

The scale of it

The added value of independent and scaled UK pension funds for the economy, members, and society

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Executive summary

Large UK pension funds generate enormous value for the UK economy, their members, and society as a whole.

At the time of the publication of this report, the UK Government is working to identify how pensions investment can best support its objective of sustainable economic growth while delivering the best outcome for savers. This report was commissioned by a group of large asset owning pension funds to provide evidence and insight to better inform this important discussion.

29.4 million people have retirement savings invested with a large UK asset-owning pension fundⁱ. These funds' core purpose is to support better retirement incomes for their members, using sophistication and scale to deliver efficient administration, security for members' pension benefits, and appropriate risk-adjusted returns.

Acting as a source of patient capital, large pension funds are in a better position than many other investors to invest over time periods lasting many decades. The sheer size and expertise of their operations allows them to support the UK Government's objective of sustainable long-term economic growth by offering experienced stewardship of British businesses; enhancing the governance, operations and long-term success of the assets they invest in; and by supporting effective infrastructure delivery and helping to deliver net zero.

Through an extensive evidence review and economic modelling, our research has identified wide-reaching benefits from the activity and investments of large UK pension funds.

We estimate that large UK asset-owning pension funds:ⁱⁱ



£1 in £4

Allocate £1 in £4 to private markets versus £1 in £9 for the rest of the sector, with around half of this in UK assets.



£37.4 billion

Have £37.4 billion invested in the UK corporate bond market, saving UK businesses £120 million in the annual cost of capital.



£71.3 billion

Generate £71.3 billion in total economic gross value added (GVA) in the UK over a three-year period after the investments are made, and 320,000 jobs in that year, from their investment in housing and infrastructure.



3-5%

Increase the productivity of the businesses they invest in by 3-5%.¹

ⁱ In analysing the benefits of large asset-owning pension funds, this research has focused on trust-based and funded statutory pension funds (or pools) with assets under management (AUM) above £20 billion. There are several insurers and contract-based schemes with large AUM which are not in the scope of this analysis but could deliver some of the same benefits as trust-based and funded statutory schemes.

ⁱⁱ The economic footprints were calculated based on the large pension funds' investment as of March 2024. See methodology for more information.

Key to achieving these benefits is the independence of pension funds in the UK, which can efficiently allocate the assets under their management (AUM) in line with their fiduciary duties.

Further to these economic benefits, large asset-owning pension funds provide the following:

Returns for wider society

Through the related business activities and investment strategies of large UK funds, there are widespread economic, social and environmental benefits. Scale allows large pension funds to access a greater range of investment opportunities and make the types of long-term investments that have particular social and environmental benefits for society. As a result, there is considerable pension fund investment in housing and infrastructure projects, many of which support the UK's energy transition and sustainable economy goals. This includes:



£10 billion

invested in UK housing



£27.6 billion

invested in UK infrastructure



£6.6 billion

invested in UK renewables

See chapter 3 for more information

Secure retirement incomes for members

By offering high-quality professional management, large pension funds provide long-term stable and secure stewardship of members' retirement savings. Members and sponsors also benefit through lower fees and management costs.

Secure retirement income is essential for the wellbeing of retirees, and lower financial vulnerability in retirement is worth an estimated £9,200 a year to a retiree in the first two years of their retirement in monetised terms.

See chapter 4 for more information

Delivering greater benefits from UK pensions

The upcoming Pension Schemes Bill seeks to unlock greater scale in both the workplace Defined Contribution (DC) market and the Local Government Pension Scheme (LGPS). This could deliver greater gains for society by supporting more of the beneficial investments currently made by UK pension funds, which deliver a well-established, high-quality and large-scale service and - importantly - appropriate, risk-adjusted returns for members and employers alike.

This is an important agenda, given the societal benefits of such a sophisticated and large-scale sector as outlined in this report. We have identified a number of key principles that should underpin an approach to further realising the benefits of scale:

Independence is critical to the effectiveness of large funds - mandating the investment approach taken by pension funds could harm the economic value currently generated by large funds. For instance, by artificially inflating the price of UK investments due to a limited pool of suitable opportunities, this risks creating volatile pension values due to overexposure to systemic economic risks and potential long-term underperformance of funds. This could also undermine members' trust in their pension provider and some of the benefits of fiduciary duty. Without full discretion to invest in a way that aligns best with their members' financial interests, fiduciary duty - as it is understood today - would be weakened.

Members need to come first - increasing investment in certain asset classes for the good of the economy and society cannot come at the expense of the secure retirement of pension scheme members. Furthermore, sustainable growth requires a long-term and patient capital approach, and this is made possible thanks to the clear objectives that fiduciaries have to deliver for their members.

The UK needs to be more attractive to investment - on some assessments, the UK has not compared favourably with other economies in terms of fiscal incentives, planning system bureaucracy, political stability or clear industrial strategies. The Government's focus on growth and productivity provides an opportunity to build the UK's attractiveness to investors and pension funds' ability to provide the returns members and employers need.

“The UK's world-leading £3 trillion pensions industry has the third largest stock of pension assets in the world. The foremost purpose of these assets is - and will always be - to provide security in retirement.”

EMMA REYNOLDS MP, ECONOMIC SECRETARY TO THE TREASURY²

Pension funds' contribution to the UK





Pension funds' contribution to the UK


The UK's evolving pensions landscape

The UK's pensions landscape has three pillars: state provision, occupational pensions and personal pensions. State and occupational pensions have a long history in the UK, with the Old Age Pension introduced in 1908 and tax relief offered on pension contributions from as far back as the 1920s. Since 1946, a state pension has been provided for everyone on a contributory basis. However, since then expectations have shifted around how to provide an income for retirees. This has led to greater importance being placed on the need for occupational and private pensions.

Today, 79% of workers are paying into a workplace pension.³ Aside from unfunded public sector schemes (including those for teachers and the NHS), workers are saving in two broad types of funds: Defined Benefit (DB), which includes the Local Government Pension Scheme (LGPS), and Defined Contribution (DC) schemes (see figure 1 for more detail).

Figure 1: Current footprint of UK pension funds (including schemes of all sizes)ⁱⁱⁱ

DEFINED BENEFIT FUNDS	
LOCAL GOVERNMENT PENSION SCHEME	OTHER FUNDED DB SCHEMES
 7.3 million members	 8.8 million members
97 pension funds and 8 Asset Pools ^{iv}	3,700 closed schemes and 1,300 open schemes
Approx £450 billion AUM	Approx £1.2 trillion AUM
Typical scheme maturity: 30-100 years	Typical scheme maturity: 10-15 years

DEFINED CONTRIBUTION FUNDS	
 31.3 million members	Approx £600 billion AUM
	Typical scheme maturity: 30-100 years

Source: PLSA (2024) Pensions & Growth: Creating a pipeline of investable UK opportunities, Ministry of Housing, Communities & Local Government (2024) Local Government Pension Scheme (England and Wales): Fit for the future consultation, Scottish Government (2024) Scottish Local Government Finance Statistics 2022-23, LGPS in Scotland website, Pension Protection Fund (2024) The Purple Book 2024: DB Pensions universe risk profile, and Office for National Statistics (2024) Funded occupational pension schemes in the UK

The LGPS is a type of defined benefit pension scheme for workers employed by local authorities and a range of other employers. The scheme is administered locally by pension funds across the country which decide how pension contributions are invested. Over the last 10 years, LGPS funds have been encouraged by the Government to invest together through pools, of which there are now eight in England and Wales.

The last 20 to 30 years have seen significant policy change and a transformational shift in the type of pensions people retiring now and into the future can expect to receive. Key to this has been a major shift in occupational pensions from Defined Benefit to Defined Contribution schemes. This means that the payouts received by a retiree are not fixed to their earnings, age and employment history – rather, they are defined by the level of contributions and return on the accrued assets in their individual pension pot. Moreover, there have been two key policy reforms:

① **The rollout of auto-enrolment in 2012**, which required every employer in the UK to enrol qualifying employees into a qualifying pension scheme. Employers must also pay a minimum contribution into this scheme for each employee, and a default contribution is taken from the employee's salary as well, unless the employee opts out or changes the amount of their contribution. Default rates were set at 8% of employees' qualifying earnings (5% paid by the employee and 3% by the employer).^v This reform has substantially increased pension participation, which in 2012 had been just 47% of employees before it rose to 79% in 2021.⁴

② **The 2014 pension freedoms**, which increased the choice pension savers have over how to use their pension savings. This reform decreased reliance on annuities as the main means for converting pension savings into a retirement income, and it led to a rise in cash withdrawals and the use of drawdown products to fund retirement.

