4 UK INSTITUTIONAL MARKET

KEY FINDINGS

MARKET OVERVIEW

- IA members managed £3.8 trillion of UK institutional client assets globally at the end of 2024, down 3% on £3.9 trillion in 2023. This modest decline follows a stabilisation of institutional assets in 2023, after the sharp 16% fall in 2022 driven by the September 2022 gilt market crisis.
- Despite weaker overall asset levels in 2024, estimates suggest that that institutional flows were positive at approximately £60 billion, compared with outflows of around £80 billion in 2023.
- UK institutional client assets are still concentrated in pension and insurance clients, which account for around 79% of institutional AUM. This is a 3% decline on the 82% recorded in 2023.
- Pension fund assets fell sharply in 2024 to 51% of institutional AUM (56%, 2023), continuing the steady decline which started in 2019. Insurance assets continued their strong growth, reaching their highest share in over ten years at almost 28% of UK institutional assets.

EVOLUTION OF THE PENSIONS MARKET

- UK pension fund assets managed by IA members dropped to just under £2.0 trillion in 2024, down from £2.2 trillion in 2023.
- The IA estimates the size of the UK pensions market at £3.8 trillion in 2024, unchanged from 2023 but still below 2021's £4.2 trillion estimate.
- DB pension schemes saw assets fall 12% to £1.7 trillion in 2024, compared with £1.9 trillion the previous year. As assets continue to migrate to insurers' balance sheets, we have seen DB totals shrink – it is estimated that new business volumes in the pension risk transfer market reached £45-50 billion in 2024.
- Local Government Pension Scheme (LGPS) assets remain resilient, accounting for 7% of UK institutional assets in 2024.
- DC pension workplace assets reached £650 billion in 2024, marking a 40% rise over the past five years. Individual and self-invested DC arrangements rose from £750 billion to £820 billion.
- Annuity-backed assets grew by a further 14% to reach almost £420 billion in 2024. Many retirees have returned to annuities as rates have increased.

THIRD-PARTY MANDATES

- Third-party client assets managed by IA members globally dropped slightly to £3.2 trillion in 2024, down from £3.4 trillion in 2023.
- Pension funds now account for 57% of total third-party assets, down 13% since 2021. Third-party insurance assets have grown significantly over the same period, rising to 19% of assets.

MANDATE TYPES

- Single-asset mandates rose 6% to reach 57% of mandates in 2024. Multi-asset mandates remained stable year-on-year at 16%.
- Assets in LDI mandates fell by six percentage points in 2024 to 27% of total mandates, continuing the sharp contraction seen over the last three years.

This chapter takes a detailed look at the UK institutional client market. Please note that Chapter 4: UK Institutional Market differs from previous and subsequent chapters of the report in two key respects:

- It covers all assets irrespective of whether they are managed from the UK or offices overseas. We estimate that at least 90% of the assets are managed in the UK.
- The primary focus is on the nature of a mandate rather than on the underlying assets. For instance, a global equity mandate is presented as such, without further breakdown into the underlying constituent countries.

Full details of the asset allocation and investment strategy for the entire institutional market are available in Appendix 2 of this report.

MARKET OVERVIEW

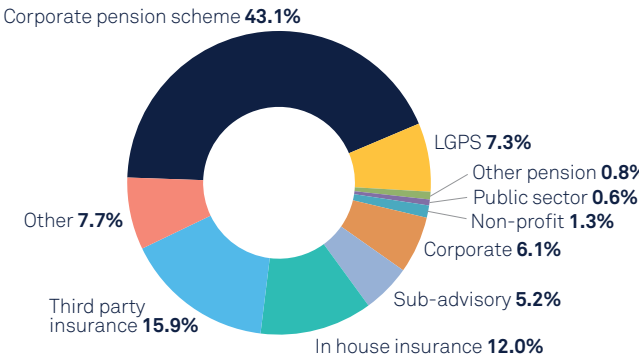
IA members manage £3.8 trillion of UK institutional client assets globally as of year end 2024, down 3.3% from £3.9 trillion in 2023. This modest decline follows a period of relative stability in 2023, after the sharp 16% fall in institutional assets recorded in 2022 which saw assets fall from a peak of £4.6 trillion. Despite weaker overall asset levels in 2024, we estimate that institutional flows were positive at approximately £60 billion, compared with outflows of around £80 billion in the previous year. This indicates that while client demand recovered, asset valuations continue to impact certain parts of the market.

CLIENT BREAKDOWN

Chart 17 provides a breakdown of the £3.8 trillion of UK institutional market assets by client type. The balance between pensions and insurance clients continues to shift, with pension schemes falling further as a share of institutional assets and insurance assets expanding.

- UK institutional client assets remain concentrated in pensions and insurance, together accounting for around 79% of the market in 2024. This headline figure has fallen three percentage points from 82% in 2023.
- Pension fund assets fell sharply in 2024, down to 51.2% of institutional AUM compared with 56.1% in 2023. The decline was driven primarily by corporate pension schemes, which contracted to 43.1%, down from 47.3%. This is consistent with external reporting of DB assets, with Pension Protection Fund (PPF) data showing an 11% fall in assets over 2024. By contrast, LGPS assets were broadly steady at 7.3%, though marginally down in nominal terms. External data suggests that there was growth in total LGPS assets in 2024.
- Insurance assets continued their strong growth, reaching their highest share in over ten years. In-house insurance mandates rose to 12.0% from 11.3%, while third-party insurance grew more strongly to 15.9%, up from 14.9% in 2023. Together, insurance clients now represent almost 28% of UK institutional assets. This likely reflects increased activity in the Pension Transfer Market (PRT) which has seen a shift of DB pension assets to the insurance sector. We discuss this in more detail later in the Chapter.
- Other client groups also gained ground. Corporate clients increased to 6.1% of institutional assets in 2024, compared with 4.4% in 2023, while sub-advisory mandates grew to 5.2%. "Other" clients accounted for 7.7%, their highest share in more than a decade. This broadening of the client base partly reflects the retreat of corporate pensions and the diversification of institutional mandates across different types of client structures.

