Decoding the LTAF Landscape: Same Label, Different Outcomes

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Contents

Executive summary

The Long-Term Asset Fund (LTAF) has emerged as the most popular route for Defined Contribution (DC) investors to access private markets, with numerous products being launched to meet anticipated demand. There is already a wide range of products available spanning different asset classes, target returns and fee structures.

The question for DC pension scheme trustees is: do you understand these differences, and can you select and implement the LTAF that will deliver the best outcome for your members?

XPS has reviewed the current LTAF marketplace, using data provided by 22 LTAF managers, and mapped out how these products compare on expected return, diversification, fees and liquidity.

Key findings

1	**Return expectation differ by 5% p.a. between the highest and lowest using XPS return assumptions.**
2	**Asset class exposure ranges from exclusively specialist private equity and venture capital through to exclusively private credit, with pretty much everything in between.**
3	**Target liquidity buffers range between 0-30% of the fund and the type of liquid assets varying from cash through to listed equities.**
4	**Management fees are estimated to range from 0.6% p.a. to 3.3% p.a. and not necessarily proportional to expected returns. Some funds use performance fees at a fund level, some on the underlying assets and some funds do not have performance fees at all.**

Actions for investors

- Consider how your scheme is approaching the Value for Money (VFM) framework and whether incorporating private markets assets can improve member outcomes.
- Consider how you can access private market assets through your existing arrangement and whether an LTAF structure is an appropriate vehicle for your scheme.
- Ensure your LTAF due diligence incorporates all four criteria established in this paper.
- Utilise the support of experts in LTAFs who can help you to navigate this ever-growing market to select and implement the right fund for your scheme.

Introduction

With the Value for Money framework driving a greater focus on net of fee investment outcomes, the case for incorporating private market assets into Defined Contribution default strategies is stronger than ever. The Long-Term Asset Fund has emerged as the most popular route.

We are now more than five years on from the launch of the LTAF structure in the UK, and three years on from the launch of the first LTAF. Over this period, the LTAF market has evolved from concept to proliferation, with LTAFs now a key component of the DC investment toolkit for both multi and single employer DC asset owners.

To date, there are over 25 FCA approved LTAFs, and we understand that more are set to be launched in the near term. A variety of investment managers have entered the space, offering a diverse range of strategies spanning the private market universe, with each manager bringing their own regulatory-conforming operational models to address liquidity, valuation and governance requirements specific to DC schemes.

XPS has undertaken a market-wide review, the results of which have allowed us to map out the LTAF universe. This paper explores the spectrum of LTAFs currently available and compares key findings including the critical investment and structural differences.

Approach to our LTAF market review

We explore four key areas where we are seeing innovation across LTAFs, and implications for DC asset owners considering or reviewing their private market allocation:

1	**Return target**	3	**Structure of the liquidity sleeve**
2	**Asset allocation**	4	**Fee model**

