

Invest Europe's position paper on IORP and PEPP review

Unlocking pension capital for the EU economy

Executive Summary

- The IORP II review must modernise the prudent person principle by removing Article 19(1)(d)'s "predominantly regulated markets" requirement, replacing it with portfolio-level diversification rules focused on risk management and liability matching.
- Pension funds' predictable liquidity needs and long-dated liabilities make them ideal partners for private equity (PE)/VC, which delivers superior returns (14.86% net IRR buyouts vs 6.21% MSCI Europe) when appropriately diversified.
- IORP Article 19 amendments must also block national gold-plating reinstating unlisted asset limits; PEPP Article 45(5)'s 95% "simple instruments" cap severely misaligns with decades-long saver horizons and should also be removed.
- Consolidation of fragmented pension schemes is essential to build scale, expertise and liquidity buffers needed for productive long-term investments.

Prudence is never solely investing in short-term, volatile bonds

The Institutions for Occupational Retirement Provision (IORP) Directive review offers an opportunity: decoupling the concept of prudence to investments in specific types of assets or sectors - notably listed or daily-traded instruments.

Prudence should be seen holistically. IORP – and the national legislation implementing it in practice - should be designed to invite pension funds to construct **well-diversified portfolios which meet their long-term liabilities**, not portfolios that are mostly made up of low value, short-term assets.

Investments in short-term listed assets shall obviously be encouraged when pension funds need liquidity. But in all other cases, pension funds shall diversify as much as possible their portfolios. They shall be actively encouraged to focus part of their investments to “productive” assets that can truly benefit the EU economy, also for the sake of their policy holders which are looking for returns that beat inflation.

Private equity (including venture capital) as a relevant investment for pension funds

Private equity is particularly well suited to occupational pension funds for three core reasons:

- their shared long-term nature
- its contribution to the European economy
- its comparatively better performance for investors with long-term liabilities

a) long-term liabilities of pension funds match private equity's profile

Pension liabilities are long-dated and predictable, making pension funds natural partners for long-term investment strategies. PE funds typically invest over multi-year horizons and realise value over time, closely matching the duration profile of pension obligations.

While PE involves illiquidity, this risk is best manageable for pension funds with stable contribution flows and long-term payout horizons, provided liquidity is planned at the portfolio level. This is particularly true if the pension fund has a certain size (see point below on consolidation).

It is often said that private equity is a risky asset: yet, that is for all intent and purposes dependent on the type of investment made. For mid-sized to larger pension funds with diversified portfolios and a long-term horizon, private equity can be as safe as other types of investments.

The economic evidence: Detailed modelling of 50,000 simulated PE portfolios using European fund data shows that, once investments are pooled into well-diversified multi-fund portfolios and held over realistic horizons, capital loss probabilities fall sharply and are materially lower than commonly assumed for the asset class.

While a single direct private equity investment can have an estimated total loss probability of around 30%, the probability of any loss for a diversified PE portfolio becomes small. Once a sufficiently large portfolio is constructed, evidence supports that value-at-risk declines even further, eventually falling to zero for portfolios smaller than many in practice.

Source: *Europe Economics, Private Equity: Risk Calibration [report](#), 2018*

b) EU innovation needs long-term capital

Private equity provide long-term capital to European companies, including start-ups, scale-ups, and established businesses undergoing transformation. Through active ownership, PE managers improve governance, productivity, innovation, and competitiveness, supporting job creation and economic resilience. Greater pension fund participation in private markets would help channel domestic savings into productive investment, strengthening Europe's strategic autonomy and growth potential.

The economic evidence: PE/VC-backed companies created 339,000+ net new jobs across Europe in 2023 – a 5% employment growth rate, 5x the continental average of 1% and marking the sixth consecutive year of outperformance across all regions, stages (VC, growth, buyout) and sectors. Portfolio companies supported 11+ million jobs in 2023, with standout growth in energy/environment (+9.5%), finance/insurance (+7%) and transportation (+6%).

VC investments reached 15,554 companies employing 634,300 people, while growth-stage deals covered 6,990 firms with 3.4 million jobs and buyouts 5,536 companies with 7 million jobs – driving disproportionate impact in high-innovation sectors like ICT, biotech/healthcare and energy/environment and proving PE/VC's role as engines of economic resilience and competitiveness.