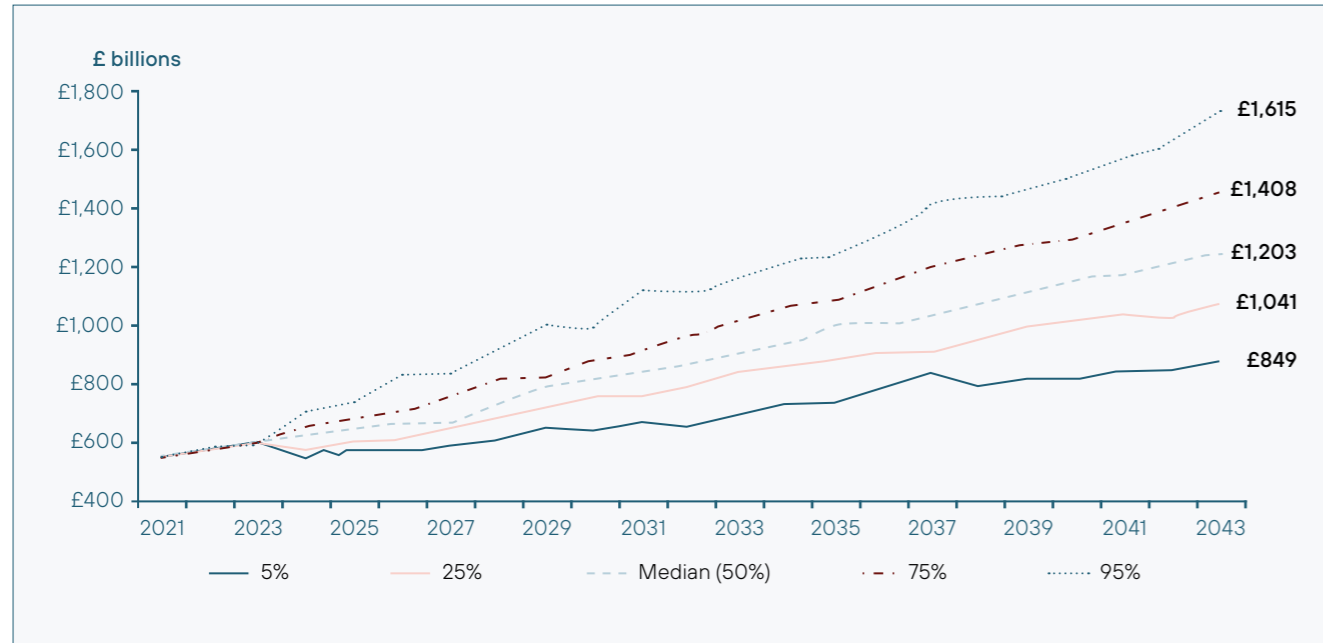
The cumulative impact of these changes has been to place more responsibility and risk for pension saving and retirement planning onto the individual and away from employers. However, we are still in an intermediate period – funded Defined Benefit schemes still provide for 8.8 million members.⁵ Both funded and unfunded Defined Benefit schemes will provide a crucial part of the retirement income of millions of retired and working-age people now and in the future. In addition, while auto-enrolment has dramatically increased membership of Defined Contribution schemes, the amount of AUM so far is relatively small compared to the size of the DB sector. However, over time assets in DC pension funds will grow rapidly and are expected to double to £1 trillion by 2030 in the UK as auto-enrolment reaches maturity.⁶

ⁱⁱⁱ Closed DB schemes are no longer open to new members but continue to invest the AUM from existing members to provide a retirement income for these members. Many closed DB schemes were linked to major employers that have since introduced new DC schemes. These figures do not include unfunded DB schemes.

^{iv} 97 pension funds across England, Wales and Scotland. 8 Asset Pools in England and Wales.

^v For the 2024/25 tax year, band earnings are £6,240-£50,270 a year.

Figure 2: Estimated aggregate value of private sector DC assets in the UK by year to 2044 across different economic performance scenarios (in 2023 earnings terms)^{vi}



Source: Pensions Policy Institute (2023) The DC future book 2023, estimated using 1,000 randomly generated economic scenarios.⁷

Pension funds as a large asset owner

Across all types of schemes, there are currently £2.2 trillion AUM in UK asset-owning pension funds.^{vii} These funds are asset owners which manage investments for a group of beneficiaries, in this case pension savers.

Broadly, there are six main types of asset owners as shown in figure 3, which operate a range of different business models.^{viii} Pension funds are typically the largest form of asset owners, and these make a unique contribution to this mix. This is because they provide access to high-quality professional asset management that would otherwise be out of reach to people with low to middle incomes. These funds are also significant pools of 'patient' capital, which is both due to the ultra-long investment horizons over which they can invest and to their having limited short-term liabilities.^{ix}

^{vi} The lines in this chart show the value of DC assets under a range of economic scenarios. At the low end, the 5% line represents a very poor performance scenario – in PPI's modelling only 5% of outcomes were worse than the scenario presented by this line. The 95% line is the opposite end of the range, where there is very good performance and it shows a scenario where only 5% of the outcomes modelled by PPI are better than that presented by this line. The 50% line, the median outcome, is based on past performance and the central projected outcome.

^{vii} Including LGPS, other funded DB and contract and trust-based DC sectors. For sources, see figure 1.

^{viii} Note, pension funds that are asset owners include DB and DC funds provided by employers, as well as personal pension products such as self-invested personal pensions (SIPPs).



^{ix} Note, this is not the case for closed DB schemes which are no longer taking on new members and are in the drawdown phase. As such, they need assets available and low-risk investments that ensure they can meet their liabilities to pay pensions to members in the near-term.

Figure 3: Types of large-asset owners

Pension funds	Endowments and foundations
Insurance company general accounts	Family offices
Sovereign wealth funds	Chief Investment Offices (CIOs)

To be considered a large asset owner, for instance in the Mercer *Large Asset Owner Barometer*, a fund would need to have more than US\$5 billion AUM. However, evidence from the Pensions and Lifetime Savings Association (PLSA), Australian Prudential Regulation Authority (APRA) and the Conexus Institute, as well as academics we spoke to for this research, suggests that the benefits of scale are most apparent where pension funds have more than £20 billion in AUM.⁸ These scale benefits are explored further in chapter 2. There are 22 UK pension funds in the trust-based and funded statutory (such as the LGPS) sectors that meet this criterion, with a total of:

Table 1: Number of members and AUM of large UK pension funds

DC MASTER TRUSTS ^x	DB FUNDS (INCLUDING LGPS)
 20.7 million members	 8.8 million members
£80.8 billion AUM	£686.8 billion AUM
~32% of AUM across all DC trust-based pensions	~43% of AUM across all DB funds

Investments by pension funds

Pension funds employ sophisticated investment strategies – either in-house, through an external asset management partner, or a combination of both – to deploy assets across a range of asset classes. These funds aim to generate risk-adjusted returns that can both meet pension liabilities and protect and grow members' retirement savings. Different scheme types have different needs and invest in different asset classes which allow them to balance optimal risk-return ratios for their member mix and length of time until maturity of their schemes. This is done through investment advisory processes and developing investment strategies to establish the funds' strategic asset allocation. For instance, DB schemes, the majority of which are closed schemes (meaning they manage their assets and pay the pension liabilities of existing members but are not taking on new members or allowing accrual of more benefits) have a greater allocation to corporate and government bonds compared to other scheme types, as shown in figure 4.

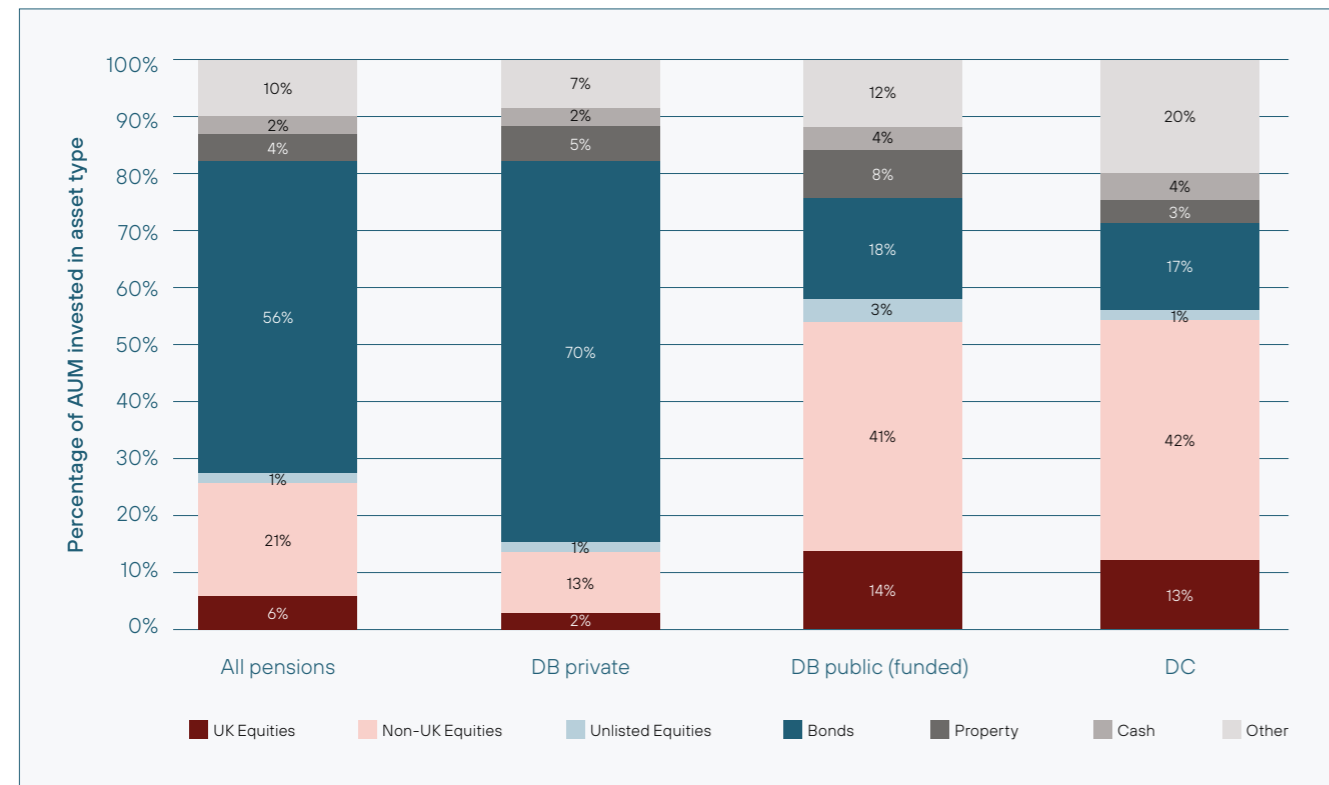
^x Note – this research is focused on large DB/hybrid trusts, funded statutory schemes and DC master trust. There are a number of insurers and contract-based schemes with large AUM which are not in scope of this research but could in theory also deliver similar benefits to trust-based and funded statutory schemes as set out in this report.

