



A shot in the arm

Pension fund cash could be a boon for the sector.

Update
01 May 2026

The investment trust world was dealt some good news earlier this week, when the government agreed to include investment companies as eligible investments within the scope of the Pension Schemes Bill.

The bill builds on the Mansion House Accord where some of the UK's largest pension funds agreed to voluntarily increase their weighting to private assets to 10%, half of which will be directed to UK-based projects.

Initially, listed securities, including investment companies, were excluded from the bill; after successful lobbying from the Association of Investment Companies (AIC), with support from Baronesses Altmann and Bowles, investment companies have now been included.

The bill gives the government a so-called reserve power, which would allow ministers to compel funds to meet these targets if they fall short. However, the government agreed that the mandate power would only be used once, must be used before 2032, and apply only to main default pension funds, after pressure from peers in the House of Lords.

The bill has yet to gain Royal Assent, so we're still in the very early stages, hence details as to exactly which assets will be in scope and, therefore, which investment trusts might benefit are scant. As such, it's not expected to have a huge immediate impact on the investment trust world.

Still, we agree with AIC CEO Richard Stone when he suggested that it will give pension schemes more confidence to add investment trusts to their investable universe.

Unlocking a potential billion-pound pool of cash sitting and waiting to invest in investment trusts may act as a powerful catalyst for narrowing discounts in related sectors. Sure, those wide discounts may give some trustees pause, but, in our view, they represent some of the most attractive valuation opportunities in UK markets.

The long and winding road

Of all the possible outcomes, we suspect that the most obvious beneficiary will be infrastructure projects. The government will be keen to improve swathes of the country's ailing stock, from roads to hospitals to schools.

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This could all play into the hands of a trust like **HICL Infrastructure (HICL)**, which has a 63% weighting to UK assets. These include Affinity Water, which supplies drinking water to 3.8m people in London and around the south-east of England; the A63 motorway, the Home Office building and the Royal School of Military Engineering. Diversification is added through a 23% exposure to Europe, alongside top 10 positions in the US-based power grid business Texas Nevada Transmission and New Zealand mobile towers business Fortysouth.

We're sure that HICL will strike a tone with pension trustees, given it's a FTSE 250 trust with a £3.3bn portfolio. Another attraction is HICL's aim to offer a core, lower-risk infrastructure investor targeting long-term NAV returns of 7-8% through a combination of a high dividend yield – currently 6.6% - and the potential for capital growth. A discount of c. 19% isn't egregious, but represents attractive value, in our view, particularly when you consider that HICL's board and manager have undertaken disposals totalling over £730m in the last couple of years, which have all been at or above the most recent valuation prior to sale, indicating that the NAV is robust.



While HICL focuses on taking equity in the projects it owns, **GCP Infrastructure Investments (GCP)** takes a different tack, financing social and economic infrastructure projects through debt instruments. Again, in contrast to HICL, GCP is fully focused on the UK, making the two a potentially attracting pairing for pensions funds.

Just over half of the portfolio is in senior debt and, again, just over half is also in renewable projects (which we'll come on to shortly). GCP's portfolio is mature and fully operational, consisting of 47 investments that are highly diversified across sub-sectors such as commercial and rooftop solar, biomass plants, supported living and waste disposal.

GCP's returns come primarily through dividends, with the current yield sitting at an attractive c. 9.4%, more than twice the level of the five-year gilt yield, but there's certainly some potential for the discount to narrow which, at c. 27%, is essentially analogous to buying a bond yielding in excess of 9% with a par value of 100p for 73p.

When the wind blows

Surely, too, with the government's efforts to decarbonise the UK's economy, will renewable energy infrastructure projects be on the list of ideal private asset investments. The purest play we could think of here would be **Greencoat UK Wind (UKW)**, which, as the name suggests, invests in onshore and offshore wind farms up and down the UK.

Wind is, in our view, key to both the transition to net zero and to ensuring the UK's energy self-sufficiency. Indeed, the proliferation of energy from renewable sources played into the fact that Britain's electricity is the most British in over 20 years, according to the Energy and Climate Intelligence Unit.

UKW is another large and liquid trust, with a c. £4bn portfolio – a big advantage in this context – and remains a leader in the sector. UKW's share price remains in the doldrums for now, with the ongoing sell-off initially sparked by 2022's rising interest rate environment and compounded by weak sentiment and **some negative government announcements**.

Yet, if one looks forward, we see signs of life for UKW. It wouldn't surprise us if we saw some consolidation in the sector given the current over-supply of trusts in the sector. We'd see this as a positive for UKW as it's likely to be one of the survivors and would represent an attractive alternative for investors in whichever trusts get taken out.

In addition, UKW's share price remains, at the time of writing, a shade below its 2013 IPO price, despite the trust having delivered a NAV total return of c. 193% since then.

Certainly, a yield of c. 10.4% on a discount of c. 26% and a dividend that is explicitly linked to consumer price inflation strikes us as an attractive proposition.

Going for growth

Private equity and venture capital is a less obvious beneficiary here. While the space is, of course, included in the private assets remit, UK pension funds tend to err on the side of running more cautious portfolios. That said, the increase of defined contribution pensions and auto-enrolment is bringing younger savers into the pension system and these are the exact people that would benefit from their funds looking towards more growth-style investments.

In addition, the private equity space is dominated by the US market. That said, public markets are also skewed towards the other side of the Atlantic and, fortunately, there are some private equity – or growth capital – investment trusts that focus on Europe, with exposure to the UK within that.

On the private equity side of things, **CT Private Equity (CTPE)** has c. 41% of its portfolio invested in the UK, marking it out as highly differentiated from its listed PE peer group, which typically has less in the UK and significantly more than CTPE's c. 15% in the US.

While CTPE targets the lower-mid market of the European PE universe, which is typically higher risk, the trust is well diversified across c. 500 underlying companies and management believe that it should be well rewarded over the long term for taking this risk.

CTPE's two largest individual names are both UK firms, being the casual clothing retailer Weird Fish and the social housing maintenance provider CARDO Group. Management suspects, as do we, that valuations are currently prudent and that experience, over the past 26 years CTPE has been around, suggests that there could be considerable hidden value in the NAV, at which CTPE trades at a c. 30% discount.

Moving into the world of venture capital, **Molten Ventures (GROW)** is a specialist VC investor owning equity in early-stage, unlisted European businesses both directly and through funds.

The core of the portfolio is a concentrated selection of 16 businesses making up 62% of the NAV and led by the fintech giant Revolut, at 10.6% of the portfolio. Revolut has been a real UK technology success story and has recently been revalued to make it worth more than Barclays, Lloyds or NatWest ahead of an expected 2026 IPO.



GROW has been top-slicing its position in both Revolut as well as the Finnish satellite maker ICEYE, showing management's success and generating cash. Indeed, GROW generated more than £200m from its portfolio in FY 2025 and through the first six months of 2026, with the fair value of the portfolio being written up by 6% in H1 2026, after a 4% uplift in FY 2025, indicating momentum building after a tough period for VC between 2022 and 2024.

The discount has narrowed significantly from its c. 60% 12 months ago to c. 27% at the time of writing. Still, that's a fairly meaty discount on a portfolio containing attractive thematic exposures such as space technology, enterprise software, quantum computing and blockchain.

We'll wait for the finer details to be fleshed out before getting too excited about the potential wall of money that could come into the investment trust sector if pension funds start looking our way. Still, the worst outcome is that it will be net neutral for the sector, with a bullish view that it could really narrow discounts across many sectors that have been hard hit in recent years.



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