

UK investment system update: capital is growing, but allocation remains the constraint

The UK investment system now holds £6.1tn in long-horizon capital, and this is steadily growing year-on-year. Across the latest available data, the year-on-year (YoY) increase in assets is an 8.1% rise adding an additional £457bn to the stock of long-term capital in the UK (from £5,641bn to £6,098bn).¹ There is no lack of capital in the UK. Rather, the constraint is the system's capacity to effectively allocate, govern and recycle that capital into domestic productive investment at sufficient scale through the balance sheets of pension funds and life companies.

What is clear from Table 1 below is that the growth in capital is coming through three main channels: life insurers, Defined Contribution (DC) master trusts, private DC pensions, and Individual Saving Accounts (ISAs). While private sector Defined Benefit and Hybrid (DBH) pensions remain the largest stock of pension assets, this will decline as schemes mature and move through to some form of DB endgame e.g., via buyout with an insurance company. This structural shift is important, as the location of capital is changing; contributions and retirement assets are moving away from legacy DB balance sheets towards DC savings vehicles where individuals are saving for a pension, while legacy DB is shifting to the balance sheets of life insurers through the Pensions Risk Transfer market.

Table 1: Aggregate capital stocks in UK investment system (£bn)

Segment	Latest value (£bn)	Prior value (£bn)	Change (£bn)	YoY Change (%)	Basis
Total pension value	2,086	2,040	46	2.3%	2024Q3-2025Q3
Private DC	382	310	72	23.2%	2024Q3-2025Q3
Private DBH	1,134	1,213	-79	-6.5%	2024Q3-2025Q3
Public DBH	570	517	53	10.3%	2024Q3-2025Q3
PPF	31	32	-1	-3.1%	Mar 2024-Mar 2025
Master trusts	266	215	51	23.6%	2025H1-2026H1
Life insurance	2,844	2,629	215	8.2%	2024Q4-2025Q4
Total ISA	871	725	146	20.1%	2022/23-2023/24
Cash ISA	360	294	66	22.4%	2022/23-2023/24
Stocks & Shares ISA	511	431	80	18.6%	2022/23-2023/24
Total	6,098	5641	457	8.1%	Mixed YoY windows

Note: Figures are rounded to the nearest £bn. The total mapped system sums the non overlapping headline rows: total pension value, PPF, master trusts, life insurance and total ISA. Indented rows are subcomponents and should not be added separately. Reporting windows differ across sources, so the total should be interpreted as a mapped system estimate rather than a single period official aggregate. Data source: FSPS-pensions 2025Q3; BoE PRA- insurance 2025Q4; ISAs 2023/24; PPF 31 March 2025; League Master Trusts 2026H1.

Aggregate statistics are concealing structural rotation

Table 1 shows that the total increase in pension assets was a modest 2.3% rise from £2,040bn in 2024Q3 to £2,086bn in 2025Q3. However, while the headline change is small, the growth in underlying asset pools is

¹ The figures provide a mapped system update rather than a single year on year aggregate. Reporting dates differ across sources. This does not affect the main conclusion that the UK has substantial long horizon capital, but its productive impact depends on institutional governance, pooling and allocation.

shifting rapidly. Private DC expanded by £72bn (23.2%), public DBH by £53bn (10.3%), while private DBH contracted by £79bn (6.5 %).

While private DBH remains the largest stock of pension assets, the share of total pension assets sitting in private DBH fell from 59.5% to 54.4% over the year, while private DC pension assets increased from 15.2% to 18.3% of total pension assets. This structural rotation is a clear signal as to where policy needs to focus. Although the large stock of legacy DB assets still matter for balance-sheet risk, gilt demand, and pension risk transfer, the growth in assets is increasingly located in DC master trusts and occupational DC pensions. DC default strategies, coupled with investment governance, liquidity requirements and cost constraints are therefore going to determine whether a portion of retirement savings are channelled into domestic productive investments or wholly into liquid global portfolios.

Fixed income down, equities and mixed assets up

The pension fund asset allocations presented in Table 2 show a movement away from fixed income towards equities and mixed assets e.g., with-profits and multi-asset funds. Fixed income fell by £61bn (-7.5%), while equities rose by £59bn (12.4%), and mixed assets rose by £30bn (18.3%). This shift away from bond-heavy exposures is consistent with the increasing dominance of DC funds, which have a greater equity exposure, and bond asset values being affected by the decrease in bond-prices. It does not, however, constitute evidence of a shift towards domestic productive investment unless the underlying instruments finance UK real assets rather than secondary-market equities whether in the UK or overseas.