There is currently political interest in the level of allocation to UK assets. Recent UK governments from across the political divide have made it clear they want to see more investment into 'productive assets' - such as UK equities and particularly non-listed equities - by UK pension funds.^{xi} One example of this was when the previous Conservative government signed the Mansion House Compact with the largest DC funds in 2023. Since the new Labour government came to power, it has also introduced a Pension Schemes Bill in the 2024 King's Speech. This set out an aim to strengthen pension investment and support the Government's mission to deliver growth.⁹ The Chancellor of the Exchequer's Mansion House speech in November 2024 reconfirmed this mission, and she announced a number of measures seeking to instigate consolidation within the DC market and the LGPS,

as well as efforts to overcome barriers to increasing investment in private markets and other productive assets (see chapter 5).¹⁰ This was followed by a consultation on reforms to release DB surplus funds for investments in January 2025.¹¹

Overall, 38% of AUM in UK pension funds is already invested in UK assets, and this is as much as 55% for private sector DB funds.¹² The importance of a diversified investment portfolio is widely evidenced as delivering the best risk-adjusted returns for scheme members. Mandating higher levels of UK investment than is in members' interests could undermine the important and fundamental role of pension funds to provide a secure retirement income for UK pensioners.

Figure 4: Asset allocation by scheme type



Source: PLSA (2024) Pensions & Growth: Creating a pipeline of investable UK opportunities

^{xi}Note, there is no single definition for productive assets. It is a term used to describe investment that is thought to support economic activity, and is generally used to describe listed equities, private equity, property and corporate bonds.

Delivering added value

As set out in figure 5, there are four key attributes of large asset-owning pension funds that allow them to invest and operate in ways that deliver added value for their members, as well as wider society. These are: **scale**, **sophistication**, **global market access**, and **investment freedoms**. This is discussed further in chapter 2.

Figure 5: The attributes of large funds that deliver added value for members and society

Scale

The scale of assets under management increases buying power and facilitates economies of scale, lowering investment fees, and allows for large-scale investments and the ability to leverage influence to the benefit of members.

Sophistication

Utilising in-house expertise, strong internal governance and advanced investment tools to optimise returns for members.

Global market access

Diversification of investment portfolios and ability to leverage global opportunities safeguards pension savings from local market performance and volatility.

Investment freedoms

Investment freedoms provide a strong basis for investments to be made for the long-term and in line with members' best interests. Large funds also have the resources to manage investments in house or give greater direction to asset managers.

It is scale and sophistication that allow large pension fund members to benefit from economies of scale that lower costs and therefore increase returns. Large funds' ability to pursue advanced investment strategies and 'good governance premium'¹³ can also generate higher returns, such as investments in private markets and greater access to global opportunities, which consequently supports diversification. This type of provision also maintains closer ties to members' interests because of the influence large funds can levy on investment managers and through active stewardship. This is discussed further in chapter 2.

To continue delivering these benefits for the economy, members and society, large pension funds need an investment climate that is underpinned by stability. In contrast, regulatory and funding risks limit the ability of asset owners

to take the long-term view that can facilitate these improved outcomes (see chapter 5).

This report sets out how large asset-owning pension funds are able to pursue investment strategies and stewardship that deliver a greater level of value for the UK economy through investment that supports economic growth and stability. We also explore the evidence for the additional returns delivered for members and employers, due to the scale and sophistication of large pension funds. Diversification is important for this, and we explore what this means for the current debate around UK allocation and funds' ability to ensure their investment portfolios can meet their liabilities and provide secure retirement income - essential for the well-being of retirees - as well as the significant economic, fiscal and social benefits for wider society.

The footprint of the UK's large asset-owning pension funds

In total, the sector provides for:



29.4 million
members who have retirement savings in a large pension fund



£767.5 billion
of retirement savings under management



35%
of all AUM within UK pension funds



The benefits of scale and sophistication

Large pension funds generate returns and provide peace of mind to members for their future, and contribute to the UK economy, society and the global environment:

For the UK economy:



£1 in every 4
of AUM in large pension funds is invested in private markets, with around half invested in UK assets



£37.4 billion
of investment in the UK corporate bond market, saving businesses £120 million per annum



3 - 5%
Driving 3 - 5% improved productivity in investee companies



£37.5 billion
invested in UK housing and infrastructure, generating £71.3 billion in economic gross value added (GVA) for the UK (over a three-year period after the investments are made)

For fiscal stability:



£145 billion
invested in UK government bonds, supporting a strong and stable fiscal environment

For society:



£10 billion
invested in UK housing

For the environment:



£6.6 billion
invested in the UK in renewables like wind and solar power, and battery storage

The key ingredients for delivering added value



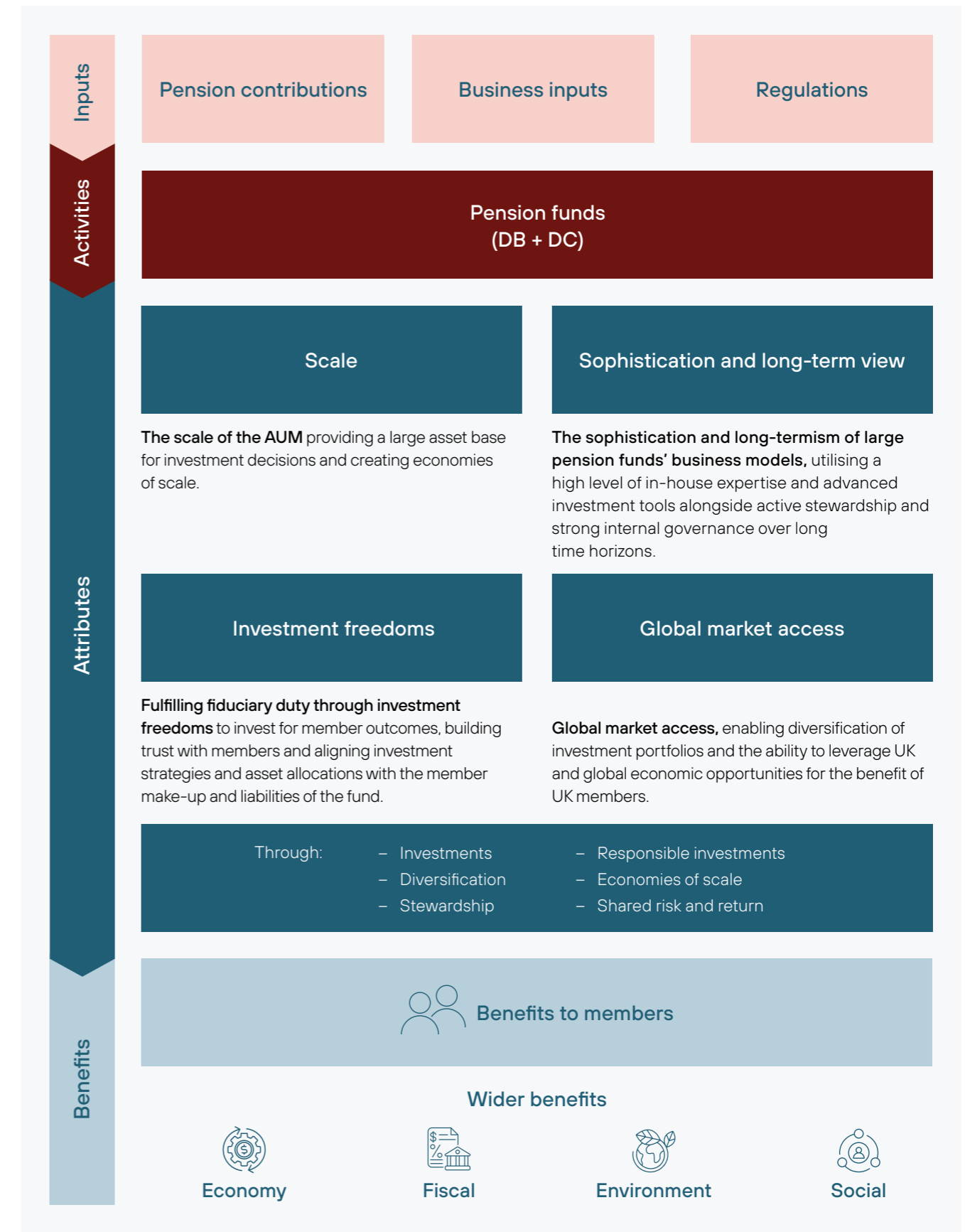
The key ingredients for delivering added value

This report sets out the considerable benefits which large UK pension funds bring - not only to members, but also to the wider economy and society. The ability of large asset-owning pension funds to generate benefits of this nature does not happen by chance. By virtue of their size, large pension funds can maximise the advantage of four key attributes critical to their business model. These four attributes are outlined in the logic model in figure 6.

Drawing upon an extensive review of existing evidence and findings from interviews with key sectoral stakeholders, the rest of this chapter provides an overview of how scale, sophistication, diversification and the fulfillment of fiduciary duty, underpinned by independence and policy and regulatory stability, come together as the key routes for large pension funds' contribution to society.



Figure 6: Summary logic model for the delivery of benefits by large asset owners



The importance of sophisticated scale

The scale of the AUM of large pension funds is critical to explaining the significant size of the member and wider economic and social benefits generated by their investment activities. Scale enables higher returns, drives down investment management fees and operational costs, and provides the opportunity to make large-scale, long-term investments.

Evidence suggests that the benefits of scale are most apparent where pension funds have more than £20 billion AUM.¹⁴ At this level of AUM, pension funds stop being 'price receivers', whereby they must accept the price offered with limited bargaining power. Instead, pension funds see a wide range of benefits as a result of the economies of scale they experience. The benefits of scale can be 'rented' by funds through partnering or using a large asset manager. However, the gains from economies of scale are more widespread, efficient and maximised when they are internalised within the large pension fund itself.

These benefits of economies of scale are set out in Figure 7.

