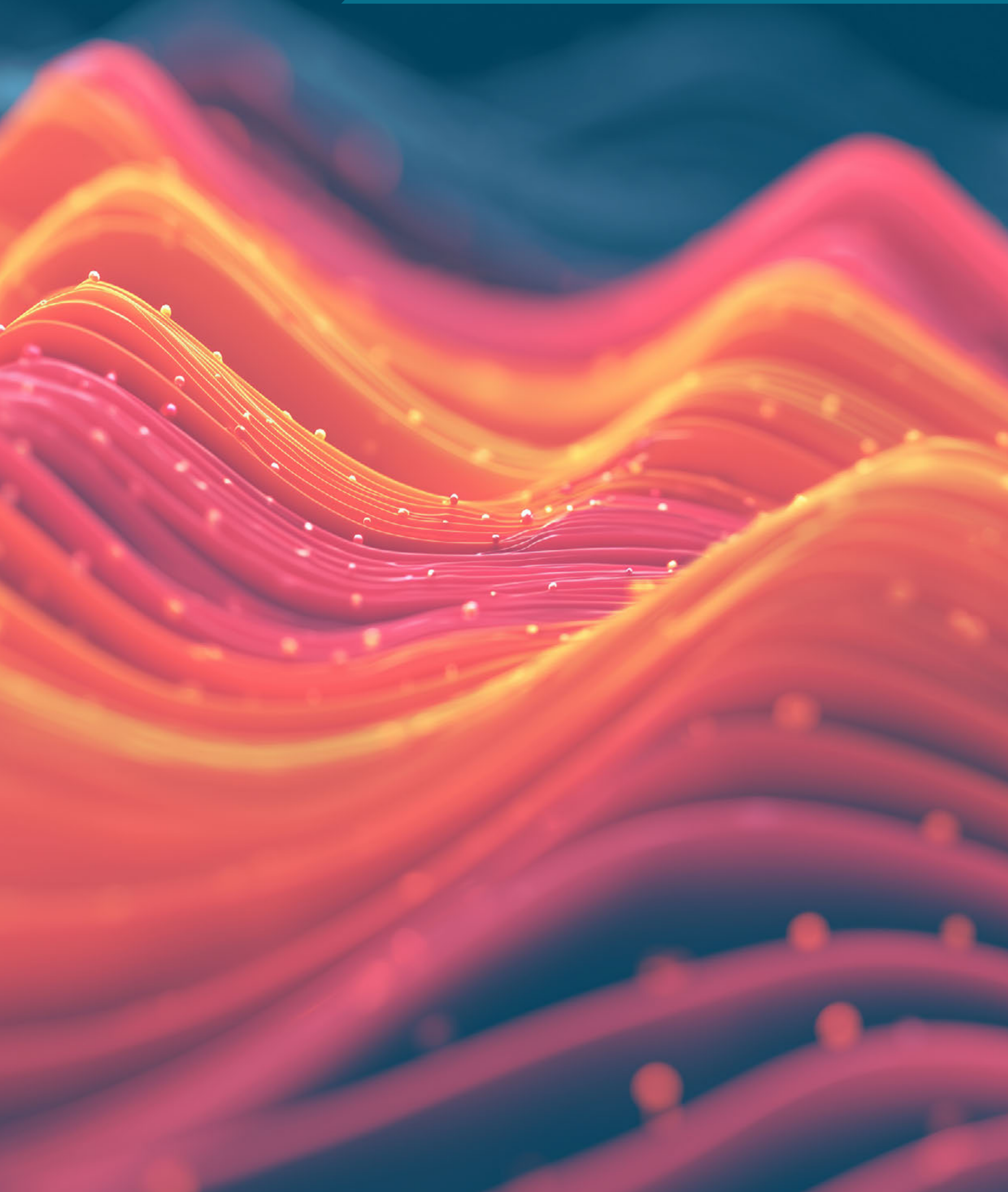
Private markets industry guide 2025



INTRODUCTION

Helen Forrest Hall
Chief Strategy Officer
PMI

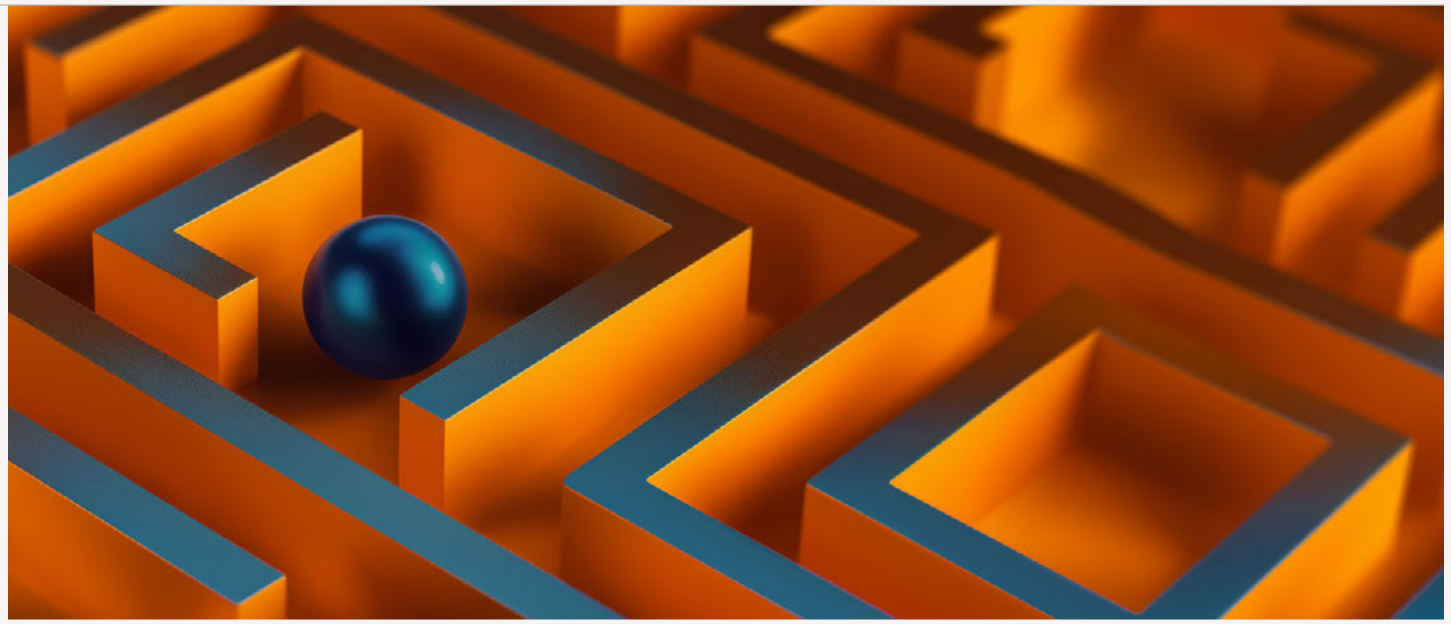
2025 has seen private markets move from a niche option to a central consideration for pension schemes. Trustees, sponsors and administrators increasingly face questions about how to access private assets responsibly, align them with member outcomes and manage the governance, liquidity and operational complexity these investments bring. The Pensions Regulator's expectations are clear: schemes must demonstrate informed, evidence-based decision making when adopting more complex allocations.

The PMI's role is to lift professional standards so trustees and pension teams can meet those expectations with confidence. This Industry Guide brings together practitioners across the private markets ecosystem. Contributors address the key trends we are seeing, the governance, due diligence, valuation, cashflow management and reporting, alongside product designs that may broaden access for smaller schemes.

A central theme is capability. Trustees and administrators need to upskill to ask the right questions, test answers and oversee implementation effectively. The PMI will continue to support that journey through targeted education, practical tools and peer learning. We hope this guide is a practical, actionable resource that helps boards and their professional teams navigate private markets with greater clarity and confidence.

SCOTTISH WIDOWS

NAVIGATING THE COMPLEXITIES OF ACCESSING AND SOURCING PRIVATE MARKET INVESTMENTS



Mithesh Varsani
Head of Investment Solutions
Scottish Widows

Private markets have become a growing part of the universe of investment opportunities. They can provide diversification and access to attractive longer-term growth opportunities not previously available to Defined Contribution pension savers.

