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In the UK, private equity finds a NEST-ing ground

By Editorial Staff *Thu, May 5, 2022*

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NEST, the UK "master trust" that has expanded the availability of defined contribution savings plans to millions of middle-class British workers, will add private equity to its members' portfolios.

Schroders Capital will be NEST's manager for the asset class, according to a report at IPE.com. A master trust in the UK is roughly comparable to a Pooled Employer Plan (PEP) in the US. PEPs were made possible by the SECURE Act of 2019.

NEST estimates it will have at least £1.5bn ($1.8bn) invested in private equity by early 2025. The master trust currently has assets of £24bn and gains more than £400m a month in new contributions.

Many observers doubted that NEST would be able to find a private equity manager to work for the low expense ratio that NEST offered. NEST has been at the forefront of UK's auto-enrolled master trusts expansion into illiquid assets.

Fee constraints imposed by a manager charge-cap and stiff competition in the market have made it difficult for defined contribution (DC) schemes to add these more expensive strategies. But Schroders Capital was willing, and its emphasis on environmental, social and governance (ESG) companies aligned with NEST's.

In the long run, NEST intends its centrally managed investment portfolio to allocate about 5% to private equity, on top of the 15% it already devotes to alternative assets such as real estate, private credit and infrastructure debt. NEST participates have notional accounts in the portfolio and do not manage their own assets.

Initially the private equity allocation will be for the early "foundation phase" of the NEST's accumulation strategies which is accessed by the master trust's youngest members as well as the subsequent "growth phase." At age 55, as part of a glidepath toward lower volatility, NEST would transfer the private equity positions to younger participants' accounts.