

# Broadening the perimeter of possibility for private markets

## Bringing the private markets opportunity to a default pension fund.

Jayesh Patel - Head of UK DC Distribution, L&G - discusses the evolution of private markets in DC investments and how L&G has brought this previously elusive asset class into a default fund.

While private markets is not a new asset class, it hasn't traditionally been a main character in the Defined Contributions (DC) investment story. Challenges such as charges, liquidity, operations and valuations have kept private markets backstage for many DC pension schemes.

While Long-Term Asset Funds (LTAFs) addressed some of the challenges faced by DC schemes, in our view obstacles remain to make these investments truly accessible to DC.

### A different structure for DC investment in private markets

We used our existing strategies and expertise to address these difficulties, resulting in the new L&G Private Markets Access Fund (PMAF). Launched in July 2024, the PMAF marked a significant milestone for UK pensions, providing DC retirement savers with exposure to the myriad of benefits of private market investments, while meeting the day-to-day requirements of a DC arrangement.

Liquidity is one of the key areas we considered when structuring our fund. DC schemes have continuous ebbs and flows of capital, so as well as the operational need for daily valuations, they require daily dealing.

This is problematic in a stand-alone LTAF where subscriptions and redemptions are infrequent and not in line with a DC arrangement's operational cycle. To fund standard daily liquidity demands, the scheme may have to hold a large allocation of cash within the fund – resulting in investors' money potentially not working as hard as it could – and, in the extreme, consider disposal of assets.

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We addressed this by offering an investment-focused solution providing total portfolio management within a unit-linked insurance fund that offers daily dealing. We utilise a LTAF structure within this fund to access illiquid investments and overcome permitted links rules but, to facilitate the needs of DC members, we hold complementary public market investments outside of the LTAF. This means that the liquidity is not subject to the LTAF restrictions and is efficiently used to satisfy daily dealing requirements.

The fund has also been designed to balance other important considerations like value for money, implementation, operational efficiency, risk and return management, purposeful assets and member engagement, while maximising access to private markets.

Importantly, it has appropriate risk-management safeguards around governance and costs. It incorporates a structure which offers daily pricing and dealing – a critical factor in enabling scale of access for DC savers.

One thing that sets us apart from other DC private markets solutions is that our PMAF invests in a range of different underlying assets classes. This is through an 'open architecture' approach bringing the very best of L&G and complementing it with access to high quality external managers. We call these the 'building blocks' of the fund.



There are several benefits to this. One is that it allows us to put investments to work quickly. In the seven months from launch to the end of 2024, we have raised £400 million specifically for PMAF. We invested 60 per cent of that back into private markets, using several of our underlying building blocks, something which can normally take two to three years.

Importantly, the L&G Private Markets Access Fund also forms part of our new default fund, the L&G Lifetime Advantage Funds (LAF). These funds include up to a 15 per cent allocation to PMAF. We believe this is an exciting and innovative step for a default fund.

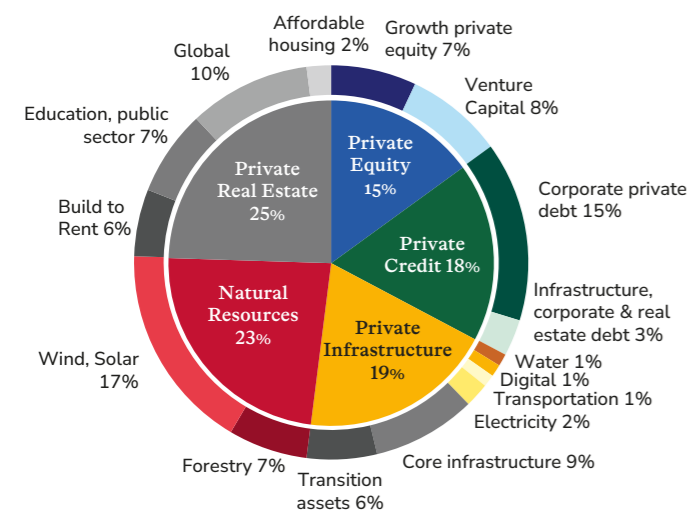
### Opening the default door

As many DC retirement savers have investment horizons that stretch out for decades, we're always seeking investment opportunities that offer diversification<sup>1</sup> and the potential for long-term returns.

The illiquidity of private markets assets means they're typically suited to investors with longer-term time horizons – such as pension schemes.

The majority of our clients' employees are in a default fund, with LAF now being the main default for our contract-based pension members and an option in our master trust.

Members in LAF have access to an unparalleled universe of opportunities as part of the private markets portion of the fund. This includes affordable housing, university spin-outs, renewable energy and infrastructure. The investment mix is illustrated below.








Source: Legal & General, as at May 2024. Asset allocation is shown for illustrative purposes and is subject to change.

1 It should be noted that diversification is no guarantee against a loss in a declining market.

2 While we integrate Environmental, Social, and Governance (ESG) considerations into our investment decision-making and stewardship practices, this does not guarantee the achievement of responsible investing goals within funds that do not include specific ESG goals within their objectives.

#### Putting this into perspective, the PMAF is:

-  helping to address the UK's shortage of high-quality affordable homes
-  supporting the scale up and commercialisation of UK science and innovation through investment in university spin-outs
-  working with partners to invest in core infrastructure assets based around renewable power generation, electrification, low carbon fuel and carbon capture
-  providing access to alternative investment opportunities globally, including supporting the energy transition in emerging economies
-  aiming to attract institutional capital into clean power assets

#### The other 85 per cent of our default strategy is invested in environmental, social and governance (ESG)<sup>2</sup> and factor-based equity strategies, including:

-  the Sustainable Focus Equity Strategy – delivering thematic exposure to a number of the UN's Sustainable Development Goals, including clean water, clean energy, and healthcare
-  the Climate Action Global Equity Fund – an actively managed, high conviction strategy that focuses on actively engaging with climate laggards to accelerate progress and unlock improvements
-  a technology sleeve – a focused 100 stock portfolio with an ESG overlay, providing access to companies that are leading the technological revolution

DC retirement savers will have exposure to 100 per cent growth assets until 15 years before retirement. LAF has been designed as a to-and-through retirement investment strategy to support the changing needs of members. As the member moves towards retirement, the funds will transition gradually into a more income-focused portfolio. We do this to protect growth and deliver the flexibility members increasingly seek in decumulation.

## A dynamic default for modern retirement

What makes these investments unique is that they are born from pension savers needs. We regularly research the behaviours, needs and understanding of over five million of our DC pension members. This analysis and research feeds directly into how our investment funds are designed and managed.

Before we developed PMAF and LAF, we spent time ensuring we were providing something that members would understand and want. We surveyed over 2,000 current DC savers about their knowledge of, and appetite for private market investing<sup>3</sup>. This provided additional intelligence to interview research we conducted earlier with over 3,600 respondents<sup>4</sup>.

From this, we knew that members wanted private markets investments within their pension investments. The research showed that 70 per cent of respondents would feel more positive about their pension if its funds were being used to help support areas like affordable housing schemes.

It's exciting to offer this modern-day default as a new and exciting solution for millions of savers across our contract-based and master trust arrangements. In our view, the funds offer members access to an innovative, growth-oriented portfolio of investments.



3. Research carried out in April 2024 by Ignition House on behalf of Legal & General's asset management division. The research sampled 2,024 people in the UK who were currently contributing to a workplace pension.

4. Survey in June 2023 of the views of 3,634 defined contribution workplace pension members on environment, social and governance investing. Respondents were split across generations and genders and across the UK.

## 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.



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### 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.

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