Private market investments encompass a range of asset types distinct from traditional public markets, including private equity, venture capital, infrastructure, private credit, real estate, and natural capital.

They deliver different investment return streams with different characteristics that can be used to enhance member outcomes throughout the retirement journey. They can support innovative start-up or growth businesses to scale or access real assets, giving pension scheme members exposure to new return streams not found on listed markets. Some private market investments can provide tangible environmental, social and governance (ESG) benefits through direct investment into opportunities like renewable energy, natural capital and biotech.

And being less liquid assets with long expected holding periods carries an associated illiquidity premium. Investors are compensated for locking up capital which aligns with the long-term nature of pension liabilities. Private real assets can also provide resilient, long-term, inflation-protected income streams.

Private market investments offer strong ESG benefits by enabling direct influence over portfolio companies. Investors may drive sustainability practices, improve governance and promote social impact initiatives more effectively than in public markets. Value creation over the longer term is supported through active ownership, alignment with ESG goals and funding of innovative, purpose-driven businesses.

But private markets are complex, providing unique challenges in terms of access, liquidity, oversight and higher associated costs that need to be navigated carefully.

Not only are there different types of assets that behave differently and perform differently depending on where they are in their lifecycles, there are many different ways of accessing and sourcing them. This ranges from investing in primary closed-ended funds and acquiring secondary stakes, to co- and direct investments. Understanding the range of options and structures is critical to building well diversified private market portfolios.