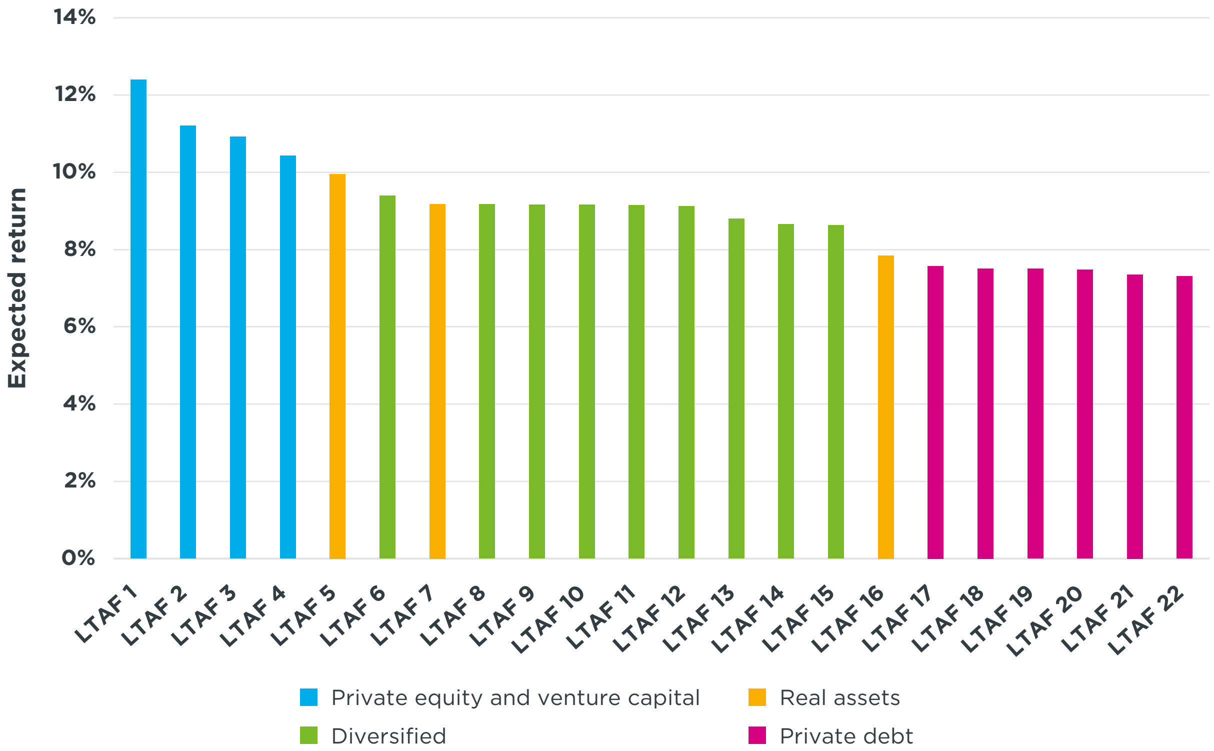
We think the above factors are some of the key drivers of whether an LTAF will support the delivery of strong outcomes to members, and the ability of a scheme to compete in what will become an increasingly peer-driven industry. In the subsequent analysis, we have used data provided by 22 LTAF managers who have confirmed they are happy for data regarding their LTAF to be shared anonymously, and where the LTAF is available to multiple asset owners.

1. Return target

Our survey has shown that managers in the LTAF universe have a varied **approach to setting return targets.** Approaches include absolute return targets, “cash plus” targets, “listed equity plus” targets, and so on. This presents the **potential for a lack of comparability** in overall return targets when assessing LTAFs.

To provide a like-for-like comparison, we have applied XPS capital market assumptions to the strategic asset allocations of each LTAF, illustrating their expected return rather than the manager’s target return. See Chart 1 below.

Chart 1: LTAF expected returns



Notes and assumptions:

1) Expected returns have been calculated using strategic asset allocation data provided by LTAF managers with XPS Investment Limited net asset class return assumptions as at 31 March 2026.
2) Where LTAF managers have provided their liquidity sleeve allocation breakdowns without a specific weighting to the underlying liquid assets (e.g. “10% listed equities and cash”), we have assumed this to be split equally.

Our expectation is that most **investment decision-makers will be looking for an exposure with an expected return higher than that of the asset class used to fund the allocation** given this will support the case for the change driving improvements in member outcomes. In this case, the expected return on the LTAF should be compared to the asset that is used to fund the allocation. In the growth phase, that is highly likely to be listed global equities. It is important to emphasise that we are not implying that LTAFs with a lower expected return do not have a role in investment strategies. As an example, whilst private debt focused LTAFs are the lowest returning based on our assumptions, **we believe they could play a critical role within default decumulation portfolios.**

The **incoming Value for Money framework is also a key factor** to consider when making an allocation. The framework is still under consultation but there's a strong likelihood **peer-relative analysis will become a core component of strategic reviews in the future** (with peers being an average of the commercial providers). As a result, we expect investors to have preference for private market exposures with a higher expected return than equities.

Considerations when choosing an LTAF

1. Do you understand the return drivers behind the private market asset classes used in LTAFs to make an informed investment decision?
2. Is the LTAF strategic asset allocation consistent with the net return target?
3. Do the LTAFs being considered have an expected return with sufficient headroom above that of the funding asset class?
4. Have you considered how your LTAF's asset allocation would align to the scheme's objectives in terms of risk, return, as well as any non-financial targets (such as sustainability-focussed goals)?
5. Will your private market allocation support strong peer relative outcomes, not just based on commercial provider portfolios today, but also based on their intended long-term strategic allocations to private markets?