CHART 17: UK INSTITUTIONAL MARKET BY CLIENT TYPE (2024)



Source: The Investment Association

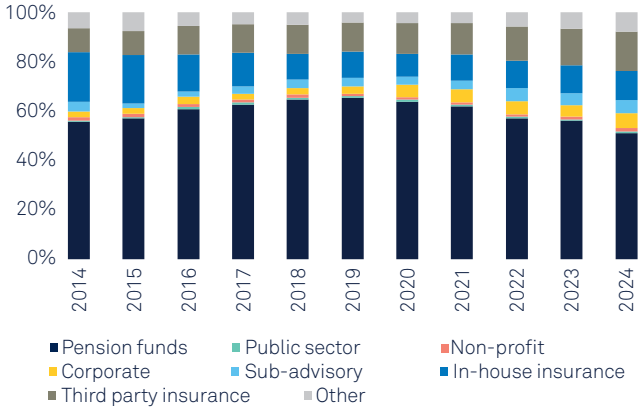
Chart 18 illustrates the distribution of UK institutional market assets by client type over the past decade. The data highlight a reconfiguration away from pension schemes as the dominant client base and towards insurance mandates.

- Pension funds have lost significant share over the

decade, falling from a peak of 65% of institutional AUM in 2019 to 51% in 2024. While pension funds continue to account for the majority of UK institutional client AUM, this decline has been steady since 2019, marking a return to levels last seen in 2011–2012. We look at the pensions market in more detail in the next section.

- Insurance has grown to fill the gap, reversing the decline seen between 2011 and 2020 when insurance mandates fell to a low of 22% of assets. Since then, insurance mandates have grown each year as a proportion of the asset base and accounted for 28% of institutional AUM in 2024, reflecting both in-house balance sheet growth and strong inflows into third-party mandates.
- Taken together the total proportion of assets managed for pension and insurance clients stands at 79%, notably lower than the 87% average for the first seven years of the last decade. While some of the fall in pension fund AUM is finding its way into the insurance segment of our data because of the rise in Pensions Risk Transfer (PRT) activity, not all of it is. Despite the six percentage point increase in the level of insurance assets since 2019, this has not completely offset the fourteen percentage point fall in pension assets.
- Other client groups have expanded their presence gradually, rising from around 15% of institutional AUM in 2014 to over 19% in 2024. Corporate clients have grown from just 2.3% in 2014 to 6.1% in 2024, while sub-advisory mandates rose from 4.0% to 5.2% over the same period.

CHART 18: UK INSTITUTIONAL MARKET BY CLIENT TYPE (2014-2024)



Source: The Investment Association

EVOLUTION OF THE UK PENSIONS MARKET

Using both proprietary IA data and third-party data, this section presents a detailed overview of the UK pensions market, looking at assets managed within both Defined Benefit (DB) and Defined Contribution (DC) schemes and where the asset manager has a direct relationship with the pension fund rather than it being distributed via a wrapped product through an insurance company.

As of December 2024, UK pension fund assets managed by IA members stood at just under £2.0 trillion, down from £2.2 trillion in 2023 and well below the £2.9 trillion peak in 2021. Despite growth in the UK's DC pensions market, the fall in overall assets has been driven by the DB sector, which is heavily exposed to the domestic bond market. This marks another year of contraction for the UK pensions sector, in contrast to the recovery in global pension assets. According to the Thinking Ahead Institute's Global Pension Assets Study 2025, worldwide pension assets reached $58.5 trillion at end-2024, up nearly 5% on the year and regaining ground lost during the sharp market falls of 2022.

The UK stands out as one of the weakest performers in this global context. According to the study, UK pension assets declined by 0.7% in 2024 in local currency terms, extending the drag from 2022's gilt market turmoil. It was the only country in the study which reported a contraction in pension assets over 2024. As a result, the UK's relative weight in the global pensions market continues to diminish: its share of worldwide pension assets fell to around 5.4% in 2024, compared with nearly 9% a decade ago.

IA member managed pension fund assets can be categorised into the following three categories:

- **Corporate pension funds**, which can be either DB or DC schemes, account for the majority of UK pension fund assets and are estimated to stand at £1.6 trillion. Corporate Pension Funds include an estimated £125 billion managed by Occupational Pension Scheme managers.
- **The Local Government Pension Scheme** (LGPS) is a DB pension scheme with almost 6.7 million members and is responsible for almost £280 billion in assets managed by IA members – making it the largest public sector pension scheme in the UK. Using recent market value estimates for the LGPS[7], IA members are responsible for managing approximately two thirds of LGPS assets.
- **Other pension funds** include both DB and DC assets managed for pension schemes that do not fit into either category listed above, such as pension schemes run for not-for-profit organisations. Other pension fund assets account for an estimated £30 billion (equivalent to just 1% of pension assets).

SIZING THE MARKET

Due to the complexities involved in how DC and personal pension products are distributed, it is not possible to provide a precise split of assets by pension fund type. By drawing on external data sources, however, we can outline the structure of the UK pensions market and estimate the relative scale of DB and DC assets.

For DC pensions, we distinguish between two main categories (Figure 9):

- Accumulation phase – This represents the period of active saving, where contributions made through workplace or retail pension schemes are invested with the objective of building a pool of assets until retirement or the start of withdrawals.
- Decumulation phase – This refers to the stage where retirees convert their pension savings into income to support their retirement. Income may be accessed through drawdown arrangements, or via the purchase of an annuity that provides a guaranteed stream of payments for life.

At the headline level, we estimate that total UK pension assets stood at £3.8 trillion at the end of 2024, unchanged since 2023 but still below the £4.2 trillion peak in 2021. Beneath the headline level data, there have been sharp movements within different segments of the UK pensions market.

- DB pension schemes saw assets fall 12% to £1.7 trillion in 2024, compared with £1.9 trillion the previous year. The rise in interest rates since 2022 has reduced the present value of liabilities, pushing many schemes into surplus and enabling trustees to pursue de-risking strategies. The most prominent of these has been the transfer of liabilities to insurers. New business volumes in the pension risk transfer market reached £45-50 billion,[8] close to the record volumes recorded in 2023. As assets continue to migrate to insurers' balance sheets, we have seen DB totals shrink.

