



Annual Defined  
Contribution  
Roundtable

May 2024

# Rethinking retirement

## **Part 2: Breaking down barriers to access alternative investments for improved member outcomes**

The latest annual Invesco Defined Contribution Roundtable, chaired by Mary Cahani, Head of Defined Contribution (DC) Clients at Invesco, brought together leading industry participants to focus on innovative solutions aimed at improving member outcomes. Compared with discussions in 2023, which centred on identifying challenges for DC members, this year's conversation emphasised innovation and the need for continued collaboration.

With 60% of last year's attendees returning, the roundtable has established itself as a key annual discussion platform. By fostering a collaborative approach with DC pension scheme consultants, investment platforms, regulators, and asset managers, the event seeks to address the evolving challenges in the DC market in the UK.

## Key takeaways

1. Collaboration and supportive regulatory changes are crucial for increasing allocations to alternative asset classes in under-diversified DC plans to enhance member outcomes.
2. Long-Term Asset Funds (LTAFs) are now being utilised to integrate private market investments into DC plans, despite platform compatibility challenges.
3. The DC industry is getting more comfortable with the higher cost for accessing alternatives with focus gradually shifting towards value for money versus low fees, but there is still a long way to go.

During the recent Invesco Defined Contribution Roundtable, one of the main discussion topics was identifying the pathways to increase allocations to alternative asset classes in DC plans. Although alternatives offer a wealth of opportunities, several factors have severely limited DC access to these markets. The group's lively conversation highlighted how innovation, regulation, and stakeholder collaboration are overcoming many of these challenges.

"In terms of alternatives, there are so many inputs that it requires everyone

to be open-minded and focused. We have clients who want access but can't get it. We need cross-industry support so we can move forward and improve member outcomes," said Stephen Budge, Head of DC Investment Strategy at Lane, Clark & Peacock.

"Most people agree that if alternatives are implemented sensibly, it will be beneficial to member outcomes," said George Fowler, Partner at Isio. "There's a natural assumption in the market that LTAFs will help solve the liquidity problem. I believe they will."

## Alternatives are underrepresented

Despite being the fastest-growing segment of the pension market, investments in alternatives remain significantly underrepresented in DC plans. This disparity was highlighted by Simon Redman, Managing Director and Head of DC and Wealth at Invesco: "DC is massively under-provided for. A typical DB scheme has somewhere between 15%–25% allocated to alternatives, but if you look across DC as a whole, the average is 2.9%."

This underrepresentation is a problem for DC members, whose portfolios are generally heavily concentrated. As Anthony Ellis, the Head of Investment Consultancy at Hymans Robertson pointed out, "It's pretty clear. I don't think you get much argument that including a more diversified range of asset classes within a member's portfolio is a sensible thing to do, particularly when you look at the concentration of what their portfolios

typically look like at the moment: heavily equity-based, heavily US-based, heavily tech-allocated."

The low allocation to alternatives in DC plans means that members are potentially missing out on the benefits of diversification and the potential for alpha that investments in alternatives can offer. "Addressing this imbalance requires a concerted effort from industry stakeholders to make alternatives more accessible and integrated into DC plan offering," said NatWest Cushon CIO Veronica Humble. She acknowledges the underrepresentation of alternatives but highlights that the Cushon Master Trust has a 15% target allocation to private assets, of which 12% is already allocated through an LTAF structure, effectively providing access to their members. "I'm very happy with where we are right now, and I'm excited about what's to come," she said.



**"There's a natural assumption in the market that LTAFs will help solve the liquidity problem. I believe they will."**

**George Fowler**  
Partner at Isio



**“Members need to understand that if they invest in better assets, they’ll achieve better outcomes.”**

**Ian Pittaway**  
Chair of Aegon Master Trust



**“Ultimately, platforms should be enablers of change and diversification. They shouldn’t be seen as barriers.”**

**Jess Williams**  
Head of Phoenix CIS

## Supportive regulatory environment

The evolving regulatory landscape is playing a larger role in facilitating easier access to alternatives for DC schemes. According to Graham Hook, Head of UK Government Relations and Public Policy at Invesco, there should be significant continuity in the policy objectives of the Labour government. This continuity is important for long-term planning and investment strategies within DC schemes, giving trustees and asset managers the confidence to allocate more resources to alternatives.

The Labour government has pledged to provide regulators with new powers to consolidate schemes that are not delivering value for money.

This consolidation is expected to create larger, more efficient schemes with greater capacity to invest in alternatives.

There is still much room for improvement from a regulatory perspective, however. As Ian Pittaway, Chair of the Aegon Master Trust explained, “Member communication and engagement continue to be sidelined from a regulatory perspective. It’s about educating the member on how to make quality decisions. It’s not all about minimising cost for the buyer. Members need to understand that if they invest in better assets, they’ll achieve better outcomes.”