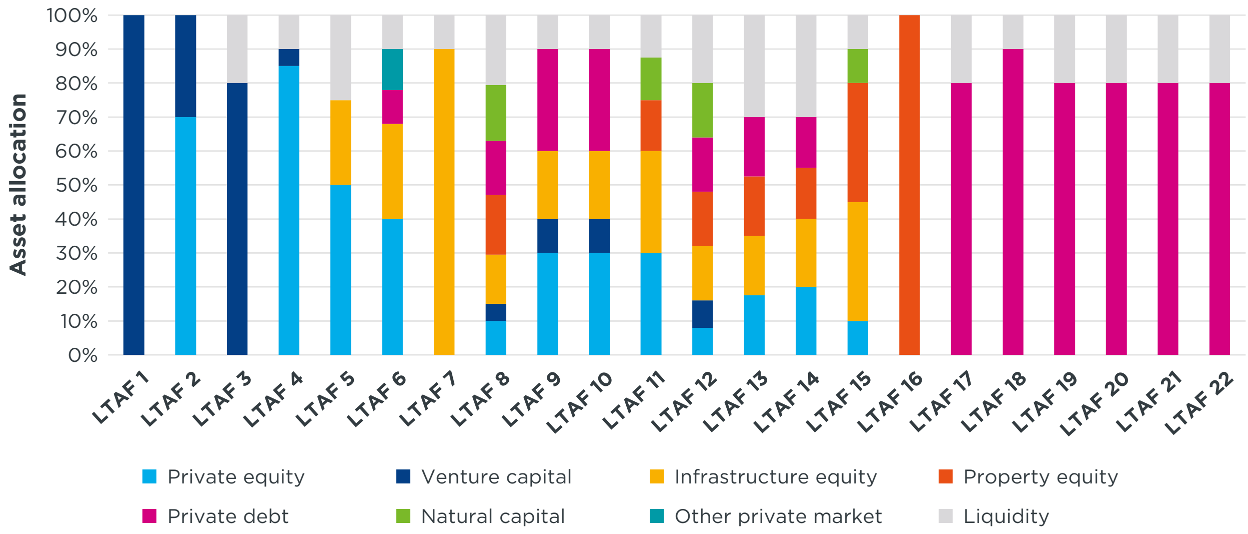
The Value for Money framework is already driving a laser focus on achieving strong net of fee returns versus peer DC asset owners. We believe that selecting the right private market allocation will be a key component of achieving a 'green' score on the upcoming VfM framework.

Neil Maines
Senior Investment Consultant
neil.maines@xpsgroup.com

2. Asset allocation

The chart below demonstrates the significant variation in strategic asset allocation across the LTAF universe.

Chart 2: Asset allocation of each LTAF



The majority of LTAFs have exposures across a range of private market asset classes, often with the LTAF fund manager investing with different third-party fund managers. We think using an LTAF to access multiple private market asset classes is sensible given the current DC market; a multi-asset allocation for a scheme's initial exposure helps to **manage concentration** risk and also **avoids the governance challenges** that would come with the use of multiple LTAFs.

The key drawback to using a multi-asset approach is reduced control, given the asset allocation and manager selection decisions are effectively delegated to the LTAF manager. Own trust schemes using an LTAF built originally for a commercial provider should be **cognisant that their investment objectives and constraints could differ to that of the commercial provider**, who might have other commitments such as the Mansion House Accord to factor in.

The chart above also shows a sizeable proportion of the LTAF market is made up of single asset class products, with offerings across most of the main asset classes. The relative **advantages and drawbacks are largely opposite** to those we've outlined for multi-asset LTAFs. We envisage the majority of flows to be directed into multi-asset LTAFs to begin with, however, as capability within commercial providers increases, we can see providers tailoring exposures using single asset class LTAFs.

