AREF
The Association of Real Estate Funds

The Association of Real Estate Funds
Head Office: 3 Waterhouse Square
London EC1N 2SW
+44 (0)20 7269 4677
info@aref.org.uk
www.aref.org.uk

DC Reform Policy Team

Department for Work and Pensions

By email: quarryhouse.pensionsinvestmentreviewdcreforms@dwp.gov.uk

16 January 2025

Pensions Investment Review: Unlocking the UK pensions market for growth

We, the Association of Real Estate Funds[1] (AREF), have read with interest the Pensions Investment Review Interim Report and the consultation on Unlocking the UK pensions market for growth. We have not responded to individual questions in the consultation paper, but instead, under some of the chapter headings, we have made some key points relating to investment by pension schemes in real estate as an asset class that we believe should be taken into consideration by the Government as part of this review.

Achieving scale in the Defined Contribution (DC) market

Platforms

We support the consolidation of DC pension schemes, but we would like to reiterate our concern that even if there are fewer larger DC pension schemes, they won't be able to invest in illiquid assets via funds unless there are changes to the platform architecture. Currently, many platforms are unable to accept deals in funds with notice periods. This is a fundamental obstacle to most DC pension schemes investing in UK commercial real estate - it is a structural and operational, not a regulatory, issue. In the absence of a solution to this problem, new regulatory structures such as the Long Term Asset Fund (LTAF) will not help increase investment by DC pension schemes in illiquid assets.

The issue is that DC pension schemes mostly invest through third-party investment platforms which will only take daily traded assets. This makes it difficult, if not impossible, for DC pension schemes to invest in fund structures such as the LTAF which hold illiquid assets such as commercial real estate, infrastructure, private equity and private debt. The Productive Finance Working Group (convened by HM Treasury, Bank of England and the FCA) was aware of this and issued a call to action in "Investing in Less Liquid Assets – Key Considerations" but so far this has been unsuccessful in addressing the problem. We suggest that the Government engage with the newly formed Platforms Association to find a solution to this.

Specialist knowledge

It mentions in paragraph 22 of the consultation paper that '*scale leads to efficiencies and enables greater expertise and diversification of investments*".

Also, in paragraph 23 it says that the Government's findings suggest there is *'a clear link between scale among pension providers and the ability to diversify investments. This particularly seems to be the case for investment into asset classes such as infrastructure and private equity. This is because, it was argued, as pension providers reach between £25 billion to £50 billion, the ability to hire skilled staff rises and, in some cases, investment can be brought in-house, with the scale also allowing more funds to be allocated to these asset classes.'*

[1] The Association of Real Estate Funds represents the UK real estate funds industry and has around 50 member funds with a collective net asset value of more than £50 billion under management on behalf of their investors. The Association is committed to promoting transparency in performance measurement and fund reporting through the AREF Code of Practice, the MSCI/AREF UK Quarterly Property Funds Index and the AREF Property Fund Vision Handbook.

We don’t disagree with these statements however, we would like to highlight that real estate and infrastructure are diverse asset classes within themselves. Each type of real estate and infrastructure has its own nuances which require specialist knowledge. It would not be cost effective for pension schemes to have the wide range of knowledge required in house to invest in all the types of real estate and infrastructure that would be appropriate investments for them. If, they do not have access to the specialist knowledge required, they will be restricted to investing in a limited range of these types of assets. Therefore, it is important they can continue to access this expertise externally via specialist asset managers and also have the opportunity to invest in best-in-class funds, where appropriate.

Cost versus Value: The role of employers and advisers

AREF completely agrees that ‘*the value delivered by DC workplace pensions, particularly in terms of investment returns, can have a significant impact on saver outcomes*’ and ‘*the DC market is operating with an excessive focus on costs’* as mentioned in paragraph 93 of the consultation. We fully support the introduction of a Value for Money Framework that enables industry stakeholders to assess and compare, not only investment performance and costs, but the value for money pension schemes are providing. This is particularly important for real estate and other illiquid assets that have been seen as costly to invest in without taking into consideration the excellent returns they can bring over the long term.

If you would like to discuss any aspect of our response, please contact Jacqui Bungay (jbungay@aref.org.uk), Head of Policy at AREF. Also, as our members invest in real estate and other real assets for various types of open-ended and closed-ended funds, we are always willing to assist the Government by sharing this wealth of knowledge and experience.

Yours sincerely

Paul Richards

CEO, The Association of Real Estate Funds