Figure 7: The benefits that economies of scale bring for large asset owners

Economics of scale benefits
Focus on long-termism and sustainability
Ability to diversify asset type investment
Higher returns
Lower trading costs and better prices
Development of in-house knowledge and expertise

As the Pensions Investment Review has noted, the benefits of scale are interlinked and reinforcing.¹⁵ Through scale and stability, the development of in-house investment expertise enables pension funds to make more informed decisions and potentially negotiate lower trading costs and fees. In addition, scale enables funds to invest in a wider range of assets and, in particular, to invest in illiquid assets – which are crucial for long-term growth and sustainability. All of this leads to higher returns.

While scale is important on its own, the benefits of scale can be enhanced if pension funds use their scale in a sophisticated manner. Sophisticated scale means placing an emphasis on strong governance and accountability, as well as appropriate investment expertise and advanced tools, to deliver the best investment outcomes at scale.¹⁶ This creates real-world benefit for the economy and members. For example, research suggests there is a positive correlation between the size of a pension scheme and the quality of governance, creating a 'good governance premium'.¹⁷ Furthermore, scale and sophistication also support active stewardship, as discussed below, which can have a positive impact on corporate governance in the firms that pension funds invest in. Research by Grant Thornton has shown there is a proven link between effective corporate governance and value creation – such as companies with strong governance generating double the return for shareholders.¹⁸

These sophisticated elements also allow larger funds to look at opportunities that smaller funds would not have access to or that less 'patient' capital might not consider. This could include bringing some investment management in-house, exploring a wider range of asset classes, and setting up international hubs to give better insight into local investment opportunities. As the case of Nest shows in figure 8, the advent of scale coincides with a progression in private markets and more focus on a sophisticated and value-oriented investment strategy.

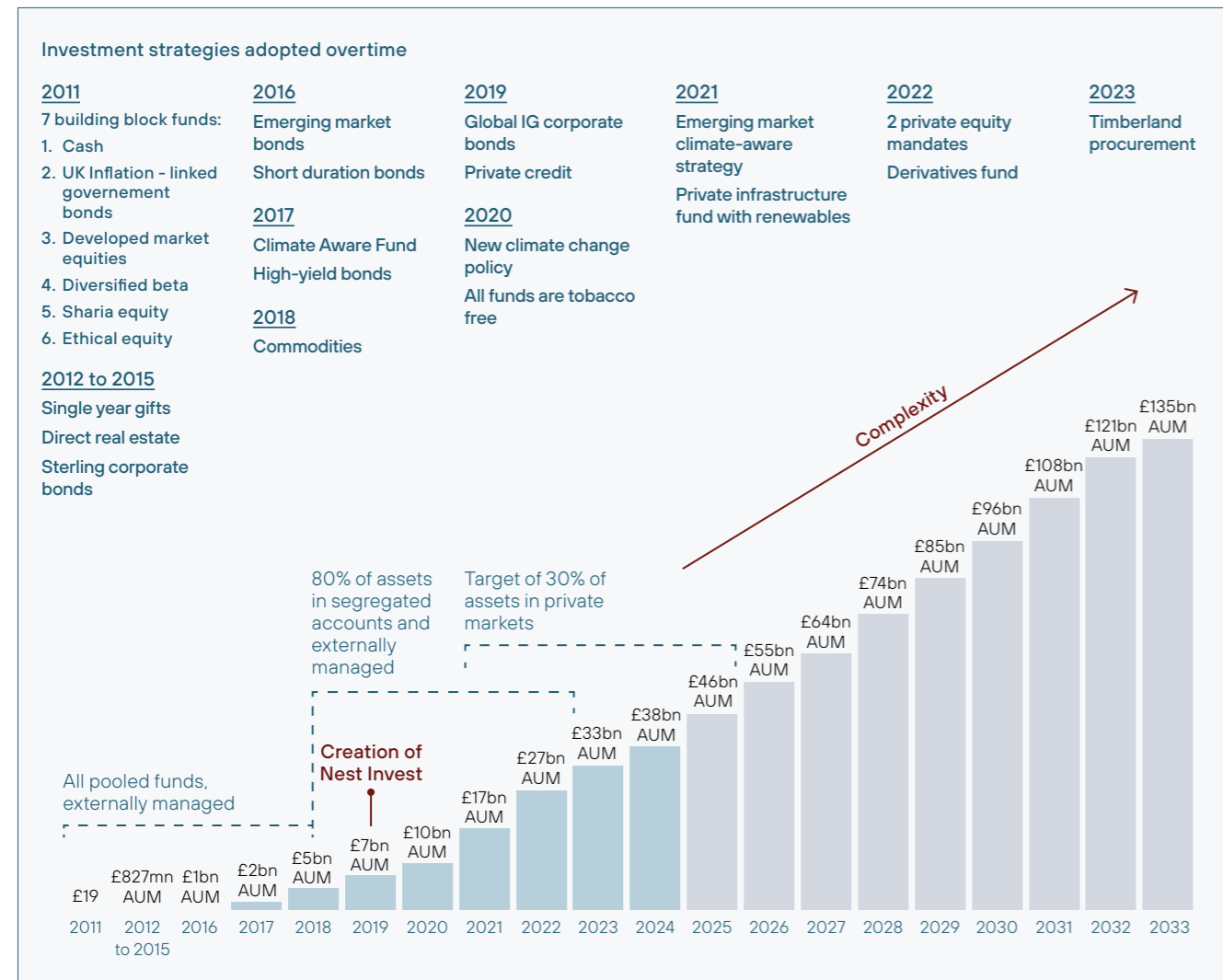
The development of sophisticated scale often supports large asset owners in taking a more active interest in stewardship responsibilities. The UK Stewardship Code is run by the Financial Reporting Council (FRC), setting out 12 principles for asset managers and owners to create long-term value for clients and beneficiaries. Equally importantly, the code also encourages asset managers and owners to create sustainable benefits for the economy, the environment and wider society, using investments to address market-wide and systemic risks and promote a well-functioning financial system.¹⁹

The UK Stewardship Code has been categorised by the Global Investor Stewardship research group as more advanced when compared to other national standards – and the UK was the first country to turn non-binding stewardship expectations into a formalised policy in 2010.²⁰ Since then, large pension funds have sought to embed stewardship as a serious part of their investment strategy. In practice, stewardship is seen as synonymous with long-termism and fostering an 'ownership mindset' amongst the investments that funds make.²¹ As a result, funds play a more active role in corporate governance and promoting sustainable corporate practices in line with their long-term investment strategies.



Figure 8: Nest's evolving investment portfolio since 2011²²

Nest is the largest DC pension fund in the UK. As the scale of AUM within Nest's scheme has increased since it launched in 2011, they have been able to use more sophisticated investment strategies. This is also supported by partnerships with other funds and LGPS pools, such as GLIL Infrastructure, which helps provide cost-effective access to UK infrastructure assets. With Nest's AUM anticipated to reach £100 billion by 2030, they have an ambition of 30% of AUM to be invested in private markets. This increasing scale will allow them to continue to evolve and make even more complex investment strategies possible.



CASE STUDY

Brunel aligning expectations with asset managers on climate²³

In October 2023, Brunel convened a roundtable to discuss perceived misalignment of interests between asset owners and managers in relation to climate stewardship. This followed independent research evaluating the voting & engagement records of select managers on oil and gas majors since the Paris Agreement which indicated that some asset managers had not sufficiently used their influence to challenge oil and gas companies that were backtracking on their climate commitments. This contrasted with the positions of large asset owners that shared the view that if climate related risks are not addressed through stewardship activities, this can translate into investment risks, affecting long-term beneficiary interests. Over a hundred people attended the Roundtable, which opened a constructive dialogue between asset owners and asset managers on practical next steps to address the misalignment, and identify how fund managers could be better supported in delivering asset owners' climate stewardship strategies. It was a starting point for ongoing dialogue and mutual commitment to better communication and transparency.

CASE STUDY

Railpen's in-house sustainable ownership team working to improve portfolio companies' financial performance to secure good member outcomes²⁴

Railpen's in-house sustainable ownership team, in 2023 alone, was able to cast votes – and did – at 99.7% of Annual General Meetings (AGMs). In practice, this meant 1,483 votes were cast at company AGMs within Railpen's investment portfolio. In 55% of company AGMs, at least one of these was cast either against, or refusing to support, company management. As well as casting votes, the team utilises the full range of stewardship tools, including direct engagement with companies (including as part of Railpen's Net Zero Engagement Plan) and pre-declaration of voting, with the goal to have a positive influence on their companies' long-term financial performance and to contribute to long-term investment outcomes for members. This builds on Railpen's strong heritage in sustainable investment and stewardship. More detailed information is available in Railpen's annual Stewardship Report.

Fiduciary duty and independence

Pension funds have a fiduciary responsibility – to act in the interests of the scheme’s beneficiaries. Therefore, funds must maintain a relationship of trust and confidence with those they have assumed the duty to act on behalf of.²⁵ In the context of pension funds, securing the best risk-adjusted return for members is therefore the primary motivating factor when making investment decisions (alongside meeting regulatory and legislative requirements).^{xii} Fiduciary duty requires funds to act prudently and make investments that intend to achieve the best outcomes for members by balancing risk and return. Investment freedoms are important for meeting this duty, as this approach allows funds to allocate assets strategically in line with members’ financial interests, without restriction.

For large pension funds, their ability to use their scale and sophistication to curate diversified investment portfolios means they are well positioned to achieve good investment outcomes for members through accessing a greater range of investment opportunities and their stewardship influence.

This is because of the way large pension funds are able to build relationships with, and give direction to, their asset management functions – whether an external partner or in-house team.

External management:

A key benefit of scale is that large pension funds are better able to ensure that external asset managers align with their objectives and fiduciary responsibilities. For large pension funds, this has led to a shift in the owner-manager relationship dynamics to one of greater collaboration, which has been key to maximising the benefits of investment.²⁶ As a result, large pension funds are better at manager selection than other asset owners, using their bargaining power to negotiate lower fees and access to better-performing funds, relative to smaller funds.²⁷

In-house management:

There are benefits of bringing asset management in-house if scale allows, in terms of reducing costs and maximising the value of internal expertise. It is argued that the longer the chain from beneficiary to investor, the more risk the investor does not have the end savers’ interests at heart.²⁸ In-house asset management functions therefore may have a more thorough understanding of the make-up of the fund’s members and allow large pension funds to more directly make investment decisions and pursue stewardship that is in line with member interests and concerns.