Considerations when choosing an LTAF

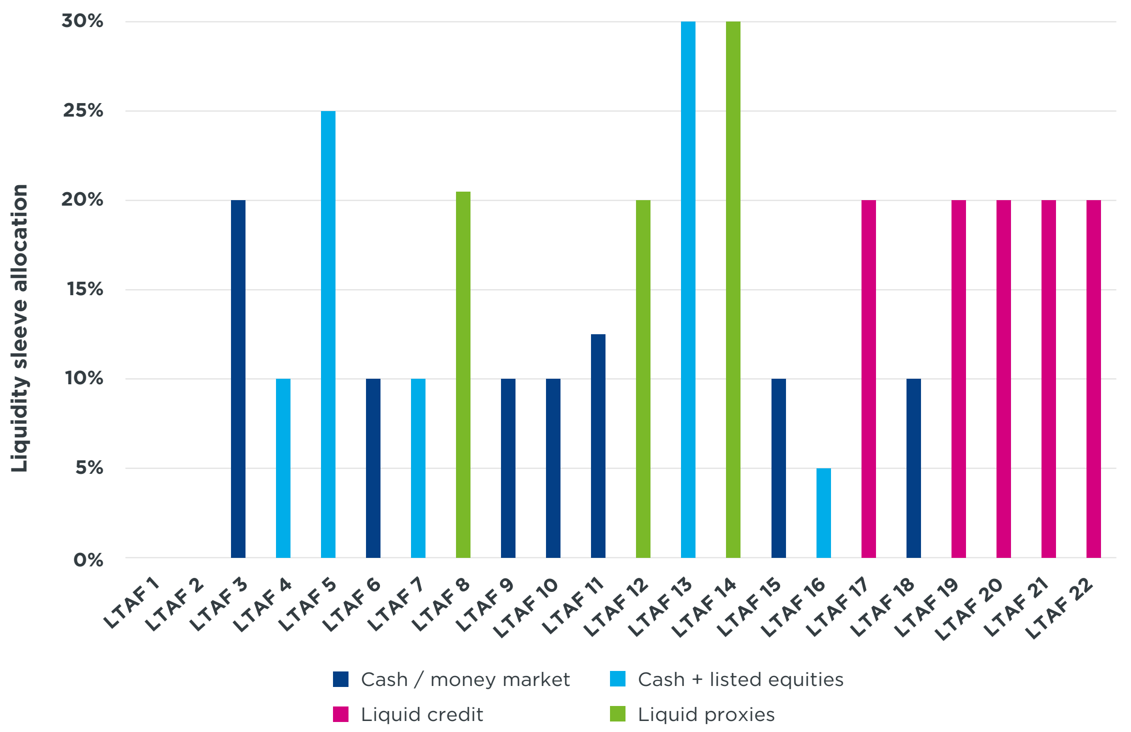
1. Does the multi-asset LTAF manager have the skillset across all asset classes being considered, particularly if undertaking direct investments?
2. Will the multi-asset LTAF manager receive the investment flows to achieve sufficient diversification and to reach the scale that will ensure the ongoing viability of the product?
3. How will you reflect differences in asset allocation when comparing fees across different LTAFs?

3. Liquidity sleeve structure

A key LTAF governance requirement is for liquidity management processes to be commensurate with the liquidity of the underlying assets. In practice this means **LTAFs hold a sleeve of liquid assets consistent with the dealing terms of the fund** (both the frequency of dealing dates, and the proportion of the portfolio that can be liquidated over a specified time period).

Our research has shown there's variation across the LTAF market both in terms of the proportion invested in liquid assets, and the type of liquid assets held. We've illustrated this in the chart below.

Chart 3: Liquidity sleeve allocations



Notes and assumptions:

1) We have used judgement to best generalise the data provided by the LTAF managers to assign each LTAF to one of the 4 broad categories shown above. One such example is LTAF 5 - this was described as having a 23% allocation to listed equities and a 2% allocation to cash. LTAF 5 has been classified as having a "cash + listed equities" liquidity sleeve, on the basis that the underlying strategy is not solely equity-based and therefore we would not determine this to be a "liquid proxies" sleeve.
2) Two of the LTAFs included in the analysis within this report have no strategic allocation to liquid assets.

The most popular method of liquidity sleeve allocation is a simple "cash/money market" solution, with around one in three LTAFs using this approach. This approach is most popular with Diversified LTAFs but we have seen one private equity and one private credit focused LTAF also take this approach. The majority of private credit LTAFs are using some form of liquid credit to meet the liquidity within the fund. Interestingly, **the real asset focused LTAFs have tended to use a combination of cash and listed equities to support liquidity**. This is likely to increase the expected return on these funds but does mean that investors allocating to real assets will also be exposed to equity markets movements. There are three diversified **LTAFs using "liquid proxies" in their liquidity solution**. This is where the manager invests in liquid equivalent such as real estate investment trusts or listed private equity vehicles.

The other key takeaway from the chart is that those **LTAFs using a simplistic cash-based solution are generally holding a lower proportion of assets in the liquidity sleeve**. Whereas LTAFs using the "liquid proxies" approach, typically have a higher strategic allocation to their liquidity sleeve. There is a trade-off between having a smaller allocation to a safer asset class as the liquidity sleeve or using the liquidity sleeve to generate additional returns but requiring a higher proportion of assets into the liquidity sleeve to offset the greater risk. In our experience, whilst liquid proxies can generate additional return in theory, they often come with significant market beta which should be factored into portfolio construction decisions.

