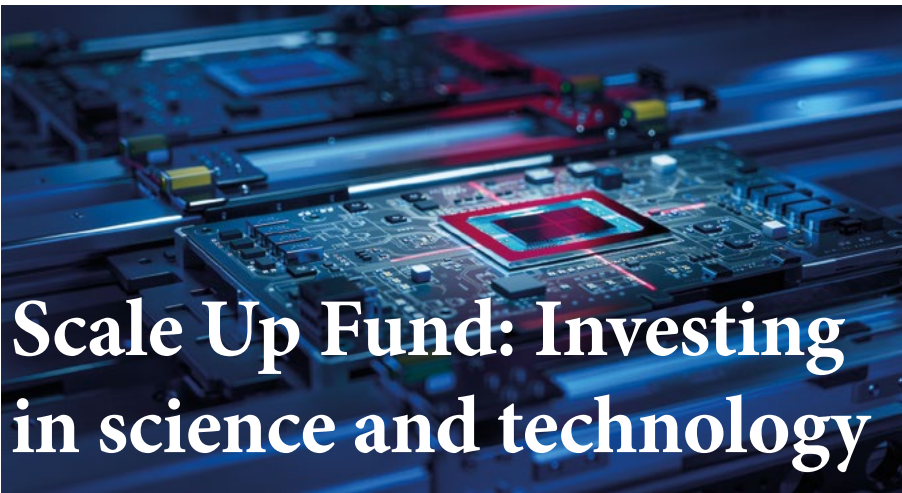




Scale Up Fund: Investing in science and technology

Summary

- The jury is out as to whether the £1 billion Scale Up Fund will ignite interest into fledgling science and tech companies.
- There is a debate as to whether a specialist or traditional asset manager is better placed to access the best opportunities.
- Many favour a pooled or fund of fund vehicle for the fund, although a sleeve type of strategy could also work.

Lynn Strongin Dodds explores whether the £1 billion Scale Up Fund can attract UK pension schemes to venture-capital-backed science and technology companies, amid debate over how the fund should be managed and structured

Private capital has been one of the hottest topics in UK pension fund circles but converting conversations into investment has been difficult. The £1 billion Scale Up Fund is the latest initiative, but the jury is out as to its success. Views differ on manager selection and opportunity set but all agree domestic institutional investors need to up their game.

Historically private capital has been a hard sell, despite the potential for stronger returns and diversification benefits. UK Private Capital director of public policy, Isobel Clarke, points to the latest data, which shows that as of the end of 2025, over a 10-year horizon, UK private capital funds delivered an internal rate of return of 15.8 per cent per annum compared to 8.4 per cent per annum for the FTSE All share and 10.2 per cent per annum for the MSCI Europe Index.

However, despite this, she says international pension funds invested around 16.5 times more into UK private capital funds than their UK peers during the past year, broadly in line with the longer-term trend.

Moreover, the latest progress report

from the Mansion House Accord reveals, that as of February 2025, signatories had allocated only 0.6 per cent of default fund assets to unlisted equities. While this is a doubling over the prior 12 months, it is still a far cry from the government's 10 per cent 2030 goal. There is hope that this voluntary pledge will become mandatory under legislation within the Pension Schemes Act later this year.

There is a variety of reasons for their reluctance ranging from a shortage of suitable UK investment opportunities to opaque and complex fee structures, according to the latest report from The Pensions Regulator. It also highlighted governance and knowledge capability gaps as well as ongoing regulatory and policy uncertainty as potential barriers.

A targeted opportunity

However, the Scale Up Fund may help capture the imagination in that it is specifically targeted at science and technology assets. Currently in the nascent stages, the British Business Bank is working to devise a blueprint alongside several heavyweight pension managers including Railpen, with £34 billion

in assets, Nest, the government's £40 billion-plus workplace pension scheme, and Border to Coast, one of the largest pension pools in the UK, responsible for around £120 billion of assets.

There are several factors in the design mix, but the starting point, according to AllianceBernstein portfolio manager, David Hutchins, should be a focus on member outcomes and whether the vehicle can provide something that is genuinely difficult to obtain elsewhere rather than the nationality or sector of an asset.

Vencap chief investment officer, David Clark, echoes these sentiments, adding that although there are some attractive UK scale-up companies, defined benefit (DB) and defined contribution (DC) schemes need to build a global portfolio and not simply concentrate on one country.