Fiduciary duty sets pension funds apart from other types of large asset owners. Their core purpose is to provide retirement income for UK members, which is of great importance for the wellbeing of retirees and reduces fiscal demands on the state. The best mix of investment strategies and asset classes varies across funds depending on their member make-up and the timescale over which their liabilities need to be paid. Without full discretion to invest in a way that aligns best with their members’ financial interests, fiduciary duty as it is understood today would be weakened.

^{xii} Note, regulatory requirements differ by pension fund type. The UK Government consulted in January 2025 on whether LGPS should be required to be authorized and regulated by the FCA. Five of the eight LGPS pools are currently FCA-authorized investment management companies.

The value of global market access

The freedom of large pension funds to invest, in line with their fiduciary duties and regulatory requirements, needs capital to be directed to the most productive investment opportunities that best match the needs of members and scheme types.²⁹ This has been termed an ‘agency business model’. By utilising their sophisticated scale along agency business model lines, large pension funds have been able, over the last 20 years in particular, to diversify away from home domestic investment. Instead, in line with good investment principles, they have assembled diversified portfolios – both in terms of geography and asset classes – that would otherwise be out of reach.³⁰

This is not only a UK story, but a trend seen globally. In particular, domestic equity allocations were lower in most ‘peer countries’ (such as Australia, New Zealand and Canada) in 2024

compared to a decade ago.³¹ There has been some criticism that the UK’s home bias has declined faster and to a lower level than other countries’ levels.³² However, this has been attributed partly to lower performance in the UK stock market compared to international markets, especially the US (see figure 9).

Large pension funds’ ability to assemble a diversified investment portfolio is important for maximising fund returns and reducing risk to pension benefits. To illustrate why it is important to maximise member returns, for every one percentage point in lower investment returns, the average person in a large DC fund would miss out on £43,000 over the course of their working life.^{xiii} In the context of large DB funds, every one percentage point decrease in investment returns would result in approximately £6.9 billion lower total returns annually.

^{xiii} The figure is derived from our in-house model, assuming 2% inflation, 3.5% nominal wage growth and a £28,000 starting salary, 8% contribution and 45 years of working. The nominal investment returns are assumed to be 4% and 5% respectively over time. See methodology for more information.

As figure 9 shows, different countries experience fluctuations in their investment climate over time. Large, diversified pension funds can use their sophisticated scale to navigate these fluctuations in global markets by:

- ① hedging against the downside risks from poor returns in specific geographies; and
- ② tailoring fund allocation over time - either in response to market composition or due to more favourable investment climates in particular markets.

Figure 9: Performance of major global stock indices since 2014



Source: Investing.com

Diversification, therefore, has the major advantage of helping large pension funds mitigate investment risk whilst improving returns. They are able to invest in a range of securities to balance risks they present individually, and they ultimately return higher yields without an increased level of overall risk. Similarly, diversification cushions the impact of specific market shocks and inflation volatilities

that can potentially bring considerable risk to members' returns.³³ This is especially important for members as they reach retirement age, where an economic downturn in an economy to which they are overexposed could result in a major fall in the value of their pension assets and impact their ability to secure a sufficient retirement income.



Returns for the UK economy, society and the environment



Returns for the UK economy, society and the environment

The UK has 22 large asset-owning pension funds that are able to leverage both their scale and other key attributes (as set out in chapter 2) to do things differently. This difference delivers added value for the UK economy, including through investments that also have complementary social and environmental impacts. This is all in the context of needing to

deliver for members in line with their fiduciary duties and ultimately the needs of UK retirees.

Our research shows how these large funds are already doing things differently and are consequently reaping dividends for the UK economy, society and the environment.



Supporting the UK economy

Large UK pension funds have an estimated £280 billion invested in the UK economy across a range of assets. These investments support different and important elements of economic activity in the UK as shown in table 2.

In particular, large funds are able to invest in private market opportunities to a greater extent than smaller pension funds due to their scale and sophistication (as discussed in chapter 2). This benefits the UK economy as investments in UK private equity, venture capital, unlisted equities and property by large funds support high-growth potential businesses in the UK.

Large pension funds have **23.5%** of their AUM invested in private markets (including private equity, venture capital, private debt, and property investment), compared to only 11.5% of assets in the whole pensions sector.

This includes **11.9%** of AUM in large UK pension funds invested in UK private markets, compared to 7.5% of assets in the whole pensions sector.

This additional 4.4 percentage points invested in UK private markets by large funds, compared to all pension funds in the UK, is equivalent to £33.3 billion. If all pension funds invested in private markets to the extent large funds currently do, this would generate an additional £95 billion of investment in UK private market assets.^{xiv}

^{xiv} Based on there being £2.2 trillion of assets in the UK pensions sector.

Table 2: Estimated investment in UK productive assets by large UK pension funds as of March 2024

ASSET CLASS	LARGE UK PENSION FUNDS HAVE	IMPACT FOR THE ECONOMY
Corporate bonds or debt	£37.4 billion invested in UK private equities and venture capital	Providing capital to businesses to invest for growth or efficiency gains.
Listed equities	£32.8 billion invested in UK-listed equities	Supporting the liquidity of businesses and improving corporate governance.
Private equity, venture capital and unlisted equities	£17.9 billion invested in UK private equities and venture capital	Capital helps businesses, often including those with high-growth potential, to improve efficiency or increase scale.
Private credit	£39.4 billion invested in UK private credit	Supporting business investment and activity by credit-constrained firms with growth potential.
Property	£37.9 billion invested in UK property	Investing in physical assets crowds in other forms of investment and spending, such as construction.
Infrastructure (equity or debt)	£27.6 billion invested in UK infrastructure	Providing assets for critical goods and services helps improve the productivity of UK businesses and supports a more efficient allocation of economic activity across regions. ³⁴

The knock-on effects of investments made by the whole sector are difficult to measure in totality. However, evidence finds investment from pension funds:



Increases productivity

A study of Danish firms found investments by pension funds raised firms' productivity, especially where investments were long-term and large.³⁵ The study found that pension funds improve a firm's productivity through:

- active engagement with the firm with the aim of improving productivity;
- increasing the supply and reducing the cost of financing so that more of the investment can be directed towards activity that raises productivity;
- providing a positive signal about the firm to the market, further reducing the firm's capital costs, and
- providing long-term security of financing.



Supports strong capital markets and attracts foreign direct investment

Strong capital markets not only allow existing businesses to benefit and invest, but they also attract businesses from around the world to locate in the UK. These businesses, in turn, provide more jobs, generate more tax revenue and provide more opportunity for investment in successful businesses, creating value and contributing to a more sustainable UK economy.



Lowers the cost of funding

Firms also benefit from lower costs of funding through a pension fund's purchase of corporate bonds. Compared to borrowing from banks, the cost of financing investment through corporate bonds for firms is 0.32% lower, saving UK businesses £120 million per annum.

Large pension funds have **£37.4 billion** invested in the UK corporate bond market, saving businesses **£120 million** per annum.^{xv}



Provides 'patient capital' for long-term projects

As discussed further in chapter 5, pension fund investment can be particularly beneficial for firms because it is 'patient capital' (or patient value creation) that gives firms stable funding to allow them to make long-term investment decisions.³⁶ Patient capital is particularly important for large-scale infrastructure projects which, in some instances, can take place over several decades.

Large pension funds have **£27.6 billion** of their AUM invested in infrastructure projects in the UK.^{xvi} This investment creates:

- **239,700 jobs**
- **£52.4 billion** in GDP (over a three-year period after the investments are made)

^{xv} In comparison to borrowing from banks. Modelled on the differential between corporate bond yields and the prime lending rate, estimated to be 32bps.

^{xvi} Including equity investments in utilities, power generation, roads, ports, rail, service stations, data centres, airports and other infrastructure assets. Figures for end of March 2024.

Ultimately, these investments provide for the retirement of UK members who spend much of this income in their local economy. International studies have suggested that, for every \$10 (£8.11) of pension spend, \$16.72 (£13.57) of local economic activity is created.³⁷ This increase in economic activity also leads to more jobs, fiscal revenue, GDP, and has been shown to increase private capital investment by businesses.

The employment provided by large UK pension funds also has a positive impact on the UK economy. In total, this creates £25.2 billion in Economic Gross Value Added (GVA) from pension funds' direct economic activity as businesses, as well as through the businesses they support in their supply chains (indirect GVA) and the economic activity of their employees (induced GVA).^{xvii} The pension fund sector is vital for the UK's asset management sector – 34% of all AUM managed by UK asset managers comes from pension schemes.³⁸ This is vital for the UK, as not only a pillar of the UK's financial sector, but also as a key export industry for the UK.³⁹

Taken together, the investments made by pension funds on behalf of their members deliver significant economic benefits for the UK economy in five key ways:



1 Increased private consumption and investment in UK from pension holders and industry employees.



4 Stronger output and more regional job opportunities through private market investment.



2 Lower cost of funding for investee companies.



5 More attractive to foreign investors and businesses looking to locate in an economy with a strong and sound asset management sector.



3 Higher long-term value of investee companies and job creation.

^{xvii} Over a three-year period, £6.1 billion in direct GVA and £10.8 billion in indirect and induced GVA is generated from the economic activity of the sector, its supply chain and employees.

CASE STUDY

Bringing superfast broadband to communities in Northern Ireland⁴⁰

Through a partnership with Infracapital, Border to Coast invested £13.6m in Fibrus Networks, a broadband provider in Northern Ireland. Fibrus is rolling out full fibre-to-the-premises (FTTP) to 270,000 premises in the region, which has historically lagged behind other parts of the UK on digital connectivity. Fibrus is also now building out a full-FTTP network in Cumbria, bringing connectivity to yet more suburban and semi-rural areas.