[7] Latest data from Ministry of Housing, Communities & Local Government suggests that as of March 2024, total assets were £391 billion. Isio LGPS (England & Wales) Low-Risk Funding Index: 31 March 2025 results estimate this has reached £415 billion by the end of December 2024.
[8] LCP pension risk transfer report – October 2024, WTW De-risking report 2025

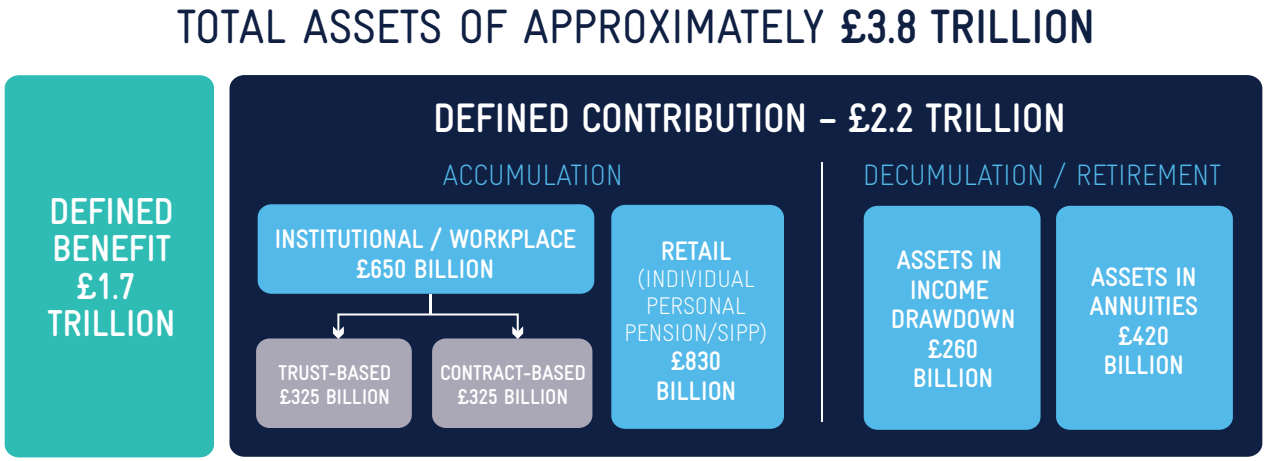
- One area of the DB system has bucked the trend. LGPS assets, which reached £415 billion[7] by the end of 2024, have grown from £360 billion since March 2023. Unlike corporate DB schemes, the LGPS is open to new members, meaning it benefits from ongoing employer and employee contributions. These inflows have sustained growth even as other DB schemes close and wind down. Policy has also played a role: pooling reforms have created larger investment vehicles, allowing funds to broaden allocations into infrastructure, private equity and renewables. We will explore the asset allocation patterns later in the chapter.

- On the DC side of the pensions landscape, workplace DC assets continued to rise, reaching £650 billion[9] in 2024. This marks a 40% increase in the last five years, underscoring the structural shift underway as DC becomes the dominant form of provision. Individual and self-invested DC arrangements rose from £750 billion to £820 billion.[9]

- In 2024, the UK decumulation market experienced strong growth across both flexible and guaranteed retirement income solutions. The drawdown market expanded markedly, with assets rising by 18% from £220 billion in 2023 to £260 billion in 2024. This growth was fuelled by rising inflows: according to FCA data,[10] the number of pension plans entering drawdown for the first time increased from 278,977 in 2023/24 to 349,992 in 2024/25 — a jump of more than 25%. The sharp increase reflects both demographic momentum, with more retirees relying on DC savings, and the strong preference for flexibility that has characterised behaviour since the pension freedoms were introduced.

- At the same time, assets backing annuities also grew, rising 14% to reach almost £420 billion. While annuities still account for a relatively small share of new retirements, the FCA reported that annuity purchases rose from 82,061 in 2023/24 to 88,430 in 2024/25[10] — an increase of nearly 8%. Many retirees have returned to annuities as rates have increased, as a way of locking in certainty, often using them to secure a reliable income floor while keeping the remainder of their savings in flexible drawdown.

FIGURE 10: OVERVIEW OF THE UK'S PENSION LANDSCAPE (2023)



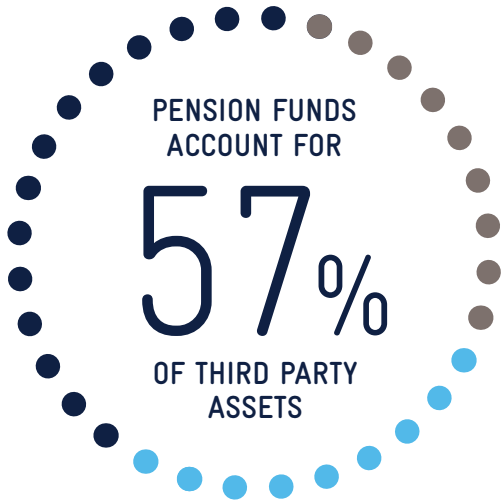
Sources: The Bank of England, Department for Levelling Up Housing & Communities, Financial Conduct Authority, The Investment Association, MoreToSIPPs, Office for National Statistics, Pensions Policy Institute DC Future Book, Pensions Protection Fund 7800 Index

[9] PPI DC Future Book 2024 for workplace DC estimates, IA estimates and MoretoSIPPs data for individual/self-invested DC
[10] FCA Retirement income market data 2024/25

TRENDS IN THIRD-PARTY INSTITUTIONAL MARKET

Full details of the asset allocation and investment strategy for the entire institutional market are available in Appendix 2 of this report. The remainder of this chapter uses IA data to look more closely at the institutional market that is available to third-party clients, that is, excluding mandates managed in-house for insurance parent groups and occupational pension schemes.

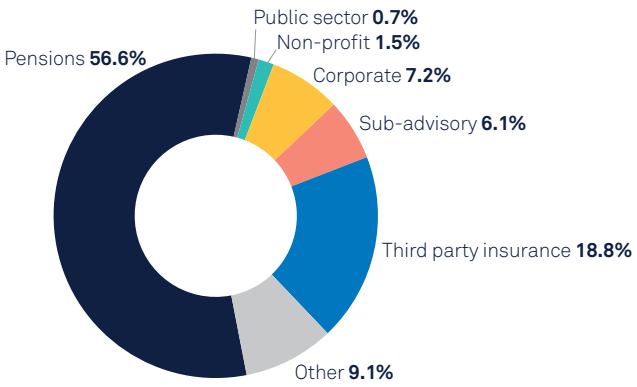
Excluding in-house insurance mandates, total third-party client assets managed by IA members globally stood at £3.2 trillion at the end of 2024, edging down 4% from £3.4 trillion in 2023 and still below the £4.0 trillion peak in 2021. These moves are broadly in line with what we saw when we included in-house insurance assets in our analysis at the beginning of this chapter.



