

# Inside track

## Summary

- Pension schemes are increasingly bringing investment capabilities in-house to improve control, alignment and outcomes.
- However, measuring success remains complex, with schemes relying on multi-dimensional frameworks rather than single benchmarks.
- As adoption grows, governance, scale and clear performance measurement are becoming critical to proving value.

## ➤ Callum Conway explores how pension schemes are measuring and justifying the value of in-house investment as adoption grows across the UK market

In-house investment is becoming an increasingly prominent feature of the UK pensions landscape, as schemes look to strengthen control and alignment with evolving regulatory and market demands.

Once seen primarily as a route to cost savings, internal investment capability is now viewed as a way to align portfolios with scheme-specific objectives and improve member outcomes.

Yet as more schemes adopt or expand internal capabilities, a fundamental question is emerging: How do trustees clearly evidence that these models are delivering value?

### Looking abroad

Internationally, some of the most advanced pension systems demonstrate what in-house investment can achieve at scale over long periods.

Canadian funds such as the Canada Pension Plan Investment Board and

Ontario Teachers' Pension Plan have built global teams capable of originating direct investments across private markets, often taking controlling stakes and co-investing alongside partners to reduce fee drag and enhance returns.

In Australia, funds including AustralianSuper are increasingly internalising private-market capabilities, while Dutch investors such as APG and PGGM embed in-house expertise into governance-led, sustainability-focused strategies.

Against this backdrop, speaking at the Pensions UK Investment Conference, LGPS Central chief investment officer, Jayne Atkinson, suggested that improving in-house capability required looking beyond the UK market.

"If you look across to South Africa, some pension funds are designing in-house annuity provision because their annuity market isn't built up as it is in the UK.

"The Australian funds have done some great things in relation to DC, and we can learn from our Canadian peers as well," she said.

Echoing this, Nest Insight chief investment officer, Elizabeth Fernando, emphasises the importance of learning from both peers and managers.

"There isn't one source of wisdom... the more you can learn from others – what they would do differently, what works and what doesn't – the more it informs your thinking."

However, WTW senior director, DB advisory and fiduciary management, Ben Johnson, cautions that many international in-house models have been developed over decades, and in a different policy environment.

"The lesson for UK schemes isn't replication, but adopting the underlying principles of clarity of mission, disciplined decision-making and acting proportionately to scale," he argues.

### Defining success

Across the industry, there is a broad consensus that traditional, single-metric approaches to performance are no longer sufficient.

Instead, People's Partnership chief investment officer, Dan Mikulskis, describes performance as a "mosaic" built from multiple reference points, including fund targets, market benchmarks, and peer comparisons.

"Our primary measure of success is the net returns we can deliver to our members over the long term, but even that has multiple dimensions," he explains.

"Each of these measurement dimensions gives a slightly different message and can give conflicting signals at different times."

Mikulskis adds that different time horizons are also critical, with shorter-term performance offering insight into trends, while longer-term figures demonstrate whether the strategy is delivering over time.

Similarly, Fidelity International investment director for FutureWise, James Monk, argues that success must ultimately be judged through the lens of member outcomes, with an increasing emphasis on how returns are generated.

The benefits of a multi-dimensional approach are echoed by TPT Investment Management investment director, Peter Smith.

"Performance should be viewed holistically... success is not about outperforming in a vacuum, but about delivering returns aligned with liabilities and long-term objectives," he notes, stressing that metrics such as net returns, risk-adjusted outcomes and funding level progression should be considered together.

At the Universities Superannuation Scheme, this view is reflected in a balanced scorecard approach.

Its chief risk officer, Lindsey Matthews, confirms that performance is assessed across resilience, liquidity, risk

management, and returns.

However, for many in-house teams, benchmarking remains a persistent challenge.

Mikulskis acknowledges that motivations for in-sourcing extend beyond returns, including control and alignment, but stresses that oversight must still ensure value for money through competitive long-term performance relative to peers.

Yet, others warn that peer comparisons can be misleading.

Johnson states that schemes with different objectives and constraints should not expect comparable outcomes. "The most effective in-house teams define success by whether the scheme can deliver its mission, not whether it tops a peer table," he adds.

### **"Success is not about outperforming in a vacuum, but about delivering returns that are aligned with the scheme's liabilities and long-term objectives"**

Smith also cautions against over-reliance on peer comparisons, emphasising the importance of assessing both manager selection and broader asset allocation decisions instead.

"At the most granular level, schemes can assess whether they have selected high-quality underlying managers... but this is only part of the picture," he explains.

"Schemes also need to evaluate broader asset allocation decisions, which are often the primary driver of outcomes."