CASE STUDY

Place-based investing in growth sectors to bring long-term benefits for members and the economy⁴¹

Railpen's investments in Cambridge place them at the heart of the city's – and Government's – ambitions across science and technology. Cambridge contributes tens of billions to the UK economy – with the potential to grow even further in the years to come. By developing a cluster of high-quality and sustainable developments in Cambridge, a renowned hub for global businesses in STEM-related industries and home to one of the world's best universities, Railpen's support is improving the local environment and economy, and bringing significant long-term benefits for members' pensions.

Creating fiscal savings and stability

Part of the economic benefit delivered by pension fund activity is through supporting a strong and stable fiscal environment for the UK. DB pension funds, in particular, are the largest buyer of UK Government bonds, providing an important source of liquidity for the UK Government to meet its spending needs and priorities.⁴²

Large pension funds have **£145 billion** invested in UK Government bonds.

Pension funds also support fiscal revenues through income tax paid by their employees and on the retirement income of their members, as well as money from taxes charged on fund surpluses. This creates fiscal benefit through increased tax revenues. Providing a retirement income for members also reduces dependence on means-tested benefits provided by the Government, such as Pension Credit. This, in turn, reduces the spending demands on the public purse.

For large funds in particular, there is a potential fiscal saving from higher returns. As discussed in chapter 4, large pension funds achieve higher returns on their investments due to their economies of scale and their ability to invest in more sophisticated asset classes. For DB funds, better performance can reduce the contributions

required of the scheme sponsor to ensure the scheme can meet its liabilities. Many of these sponsors are public sector employers, such as local authorities. Therefore, by facilitating the stability of contributions they must make, there are benefits for the taxpayer. For private sector sponsors, improving schemes' performance could provide a surplus to be reinvested in their businesses, thereby further supporting UK growth.

Some evidence suggests that larger funds (\$10 billion+ or ~£7.7 billion+) consistently deliver higher returns than smaller funds (\$1 billion or ~£0.8 billion), averaging around 32 bps.⁴³ Multiplying this effect across all large asset-owning DB funds in the UK would show improved returns of **£2 billion per year**.

As a result, large UK pension funds deliver fiscal benefits for society through generating:



1 Increased tax revenue from taxes paid on surpluses, by employees of large funds and pensioners on the retirement income they receive.



3 Savings for taxpayers from reducing the number of means-tested benefit claimants.



2 Stability of contributions needed from public sector employers to support DB funds.



4 Long-term lending to government helping maintain a more stable fiscal environment.



Delivering social benefit

Large pension funds also invest significant amounts in projects within the UK that not only provide investment returns for members but also benefits for people and communities. In 2022, UK investment managers channelled nearly £10 billion into social projects such as new schools and improved hospital buildings.⁴⁴ Commercial investments are also often accompanied by efforts to deliver urban regeneration and affordable housing. These investments provide improved housing, infrastructure, education, health and urban environments, as well as important economic benefits for society like jobs and GDP growth.

Large pension funds have **£10 billion** of their AUM invested in housing in the UK.^{xviii}

This investment creates:

- **86,700 jobs**
- **£18.9 billion** in GDP (over a three-year period after the investments are made)

In addition, large UK pension funds deliver social benefits for society through their own activities as businesses and employers, through their stewardship of their investee companies, and – importantly – through improving the wellbeing of their members in retirement. Social benefit is delivered through:



1 Volunteering and charitable donations made by members.



3 Benefits from improved housing, infrastructure, education, health and urban regeneration as a result of investments.



2 Improved mental and physical wellbeing in retirement.

Research has shown that people with a pension plan are 54% more likely to report higher satisfaction with life than people who do not participate in a plan.^{xix,45} Higher financial security reduces stress, and provides for higher satisfaction with physical and mental health in retirement. It also has a wider impact on the local community, as members of pension funds have been shown to be more likely to volunteer in their community and donate to charities.^{xx}

^{xviii} Including private-rented sector domestic property, equity release and other housing assets. Figures for end of March 2024.

^{xix} Note – this research was for DB plans provided by OMERS in Canada. The findings showed retired members of OMERS reported 15% higher satisfaction with their health, 42% rated their physical health as 'very good' or 'excellent'. 22% were more likely to report lower stress levels and they were 29% less likely to attribute stress to financial concerns. This was due to increased financial security in retirement, which could be supported by a DB pension or a well-funded DC pot.

^{xx} Retired members of OMERS were 38% more likely than their peers to volunteer time in their community, while 94% donated to charities and not-for-profits.

Pension funds also influence the practices of the companies they invest in by integrating environmental, social and governance (ESG) policies and practices within investment processes. This delivers social benefits not only in the UK, but also globally. The stewardship activity of large pension funds influences global business activities, particularly with respect to treatment of workers and human rights, including in companies' supply chains.⁴⁶

CASE STUDY

Working to improve health and meet local needs⁴⁷

The Dolphin Community and Shopping Centre in Poole, owned and managed by NEST's UK real estate manager LGIM, (with the support of other investors) partnered with the NHS to run an assessment clinic in Dorset that helped to tackle long patient waiting lists. This is an example of how large pension funds work to address local needs and drive positive social outcomes.

CASE STUDY

Providing affordable housing across the UK⁴⁸

Investment from USS as part of their social housing vehicle allowed Sparrow Shared Ownership to make the biggest affordable housing deal of its kind in 2024. The deal will provide 3,000 newly-built affordable homes for people in 250 communities across the UK in partnership with Sage Homes, the largest provider of new affordable homes in England.

CASE STUDY

Harnessing commercial investment to deliver urban regeneration⁴⁹

Brightwell's investment in the Birmingham Paradise development supported urban regeneration in the heart of Birmingham. The project brought £40m social and economic benefits to the local area including creating jobs, community engagement and supporting local charities.

CASE STUDY

Funding innovative cancer treatments⁵⁰

Through its £55 million investment in Blackstone Life Sciences V, Border to Coast is helping to fund companies in the medical technology industry creating groundbreaking medical solutions. This includes new treatment methods – paving the way for less invasive cancer treatment by reprogramming the cells in the body's immune system to recognize and kill their cancer cells.

Improving the local and global environment

The UK is the world leader for green finance according to the Global Green Finance Index, with significant expertise in sustainable finance and significant money invested in clean projects.⁵¹ Nearly nine in 10 (87%) large asset owners globally make explicit reference to addressing climate change in their investment objectives or policies.⁵² For the most part this is about supporting net zero targets, broader alignment with the 2016 Paris Climate Accords, and investing in measures that enable transition to net zero policies, but there is an increasing focus on biodiversity as well.

The long-term nature of large pension fund investment means that they must recognise the material risk that climate change presents to returns for their members when making their investment decisions.⁵³ Many large-scale green projects also offer good returns, which has allowed 63% of large asset owners globally to incorporate sustainable investment goals into their investment portfolios.⁵⁴

This delivers environmental benefits for society by supporting:



1 A faster transition to a green economy and net zero.



2 Protection and improvements to the global environment, including reducing climate change impacts and improving biodiversity.

Large pension funds have **£17.5 billion of their AUM invested in renewables**, of which **£6.6 billion is invested in the UK**.^{xxi}

Large pension funds are also able to shape the activities of investee companies through the stewardship made possible by their scale (as discussed in chapter 2). This has a global impact, taking into account not only the practices of these businesses at home, but also their supply chains and products around the world.

^{xxi} Including solar power, wind power and battery storage, as a combination of equity and debt, held directly as private equity or through funds. Figures for end of March 2024.

CASE STUDY

One step closer to net zero with renewable power⁵⁵

GLIL Infrastructure has so far invested £341 million in solar and battery power projects, creating an energy transition portfolio which now generates more than 9,000GWh, powering more than three million homes in the UK. This is the largest portfolio in the UK and a collaboration between LGPS pools and funds, including LPPI, and Nest.

CASE STUDY

Promoting green infrastructure for electric cars⁵⁶

USS's commitment of long-term, patient capital and its stewardship as a majority shareholder has helped portfolio company Moto reach its goal of being the UK's number one en-route electric charging destination and achieving a 70% reduction in Scope 1 and 2 emissions.

CASE STUDY

Greening public transport with electric buses⁵⁷

Through a £30 million investment in partnership with Infracapital, Border to Coast supported the development of Zenobe Energy, a specialist owner of electric buses and an owner-operator of electric bus charging infrastructure. The company now has a growing fleet of more than 100+ electric buses - almost a fifth of all those in operation in the UK.

CASE STUDY

Fostering partnerships for economic and environmental impact⁵⁸

LPPI Real Estate Fund engaged partners to promote the installation of solar PV systems at the UK properties within the fund. This led to all prospective direct investments being assessed for solar PV installation as part of the investment consideration and installations at 12 sites. In 2023, this generated an estimated 485,895kWh of electricity.

Bringing it back to members

Bringing it back to members

The core mission of pension funds is to protect and manage members' investments to provide the retirement income they need at the point of retirement – providing for people's financial futures. In doing so, pension funds therefore deliver considerable benefits to their members in four key ways:



1 Providing long-term stable and predictable growth of members' pension savings.



3 Improving members' wellbeing in retirement by reducing the risk of financial vulnerability.



2 Reducing exposure to short-term local economic volatilities that could erode the value of pension pots at retirement.



4 Providing peace of mind for the future.

More than 29 million members have retirement savings in a large pension fund, making a sizeable contribution to addressing the challenge of supporting people to have an adequate income in retirement. Much of the large asset-owning pension sector represents the remaining open part of the DB pensions sector, providing promised pensions to members. Others represent the growing DC master trust sector, which helps to provide better savings for DC savers from all backgrounds.