Finally, there is a wide range of liquid assets held within LTAFs from 5% to 30%. Whilst we support robust liquidity management, asset owners allocate to LTAFs in order to obtain exposure to private market assets and we **believe the upper end of this range is likely to lead to an unnecessary drag on performance or reduction in diversification at total portfolio level**. Management of the liquidity sleeve is one area where we have seen an increase in sophistication from some LTAFs. **As an example, some LTAF providers are structuring mandates with underlying managers in a way that provides guaranteed liquidity** (for example, private debt assets where there is no option to extend the term of the loan).

Our view is that liquidity operations must strike a balance across three key areas, ensuring the allocation is:

- **Aligned** to the overall strategy.
- **Sufficient** to meet liquidity demands and protect investors.
- **Efficiently** managed to maintain an appropriate level of private markets exposure.

Considerations when choosing an LTAF

1. When modelling the impact of adding an LTAF on member outcomes, have you incorporated the proportion of the portfolio invested in liquid assets?
2. What liquidity analysis has been undertaken when considering the optimal weight to make to the LTAF within the default?
3. What processes does the LTAF manager have in place to ensure members are treated fairly in the event of stressed market conditions coupled with an increase in redemptions?

Liquidity management is a delicate balancing act; excessive liquidity will limit the benefits of allocating to private market assets in the first place, but an overly aggressive approach has the potential to cause challenges at the default level, particularly for cashflow negative DC asset owners.

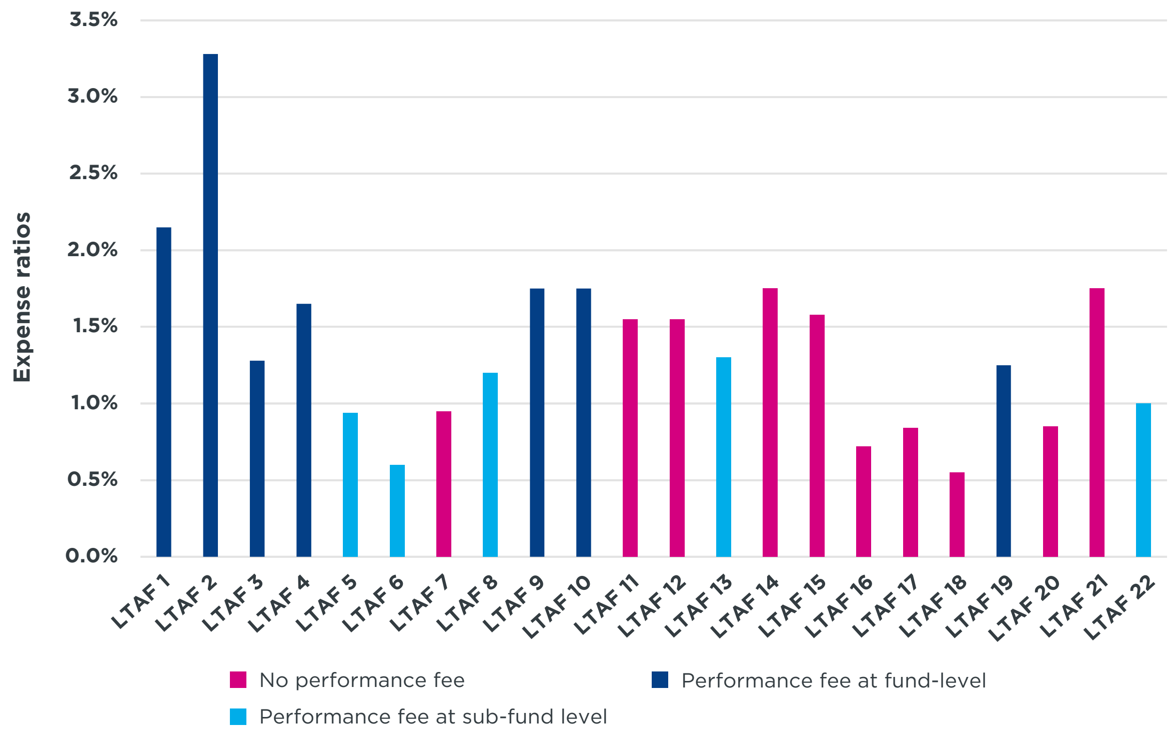
Joe Howley
Senior Investment Consultant
joe.howley@xpsgroup.com

4. Fee structures

Fee-based competition in the DC industry is **arguably the biggest hurdle to the adoption of private market allocations**. Initiatives such as the VFM framework will shift the focus along the spectrum from cost to value, but it's unrealistic to expect this will be a silver bullet. **Fees continue to be pivotal for decision making and will ultimately have an impact on member outcomes**.