Commingled funds

Also known as pooled funds, they're investment vehicles that combine assets from multiple investors into a single portfolio that allocated across a range of private funds, managed by professional fund managers.

Fund of one

These are funds created specifically for a single investor. Unlike traditional funds with multiple investors, a Fund of One is tailored to the needs, preferences, and objectives of just one investor.

Closed or open-ended funds

Open-ended funds provide specified periodic liquidity rules, allowing investors to enter and exit at defined intervals, whereas closed-ended funds generally lock in capital for the entire fund lifecycle.

Primary and secondary

The primary market is where new investments are created and sold for the first time. The secondary market allows pension funds to buy or sell existing commitments to private funds. This offers liquidity and faster capital deployment.

Co-investments

Through partnerships with general partners (GPs) pension funds can co-invest in private assets alongside funds, often at lower fees. This allows for more control and higher potential returns but also requires rigorous due diligence capabilities.

Direct investment

Investing directly in companies, infrastructure or real estate assets. This approach offers control and costs savings but requires internal expertise and scale.

Sourcing the best deals

Private market assets can also be sourced by a variety of players, from general partners (GPs), global asset managers, boutique or bank-affiliated investment houses to specialist fund-of-fund managers.

With private markets the key word is 'private', so you need the right partnerships to source the best deals and access to regular deal flow by local market experts. Track record, reputation and relationships are essential to ensure participation in opportunities that are in high demand.

To be successful, it's essential to establish a rich origination network with affiliates to source the right ingredients from wherever they may be found.

As well as being experts in sourcing deals, investment partners need to have experience in selecting GPs, managing assets directly, executing investments, structuring legal agreements and portfolio construction to efficiently deploy the investments in funds with a focus on things like liquidity management, particularly during the later life period of member glidepaths.

Investing in private markets can play a valuable role in pension fund portfolios but requires a thoughtful approach that balances opportunity with measured risk. Success hinges not only on access but on disciplined execution, strong partnerships and a long-term perspective, remaining agile in adapting to a rapidly evolving investment landscape.

By navigating the complexities with care and attention, pension providers can harness private markets to deliver secure, sustainable retirement incomes for customers.

caceis
INVESTOR SERVICES

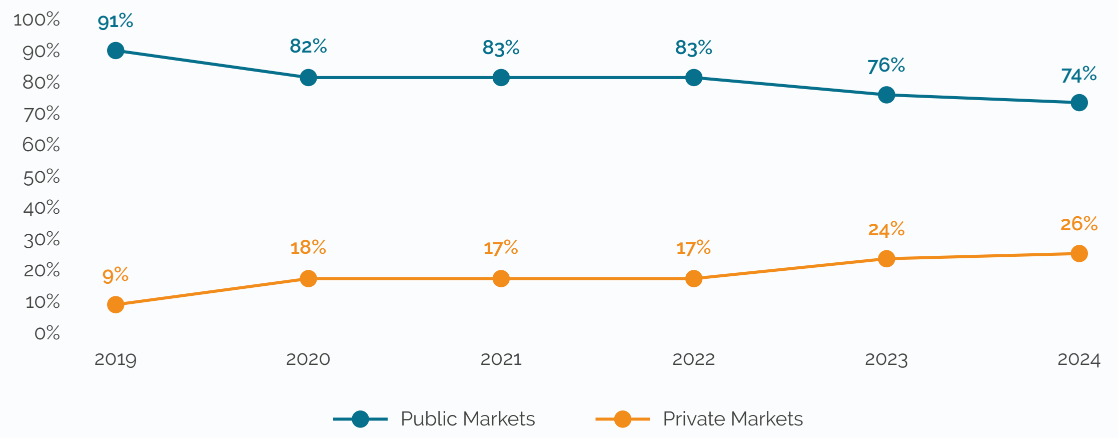
BEYOND BONDS:
THE STRATEGIC PIVOT TO PRIVATE MARKETS FOR UK PENSION FUNDS

Scott Foster
Head of Digital & Governance Solutions
CACEIS UK

For decades, the investment strategy for UK pension schemes was a relatively straightforward equation: a heavy allocation to gilts and bonds to match liabilities, complemented by public equities for growth. This model, while comfortable, is systematically shifting. In its place, a new, more complex, and potentially more rewarding architecture is emerging, built upon the foundation of alternative investments like private markets and infrastructure assets.

Recent analysis by CACEIS via its Cost Transparency & Benchmarking Universe, encompassing £725 billion in assets under management across Defined Benefit (DB), Defined Contribution (DC), and Local Government Pension Schemes (LGPS), reveals a real shift in asset allocation. Between 2019 and 2024, the average allocation to public markets within this universe of pension schemes plummeted from 91% to 74%, while private market exposure nearly tripled, rising from 9% to 26%. This is not a marginal adjustment but a fundamental recalibration of pension fund strategy, driven by a confluence of regulatory & policy pressure, the search for yield, and the imperative for long-term, inflation-resistant returns.