As discussed in chapter 2, these funds have sophisticated scale, which allows them to generate higher returns, drive efficiencies, and negotiate lower investment fees.

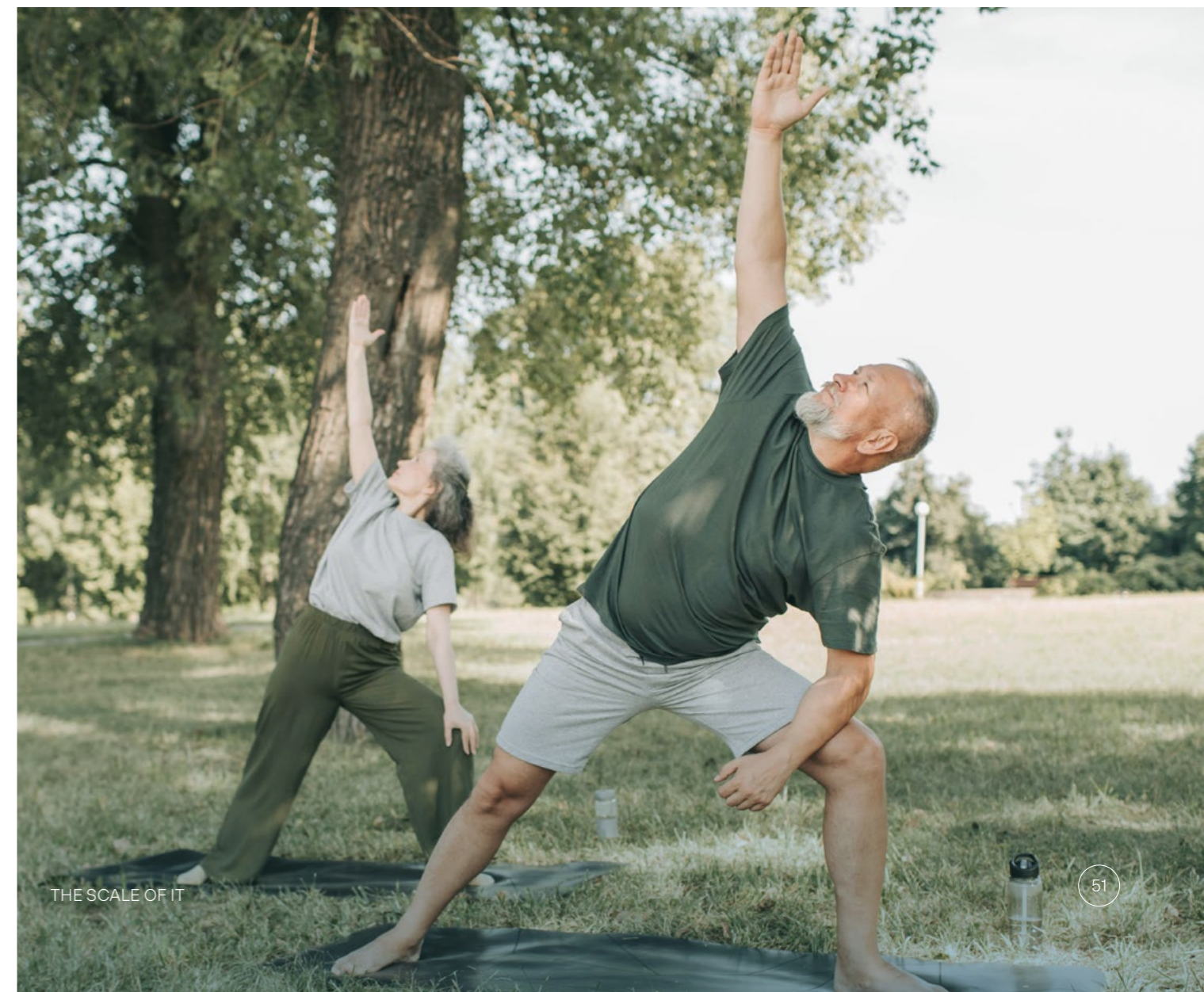
In the case of DC schemes, these benefits flow to individual members by providing savers with a large pension pot and improved retirement income.

Some evidence suggests that larger funds (\$10 billion+ or ~£7.7 billion+) deliver 32 bps higher average returns (net of fees) than smaller funds (\$1 billion or ~£0.8 billion).⁵⁹ Modelling for this report shows that, for an average DC saver, this could mean an additional £13,800 at retirement.

For DB schemes, high returns help to make schemes more sustainable and keep sponsoring employers' contributions at stable levels. Multiplying the effect described above for DC across all large asset-owning DB funds in the UK would show improved returns of £2 billion per year. The value delivered by pension funds is much broader than helping members meet their financial goals. Not only does providing retirement income help to protect people from experiencing financial hardship and associated negative impacts on people's relationships and health, but it can also actively improve life satisfaction.⁶⁰

Financial wellbeing underpins someone's overall quality of life and wellbeing, delivering social value for members and impacting their whole lives. Research suggests that people with a pension plan report higher life satisfaction, and that the financial security pensions provide people with also results in reduced stress, better physical and mental health and higher levels of community involvement.⁶¹ In one study, financially stable individuals reported having 60% higher life satisfaction in retirement compared to those who were financially vulnerable.⁶² This is a statistically significant difference, the benefits of which can be 'monetised' to a £ value using the guidelines set out by HM Treasury's Green Book.⁶³ The associated wellbeing gain per member in monetised terms from this reduced financial vulnerability is equivalent to £9,200 a year in retirement.

Chapter 2 explored in more detail how the business model and attributes of large asset owners contribute to delivering this value to a greater extent for members of large pension funds. Another key contributor is the ability of pension funds to diversify investments through their global market reach. This reduces members' exposure to short-term local market volatility. For DC schemes, not only is this crucial at the point of retirement when any reduction in the value of their pension pot may risk the level of income it can provide for them, but over the course of someone's working life it also provides a cumulative benefit from higher annual returns. In DB schemes, this is an important part of ensuring risk and returns are balanced in a way that protects the stability of the scheme so that it can meet its liabilities and provide security for members' promised retirement payments.



Maintaining and building on this value

Maintaining and building on this value

The UK Government is rightly committed to maximising the benefits that pensions bring to their members, the economy and wider society. The Chancellor set out the Government's vision for pensions in her Mansion House speech in November 2024. At the heart of this agenda is the drive for greater scale in both open DB schemes and the DC sector. Some of the key proposals include ensuring the greater and faster transition of assets into the LGPS pools and encouraging consolidation amongst DC providers into a smaller number of master trusts with a minimum of £25 billion of AUM.⁶⁴ In addition, more recent proposals have set out the intention for Government to make surplus release from DB schemes easier.⁶⁵

This is an important agenda, given the benefits of sophisticated scale to society that have been outlined by this report. To ensure the Government's objectives are achieved in an appropriate and balanced way, we have identified a number of key principles that should underpin an approach to further realising the benefits of scale:



Independence is critical to the effectiveness of large funds – the ability of schemes to make appropriate decisions on behalf of members is critical to the benefits of scale. Moreover, it would be seriously damaging if these were outsourced to the Government or regulators. Mandating in any way could work against members' interests but also harm the economic value currently generated by large funds. For instance, by artificially inflating the price of UK investments due to a limited pool of suitable opportunities, this could create volatility in the value of pensions due to overexposure to systemic economic risks and potential long-term underperformance of funds. As a result, mandating an investment approach should be categorically ruled out to provide greater levels of certainty for trustees and savers.



Members need to come first – the role of pensions is to provide an income in retirement. It is not only understandable that large asset owners prioritise risk-adjusted returns for their members, it is fundamental. Increasing investment in certain asset classes for the good of the economy and society cannot come at the expense of the secure retirement of pension scheme members. Furthermore, it is because of the clear objectives that fiduciaries have to deliver for their members that they can take the long-term patient capital approach needed to drive sustainable growth.