In the LTAF space we are seeing a variety of fee structures, with some providers charging a base fee only, and others some using a combination of a base and performance fee. This, along with the diverse range of strategies offered, has led to a wide-spread variability in estimated total expense ratios as shown in the Chart 4 below.

Chart 4: Estimated total expense ratios of the LTAF market



Notes and assumptions:

1) Where LTAFs feature a performance fee, managers have provided an estimated TER based on the target return of their LTAF.
2) Where managers have been unable to provide an estimated TER, XPS has calculated an estimate based on the level of performance fees incurred assuming the expected return is met.

The variation in fees reflects the diversity of the LTAF universe, e.g. the wide range of asset allocations. The use of performance fees is also a key driver of fee variance which is visible in the chart. **Our view is that strong outcomes can be delivered irrespective of fee structures**.

Performance fees allow access to best-in-class managers and are the best mechanism for aligning incentives. However, they present challenges with treating members fairly and may be a source of challenge from members. Base fees are more predictable and easier to govern, but it's critical the LTAF manager is able to demonstrate the lack of performance fees has not restricted access to best-in-class managers and best in class deal flow accessed by a manager who may be charging performance fees to other investors. It is vital that managers are compared on a like-for-like basis when assessing them. **Some performance fees from underlying managers are excluded from the total expense ratio and being accounted for in performance numbers. Investors need to ensure that they understand the fee structures in place when selecting managers.**

Considerations when choosing an LTAF

1. Have you undertaken scenario analysis to examine how total default fees might vary with both the performance of the LTAF, and also the weight to the LTAF in the wider default?
2. Has the comparison of fees across LTAF providers been undertaken in a way that incorporates differences in the liquidity sleeves?
3. Have you requested fee information from LTAF managers in a way that means comparisons across the market can be undertaken on a like-for-like basis?
4. Can the LTAF manager articulate how the fee structure aligns interests and provides access to best-in-class fund managers?

A brief word on LTAF availability

Whilst there are a significant number of FCA approved LTAFs, it's important to remember the in-scope universe for a specific asset owner will likely vary considerably. This is driven partly by variation in the entities that have launched LTAFs, and also the availability on platforms:

1	**Some LTAFs have been launched for a specific DC scheme or provider and therefore will not be available for use by other entities.**
2	**Some have been launched by entities vertically integrated to (or in partnership with) a commercial DC provider.**
3	**Several LTAFs have been launched by investment managers not aligned to a particular provider. Some of these LTAFs are available on multiple platforms including investment-only platforms.**

Throughout this report we have focussed specifically on LTAFs falling into categories 2 and 3 as these types are available to multiple asset owners.

The nuance here is a bit complex, but our conclusion is simple - LTAF choice is expanding at pace, but investment decision-makers need to think carefully about any restrictions stemming from their governance model and scale.

Conclusion

The magnitude of planned DC allocations to private markets means we expect this portion of a default will be a key driver of member outcomes in the future, including which entities achieve green, amber or red scores in the upcoming VFM assessments.

Estimates are that around 70%[1] of DC schemes will use LTAFs to access private markets. Our analysis shows that whilst the number of products launched is increasing at pace, investment decision-makers will need to carefully consider which meet the strategic objectives and constraints for their specific default.

Finding an LTAF with the desired characteristics is the first step, but it is equally important to carry out an assessment of whether the product can 'do what it says on the tin' and that sufficient oversight is provided to understand if the LTAF is delivering against its specific objectives.

[1]Source: Defined Contribution Investment Survey: Longview Networks, Schroders

Find out more

For further information, please get in touch with Neil Maines, Joe Howley, Alex Thomson or alternatively speak to your usual XPS contact.

Neil Maines
Senior Investment Consultant
neil.maines@xpsgroup.com

Joe Howley
Senior Investment Consultant
joe.howley@xpsgroup.com

Alex Thomson
Assistant Investment Consultant
alex.thomson@xpsgroup.com