CACEIS Cost Transparency & Benchmarking Universe
– Asset Allocation Trends (2019 – 2024)



The Great Reallocation: Unpacking the Drivers

This monumental shift is not occurring in a vacuum. It is the direct result of powerful, structural forces reshaping the pensions landscape.

For mature DB schemes, the 2022 market shocks and subsequent interest rate surges were a watershed moment. These events accelerated a pre-existing de-risking trend, prompting a flight from public equities and Gilts to fund LDI margin calls. However, this de-risking has created a return deficit. In the face of a reallocation exercise, schemes have been cautiously deploying capital into private markets to supplement returns, often focusing on income-generating assets like private debt, private equity and core infrastructure.

Conversely, DC Master Trusts and LGPS schemes are operating from a different playbook. Unburdened by the same immediate liability-matching pressures as closed DB funds, their focus is firmly on long-term growth and diversification. The post-COVID inflationary environment has starkly illustrated the limitations of traditional 60/40 portfolios. In response, these schemes are embracing illiquidity as a feature, not a bug, to access the premium offered by private assets. The government's UK Pension Investment Review (2023) has further cemented this direction, explicitly encouraging greater allocations to private markets for diversification and improved member outcomes.

The ambitions are significant. One leading DC master trust, for instance, has publicly declared its intention to increase its private asset allocation from 5% to 30% by the end of the decade. Similarly, a prominent LGPS pool has successfully constructed an £8 billion private markets portfolio in under five years, a clear testament to the scale and speed of this strategic pivot.

A Closer Look: Case Studies in Transition

Examining case studies from CACEIS's Cost Transparency & Benchmarking universe provides a granular view of how this strategic evolution unfolds in practice.

Case Study 1: A Leading DC Master Trust

This scheme's journey over a 3-year period exemplifies a deliberate and growing commitment to private markets. Its public market allocation fell from 87% to 80%, with private markets filling the void, rising from 13% to 20%.

- **Infrastructure:** This asset class played an increasingly important role in its strategy, growing to 11% of the portfolio by 2025. A significant allocation to a renewables infrastructure fund served a dual purpose: providing exposure to assets with steady, inflation-linked cash flows and aligning with the scheme's net-zero ambitions. Performance has been robust, peaking at 17% during the post-COVID recovery and stabilising at a respectable 10% as markets normalised, all while fees decreased by 28%.
- **Private Debt:** Allocations stabilised at 3-4%. Initially, returns were muted in a low-rate environment, but they have since improved to 7% as rising central bank rates boosted yields.
- **Private Equity:** This represents a newer, smaller but growing frontier for the master trust. While costs increased as commitments were built, returns have begun to materialise strongly, jumping to 15% in 2024/25, demonstrating the classic J-curve effect in action.

Case Study 2: An LGPS Pool

This pool's story is one of rapid scaling. Over a 4 year period, it systematically built its private market exposure, which now stands at 13% of its portfolio, through disciplined, multi-cycle investing.

- **Infrastructure:** Beginning with a £500+ million commitment, the pool's second investment cycle was fully deployed in a 3 year period. Performance was stellar during the energy price shock, hitting 14%, underscoring the inflation-hedging qualities of the asset class.
- **Private Equity:** The pool has methodically expanded its exposure, now launching its third investment cycle. While returns are still in their early stages (a common feature of nascent PE programmes) the strategic intent is clear: to capture the high-growth potential that public equities increasingly fail to provide.

Cost, Performance, and the Value-for-Money Imperative

A critical question for any pension manager is whether the illiquidity premium and higher fees of private markets are justified. The data suggests a nuanced but ultimately positive answer.

- Private Equity consistently carries the highest cost, often exceeding 500 basis points. However, it also delivers the highest growth potential, with a decade-long track record of double-digit returns. It is the engine of portfolio growth, albeit a costly one.
- Infrastructure offers a compelling middle ground. Costs, while volatile during initial deployment phases, tend to decrease as portfolios mature. Performance is generally steady and resilient, providing excellent inflation protection and portfolio stabilisation.
- Private Debt typically has more moderate but variable costs and provides steady, income-focused returns. In a rising rate environment, it has become an increasingly attractive source of yield, often outperforming its public market equivalents.

The introduction of new 'value for money' regulations is sharpening the focus on this cost/return dynamic. It is no longer sufficient to simply report costs; trustees must now demonstrably link them to member outcomes. This demands a more sophisticated approach to reporting and a long-term horizon for evaluating performance, looking through short-term fee spikes often associated with market events or new fund launches.

