

DC buyers' guide for private markets

Part 2. The value of quality

Introduction

In part 1 of our DC buyers' guide, we discussed the need to consider structure, scale and diversification when selecting a private markets investment fund. Here, we move on to price, explaining how, by investing in high quality funds that incorporate value-added services, it may be possible to enhance the potential return on your investment.

Quality and expertise

A new approach to building a private markets fund allows DC investors to access a diverse variety of assets within a single vehicle. These assets include private credit, private equity, infrastructure, real estate, and natural resources. However, when assessing a private markets solution, investors should evaluate not just the asset class mix, but the quality of the underlying components used to implement it.

Our key challenge as portfolio managers is balancing high-quality investment teams with cost efficiency. Private markets reward top-tier managers, so we prioritise Master Fund – the flagship vehicles that ensure superior quality. While cheaper alternatives reduce fees, they often compromise expertise and diversification, making them a false economy that can harm returns.

Fund proposition

Beyond simply selecting high-quality funds, we believe investors should consider the fund proposition type. We define these as Core, Core Plus or Opportunistic, as described below.

Figure 1. Definitions of our classification of funds

Core	Core plus	Opportunistic
<ul style="list-style-type: none"> Broad and diversified exposure within the fund remit No leverage Fee covers ongoing asset management costs Limited value-added service (no development focus, low turnover) Typically open-ended funds 	<ul style="list-style-type: none"> Broad and diversified exposure but with greater expectation to flex Focus on value added service such as leverage (attributes that can enhance returns) Performance fees are often present to align incentives May be open or closed-ended 	<ul style="list-style-type: none"> No requirement to cover broad market Select higher conviction assets Focus on value added service such as leverage Often niche areas, therefore small positions with greater potential uncertainty Typically closed-ended funds

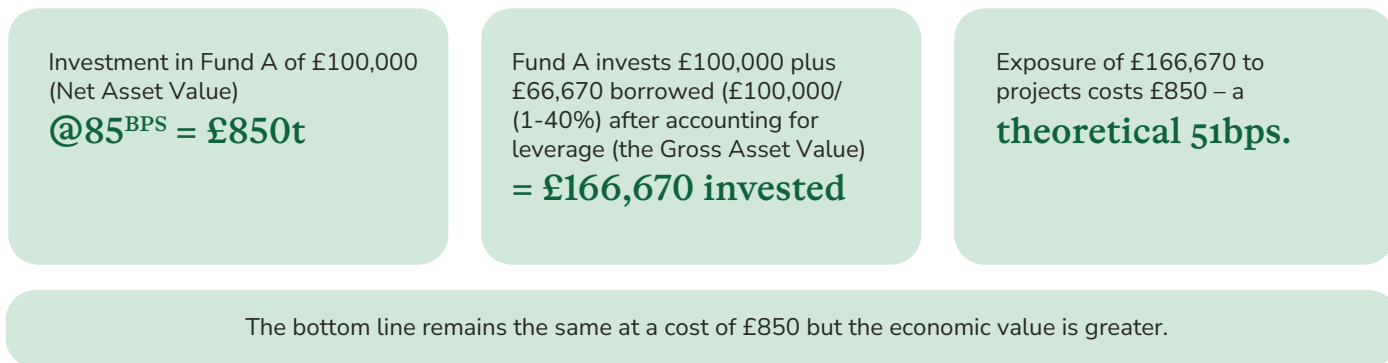
Source: L&G's Asset Management business, May 2025

For example, Core Plus funds may initially appear costly relative to Core funds, however we believe that they could deliver superior value. Investors may pay a modest premium to gain access to expertly managed, diversified investments that have a wider toolkit available to augment returns. For example, managers can selectively use leverage (borrowing) to provide more than £1 of exposure for each £1 invested. This can reduce the cost of the total investment below the headline figure, making Core Plus an efficient and effective way to optimise returns. This value-add is illustrated in the following example:

Fund A is a £100,000 investment in an infrastructure fund that focuses on projects such as bridges, roads and energy facilities and charges a fee of 0.85% or £850 pa. The Net Asset Value (NAV) of their investment is £100,000.

The fund invests this £100,000 into underlying assets, but supplements this with additional borrowing, resulting in an aggregate investment of £166,670. This results in a leverage ratio (debt to total assets) of 1.4x, a relatively typical level for a fund of this type. This expands the amount of exposure that the investor has to the asset class, giving them a Gross Asset Value (GAV) of £166,670.

While the underlying fee the investor has paid remains the same, it's spread over a large asset base. The economic value gained via the leverage exposure cuts the cost to a theoretical 51bps.



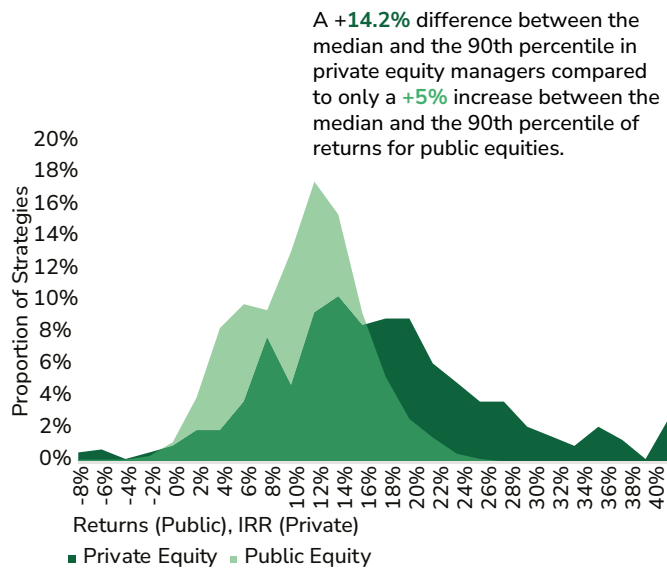
Source: L&G's Asset Management business, May 2025. For illustrative purposes only.

It's important to note that leverage is applied in a carefully controlled and risk-managed manner to enhance investment potential. We complete due-diligence and select expert managers who conduct thorough analysis to ensure risks are carefully monitored. This disciplined approach ensures that leverage is used effectively, contributing to long-term investment growth potential without unnecessary exposure to risk.

In addition to leverage, selecting high-quality underlying managers is essential when considering expected returns in the construction of a private market fund-of-funds strategy. Across asset classes, choosing top-tier managers – rather than simply opting for the lowest-cost options – plays a critical role in aiming to drive performance. This is particularly important in private markets .

This is illustrated by private equity in Figure 2, with a 14.2% gap between the median and the 90th percentile, versus only a 5% difference in public equity. The wider variability in outcomes makes manager selection an even more crucial consideration in private market investments to enhance overall portfolio returns.

Figure 2. Clear differences in quality of investments



Source: Proquin and eVestment, May 2025.

For illustrative purposes only.



Conclusion

When evaluating investment costs, it's clear they are not always as straightforward as they initially seem. As such, we believe it is essential to look beyond headline fees and understand the true value.. A fund's structure, market exposure, manager expertise, and diversification all play a crucial role in determining its overall worth. Simply put – not all fees are created equal.

We believe ensuring investors gain access to leading managers and flagship funds without compromising on quality is key. With a focus on Core Plus investments, investors could benefit from quality diversified exposure through a long-term approach that also prioritises strong governance, manager selection, asset allocation, and robust liquidity management.

Furthermore, thanks to our scale at L&G, we aim to offer attractive fees for quality investments, therefore delivering cost-efficiency without sacrificing value.

Contact us:

For further information about the Asset Management business of L&G, please visit 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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