Source: Invest Europe, *Private Equity at Work report*, 2025

c) Performance is better

PE has consistently delivered higher long-term returns than public equity markets. These returns are driven not by short-term trading or leverage alone, but by operational improvements, strategic repositioning, and long-term value creation in portfolio companies.

For pension funds seeking to deliver real returns above inflation, excluding or unduly limiting access to PE undermines, rather than enhances, fiduciary outcomes. From that perspective, increasing allocation to better performing assets, as long as the right conditions are met, is ultimately the most prudent choice.

The economic evidence: European PE/VC have outperformed public equity benchmarks over long horizons, while being accessed through regulated, diversified fund structures. The below figures illustrate that, for well-diversified portfolios held over appropriate horizons, PE has delivered substantially higher returns than listed equity indices, supporting better real outcomes for pension beneficiaries.

Segment	Horizon	Net IRR	MSCI Europe
European Buyouts	Since inception	14.86%	6.21%
European Growth Capital	Since inception	14.57%	7.35%
European VC	Since inception	11.34%	8.06%
European Infrastructure funds	Since inception	9.0%	4.30%

Source: Invest Europe, *The Performance of European Private Equity Benchmark Report*, 2025

The scale problem: Why consolidation matters

One of the persistent barriers to pension fund investment in productive assets such as private equity is fragmentation. Many European pension funds are too small to efficiently access private markets, manage liquidity at portfolio level, and build the necessary

governance and expertise to invest part of their assets in private capital (which, although not riskier, require specific knowledge).

Small scale can amplify perceived risks, such as illiquidity or concentration, while increasing costs and operational complexity. As a result, smaller schemes often remain heavily concentrated in listed assets, even when this may not be optimal for long-term beneficiaries.

Consolidation of pension schemes offers a structural solution. Larger funds will be better positioned to diversify across asset classes, vintages, and managers; to pool liquidity risk; and to access specialist expertise directly or through cost-effective partnerships.

Encouraging consolidation, where consistent with national systems, should therefore be seen as complementary to modernising the prudent person principle and unlocking productive investment.

The same is true of PEPP

The PEPP framework should enable and encourage more high-growth, illiquid assets to maximise long-term saver returns. The **removal of the mandatory 1% fee cap** on Basic PEPP and allowance for unlisted investments are positive steps in that regard.

However, the review in Article 41 retains the focus on regulated markets, while Article 45(5) forces 95% of Basic PEPP assets into MiFID's narrow "simple" categories (listed shares, short-term bonds, qualifying UCITS), leaving just 5% maximum for PE/VC funds and other unlisted assets.

This retail-style restriction is fundamentally misaligned with PEPP's decades-long horizon. Long-term savers should access measured exposure to illiquid assets that match pension liabilities and deliver superior risk-adjusted returns, as argued above.

Conclusion

A re-interpretation of the prudent person principle is essential to align pension regulation with the realities of long-term investing. Prudence should be assessed at the level of the overall portfolio, focusing on diversification, risk management, and liability matching, rather than on an outdated formal distinction between listed and unlisted assets.

Private equity exemplifies productive, long-term investment that can simultaneously support better pension outcomes and contribute to Europe's economic development.

When combined with appropriate liquidity planning and supported by greater scale through consolidation, investment in long-term assets should not be seen a departure from prudence. On the contrary, allowing pension funds to take the right amount of risk to invest in one's future will be a safer bet on the long run.

Our recommendations

The revisions are already a positive step forward but it can be even more inclusive and supportive of equity investment in unlisted markets. This should be the first step towards a much-needed recalibration of how Europe uses its accumulated capital to meet long-term retirement needs and to finance productive investment in the real economy. Our amendments to Article 19 IORP and Article below in **red**.

Article 19 IORP

(a) paragraph 1 is amended as follows:

(a) the introductory wording is replaced by the following:

‘1. Member States shall require IORPs authorised in their territory to invest in accordance with the prudent person principle and in particular in accordance with the following rules:’;

(b) point (b) is replaced by the following:

‘(b) within the prudent person principle, IORPs shall take into account sustainability risks, as defined in Article 2, point (22), of Regulation (EU) 2019/2088 of the European Parliament and of the Council in their investment decisions and for that purpose, IORPs shall take into account the potential long-term impact of their investment strategy and decisions on sustainability factors, as defined in Article 2, point (24), of Regulation (EU) 2019/2088. That shall be done in a proportionate manner, taking into account the nature, scale and complexity of the activities of IORPs.’*