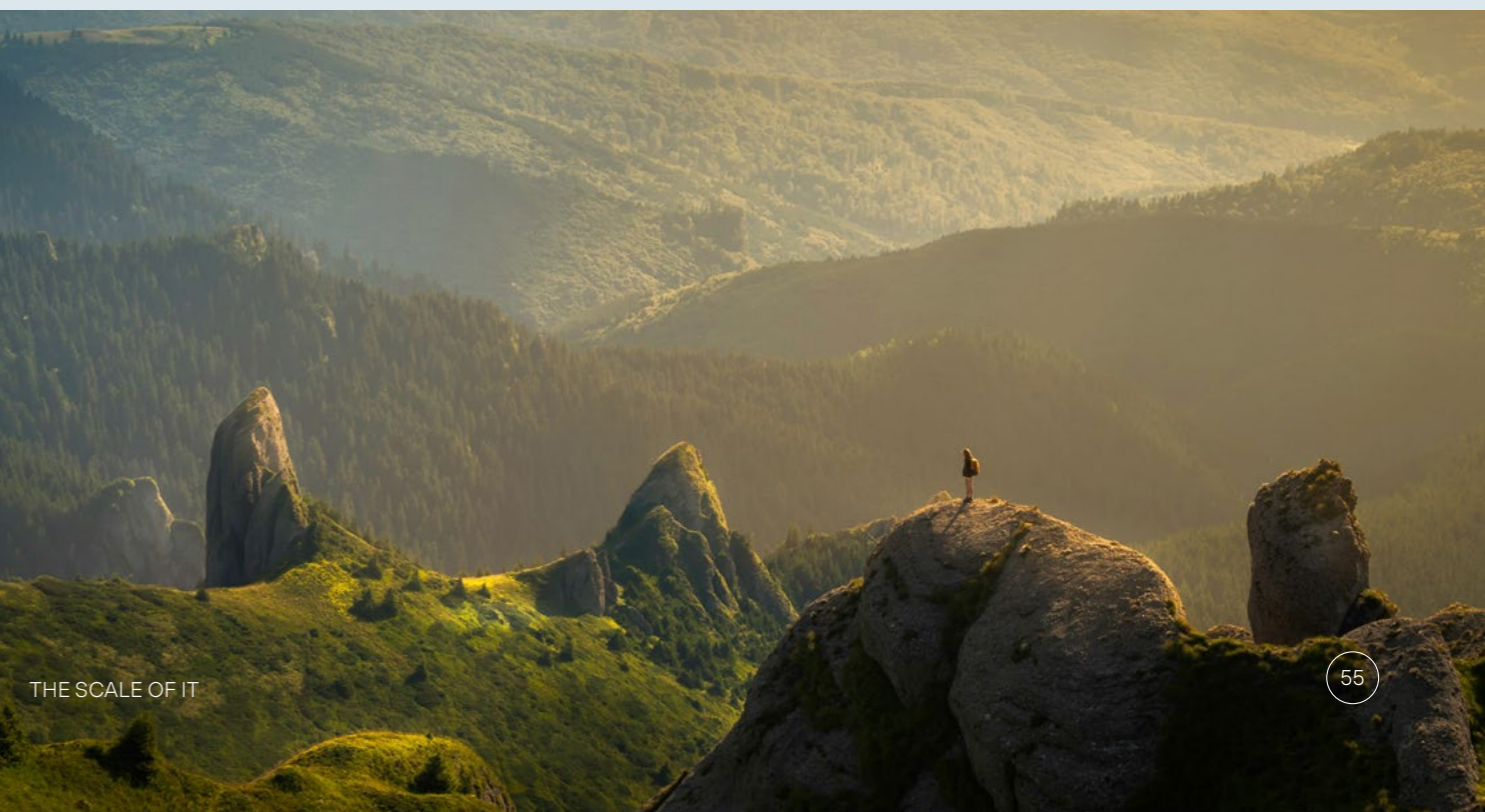


The UK needs to be more attractive to investment – some of the key themes emerging from our stakeholder engagement include tackling the planning system, delivering a long-term industrial strategy, and reforming stamp duty share transactions tax which penalise investment in the UK stock market. The PLSA has set out practical steps for creating the necessary investment conditions to allow pension funds to allocate a greater proportion of AUM to high-growth areas in the UK.⁶⁶ The Government has proposals to address some of these problems, and it is important these are put in place. Of greatest importance is the political and regulatory stability which would allow asset owners to make long-term investment decisions needed to support UK growth. Focusing on these issues can help to boost investment in the UK without seeking to unduly influence the decision making of trustees.



Consolidation and savings levels are both important for scale – Australia is often held up as an example of where large funds invest effectively for the good of their members and the Australian economy, and this is ascribed to its consolidated nature. However, the UK's DC sector has in fact achieved greater consolidation. The real strength of the Australian system is its size, driven by higher compulsory savings rates over a longer period. The Australian Super Guarantee will rise to a contribution rate of 12% of earnings by July 2025,⁶⁷ compared to only 8% of band earnings in the UK.⁶⁸ Increasing levels of savings into the DC system through higher auto-enrolment contributions will help more funds achieve greater scale to invest as large asset owners, alongside consolidation. Higher savings countries tend to be high investment countries.⁶⁹

While UK pension funds operate in a global market, their priority remains delivering for UK members. This could not be more crucial in the context of demographic change and concerns about pensions adequacy. Large funds are best able to deliver this, providing for the financial wellbeing of members in retirement, and the overflows this produces for the economy and wider society are considerable. It is crucial that the UK Government works with the sector to protect the important foundations of our system and build on this success to leverage greater gains where it really matters.



Methodology

We have identified several benefits delivered by large asset-owning pension funds' activity that we are able to quantify. Our estimates focus on the economic contribution specifically for large asset-owning pension funds (both DC master trusts and DB funds with AUM of more than £20 billion).

We have used the methodologies set out below to derive numeric results for the value generated by the large UK-based pension fund asset owners. Our model used data provided by the commissioning partners of this research, as well as publicly available data. In particular, we used the asset allocation data from our commissioning partners rather than industry totals because our study focuses on the investment impacts of large pension funds, not average or smaller pension funds. Using industry-wide data without distinction between large and small players would have failed to capture the unique investment footprint and economic impacts of large asset owners. By collecting data from our commissioning partners – who represent more than a third of the large pension funds in terms of AUM and cover a wide variety of scheme types and maturity – this more closely reflects the behaviour and influence of the large asset owners.

Benefit to members

The number of members saving for retirement through large pension funds has been extracted from the websites of the 22 large asset-owning pension funds (both DC master trusts and DB funds) with AUM exceeding £20 billion, as identified by our research. The data was collected directly from our commissioning partners, as well as open sources, for the end of March 2024. The total number of members of these selected pension funds is estimated at 29.4 million. It should be noted, however, that some people have pensions in several large pension funds, which we cannot take into account here due to a lack of data.

From this we calculated the superior returns for members' savings in large pension funds, compared to those delivered by smaller funds, and the associated wellbeing gains this provides. The consistently higher returns of large funds in a DC scheme is based on the results of a CEM Benchmarking study, which found that the pension funds with AUM of more than US\$10 billion (~£7.7 billion) outperformed smaller funds (with AUM of less than US\$1 billion or ~£0.8 billion) by 31 bps annually net of costs.⁷⁰ This study looked at large institutional investors generally, which included DC and DB funds, with the outperformance by large funds attributed to economies of scale and efficiency rather than simply investment differences. The fee

contribution is derived from a DWP survey and our own analysis, where the difference in ongoing charges between large and small schemes is around 21 bps.⁷¹ (For the benefits of scale in DB funds, please see the fiscal benefit section).

We derived the wellbeing gains for members from reduced risk of financial vulnerability in retirement based on the findings presented in Carr, Dawn C. et al. (2018).⁷² The paper finds a 0.42 difference in subjective wellbeing (based on a scale of 0–7) of people with stable financial income and those at risk of financial vulnerability two years before and after retirement. The monetisation of the gains uses the guideline set out by the HM Treasury Green Book, which is equivalent to £15,311 in 2023/24 prices per one-point increase in subjective wellbeing (on a scale of 0–10).⁷³ These gains are calculated on a per-member basis.

To highlight the benefit of being able to diversify asset investment, we have modelled the loss from an illustrative one percentage point lower investment return. For this benefit, we did not make a specific distinction between the performance of large and small pension funds. The figure is derived from our in-house model, which assumes 2% inflation, 3.5% nominal wage growth and a £28,000 starting salary, 8% annual contributions and 45 years of working. The nominal investment returns are assumed to be 4% and 5% respectively over time.

Benefit to the economy

The amount of investment in housing and infrastructure is from the data provided by our commissioning partners as of Q1 2024. This figure is used to extrapolate figures for all the large pension funds, and is based on the proportions of the total AUM managed by all large pension funds (around 56%).

GDP and jobs supported are based on the multipliers from Standard & Poor's research, which estimates that each additional £1 spent on infrastructure in one year (in real terms) would lift real GDP by £1.90 over a three-year period.⁷⁴ It also projects a strong effect on job creation, with each additional 1% of GDP spent on infrastructure adding over 200,000 jobs in that year.

Total Economic Gross Value Added (GVA) by large pension funds is derived from the ONS estimates for SIC code 66. This is where we estimate the GVA contributed by activities auxiliary to insurance and pension funding (SIC code 66.2) using BRES' employment figures and we further estimate the GVA contributed by large pension fund using their respective AUM. To derive the indirect and induced output multipliers, Type I and Type II Leontief Inverse matrices are employed to generate the indirect and induced GVA per unit of output multipliers. The indirect and induced benefits are calculated by using these multipliers from the direct benefits derived earlier.

For the benefits to the investee companies, the calculation considers the gain they receive from having access to capital, and at lower cost than if this capital were borrowed from a bank. The amount of investment provided by our commissioning partners as of Q1 2024 is used to extrapolate figures for all the large pension funds, based on their proportions of total AUM (around 37%). The lower cost of funding from pension fund investment in corporate bonds, compared to borrowing, is based on our own estimates by estimating the differentials between corporate bond yields (BBB investment grade)⁷⁵ and prime lending rate⁷⁶, which is about 32 bps.

Fiscal benefit

The amount of extra liquidity in the gilt market provided by large pension funds is again extracted from the data provided by our commissioning

partners for the amount of investments in the gilt market as of Q1 2024. This is extrapolated to all large pension funds based on their proportions of total AUM managed by large pension funds. Extra liquidity in the market can lead to lower medium- to long-term gilt yields and the UK Government's costs of funding. However, we did not proceed to model to what extent the gilt yields and costs of funding might be lowered due to the large asset owners' purchase of UK Government bonds, due to the complexity in isolating external factors and broader market movements.

Consistently higher returns delivered by large DB funds compared to funds of average size can lead to reduced contributions needed from sponsors, which includes public sector DB schemes such as local authorities. To model the benefit arising from this, we adopted a similar approach to deriving the higher returns of DC schemes (32 bps), which is based on the research findings of CEM Benchmarking, multiplied by the AUM of the large DB funds (£687 billion). The superior performance of DB funds reduces the amount of taxpayer money that must be spent on contributions by public sector employers, creating a fiscal saving.

Environmental benefit

We have identified the environmental benefit associated with large asset owners investing in green or sustainable assets, which can lead to a faster transition to a green economy and net zero. It can also lead to protection and improvements to the global environment, including climate impacts and diversity. The environmental benefits are not included in the economic modelling, as it is challenging to quantify how pension fund investment in green or sustainable assets directly leads to lower carbon emissions. However, it is still valuable to understand the scale of the large asset owners' investment footprint and appetite for green assets, given their significant influence in financial markets and wider society.⁷⁷ Additionally, research shows that when private shareholders engage with companies on sustainability issues, it can positively impact their carbon intensity.⁷⁸ As such, we have collected the investment data from our commissioning partners to project for the large pension funds as a whole. These figures are for investments in renewables and battery storage projects.

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