He cites research from Stanford Graduate School of Business, which shows that the UK represents about 4 per cent of venture-backed unicorns compared to the US, for example, which comprises 46 per cent.

Also, he explains that within VC-backed companies that have exited at values of \$1 billion or more over the past decade, the UK accounted for just 2.4 per cent by number and 1.3 per cent by exit value. "It will be extremely difficult to generate strong performance if you exclude 96 per cent-plus of the potential outliers coming out of the industry," he adds.

However, some market participants, such as Wellington Management business development manager, James Myhill, believes there will be demand for the Scale Up Fund because the UK has some world-leading universities and research hubs and that the start-ups and growth companies emerging from these ecosystems would be appealing to any scheme looking for returns.

“For DB, attractiveness largely depends on the position of the individual scheme and its appetite for growth assets, which may be limited given its member profile,” he adds. “For DC there is clear attractiveness as they are open, growing, and there is a strong risk/return opportunity, particularly in the earlier stages.”

He also does not believe that the 0.75 per cent regulatory charge cap will be an issue because most schemes pay very low fees across the majority of their existing holdings. This leaves scope to allocate to more expensive strategies while remaining within the overall cap. The far bigger issue is that they are used to inexpensive charges in public markets.

“Ultimately, the focus should be on value rather than cost. If the Scale Up Fund can deliver attractive net returns for members, there is a strong case for paying appropriately for that performance,” he says.

Marsh UK wealth strategy leader, Tess Page, though sees local government pension schemes as the most likely candidates because they have a greater tolerance for risk and a longer time horizon. LGPS also have greater flexibility, especially around fees and the types of vehicles they can invest in relative to DC schemes.

“We do not expect many closed DB schemes to invest given they typically prioritise investments that match their liabilities with low risk,” she says, adding that developing the vehicle will require carefully balancing the needs of potential investors.

Manager selection

A key swing factor for any scheme will be the managers chosen for the fund. As Clark notes, the very best founders can essentially pick which VCs they take capital from. “It’s impossible to assess the attractiveness of the UK Scale Up Fund until we know who will be managing it and what their track record of backing the very best growth-stage companies looks like,” he says.

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Hutchins says manager selection is particularly crucial for venture capital where returns are highly dispersed. This means that simply achieving broad exposure to the asset class isn’t necessarily the objective. “There is a balance between having enough diversification to manage individual company risk and becoming so diversified that you dilute the impact of the exceptional investments you were trying to access in the first place,” he adds.

Although there have been no confirmations, there are reports mooted Schrodgers and M&G as the lead contenders. The former launched the UK’s first long-term asset fund (LTAF), investing in companies such as autonomous vehicle firm Wayve and deeptech Elevenlabs, while the latter had been an early backer of Physics X and the chipmaker Pragmatic Semiconductor.

However, some in the venture capital camp, including top early-stage investors of British unicorns Elevenlabs, Synthesia and Fuse Energy, have voiced their concerns over choosing a traditional

asset manager. They contend that long established specialists steeped in the venture and early-stage investment ecosystem, are better placed to access the best opportunities.

Fund structure

As for the nuts and bolts of the fund’s structure, there are a few options. Page notes that the variety of objectives and constraints make it hard to build a vehicle that serves the needs of all, without introducing material compromises. One route she suggests may be appealing is a ‘sleeve-based’ strategy with different buckets of investment types with a variety of risk and return profiles. “This may attract a broader audience, allowing more targeted design and execution, but it is still going to be a narrow tightrope to walk,” she adds.

Others favour a fund of funds or pooled approach. As Hymans Robertson senior DC investment consultant, Gary Mallon, notes, the latter could make it easier for schemes to access specialist opportunities and negotiate competitive terms. In the end he thinks that demand should depend on the quality of the manager, expected returns after fees and how the investment fits members’ needs, not simply on the fund’s UK focus or policy backing.

While illiquidity will be an obstacle for any vehicle, Mallon believes that pension funds should tackle these challenges honestly, rather than promise liquidity the underlying companies cannot provide. “For DC, I would want robust valuations, platform compatibility and stress-tested arrangements for transfers, retirement payments and investment switching, supported by liquidity elsewhere in the default strategy,” he adds. “An appropriate fund wrapper may help with access, but it cannot remove the underlying liquidity risk.”

Written by Lynn Strongin Dodds, a freelance journalist