

PRIVATE MARKETS



European pension funds are deepening their push into private markets, with a focus on mid-market buyouts and local opportunities. While digitalisation and ESG remain key themes, investors face growing pressure to conduct rigorous due diligence to manage risks. **Lynn Strongin Dodds** reports

Over the past five years, private assets have become a feature in European pension fund portfolios.

However, views are mixed as to whether schemes will maintain or increase their holdings given the current turbulent environment driven by the Trump administration's onerous tariff policies and ongoing geopolitical tensions in Ukraine and the Middle East.

Some such as Man Group head of European institutional sales, Chris Parker, believe it will not be that straightforward and will depend on the country, pension-type and the legislative framework.

In general, though, "what we are seeing from large allocators is a review of portfolio strategy given the

current climate, which includes private assets," he adds.

"This includes looking at portfolio weightings to ensure schemes are positioned correctly for the next 10 years as opposed to the past 10," he adds.

Goldman Sachs Asset Management co-head of EMEA institutional client coverage, Max Ramirez, also notes that many corporate defined benefit (DB) plans are fully allocated into private equity and have paused their allocations.

"If there is interest, then it is in the buyouts, especially in the mid-market space and we are also seeing a greater focus on secondaries and hybrid capital."

Others believe that pension funds will increase

their exposure to private assets across the board. This is reflected in Aviva Investors' seventh private market study. It showed that 51 per cent of the 500 institutional investors – DB and defined contribution (DC) – canvassed plan to continue adding to their portfolios with European schemes in the lead at 57 per cent. This compares to 47 per cent in North American and 44 per cent in Asia-Pacific.

Key factors

There are three key factors driving pension funds to steadily increase their allocations to private equity, according to J.P. Morgan Asset Management global market strategist, Aaron Hussein. The first is the sheer scale of the opportunity set.

In the US, around 85 per cent of companies with revenues over USD 100 million are privately owned, and in Europe the figure is closer to 95 per cent.

"That means most of the corporate universe lies outside public markets, offering a broader pool of potential investments," he adds.

Second, he says there is the potential for higher returns. Over long periods, US and European buyout funds have consistently outperformed public equity benchmarks, providing the prospect of enhanced returns for pension portfolios.

Moreover, there is the evolution of fund structures that has made private equity more accessible.

"The rise of evergreen, semi-liquid vehicles have allowed pension schemes to integrate private equity exposure more seamlessly, improving diversification without the same liquidity constraints that once limited allocations," he adds.

There is also a regulatory push. As Nuveen head of UK pensions, global client group, Sophie Ballard, points out, allocation decisions are increasingly being shaped by a complex mix of regulatory reform, liquidity management and political dynamics.



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"Regulatory changes in several European jurisdictions have eased access to private markets, encouraging schemes to diversify into infrastructure, private credit and natural capital," she adds.

In addition, Ballard notes political pressure is influencing strategy, especially around climate commitments and the energy transition.

Governments are signaling strong support for investment in renewables and carbon reduction, creating both opportunities and expectations for institutional investors.

"However, political divergence and upcoming elections introduce uncertainty that schemes must navigate with care," she adds.

Increased efforts

A recent report from Goldman Sachs, however, reveals that policymakers are ramping up efforts to unlock Europe's roughly USD 4.9 trillion of assets into longer term, higher-risk investment to spur economic growth. Countries are moving at different paces, with the Netherlands home to one of the world's largest occupational pension systems at €2 trillion at the forefront.

The goal is to get schemes to increase private equity and credit allocations by around five percentage points over the next five years, with around €100 billion directed toward these so-called riskier assets.

This marked a change from the country's old DB system, which pushed schemes into liquid, low-risk assets such as government bonds by requiring them to closely match assets with long-term liabilities.

The UK is also hoping its Mansion House Accord will significantly move the needle. Currently, 17 of the country's largest pension funds have pledged to invest at least 10 per cent of their default DC funds to private markets assets by the end of the decade, half of which will be targeted in the country.

For instance, Nest already invests 15 per cent of its assets in private markets, 60 per cent of which is domestically based.

Many market participants also believe the UK's long-term asset funds (LTAFs) and Europe's equivalent – long-term investment fund (ELTIF) – will generate greater interest among DC plans and retail investors. They are both designed to offer easier access to alternative and longer-term illiquid assets such as private equity, venture capital, and private debt.

While political forces have been an impetus, Legal & General Asset Management global head, investment strategy & research, private markets, Rob Martin,

expects that fiduciary obligations and liquidity requirements will remain the overarching drivers of allocation decisions and how far schemes will shift into illiquid strategies.

“In response, an increasing number of products are being created to provide more liquid access to private investments for different types of investors,” he adds.

In terms of current and future prospects, opinions vary. Schroder Capital Global head of business development, Ingo Heinen, notes that private equity remains the preferred private market asset class for long-term return opportunities among institutional investors, citing its latest *Global Investor Insights Survey*, which surveyed 1,000 respondents with a combined USD 1 trillion in assets looking across public and private strategies.

He notes that private equity was the second-ranked asset class for returns for European investors, and the number one for pension investors globally. However, small and mid-market buyouts will continue to be seen as the most attractive because they typically involve domestically focused companies, offering insulation from shifting global trade and geopolitical dynamics.

Russell Investments managing director and head of EMEA strategic client solutions, David Rae, echoes these sentiments.

“Many investors are looking more at their local environments rather than globally which they did in the past,” he says. “Some countries are being pushed by their governments, but it is also in response to stakeholder demand.”

Meanwhile, Martin expects that the secular trends within infrastructure, such as energy transition and digitalisation will drive very large capital requirements across both debt and equity and are increasingly overlapping.

“We are also increasingly pursuing opportunities in emerging markets debt, particularly through innovative private credit structures that meet the needs of insurance investors and DC clients whilst delivering real world sustainable outcomes and supporting nature conservation,” he adds.

Ballard agrees, adding that European pension schemes are looking at opportunities where financial returns intersect with structural trends.

Core allocations

Infrastructure debt is expected to remain a core allocation, driven by the energy transition and digitalisation while private credit will continue to



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expand, offering diversification, reliable income and resilience in a higher-rate environment. Natural capital investments are also poised for growth, offering stable returns and measurable ESG outcomes.

As for venture capital, selectivity remains the watch world. “European pension schemes have been cautious, but this is changing,” says Heinen, adding that schemes are recognising it can diversify portfolios and meet savers’ expectations to support positive change.

Education is key to unlocking broader participation,” he adds. “While the US continues to dominate, nearly half of all unicorns now originate outside the US. For instance, in Europe fintech leads the way and accounts for 11 of the top 20 European unicorns.”

Investors need to be aware of the challenges across the entire private markets arena though. As Ballard notes, liquidity management remains critical, particularly as schemes weigh illiquidity premia against the need for flexibility.

Political uncertainty, especially around climate policy, may complicate planning while competition for high-quality private assets could compress returns, requiring careful manager selection and underwriting discipline.

“Finally, integrating ESG measurement and reporting into private portfolios will be essential to meeting regulatory and stakeholder expectations,” she adds. “Success will depend on disciplined allocation, robust governance and the ability to navigate a dynamic and increasingly complex investment landscape.”

Morningstar manager research analyst, Dan Haydon, echoes these sentiments. “Investors need to be aware that there is a lot of money chasing the same ideas and that there can be a greater correlation between private and public markets than first meets the eye,” he says.

He adds: “They also need to do careful due diligence around fees because in private equity, for example, there is not just the management and trading fees but also the monitoring fees charged to the company.”