Table 2: Pension fund asset allocation, 2024Q3-2025Q3 (£bn)

	2024Q3 (£bn)	2025Q3 (£bn)	Change (£bn)	YoY
Fixed income	816	755	-61	-7.5%
Equities	476	536	59	12.4%
Mixed assets	166	197	30	18.3%
Alternatives	268	259	-10	-3.6%
Other	159	172	14	8.5%
Total	1,886	1,918	32	1.7%

Notes: Data are drawn from the ONS FSPS. "Mixed assets" includes with-profits and multi-asset funds; "Alternatives" includes hedge funds, private equity, infrastructure and real estate; "Other" includes cash, deposits and other short-term instruments. The allocation panel total does not equal total pension value in Table 1 due to not including derivatives or insurance policies under private DBH. Percentages are calculated from unrounded figures.

Domestic exposure is narrow where risk capital matters most

2025 Q3 direct-investment in Table 3 highlights the scale and composition of the allocation challenge. Total direct investment by DB and DC schemes reached £1,004bn. Over half of this was held in long-term debt securities, including £394bn in government bonds, including gilts. Corporate bonds accounted for £129bn, while equities totalled £178bn. Notably, £146bn of equity holdings were invested overseas, implying that roughly 82% of direct pension equity exposure is outside the UK.

Table 3: Direct DB/DC pension investment by asset class, 2025Q3 (£bn)

Direct DB/DC investment, 2025Q3	Value (£bn)	Share
Total direct DB/DC investment	1,004	100.0%
Central government bonds, incl. gilts	394	39.2% of total
Of which UK gilts	373	37.2% of total
Corporate bonds	129	12.8% of total
Of which UK corporate bonds	63	6.3% of total
Equities	178	17.7% of total
Of which overseas equities	146	82.0% of equity exposure

Note: Figures are rounded to the nearest £bn, so components may not sum exactly to the stated total. The shares that sum to 100% are calculated using the top-level direct-investment asset classes only. "Of which" rows are sub-components of the relevant parent category and should not be added separately to the total.

Diversification remains essential to good investment strategy. However, there is a real concern that marginal savings will have limited domestic impact if directed mainly into overseas securities or existing stocks of debt. Effective transmission requires mandates, governance and risk budgets that support long-term investment in assets that expand the domestic capital stock.

Declining stocks of private DB assets is a flow of assets onto the balance sheet of life companies

The decline in private sector DBH should be interpreted through the lens of the DB endgame. Many private DB schemes are closed, mature, and increasingly organised around low dependency, buy-in or buyout. As schemes de-risk and prepare to secure or transfer their assets and liabilities to insurance companies, their portfolios become more closely tied to liability matching, funding-level protection, and transfer-readiness.

Pension risk transfer is one of the main mechanisms through which retirement risk and asset stewardship migrate from trustees and sponsoring employers to life insurers. In a narrow configuration, the endgame converts a large DB stock into defensive holdings of gilts and high-grade credit.

In a more productive equilibrium, this transfer moves assets on to the balance sheet of well-capitalised insurers, expanding the capacity of their balance sheets to hold long-duration, cash-generative assets. All of which needs to be underpinned by effective regulation around insurer capital treatment and Matching Adjustment rules that support such an allocation. However, there are limits to the size of the volume of risk transfer business that can be usefully underwritten by life companies. Superfunds may therefore offer the opportunity to build scale and more productive investment within the world of private sector DB, but the predominant long term flow will always be towards life insurance. In the medium term, an effective Superfunds regime would allow transfers onto the balance sheets of superfunds, whether as standalone superfunds in the market place, or superfunds provided by a life company that sit outside of the regulatory perimeter of existing solvency and capital requirements. From a policy perspective, understanding this sequencing is critical to having an effective regulatory environment for productive investment and a long-term view of where capital sits today, where it will sit tomorrow, and where it can be effectively deployed as markets evolve and grow.