In Chart 19, pension funds continue to be the largest client group, but their dominance is clearly eroding. Like what we saw in earlier charts, pensions now account for 57 % of third-party assets, down thirteen percentage points since 2021. Much of this lost share has flowed into the third-party insurance category, which has grown five percentage points to 19% of assets over the same period.

At the same time, other client groups are gradually reshaping the institutional market. Corporate mandates, sub-advisory arrangements, and especially the "Other" category have all expanded their share since 2021, pointing to a broader institutional base beyond pensions. Even smaller segments such as non-profits have more than doubled in relative weight over the past three years. Together, these shifts suggest the UK market is undergoing a structural rebalancing—from a pension-centric system to a more diversified landscape where insurers, corporates, and other clients play an increasingly important role in driving demand for investment management.

CHART 19: THIRD-PARTY UK INSTITUTIONAL CLIENT MARKET BY CLIENT TYPE (2024)



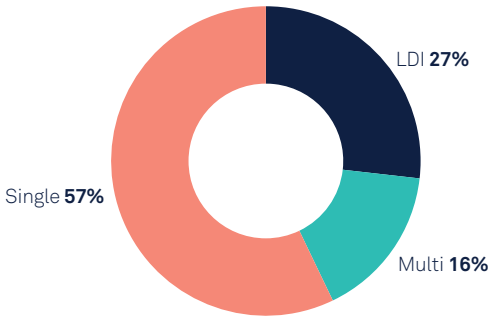
Source: The Investment Association

MANDATE BREAKDOWN

Chart 20 breaks the institutional market down into three categories of mandate:

- Single-asset, or 'specialist' mandates, which focus on a specific asset class or geographical region. In 2024, assets managed in single-asset strategies rose six percentage points to 57% of mandates, reversing the small decline seen in 2023.
- Multi-asset, or 'balanced' mandates, which cover several asset classes and regions. Balanced mandates were stable, accounting for 16% of assets managed by third-party clients at the end of 2024, unchanged from the previous year.
- Liability Driven Investment (LDI) mandates, which are specifically designed to help clients meet future liabilities. These mandates frequently make greater use of derivative instruments and are therefore included based on the notional value of liabilities hedged, rather than the value of physical assets held in the portfolio. Assets in LDI mandates fell by six percentage points in 2024 to 27% of total mandates, continuing the decline from the previous year. We cover LDI assets in more detail in the next section.

CHART 20: UK THIRD-PARTY INSTITUTIONAL MANDATES INCLUDING LDI IN 2024



Source: The Investment Association

LIABILITY DRIVEN INVESTMENT STRATEGIES

Over the past decade, Liability-Driven Investment (LDI) strategies expanded rapidly to become a central tool offered by investment managers to defined benefit (DB) pension funds, but the last three years have seen a sharp contraction that has unwound much of this growth. Chart 21 shows that in 2014, the total notional liabilities hedged through LDI strategies was around £650 billion. That figure more than doubled to a peak of over £1.5 trillion in 2021, reflecting widespread adoption and increased reliance on leverage to hedge interest rate and inflation risks. Since then, however, the trend has reversed dramatically, falling each year since 2021, standing at £860 billion by the end of 2024. It is these sharp falls in LDI portfolios that are driving much of the pension trends that we have seen in this chapter so far. LDI was once a dominant source of assets in the UK institutional market- accounting for as much as 40% of institutional AUM in 2019, compared with 27% in 2024.

Several factors explain both the steep growth in LDI up to 2021 and the subsequent retrenchment:

- **Low rates and liability pressure:** The prolonged low-interest-rate environment inflated the present value of pension scheme liabilities, creating strong incentives to hedge interest rate and inflation exposures.
- **The use of leverage and derivatives:** LDI's growth was amplified by the ability to use derivatives and repo financing to extend hedge coverage without fully committing scheme assets. This meant relatively small pools of collateral could support very large notional exposures, giving pension funds a very capital efficient way of both seeking growth while reducing volatility in their funding positions. TPR have estimated that by the end of 2021, 60% of private sector DB schemes were using LDI strategies to manage liabilities.[11]
- **The 2022 gilt market shock:** The gilt crisis triggered by the September 2022 mini-budget exposed market sensitivities in LDI portfolios. As gilt yields spiked following the reaction to the budget announcement, pension schemes and LDI pooled funds faced urgent collateral calls. Some schemes and pooled funds were unable or unwilling to meet them, leading to forced gilt sales and a downward spiral in valuations. Even though the Bank of England intervened to

[11] Work and Pensions Committee inquiry into 'Defined benefit pensions with Liability Driven Investments

stabilise the market, many schemes subsequently reduced their exposures and asset valuations are yet to recover to pre-September 2022 levels.

- **Higher interest rates, shift towards de-risking:** Higher interest rates improved DB funding levels across the board, with the Pension Protection Fund 7800 index noting a significant rise in schemes reporting surpluses and a fall in schemes reporting deficits. This reduced the need for leveraged hedging strategies and gave trustees the opportunity to pursue de-risking more decisively. Record levels of buy-ins and buy-outs in 2023 and 2024 of c.£50 billion, and WTW's forecast of £70 billion in transactions in 2025, show that assets have been increasingly moving from LDI to the risk transfer market. At the same time, some schemes still invested in LDI are adjusting approaches: less leverage, larger collateral buffers and more conservative hedging ratios. These adjustments have significantly reduced notional exposures.

- **Rising scheme maturity contributing to falling demand for LDI:** DB schemes continue to mature, with most now closed to new accrual. According to the Purple Book 2024, 74% of DB schemes are closed to future accrual. Increased maturity of schemes means there is less demand for highly leveraged strategies and there is a greater need for cashflow focused approaches. The fall in total DB assets is not unexpected against this maturing profile of schemes.