## LTAfs: A key area of innovation in DC plans

Long-Term Asset Funds (LTAfs) represent a significant area of innovation within the defined DC pension landscape. The group discussed how the flexible and varied structures of LTAfs are paving the way for broader alternatives adoption and utilisation within the industry.

“What we’re seeing amongst master trusts is that the LTAf discussion has become internalized. Many of these trusts are looking to launch LTAfs themselves and looking to asset managers to provide them with best-in-class asset class exposure. So more of our discussions are now leaning towards that single SMA, or segregated provision of a particular asset class,” said Sachin Bhatia, Head of UK Pensions at Invesco.

Members of the group further explained that while LTAfs are seen as a key solution to the “alternatives problem” in DC plans, their integration into existing platform infrastructures poses challenges. An LTAf, unless you are a large provider like Phoenix, is often ineligible for most platforms due to its liquidity constraints. As such, not all platforms are equally capable of accommodating LTAfs. This discrepancy underscores the need for platform providers to evolve and develop the necessary infrastructure to support these innovative investment vehicles.

However, as Jess Williams, Head of Phoenix CIS pointed out, “It’s more of a perception than reality that platforms cannot utilise LTAfs.” She suggested that with the right approach and mindset, platforms can indeed adapt to accommodate LTAfs. “Ultimately, platforms should be enablers of change and diversification. They shouldn’t be seen as barriers,” Williams said. “This perspective encouraged the group to rethink the role platforms can play with respect to the integration of LTAf.”

Stephen Budge emphasised the importance of flexibility in LTAf structures. “The key thing with each of these structures is that with white labeling or blending, everything sits inside,” Budge said. This flexibility allows for customisation and tailoring of LTAfs to meet the specific needs of different pension schemes. Whether through white labeling or blending various asset classes, LTAfs can come in various structures designed to fit within the unique frameworks of different platforms and investment strategies.





**“We believe the majority of master trusts will go down the core and premium route.”**

**George Fowler**  
Partner at Isio

## The future of master trust default options

“We believe the majority of master trusts will go down the core and premium route,” George Fowler said. One of the emerging trends discussed at the roundtable, this dual-option approach aims to cater to both cost-sensitive members and those seeking potentially higher returns through alternative investments. However, there is a concern that members might gravitate towards the core default option simply due to its lower cost, without fully considering the potential benefits of the premium default. While trustees may feel satisfied that they are offering enhanced options, the reality is that the intended improvement in member outcomes might not be fully realised.

Encouragingly, the group agreed that the industry is gradually moving away from an obsession with fees towards a more holistic view of value for money. The value for money framework, which encompasses not just the cost but also the quality and performance of investment options, is becoming increasingly important.



## Our commitment to DC innovation

At Invesco, we prioritise collaborating with clients to design tailored DC offerings and solutions that meet their unique needs. Our extensive toolkit and global reach equip us to address a wide range of DC scheme challenges, whether it's enhancing passive exposures, integrating alternatives, or tackling post-retirement requirements.

Innovation lies at the heart of our approach, and a prime example of our commitment to innovation is our newly launched Invesco Global Direct Property Fund, specifically designed to provide DC scheme members with access to global, direct real estate investments.

Further enhancing our capabilities, we have partnered with Legal & General Investment Management (LGIM) as our official real estate partner for the new private markets access fund for DC members. This partnership underscores our dedication to enhancing member outcomes through innovation and collaboration. The fund offers DC members exposure to private markets, leveraging LGIM's expertise as our official global real estate partner.

Our broad alternative investment platform plays a critical role in our DC offerings. This platform provides comprehensive access to a variety of alternative investments, including real estate, private credit, and private equity. Our alternative investment strategies are designed to deliver strong returns and diversification benefits, helping to optimise the performance of DC portfolios.

By continually evolving and expanding our offerings, Invesco is dedicated to delivering superior value and outcomes for DC plan members.

For more information, please visit our [Alternatives Strategies](#) page.

---

### Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

### Important information

#### Invesco Global Direct Property Fund

This marketing communication is exclusively for use by professional investors in Continental Europe as defined below, Qualified Clients/Sophisticated Investors in Israel and Professional Clients in Dubai, Ireland, Isle of Man, Jersey, Guernsey and the UK. It is not intended for and should not be distributed to the public.

For the distribution of this communication, Continental Europe is defined as Austria, Belgium, Denmark, Finland, France, Germany, Italy, Liechtenstein, Luxembourg, The Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Slovakia, Slovenia, Poland, Croatia and Hungary.

Data as at 30 June 2024, unless otherwise stated.

By accepting this material, you consent to communicate with us in English, unless you inform us otherwise.

This is marketing material and not financial advice. It is not intended as a recommendation to buy or sell any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication.

Views and opinions are based on current market conditions and are subject to change.

Telephone calls may be recorded.