Strategic Imperatives for Pension Managers and Trustees

For pension fund managers navigating this new landscape, several key strategic implications emerge:

1. Define the Strategic Role of Each Asset Class: Allocations must be purposeful. Private equity offers growth potential, infrastructure can provide stability and inflation-linking, and private debt favours the delivery of a reliable income. A clear understanding of what each segment contributes to the overall portfolio is essential.
2. Embrace Scale and Cooperation: The dominance of large LGPS pools and master trusts in the private markets space is no accident. Scale provides negotiating power on fees, access to top-tier fund managers, and the ability to diversify across multiple maturities and geographies. For smaller schemes, leveraging pooled vehicles like Fiduciary Manager or multi-manager funds is becoming a necessity.
3. Plan for Cost Cycles, Not Just Returns: The data shows that cost spikes are often cyclical and event-driven (e.g., during COVID-19). Forward-looking schemes are building these cycles into their financial modelling and communications, avoiding being caught off-guard by temporary increases that do not necessarily correlate with diminished performance.
4. Pursue Cost Efficiency Levers: To enhance value for money, schemes can actively explore avenues such as co-investment (to reduce fee layers), longer-term partnerships with managers, and rigorous tender processes for new mandates.

The shift from public to private markets is more than a fleeting trend; it is a fundamental and likely permanent feature of the modern pension fund landscape. It demands a new skillset, a more sophisticated approach to risk and cost management, and a steadfast, long-term perspective.

Pension servicing specialists like CACEIS can play a key role in this, bringing trustees key insight into their portfolios such as cost attribution reports which can be integrated into compliance reports, cost/return reports over longer term horizons, and reports on historical costs/trends. Transparent management information enables trustees to make better informed investment decisions and understand the impacts of various market scenarios on both the public and private allocations of the investment portfolio.

For those pension managers and trustees who can successfully navigate the transition to an increasing share of private asset investments, the reward promises to be a more resilient, diversified, and ultimately better-performing portfolio, capable of delivering on the long-term promises made to their members. The age of bonds is not over, but private assets are now firmly part of a broader, more ambitious investment universe.

JUST.

LOOKING BEYOND THE BALANCE SHEET

A practical approach to productive assets for pensions

Pretty Sagoo
Managing Director
Just Defined Benefits

As a bulk purchase annuity (BPA) insurer, our top priority is always to ensure our members receive the full benefits they're entitled to, for the rest of their lives. That long-term promise underpins everything we do. For the UK Government, the £3.2 trillion held in UK pension assets represents an enormous opportunity to support the UK economy by funding growth and innovation in the real economy via assets such as infrastructure, property, private equity, energy, and transport, referred to as "productive" assets.

These priorities are not contradictory. In fact, insurers and defined benefit (DB) pension schemes have long invested in UK productive assets. Recent data from the PPI shows that 16% of private DB assets are allocated to productive finance, including £119 billion in property and other alternatives. Many UK-based assets, particularly in private credit, offer the long-term, stable, predictable cashflows that match our liabilities and suit our risk-management frameworks.

This article sets out how insurers are already contributing to the UK's productive finance goals, why we want to do more, and what changes could unlock even greater alignment between pension security and economic growth.

A recent example of Just's support is the funding Just provided for Lucy Cavendish College, a constituent college within the University of Cambridge, committed to increasing student representation at Cambridge from underrepresented backgrounds.

The £47.25m inflation linked long-term financing transaction was completed in December 2024 with a term of 45 years and will finance the College's acquisition of a long-leasehold interest in student accommodation property, refurbishment and remedial works and the refinancing of existing debt. This transaction adds to Just's sizable investments in the education sector.

Productive investment is already part of the model

The insurance industry has a long track record as a major investor in UK housing, infrastructure, utilities, and long-dated credit. As part of the Investment Delivery Forum, in 2023, the insurance and long-term savings industry, via the ABI, pledged to invest £100 billion in UK productive assets backing annuity business over ten years.

In its 2025 update, reflecting 2024, the ABI reported that annuity providers invested £10.9 billion into the primary issuance of UK-focused productive assets. This included:

- £3.8 billion in real estate, supporting affordable housing, social housing and student accommodation;
- £2.7 billion in utilities, including energy and water infrastructure;
- £1.0 billion in transport, from ports to bus networks;
- £3.4 billion across a range of sectors, from manufacturing to healthcare.

The vast majority of these investments were executed through listed and private corporate bonds (£7.1 billion) and mortgages or loans (£2.3 billion).

For insurers, productive assets are often a natural fit. In February 2025, the ABI reported that in 2023, £178 billion (65%) of assets held by participating firms providing bulk and individual annuities were invested in the UK.

These assets generate long-term, predictable cashflows and are typically high-quality credits that are well suited to annuity business. Because our liabilities are sterling-based, domestic investments offer the added benefit of avoiding currency hedging costs and risks.

At Just, and across the market, we've brought more of our investment management in-house, with our in-house asset manager now being our largest investment partner. This shift gives us greater control over origination and portfolio construction and allows us to pursue a wider variety of investments, often including those that are harder to access. We can also better align asset allocation with pricing. And our commitment is such that, when necessary, we can and do push spreads, to ensure we remain competitive and can secure attractive UK assets. This meets our regulatory requirements, matches our liabilities and also supports the UK economy.