CHART 21: **NOTIONAL VALUE OF LDI (2014-2024)**

Source: The Investment Association

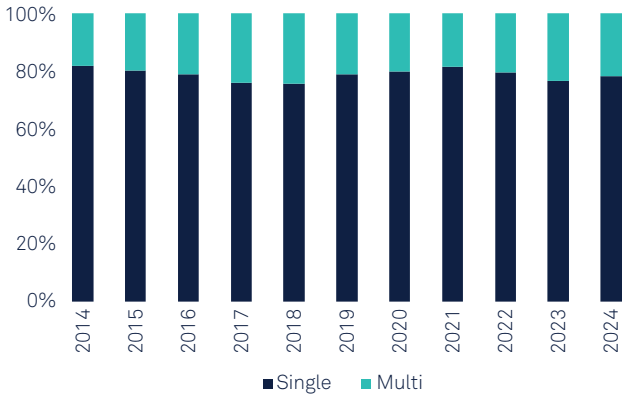
MULTI-ASSET VS. SPECIALIST MANDATES

Given that LDI strategies are used almost exclusively by DB pensions, their inclusion in the data can mask some interesting trends in the broader market. The analysis presented in this section excludes the value of LDI mandates to allow us to uncover some of these trends.

Over the past decade, multi-asset mandates steadily gained ground as institutional investors sought diversified "one-stop" solutions rather than managing asset allocation themselves. But by 2019, that growth started to plateau and then reverse: multi-asset strategies now account for roughly 22 % of third-party mandates (excluding LDI), down from 24 % in 2023, but up from 18% a decade ago. While single-asset mandates still command the lion's share with 78%, this has declined from 82% in 2014.

Policy is increasingly shaping the direction of UK institutional investment. The government's Pensions Investment Review and the Pension Schemes Bill 2025, which implement's the Review's proposals, emphasise consolidation, aiming to create larger, more scalable default funds with the capacity to invest in illiquid and "productive" assets. It remains unclear what impact this will have on the type of mandates that investment managers will deliver, however, indications in the LTAF space suggest that much of this private market investment will be in multi-asset strategies, with almost half of all LTAF launches to date structured as multi-asset private markets funds. The preference for multi-asset solutions likely reflects the fact that for many schemes this is their first foray into private markets. As they become more experienced with private markets investing and develop more in-house expertise, we might expect this to change, with growth in asset-class specific mandates. Consolidation in the DC space could have a contrasting effect. Larger schemes with stronger governance may prefer single-asset specialist mandates and retain control over allocations.

CHART 22: UK THIRD-PARTY INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS. SPECIALIST (2014–2024)

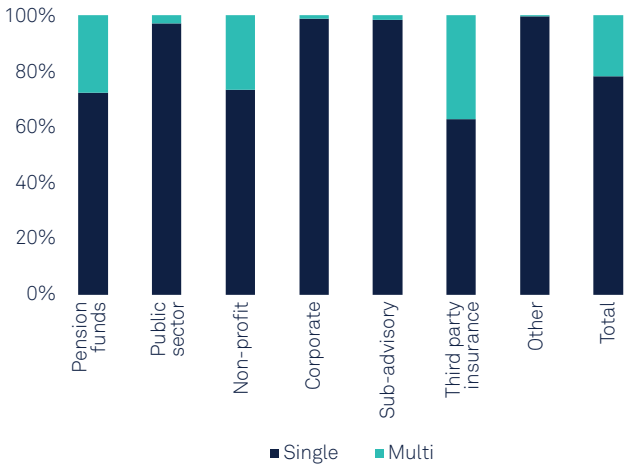


Source: The Investment Association

Chart 23 looks at the balance between single and multi-asset mandates across client groups, which have remained broadly in line with what we reported last year. The balance does differ depending on client types, so the trend we reported in Chart 22 above will largely be shaped by shifts in the balance of assets by client type.

- **Third-party insurers are most likely to outsource all or part of the asset allocation to investment managers**, especially given that, unlike in the pension market where consultants typically advise trustees on asset allocation, they are not obliged to seek advice from investment consultants before awarding mandates. In 2024, almost two-fifths of their assets (37%) were managed in multi-asset strategies, down slightly from 39% the previous year.
- **Over a quarter (28%) of pension fund assets are managed through multi-asset mandates**, with the remainder in single-asset strategies. This higher allocation compared with other client groups may reflect the fact that in DC schemes, 94% of members are invested in the default fund (DWP, Pension Provider Survey 2024/25), and these defaults are typically structured as multi-asset portfolios. With the policy developments outlined in the previous section, we may see this change in the coming years.
- **Non-profit organisations also stand out, with around 27% of their assets** allocated through multi-asset mandates. For these investors, the appeal likely lies in simplicity and diversification: many lack the resources to run multiple single-asset mandates, and multi-asset strategies provide a cost-efficient way to access a diversified mix of assets.
- **Public sector, Corporate, Sub-advised and 'Other' clients assets are almost entirely managed on a single-asset basis**, with negligible use of multi-asset strategies.

CHART 23: UK THIRD-PARTY INSTITUTIONAL CLIENT MANDATES: MULTI-ASSET VS. SPECIALIST IN 2024



Source: The Investment Association

ASSET ALLOCATION TRENDS WITHIN SPECIALIST MANDATES

Chart 24 shows the breakdown of specialist (single-strategy) mandates by asset class over the past decade. Unlike what we reported in Chapter 3 of this report when looked at wider asset allocation patterns for UK and overseas retail and institutional investors, asset allocation trends in the UK institutional market have remained broadly stable but there have been some long term shifts to highlight:

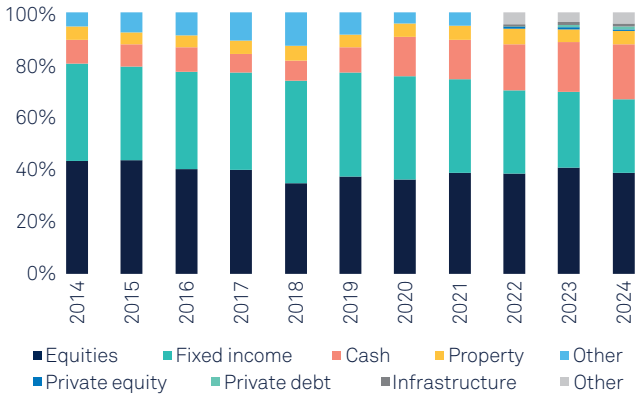
- 2024 saw a one percentage point fall over the year in fixed income mandates, which now account for 28% of specialist assets — the lowest share in our data. This marks the fifth successive year in declining allocations, which have fallen sharply from the 40% peak in 2019 reflecting both the impact of higher interest rates on bond valuations and the fall in pension assets. While bond yields are now more attractive, suggesting potential scope for recovery, allocations have yet to rebound in mandate terms.