*(c) the assets shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole **while aiming to achieve overall performance that is higher than inflation**;*

(c) point (d) is replaced by the following:

*‘(d) ~~the assets shall be predominantly invested on regulated markets, MTFs or OTFs;~~ **the assets shall be invested in a diversified manner, with consideration to the liquidity profile of assets depending on the overall portfolio of the IORP;***

(b) the following paragraphs 1a to 1d are inserted:

‘1a. Member States shall require that, with respect to the whole portfolio of assets, IORPs only invest in assets and instruments whose risks the IORP concerned is able to properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall funding needs and the assessment of the risks to members and beneficiaries relating to the paying out of their retirement benefits in accordance with Article 28.

*1b. Member States shall require that assets held to cover the technical provisions are also invested in a **diversified** manner appropriate to the nature and duration of the liabilities entered into by the IORP.*

1c. Member States shall require that investment decisions of IORPs reflect the sustainability preferences of members and beneficiaries, where IORPs are able to gauge those membership

preferences and to the extent those preferences are consistent with the investment principles set out in paragraph 1.

1d. For the purposes of paragraph 1c, sustainability preferences shall mean a member's, beneficiary's, or prospective member's choice as to whether and, if so, to what extent, one or more of the following financial instruments are to be integrated into his or her investment:

(a) a financial instrument for which the customer or potential customer determines that a minimum proportion is to be invested in environmentally sustainable investments as defined in Article 2, point (1), of Regulation (EU) 2020/852 of the European Parliament and of the Council**;

(b) a financial instrument for which the customer or potential customer determines that a minimum proportion shall be invested in sustainable investments as defined in Article 2, point (17), of Regulation (EU) 2019/2088;

(c) a financial instrument that considers principal adverse impacts on sustainability factors, as defined in Article 2, point (24), of Regulation (EU) 2019/2088, where qualitative or quantitative elements demonstrating that consideration are determined by the customer or potential customer.;

(c) paragraph 6 is replaced by the following:

*'In accordance with the provisions of paragraphs 1 to 5, Member States may empower the competent authority, for IORPs authorised in their territories, to lay down more detailed rules, provided they are prudentially justified **strictly and demonstrably prudentially justified, proportionate and consistent with the prudent person principle.***

Any such rules shall be applied only where the investment risk is borne by the members and beneficiaries. However, in such cases, IORPs shall not be prevented from:

(a) investing up to 70 % of the assets covering the technical provisions or of the whole portfolio for schemes in which the members bear the investment risks in shares, negotiable securities treated as shares and corporate bonds admitted to trading on regulated markets, or through MTFs or OTFs, and deciding on the relative weight of those securities in their investment portfolio;

(b) investing up to 30 % of the assets covering technical provisions in assets denominated in currencies other than those in which the liabilities are expressed;

(c) investing **up to 40 %** in instruments that have a long-term investment horizon and are not traded on regulated markets, MTFs or OTFs;

(d) investing in European Long-term Investment Funds, European Social Entrepreneurship Funds and European Venture Capital Funds as well as in any other long-term equity funds that share similar characteristics

(d) investing in instruments that are issued or guaranteed by the EIB provided in the framework of the European Fund for Strategic Investments.;

6a. In order to encourage IORPs to invest in productive assets and to achieve appropriate diversification across markets, Member States shall ensure that IORPs provide, where relevant, a high-level explanation of their investment approach with regard to long-term

equity investments and diversification strategies based on their nature, scale and complexity.

Where IORPs have limited or no exposure to productive assets, they should outline whether they intend to further develop their governance and risk-management frameworks to support a more diversified portfolio and sound asset-liability management. Where appropriate, this could include consideration of efficiency-enhancing arrangements, such as pooled investment structures, outsourcing, or transfer mechanisms aimed at improving scale and diversification.

Explanatory statements prepared in the context of this paragraph should not require the disclosure of commercially sensitive information.

(d) paragraphs 7 and 8 are deleted;

Article 45 PEPP

2. Without prejudice to the investment rules laid down in Article 41, **all** of the assets of the Basic PEPP other than cash shall be invested into:

- any of the financial instruments referred to in Article 25(4)(a), points (i) to (iv), of Directive 2014/65/EU.'

- shares of long-term equity funds, including but not limited to exposures to European Long-term Investment Funds, European Social Entrepreneurship Funds and European Venture Capital Funds, provided PEPP providers can demonstrate these investments match their long-term liabilities