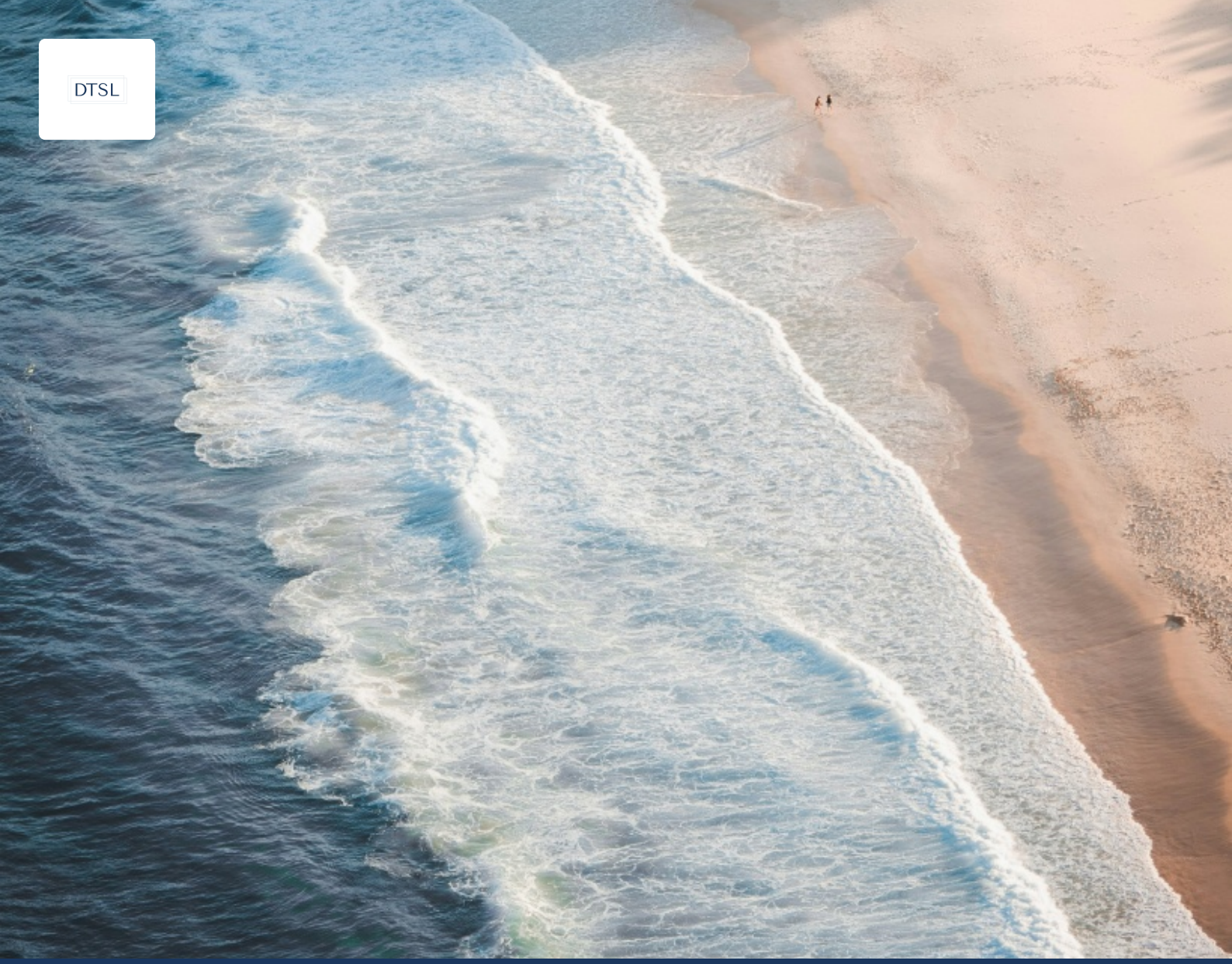
DTSL



Liquidity, Listing, and Limitations

Why Excluding Investment Companies from the Pensions Bill Risks Undermining Productive Finance

Published: February 2026

Office: Deeper Thinking Services Limited (DTSL), Brighton, United Kingdom

Author: Alex Denny

Contact: alex.denny@deeper-thinking.com

Web: deeper-thinking.com

Executive Summary

The UK government's ambition to channel defined contribution (DC) pension assets into productive finance, including private equity, private credit, venture capital, and infrastructure, is widely supported across the investment industry.