- By contrast, equities remain the main focus of specialist mandates, representing 39% of assets in 2024. Although down two percentage points from 41% in 2023, this is in line with the long term average and equity allocations continue to dominate, supported by strong performance in global markets even amid a challenging macro outlook for growth strategies.

- The long-running rise in cash mandates has accelerated, with allocations reaching 21% in 2024, the highest level recorded. This reflects heightened demand for liquidity following recent stress events. Institutional clients continue to rely on cash-like strategies, including money market funds, both for risk management and regulatory compliance.

- Allocations to private markets within specialist mandates remain small at 2.7% but have steadily increased from 1.7% in 2022. In 2024, private debt saw the biggest rise, growing from 0.7% of AUM to 1.1%. Infrastructure is the largest segment at 1.3%, while private equity remains relatively low at 0.5%. Though modest in percentage terms, over time, these strategies are likely to become a more established component of both specialist and multi-asset mandates. The Mansion House reforms will likely shift the asset allocation landscape for UK institutional investors. The commitment from major DC providers to allocate at least 10% of default assets to productive finance, including 5% to UK assets by 2030, will channel a larger share of capital toward asset classes such as infrastructure, private equity and private credit.

CHART 24: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS (2014–2024)



Source: The Investment Association

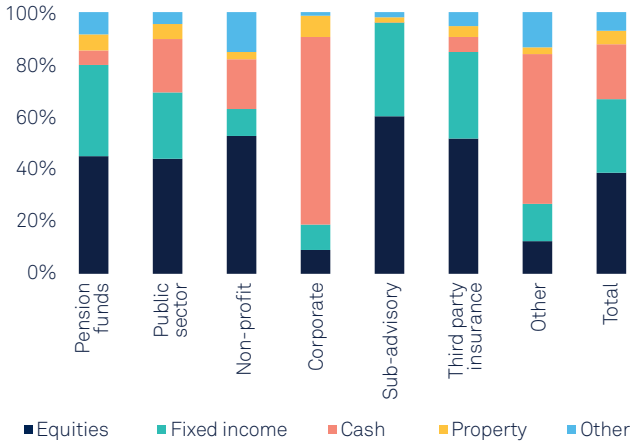
Asset allocation patterns differ quite substantially across different segments of the institutional market as each client segment has differing long-term investment objectives. Chart 25 highlights some distinct differences in the asset allocation profiles for each client group:

- Pension funds and third-party insurers display broadly similar allocation profiles, each combining significant exposure to growth assets with sizeable allocations to fixed income. Pension funds hold 45% in equities and 35% in fixed income, with modest allocations to private markets (4%) — 1% in private equity, 1% in private debt, and 2% in infrastructure. This balanced mix reflects their dual need to generate returns while managing liabilities.

- Third-party insurers show a comparable pattern, with 52% in equities and 33% in fixed income. Like pension funds, they have started to build exposure to private markets with a 4% allocation, primarily through private debt (3%).

- Among the other client types, the corporate segment, which is now the third largest client group at 7% of third party AUM, stands out for its exceptionally high allocation to cash (72%), reflecting a focus on liquidity management rather than long-term investment.

CHART 25: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS IN 2024



Source: The Investment Association

Through our survey, we can compare the asset allocation of the LGPS with the asset allocation of corporate pension funds, which represent a mix of assets managed through DB and DC schemes but where DB assets make up the largest proportion. Chart 26 presents this breakdown and we observe:

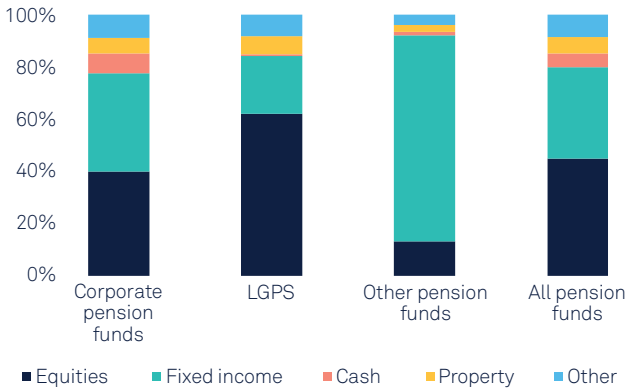
- Asset allocation patterns across the pensions universe are vastly different, and for factors that go beyond whether the scheme is defined benefit or DC. Schemes that are closed to new members, or those with no active accruals or with significantly different age profiles will have different asset class exposures to reflect that.

- LGPS are DB schemes that operate under a different regulatory framework from other workplace DB schemes and don't need to strictly match assets to liabilities. They are also open to new members and have a younger age profile with longer retirement horizons. As such, we observe vastly different asset allocation patterns compared with the DB asset allocation in the next section of this chapter. Chart 27 shows that LGPS asset allocation patterns remained broadly unchanged in 2024. Unlike what we present on DB allocations in Chart 27, LGPS portfolios are substantially more growth focused with a 62% allocation to equities and only 22% in fixed income.

- Corporate pension funds (which include both DB and DC components) by comparison, show a more balanced mix of 40% equities and 38% fixed income. Year on year, we have seen the allocation to equities increase by four percentage points from 36%, and fixed income fall by 2 percentage points. This likely reflects the fall in DB assets within this category, which we have already seen are heavily weighted towards fixed income.

- Allocations to private markets, and specifically private equity, private debt and infrastructure are marginally higher among LGPS portfolios at 5% compared with 4% or corporate pension assets. LGPS funds have historically demonstrated more appetite for alternative compared with the corporate pension segment and as a public sector scheme are also facing increased political pressure to increase private market and domestic allocations.