DC is scaling fast

Private sector DC shows a clear growth trajectory, rising from £310bn of assets to £382bn in just a 12-month period. Master trusts also grew rapidly, from £215bn in 2025 to £266bn in 2026, an increase of £51bn, or 23.6%. This growth matters for scale in DC as scale is increasingly happening via pooled vehicles rather than direct holdings by individual schemes.

However, while headline statistics are positive, the small pots problem remains. Simply put, small and fragmented pots cannot easily access private markets, infrastructure or long-duration credit as the necessary expertise, due diligence, governance and liquidity management are prohibitively expensive for sub-scale schemes. Large pooled vehicles can, in principle, internalise these costs and create investable mandates. To achieve this will require a shift from cost minimisation alone towards a holistic understanding of value-for-money, illiquidity, and long-term portfolio construction. Without that shift, DC growth will scale, but with assets being wholly allocated to liquid global indexes, rather than some allocation to productive UK investment.

Life insurance and ISAs

Life insurance remains the largest stock of assets, rising from £2,629bn in 2024 Q4 to £2,844bn in 2025 Q4, an increase of £215bn (8.2%). Here, asset allocation is skewed towards government and corporate bonds, collective investments, and high credit quality. Crucially, growth here reflects not only new savings and returns but also the transfers of capital from the balance sheet of DB schemes to the balance sheet of life companies via buy-ins and buyouts. This is important to note as new capital has not been created, merely moved around the system, highlighting a tension between policy and regulation. A majority of these assets will need to remain in matching portfolios, but there is a case for some of these assets, underpinned by an effective regulatory environment, to be deployed into long-duration productive investments.

Over the period, ISAs also increased significantly, from £725bn to £871bn, an increase of £146bn (20.1%), with £66bn in cash ISAs and £80bn in stocks and shares. As with pensions, any impact on growth and productivity will depend on strategic asset allocation. Higher savings strengthens household balance sheets but does not necessarily increase domestic productive capacity if funds remain in cash or global secondary markets. This shift may well be driven in part by changes to the annual allowance that can be saved in a cash ISA, so people are moving money now to maximise their tax free cash savings, which is arguably not what the policy was trying to achieve and may have distorted short-term incentives and behaviors.

Policy needs to consider transmission, not savings alone

From all of this analysis, the clear implication is that policy needs to consider both the aggregate stock of UK savings and the transmission mechanisms through which those savings are governed, pooled, and allocated. In particular, the growth channels identified above, DC default funds, master trusts, life insurers and ISAs, will determine whether some share of marginal savings are recycled into productive UK investment or wholly absorbed into liquid global portfolios and existing debt instruments. The central policy question is therefore not simply how to increase savings, although that is important in and of itself, but how to shape mandates, ensure appropriate governance standards and value-for-money tests, and effective liquidity and capital treatment rules so that long-horizon capital can be held in forms that support productive capacity

This does not imply a case for domestication or a retreat from diversification. Rather, the opportunity is to create institutional conditions under which UK productive assets can compete for long-term capital on their own merits. That means building investable scale, reducing unnecessary frictions, aligning regulatory incentives with long-duration investment, and ensuring that trustees, providers, and insurers are able to consider net value rather than cost alone. The UK's challenge is therefore a transmission challenge: turning a large and growing savings stock into patient capital that can finance additional productive investment, rather than merely increasing the size of savings pools that remain disconnected from domestic capital formation.

Conclusion

These updated figures sharpen our analysis of the investment-system as it reveals critical shifts in where assets are invested and by whom. Total assets in the system now stand at circa £6.1tn and will continue to grow. What is clear from this analysis is that private DBH is declining, and will continue to do so as pension funds move towards their endgame. However, private DC and master trusts are scaling and life companies are becoming increasingly central to the next 5-10 years. While ISAs continue to grow, increasing the stock of liquid household assets.

Finally, and most critical to any debate, the UK has a large stock of savings, but the conversion of that stock into productive domestic investment depends on “institutional plumbing”. This determines where capital

flows to. The opportunity to increase productive investment clearly sits in life companies, occupational DC, DC master trusts, and ISAs, but the risk here is that these channels become ever larger without ever becoming productive. For productive investment to happen and the “institutional plumbing” of the system to be effective, then policy needs to understand the transmission mechanism, the sequencing of the evolution of the market and structural rotations, all of which needs to be grounded in practical and proportionate regulation of risk, liquidity, governance.