However, the current drafting of the Pensions Bill risks creating an illogical and counterproductive outcome: excluding UK listed investment companies that provide direct exposure to these same qualifying assets, purely because of their vehicle structure.

This distinction is artificial. It risks narrowing the routes through which pension schemes can access productive assets, reducing liquidity flexibility, and privileges newer, less tested fund structures over long-established listed vehicles. More fundamentally, it sets a precedent of regulating by wrapper rather than by economic substance.

This paper argues that:

- **Technically Intentional but Economically Misguided:** The exclusion of listed securities is misguided when applied to specialist investment companies.
- **Proven Access to Private Markets:** UK investment trusts already provide diversified, professionally managed access to private markets and real assets.
- **Incomplete Capital Formation Argument:** The claim that secondary market purchases fail to generate new capital is incomplete and historically inaccurate.
- **Parity in Secondary Sourcing:** Newer semi-liquid vehicles frequently rely on secondary transactions themselves.
- **Value of a Blended Ecosystem:** A blended ecosystem of listed and unlisted structures would better serve pension schemes' liquidity, governance, and portfolio construction needs.
- **A Precise Solution:** A targeted amendment proposed by the Association of Investment Companies (AIC) would resolve this issue cleanly by allowing listed investment companies that provide exposure to qualifying assets to be included. To date, this amendment has not been adopted.

Unless addressed, the current approach risks distorting capital allocation, reducing choice for trustees, and weakening rather than strengthening the UK's productive finance ambitions.

1. Policy Intent Versus Practical Implementation

The government's objective is clear: encourage DC pension schemes to allocate more capital toward productive assets such as private equity, private debt, venture capital, and real estate.

To support this, the Bill introduces a definition of "qualifying assets" which explicitly excludes "securities listed on a recognised investment exchange" under section 1005 of the Income Tax Act 2007, including securities listed on the London Stock Exchange.

The intent is understandable. Policymakers wish to avoid accidental inclusion of listed operating companies such as utilities, housebuilders, or asset managers, where buying shares does not equate to providing capital to an underlying pool of productive assets.

However, this drafting conflates operating companies with investment companies, vehicles whose sole purpose is to hold and manage qualifying assets on behalf of shareholders.

The result is that specialist listed investment trusts providing exposure to private equity, infrastructure, or venture capital are excluded, despite being economically indistinguishable from unlisted fund structures in terms of underlying asset exposure.

2. The AIC Amendment: A Narrow and Practical Fix

To address this, the AIC proposed a targeted amendment to the Bill. In summary, it would permit the inclusion of securities listed under Chapter 11 of the UK Listing Rules or the Specialist Fund Segment, where those securities provide exposure to qualifying assets.

In effect, this amendment preserves the exclusion of mainstream listed corporates while allowing specialist investment companies to participate.

This is not an attempt to broaden the scope indiscriminately. It is a precision adjustment designed to reflect economic reality.

To date, this amendment has been rejected, prompting continued debate in the House of Lords.

3. Why Structure Should Not Trump Substance

I have observed this issue from multiple perspectives: as a former Trustee Board Member of the Fidelity UK Pension Plan, a former director of a listed private equity investment trust (Apax Global Alpha Limited, which was recently taken private to seed a new evergreen semi-liquid vehicle), and as Managing Director of European Distribution at a private equity firm managing semi-liquid funds (Pantheon).

