is not just the illiquidity premium, but the fact that they can add further diversification to a portfolio. It's therefore sensible to ask whether a provider is offering access to different areas within private markets – for example private equity, real estate, private credit, infrastructure – providing a multi-asset approach that doesn't rely on one concentrated asset area.
3. How quickly is the investors' money going to get into private markets?

Below, we explain the solutions that we found to these questions and how we set up the L&G Private Markets Access Fund (PMAF) specifically to provide an option for DC schemes.

## 1. Structure

### Liquidity

Because of the specific liquidity requirements of DC schemes, the structure of the fund is crucial. DC schemes have continuous ebbs and flows of capital, so as well as the operational need for daily valuations, they require daily dealing with the efficient use of liquidity key to this.

This can sometimes be problematic in a stand-alone LTAF. To fund standard daily liquidity demands, the investment manager may have to consider disposal of assets. Or they may simply hold a large allocation of liquidity/cash within the fund, resulting in investors' money potentially not working as hard as it could.

We addressed this by offering an investment-focused solution providing total portfolio management within a unit-linked insurance fund (or life fund), which offers daily dealing. Our LTAF sits inside the life fund as do complementary public market investments. These easily-traded assets enable us to maximise the allocation to illiquids by satisfying daily dealing requirements, while not having to hold large quantities of cash or make a forced sale of private market assets.

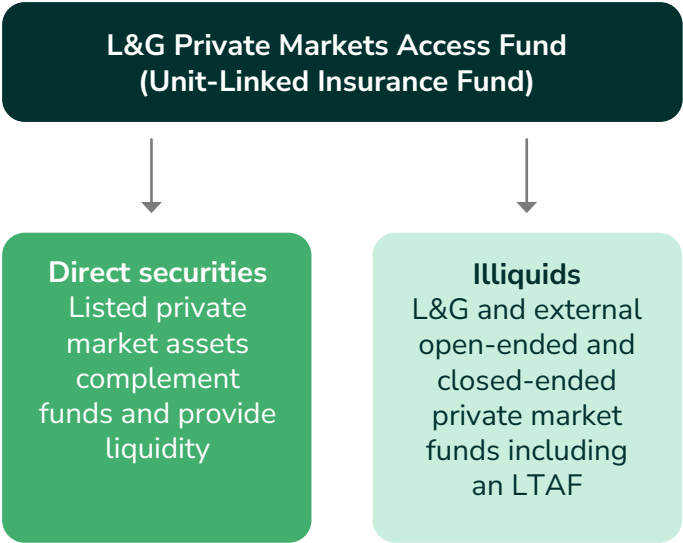
### Taxation

Having an LTAF within an insurance fund is only one part of the solution. A key decision lies in choosing between an LTAF set up as an Authorised Contractual Scheme (ACS) or an Open-Ended Investment Company (OEIC), as each has distinct tax implications. An ACS benefits from a 0% withholding tax rate for UK pension investors, compared to the typical 15% rate for UK investors under the UK-US Double Taxation Treaty, and avoids corporate tax due to its partnership structure. In contrast, an OEIC would still be subject to this 15% minimum withholding tax on US dividends.

Additionally, an OEIC incurs a 20% corporate tax rate on non-dividend income, including fixed income and property investments, which can significantly impact a multi-asset portfolio<sup>3</sup>. For DC schemes, ensuring the LTAF is structured as an ACS can enhance tax efficiency and minimise unnecessary tax drag on investments.

The PMAF LTAF is structured as an ACS, which we believe is the most tax efficient way for DC investors.

Figure 1. The structure of the unit-linked L&G Private Markets Access Fund



Source: L&G March 2025.

### Key risk

Asset allocation is provided for illustrative purposes only and may be subject to change. The above information does not constitute a recommendation to buy or sell any security.

2. It should be noted that diversification is no guarantee against a loss in a declining market.  
3. The OEIC does have certain deductions available to it and there is a carve-out for funds with >60% in fixed income instruments. We believe however, that structuring as an ACT provides a better solution overall.

## 2. Diversification

As mentioned above, we believe that diversification is one of the benefits of private market investing. The way we have set up PMAF as a fund of funds means we have given investors access to a range of assets, rather than, for example, focusing solely on private equity. Examples would include investing in build to rent developments in Cardiff, Glasgow, Leeds, Bristol and London. We also invest in university spin out projects, such as companies specialising in protection against cybersecurity threats, windfarms in Finland and France and Solar Power and storage/renewable energy projects providing clean power for Ireland and Spain.

So, by using our proprietary fund offerings, along with strategic partners' experience and reach, we are offering a multi-asset product. This ensures diversification, along with other benefits in terms of quality of investment held and scalability.

## 3. Scalability

The momentum behind DC's move into private markets has been strong, and with this being relatively new to DC world, it can be tempting for providers to dive into direct investments. While we may consider investing directly in the future, there can be challenges with doing this from a standing start. One consideration is that by the nature of the investments, there can be a long gap between cash allocation and returns. After all, if we invest in a big infrastructure project at its inception, we are going to wait a long time to start realising our returns. Added to this, investing in large, illiquid projects can take a lot of time, leading to the concern over capital not getting to work quickly enough. Finally, the assets required to invest in some large projects could use up a lot of the available capital, leaving us with fewer eggs in our basket, meaning they aren't diversified enough.

Having been private market investors for over forty years, we decided to take a pragmatic approach. Our structure has enabled us to scale the private markets exposure effectively by utilising open-ended funds. This prevents persistent cash drag as inflows are received and enable us to gain private market exposure at a quicker pace across multiple areas, giving exposure to existing as well as new assets.



## Conclusion and next installment

Our deep dive into structure, diversity, and scalability demonstrates how carefully designed private market solutions can unlock long-term value for DC schemes. By addressing liquidity demands, optimising tax treatment, and ensuring a diversified asset mix, DC providers can overcome traditional barriers and offer investors access to private market opportunities.

While developments like the LTAF have paved the way, the journey is not complete. In our next instalment, we tackle pricing—one of the most frequently asked questions—and explain why investing in quality and proven investments over cheaper alternatives is key to investor outcomes.

## Contact us:

For further information about the Asset Management business of L&G, please visit [am.landg.com](https://am.landg.com) or contact your usual L&G representative.



### Key risk

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested. Past performance is not a guide to future performance.

The fund does not apply exclusions criteria with respect to ESG characteristics. Consistency of ESG implementation is challenging in a fund-of-fund context in particular as we use funds from across various asset classes and include external funds. However, a portion of the other funds which this fund may hold units in may exclude investments in companies or issuers on our Future World Protection List, Climate Impact Pledge and/or our Policy on Coal, from time to time. The proportion of other funds that apply these exclusions will vary over time, with no guarantee that exclusions will be applied to all other funds. Therefore, the fund may have exposure to securities or issuers listed on our Future World Protection List, Climate Impact Pledge exclusions list and/or companies listed on our coal exclusions list under our policy on coal, from time to time. Changes to the proportion of other funds that apply ESG-based exclusions criteria are not anticipated to have any material impact on the risk and reward profile of the fund.

Liquidity management of the fund will be facilitated through standard weekly dealing. Sufficient complementary liquid assets are held to facilitate redemption requests. For greater structural demand for liquidity, so for example, an asset allocation switch by a scheme which requires a large redemption, the fund has clear guidelines in place with these largest requests subject to a 9-month notice period. The portfolio is structured in a way that sufficient private market funds can be liquidated in this time.

The fund is not designed to be held as a complete portfolio and should be seen as an investment opportunity to add private markets exposure to an overall asset allocation.

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