CHART 26: SPECIALIST MANDATE BREAKDOWN BY ASSET CLASS AMONG UK PENSION FUNDS IN 2024



Source: The Investment Association

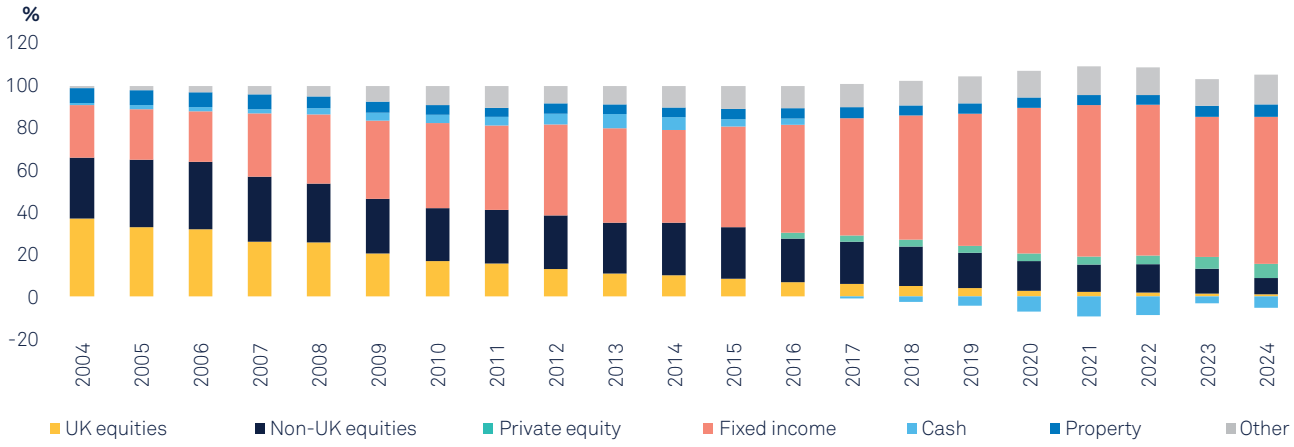
Although DC workplace pension assets are growing, DB schemes still make up the majority of UK workplace pension assets. Our data combines workplace DB and DC schemes in one category, so in the next two sections we utilise external data to provide context on the asset allocation of DB and DC schemes.

The UK defined benefit (DB) pensions landscape continues to contract, with the Purple Book 2024 reporting 4,974 schemes eligible for the Pension Protection Fund (PPF), down 89 since 2023. Membership stands at 8.8 million, but just 430,000 members are actively accruing. By comparison, there are over 30 million DC scheme members of which 11.1 million are actively accruing.[12]

Given the rising maturity of DB pension schemes, and the falling number of schemes each year, the asset allocation trends will be vastly different to DC schemes. Chart 27 shows the asset allocation trends for DB schemes over the last two decades. We make the following observations:

- **Bonds increase their dominance in DB portfolios in 2024**. As of 2024, DB schemes held around 70% of assets in fixed income, compared with 67% in 2023. Within bonds, the index-linked share has risen to 46% of fixed income assets, highlighting the continued focus on inflation hedging as schemes mature and liability cashflows become more predictable. Private debt has also emerged as a meaningful sub-category at 7% of bond portfolios, reflecting a search for diversification and higher spreads beyond public markets.
- **Equity allocations in DB schemes are smaller, more private and less UK focused**. Equity allocations have shrunk further to around 15% of total assets (down from 18% in 2023). Within that, the structure of equity portfolios continues to change. UK quoted equities have dwindled to just 1% of total DB assets, 37% in 2004. This is part of a wider trend of global diversification, but also reflects persistent underperformance of UK equities relative to global peers. Even though the UK market has shown signs of improvement more recently, structural factors — limited growth sectors, smaller market capitalisation, and geopolitical risk — have reinforced the retreat.
- **Almost half (44%) of DB scheme equity assets are now unquoted/private equity, a significant increase from 30% just a year earlier**. This means that despite equities shrinking overall, private equity now represents 6% of total DB assets. Trustees have embraced illiquids as a way to generate return premia in a lower-return environment, even as they reduce overall equity risk.
- **Combined, private equity and private debt account for 11% of DB scheme assets**. This suggests schemes are prepared to tolerate illiquidity, but only within a liability-matched framework. External research shows that schemes are focused on

CHART 27: **UK DEFINED-BENEFIT FUND ASSET ALLOCATION (2004–2024)**



Source: UBS Pension Fund, Pension Protection Fund – The Purple Book 2024

[12] The Pensions Regulator (TPR)- Occupational Defined Contribution Landscape 2024

"cashflow-aware illiquids" — assets that can generate stable returns without destabilising the liability hedging portfolio (WTW, 2024; Russell Investments, 2024).

- **Beyond bonds and equities, schemes hold 14% in "other" investments of which 10% are in annuities up from 7% the previous year**. This is further reflection of the ongoing wave of de-risking activity in the DB pension sector.

Defined contribution (DC) pension schemes have expanded rapidly since the introduction of automatic enrolment, bringing millions of new savers into workplace pensions. Pension participation has risen from just over 40% of private sector employees in 2012 to over 80% in 2024, according to DWP data. This structural shift has created a distinct asset allocation profile compared with defined benefit (DB) schemes, shaped by the fundamentally different demographic profile of the two systems.

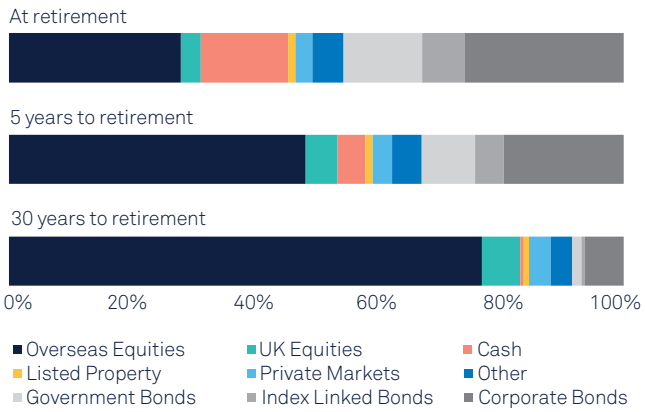
As Chart 28 shows, in DC, asset allocation varies sharply depending on how close members are to retirement. Younger savers, with 30 years to go, are overwhelmingly positioned for growth. Over four fifths (83%) of their assets are in equities, delivering global diversification and return potential. Importantly, allocations to UK equities in this group average just over 6%, a meaningful share compared to the DB sector, where UK listed equity exposure has fallen to around 1%. Although small in global terms, this is slightly higher than the weighting of UK equities in global indices, and shows that DC defaults are still providing a channel for equity capital to UK companies, especially among younger cohorts where return horizons are long.