At Just, investments in infrastructure in particular, continue to increase, driven by social housing and private placement assets, alongside increased investment in long income real estate assets. Illiquid assets, making up £2.4bn in investments in 2024 and representing a 45% new business backing ratio, include infrastructure, real estate, private placements and lifetime mortgages..

Matching Adjustment as a factor in asset allocation

A key feature of the regulatory framework for annuity insurers is the Matching Adjustment (MA). The MA allows insurers to take into account part of the expected return above the risk-free rate on their assets, while calculating their capital requirements. In order to qualify, assets must have fixed, predictable cashflows and meet strict criteria on credit quality, duration, and structure.

This framework is central to our ability to manage risk and deliver member security. But it comes with natural constraints – a UK asset that doesn't meet these requirements cannot be included, resulting in attractive investments being excluded.

Even within the framework, not all assets are equal and many may need to be structured in such a way as to deliver the required predictability of cashflows, credit ratings and duration. This structuring work can be complex, but is often worth the effort, unlocking capital for the UK economy and securing returns that meet our long-term obligations to members.

The MA framework ensures the right capital buffers are in place, encourages strong risk management, and supports long-term resilience. But as policymakers consider how to unlock more pension capital for UK growth, engaging with insurers on evolving the MA to admit a broader range of high-quality, well-structured productive assets could have real impact.

This will also drive increased innovation. Insurers are already constantly evolving to meet changing needs, delivering new and improved services and products for trustees and members. Creating an environment that encourages this innovation, including in asset allocation, can only support further growth in productive asset allocation and member experience.

Doing more in the future with the right support

The insurance industry's baseline is to protect member benefits. This makes high standards and proactive oversight crucial. But evolution is necessary. Working with the PRA, the DWP and others will help to ensure there are robust opportunities to take risk and invest in the UK. An increase in asset availability, with clearer pathways to eligibility, directly or via appropriate structures, will meet the Government's desire to put pension assets to work for the broader UK economy.

Conclusion

As an industry, we are proud of our track record. We manage risk, we deliver on our promises, and we invest billions in the UK economy. That's the foundation of our commitment to our members.

With the right support and collaboration, we can build on that foundation to deliver better outcomes for everyone relying on a defined benefit pension.

Schroders

UK VENTURE CAPITAL:
WHY NOW FOR UK PENSIONS

Ryan Taylor
Head of UK DC Clients
Schroders

Harry Raikes
Head of UK Venture Investments
Schroders Capital

Venture capital is becoming a viable option for pension savers – we explore the investment case..

The UK stands at the forefront of global innovation, producing groundbreaking advancements across a spectrum of industries, notably in the technology and life sciences sectors.

Venture capital (VC) funding plays a pivotal role in converting these ideas, and the innovative companies behind them, from start-ups into market-leading enterprises – and offers the chance for investors to get in at an early stage with a view to benefitting from premium returns when they do.

To date, however, most UK pension savers in defined contribution (DC) pension schemes have not had the opportunity to participate in this potentially high-return asset class, or benefit from its diversification benefits. This has contributed to a broader relative lack of VC growth funding being sourced from domestic investors in the UK.

Our investment teams know plenty of entrepreneurs who would have happily funded their businesses with domestic institutional capital, such as pension savings, had there been local VC funds ready and able to match their ambition.

Instead, overseas VC growth funds, and their institutional investors, have historically been the ones to benefit most from scaling up the very vibrant companies coming out of the UK early-stage VC ecosystem.

Now, however, there is the opportunity for more UK investors to get in on the action in this dynamic segment, with initiatives in train to create a focused UK VC growth fund sector.

Catalysing capital for the UK economy

We have seen initiatives from the defined contribution (DC) pensions sector, buy-in from the asset management sector, including Schroders Capital, and a supportive UK government to thank for this shift.

The government's Long-term Investment for Technology and Science (LIFTS) program, through which the British Business Bank invested in Schroders Capital's UK Innovation LTAF, seeks to encourage greater investment from workplace pension schemes to drive the growth of innovative UK companies and has been a key catalyst for action.

Alongside this, successive governments have sought to incentivise more capital to be invested by workplace pension schemes into the real UK economy.

This has culminated recently in the Mansion House Accord, a commitment on the part of 17 pension schemes to seek to allocate at least 10% of their main DC default funds into private markets, including private equity and VC as well as infrastructure and real estate projects, by 2030. Half of this would be ringfenced for the UK, unlocking an expected £25 billion in new investment.

At the same time, the government has proposed changes in the Pension Schemes Bill, including the creation of consolidated so-called "megafunds", with the aim of driving down costs and opening up opportunities to invest in a wider range of assets. We will cover these initiatives in more detail in a forthcoming white paper.