Russell Investments senior director and EMEA client CIO lead, Kilian Thevissen, agrees that benchmarking in-house activity should extend "well beyond" peer comparisons.

"Internally managed strategies need to be held to the same standard as external managers, assessed against objective market benchmarks as well as total portfolio outcomes. Without this discipline, it is difficult to judge whether the operating model remains efficient."

### Value for money

As schemes internalise more of their investment capability, the new value for money (VFM) framework will become a key tool for assessing whether these models are genuinely delivering better outcomes.

The framework aims to improve consistency in performance reporting, particularly in the DC market, by shifting focus beyond charges to net returns, risk and member outcomes.

However, New Capital Consensus policy director, Dan Hedley, argues that it remains too focused on cost.

"There's a gap around measuring member outcomes and tracking value beyond fees. We believe in deploying an 'effectivity screen' which utilises forward-looking VFM metrics, not just those focused on the rear-view mirror," he says.

"They need to be multi-dimensional enough to ensure that the output of these metrics can be put to different uses – from regulatory scrutiny to union members holding their DC trustees to account."

Mikulskis also highlights a lack of transparency in the DC market, where inconsistent reporting makes comparisons difficult, although he notes a gradual shift towards more value-based approaches.

At the same time, there is caution around over-standardisation, as Johnson warns that overly simplistic metrics risk encouraging herding.

"This approach will fail pensioners twice – both in weakened returns and a lack of patient capital deployed in the areas where they retire," he predicts.

"Stronger policy signals are needed to encourage UK productive asset

investment from passive overseas investment back onshore to funding domestic growth companies.”

### Governance

As measurement frameworks evolve, experts agree that governance remains central to ensuring accountability for in-house teams.

Mikulskis highlights the importance of organisational design and clear decision-making structures, while Smith emphasises the need for dedicated investment committees with appropriate expertise.

“The board and in-house team need a clear delineation of responsibilities,” Smith states, adding that trustees should focus on strategy while delegating implementation.

Echoing this, Russell Investments senior director, EMEA client CIO lead, Kilian Thevissen, stresses that, to achieve effective governance, it is important to distinguish between the two roles that in-house teams can play.

“Advising the trustee board on investment strategy and portfolio construction while delegating implementation to external managers, versus a model where the in-house team also directly manages parts of the portfolio,” he outlines.

“The latter introduces potential conflicts, as investment strategy decisions may be influenced by personnel considerations, for example, where strategic changes could render parts of the in-house team redundant, potentially constraining optimal decision-making.”

### Where to start?

For schemes considering bringing investment capabilities in-house, barriers around scale, governance and resourcing can make it difficult to take the first step.

With this in mind, Smith notes that building an in-house function is typically only viable for larger schemes.

“The starting point is scale and



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sustainability,” he says.

“Building an in-house investment function requires significant resources, both in terms of hiring experienced professionals and developing the supporting infrastructure.”

Echoing this, Hedley notes that funds with a “critical mass” can provide more direct control over asset allocation, better manage risk, and align incentives with member outcomes.

“They also enable deeper, scheme-specific expertise and can be more flexible in pursuing effective UK investments, which improve outcomes for savers and society,” he adds.

Meanwhile, Smith suggests that, in practice, there is often a gradual progression towards in-house capacity.

He describes how schemes may begin by internalising simpler asset classes such as fixed income or certain real assets, before moving into more complex areas.

Mikulskis also highlights the role of hybrid models, which combine internal oversight with external execution, allowing schemes to focus on higher-value activities such as asset allocation and portfolio construction.

Johnson agrees, noting that many schemes begin by internalising portfolio construction and liquidity management, while renting specialist expertise or capabilities elsewhere, and then adding more in-house resource as they grow.

He adds: “We’re also seeing a clear shift from arms-length mandates to strategic partnerships, where asset owners and service providers solve problems together, acting as an extension of the in-house team.”

However, the move to in-house still carries associated risks, and Smith suggests they are structural rather than purely investment-related.

“These include underestimating the cost and complexity of building and maintaining a team, challenges around attracting and retaining talent, and ensuring appropriate incentive structures,” he explains.

“There is also a risk of misalignment between the scheme’s long-term direction and the investment function.

“For example, as schemes mature and move towards buyout or run-off, the scope for active investment decision-making may diminish, making it harder to justify a large internal team.”

### Making it count

In-house investment is no longer simply a question of cost or control – it is a matter of accountability.

As more schemes build internal capability, the ability to define, measure, and demonstrate success is becoming central to the model’s credibility.

The shift towards multi-dimensional frameworks reflects a more mature approach, but challenges remain around benchmarking, transparency and alignment with long-term objectives.

For schemes considering moving in-house, one principle stands out: internal investment is not an end in itself, but a means to delivering better outcomes for members.

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