From that experience, I believe strongly that excluding investment companies based purely on their listed status sets a poor precedent.

Investment trusts:

- Provide diversified access to private markets.
- Are governed by independent boards with fiduciary duties to shareholders.
- Offer daily liquidity via public markets.
- Operate with transparent pricing and disclosure.
- Have long track records across market cycles.

They are not operating businesses. They are asset pools. Regulating them out of scope because they happen to be listed prioritises legal form over economic function.

4. The Capital Formation Argument: Incomplete and Misleading

The primary justification offered by the Department for Work and Pensions (DWP) for excluding investment trusts appears to be that secondary market purchases do not drive new capital flows into productive assets.

In today's market, where many alternative investment trusts trade at discounts to Net Asset Value (NAV), that is often true. However, this is cyclical, not structural.

Only a few years ago, infrastructure and private equity investment companies were issuing shares regularly to meet demand, raising substantial new capital for deployment into real assets. Discount narrowing through secondary buying is typically the precursor to renewed primary issuance.

Moreover, this critique applies equally to many newer structures now being promoted. Long-Term Asset Funds (LTAFs) and similar semi-liquid vehicles frequently acquire portfolios in the private secondary market. These transactions also do not represent new primary capital. In addition, accounting conventions often permit rapid revaluation from purchase price to par, creating an appearance of immediate uplift without any underlying economic change.

If the objective is genuine capital formation, then both listed and unlisted vehicles can contribute, and both can fail, depending on market conditions. Singling out investment trusts is therefore inconsistent.

5. Liquidity, Portfolio Construction, and System Resilience

The debate has focused narrowly on whether a given transaction injects new capital. A more sophisticated perspective considers portfolio construction at the pension scheme level. DC schemes require:

- Predictable liquidity.
- Daily dealing.

- Transparent pricing.
- Operational scalability.
- Robust governance.

Listed investment companies offer an important complementary role alongside unlisted funds:

- They provide immediate exposure while commitments to private funds are being drawn.
- They are generally geared or fully invested and therefore lack the cash drag of semi-liquid funds.
- They offer a liquidity buffer during periods of stress.
- They offer tactical rebalancing without gating risk.
- They reduce operational complexity for smaller schemes.

A mixed ecosystem of listed trusts, LTAFs, and traditional private funds would produce a more resilient overall system than reliance on a narrow set of structures.

6. Market Impact and Scale

Concerns have also been raised that even modest pension allocations could overwhelm the investment trust market.

This misunderstands how closed-ended funds function.

Large inflows would first narrow discounts. Only then would boards typically reopen issuance, allowing new capital to be raised in an orderly manner. This is not market disruption; it is the mechanism by which investment companies scale. The upward re-rating and narrowing discounts is simply akin to the accounting treatment of discounted private portfolios purchased in the secondary market.

Excluding trusts removes this pressure valve and forces all incremental demand into unlisted channels, increasing concentration risk.

7. Regulatory Consistency and Unintended Consequences

There is also a broader regulatory coherence issue.

UK policymakers have spent years promoting:

- London as a global asset management hub.
- Investment trusts as a flagship UK structure.

- The Specialist Fund Segment for alternative strategies.
- Enhanced governance standards overseen by the Financial Conduct Authority (FCA).

Excluding these same vehicles from productive finance frameworks sends a contradictory signal to markets and managers alike.

Conclusion

Investment trusts are not a panacea. Nor should they be the sole route for DC schemes into private markets.

But excluding them outright is unnecessary, inconsistent, and risks weakening the UK's productive finance agenda.

The AIC amendment offers a precise, low-risk solution: allow listed investment companies that genuinely provide exposure to qualifying assets to participate, while continuing to exclude operating companies.

At stake is not merely technical drafting, but the principle of whether policy should be guided by economic substance or by legal wrapper.

If the goal is to improve outcomes for pension savers while supporting long-term investment in the real economy, then flexibility, diversification, and structural neutrality should be central to the framework.