The innovation opportunity

The mechanisms are therefore falling into place for UK pension savers to have the chance to benefit from the growth of world class UK companies.

This growth potential is underlined by the significant increase in the number of unlisted UK companies valued at more than $1 billion over the past decade, to more than 50 today (see chart below) – although, of course, past successes are no guarantee of future ones.

This, in turn, reflects the potential of venture to deliver outperformance that we see at a global level. From 2009-2023 across a universe of 1,700 private equity funds tracked by Schroders Capital, almost three times the proportion of early-stage venture funds generated a total return multiple (TVPI) in excess of 3x the capital invested compared to buyout funds (>13% vs <5%), with a far higher maximum return (25.9x vs 9.5x).

Meanwhile, the proportion of venture funds that have generated a multiple of less than 1x is similarly higher, but significantly less so (10.5% vs >6%). Venture investing does not come without risk, but it is the potential for significant outperformance that comes with investing in innovative growth businesses that drives the investment case for pension savers.

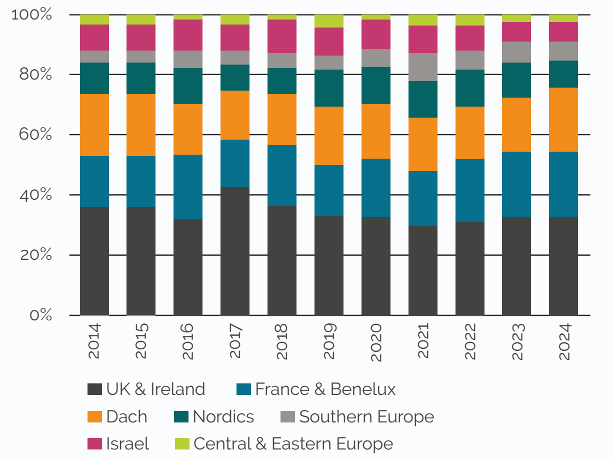
The opportunity offered by VC should also be seen in the context of dwindling global public equity markets.

As private equity and VC financing has become more widely available, many companies have turned their back on a stock market listing due to the perceived drawbacks, including notably around governance costs. These trends apply as much to the UK stock market as any other.

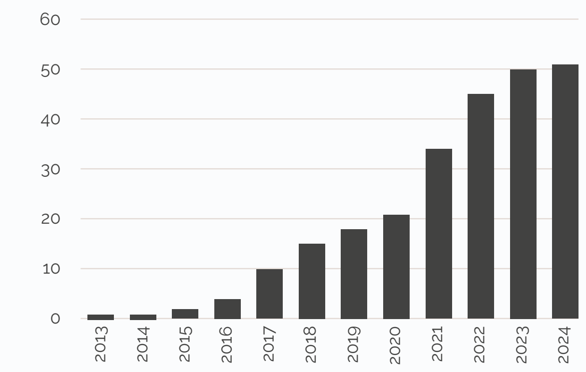
Meanwhile, a lack of UK quoted technology companies to rival the household names in the US – let alone of a dedicated technology index such as the Nasdaq – should not be conflated with the lack of a technology scene. UK innovation is very much alive and kicking, perhaps best illustrated by fact that the country boasts the third largest venture market in the world, and the largest in Europe – as well as the aforementioned growth in the number of UK unicorns.

The UK is the largest VC market in Europe – and has a growing number of 'unicorns'

UK is largest market in Europe



Number of UK unicorns



Source: 2024 Annual European Venture Report - Pitchbook, Beauhurst UK Unicorn List 2024, Schroders Capital, 2025. Data as of 31 December 2024. 615054

Need for UK pension investors to make savings work harder

All of this means that the conditions are in place for the next generation of UK pension saver to benefit from future VC investment cycles. It is worth noting, it can take 10 years or more to grow a VC-backed company from idea to established enterprise.

We don't want to see another lost decade for UK pension savers, not least given the challenges the next generation faces. Based on the most recent Office for National Statistics Wealth and Assets Survey covering DC pension savers, only 3% of millennial households saving into a DC pension are on track to generate a "moderate" standard of living in retirement, based on Pensions and Lifetime Savings Association (PLSA) standards (see chart, below).

Opportunity into reality for UK pension savers

The US VC industry is very well equipped to fund promising start-ups, but private sector-led reforms such as the Mansion House Accord, supported by government initiatives such as LIFTS, may help the UK to catch up.

These reforms are fostering the growth of a focused UK VC growth fund sector, with access to a required deep institutional pool of capital to enable investing at scale. There is a sense that recent efforts may mark a tipping point.