As retirement approaches, DC defaults gradually rebalance. Five years out, equity exposure falls to half (53%) of portfolios, while fixed income rises to a third, mainly through corporate bonds. At retirement, equities still account for 31% of assets – far higher than the roughly 9% in DB schemes. The rest is split between bonds (around 45%), cash (14%, reflecting lump-sum options) and smaller allocations to property and alternatives. This positioning reflects the fact that most defaults are designed for drawdown at retirement: some equity risk is maintained to support sustainable withdrawals and reduce the risk of stable but potentially negative real returns.

By contrast, as we have seen in Chart 27 above DB funds have steadily reduced equity allocations over the past 15 years, pivoting into fixed income to match liabilities. Yet this does not mean DB capital is disengaged from the UK economy. On the contrary, exposure to UK productive assets remains significant, but the emphasis has shifted from listed equities to UK government and corporate bonds, which now dominate DB allocations. These instruments continue to finance the state and domestic companies, albeit through debt rather than equity.

Policymakers are keen to encourage greater domestic investment, with initiatives such as the Mansion House Accord and the Leeds reforms highlighting the role of pensions in supporting UK growth. The persistence of UK equity allocations in DC defaults – far higher than in DB – provides a base to build on. Coupled with DB's strong commitment to UK bonds, both parts of the pension system remain important providers of capital to the domestic economy, even as the balance between equity and debt exposure has evolved.

CHART 28: DC ASSET ALLOCATION, 30 YEARS/ 5 YEARS PRIOR TO RETIREMENT AND AT RETIREMENT (2024)



Source: Corporate Adviser- Master Trust and GPP Defaults Report 2025

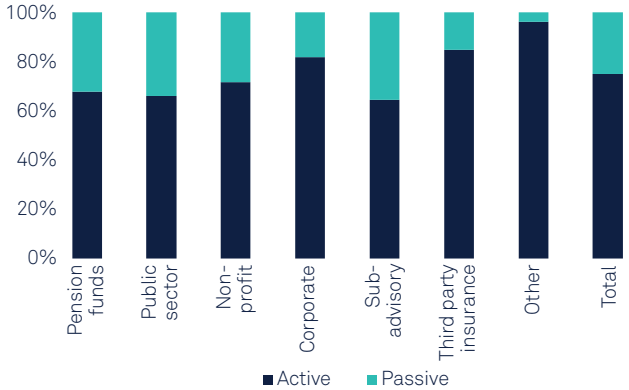
ACTIVE VS. INDEXING

In 2024, index tracking assets rose slightly to 25% of assets (from 24% in 2023). This shows UK institutions are more active-leaning than the broader client base—including retail and overseas investors—where trackers account for about 35% of AUM. In fact, the secular rise over the decade in the wider market has not borne out in the third-party institutional market- which has seen the proportion of indexing assets fluctuate between 24% and 31% in recent years.

Chart 29 provides a breakdown looking at the allocation to index tracking strategies by client type:

- **Insurers and corporates have higher allocations to trackers compared with pension funds, non-profits and sub-advised clients**. The 82% active allocation for corporates likely reflects that much of their managed assets sit in cash or cash-like assets. For insurers, which are investing 85% in active strategies, the focus is primariliy on investing in cashflow matching portfolios which would inherently require active design, selection, and monitoring.
- **Pension funds by comparison, are much more heavy investors in index tracking strategies** increasing their use of indexing in 2024 to 32% (from 29%). Charge caps in the DC pension market has meant that there has been a regulatory driven rise in demand for low cost indexing strategies. By comparison, DB schemes which heavily use LDI are more likely to require actively managed protfolios. The fall in DB assets and rise in DC assets in our data will likely be driving the 3 percentage point increase in tracker assets for 2024.

CHART 29: ACTIVE AND INDEX THIRD-PARTY MANDATES BY CLIENT TYPE, SAMPLE-ADJUSTED (2024)



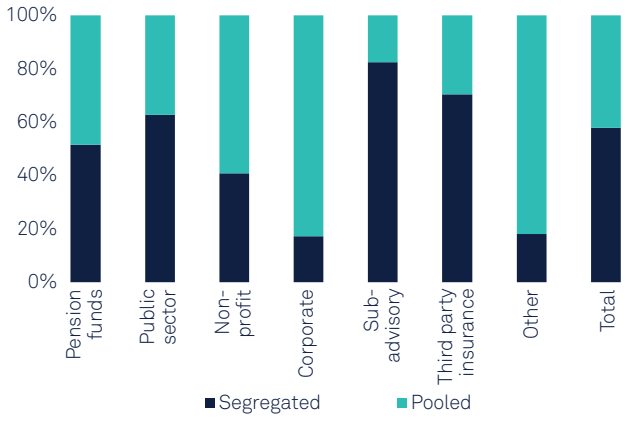
Source: The Investment Association

SEGREGATED VS. POOLED

Among UK institutional investors, the majority of assets are managed through bespoke segregated mandates as opposed to pooled vehicles. However, Chart 30 shows the share of assets in pooled vehicles edged up again in 2024 to 42% (from 41% in 2023). After the big step-up seen in 2023 (which saw an increase in pooled vehicle assets from 33% to 41%) momentum continued—more slowly—as clients blend bespoke governance with fund-vehicle efficiency.

- Pension funds are the headline mover: pooled vehicles rose to 49% (from 44%), taking the segment close to parity. A key driver is the fall in DB assets and LDI arrangements and the growing use of "fund-of-one" structures—bespoke portfolios wrapped in authorised funds—counted in our data as pooled. They deliver customisation, simpler administration and regulatory protections. Corporate pension fund assets, which are heavily DB, are more likely to use highly customised mandates with just 35% in pooled vehicles. LGPS schemes have a higher proportion of assets in pooled vehicles (45%) by comparison.
- Insurers increased their use of segregated mandates (70% vs 65%) consistent with liability-aware, cash-flow-matching portfolios that favour bespoke mandates. Corporate clients pushed further into pooled (83%, +4pp) reflecting the heavy investment in pooled liquidity vehicles that these clients are overwhelmingly invested in.

CHART 30: SEGREGATED AND POOLED MANDATES AMONG THIRD PARTY PENSION FUNDS (2024)



Source: The Investment Association