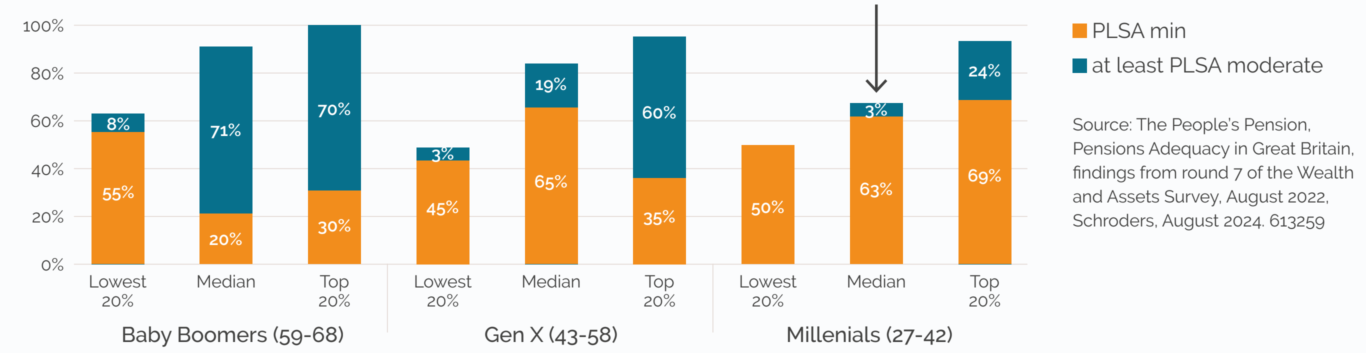
With most UK DC pension savers 30-40 years away from retirement, they have the required investment horizons to benefit from VC. Young pension savers could access three or four 10-year investment cycles of VC-backed companies from idea to exit.

So, with the opportunity to invest in VC becoming a reality, now is a very good time to consider the benefits for long term pension savers.

Lower income and younger households are predicted to be less likely to reach a 'moderate' standard of living

% of DC savers who are on track for 'minimum' and 'at least' moderate' retirement standards, by income quintiles, for different generations

Only 3% of median income, millennial households are predicted to reach PLSA 'moderate' retirement standards



Source: The People's Pension, Pensions Adequacy in Great Britain, findings from round 7 of the Wealth and Assets Survey, August 2022, Schroders, August 2024. 613259

Invesco

SMARTER FIXED INCOME: RETHINKING THE ROLE OF CLOs IN DC SCHEMES

Michael Craig
Head of European Senior Loans
Invesco

Mary Cahani
Head of Defined Contribution Distribution
Invesco

As DC schemes seek to enhance member outcomes, fixed income allocations are being reimagined. CLOs, particularly AAA-rated tranches, offer diversification, income, and resilience — but remain underutilised due to legacy perceptions and operational complexity. This article explores how smaller own-trust DC schemes can access private credit through simplified structures like ETFs and funds of one, and how ESG integration and manager alignment are helping to make CLOs a more transparent and responsible investment option.

In today's pension landscape, delivering better outcomes for members is more than a regulatory requirement — it's a strategic imperative. As schemes evolve, the design of fixed income portfolios is under the spotlight. Traditionally seen as a defensive allocation, fixed income is now expected to work harder: delivering better returns, managing risk more effectively, and supporting long-term member objectives.

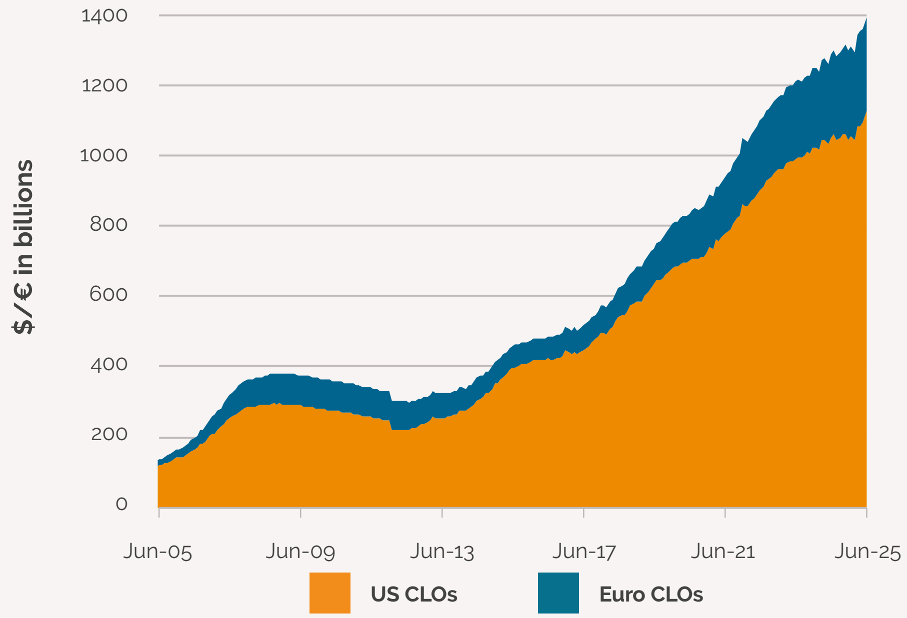
Collateralised Loan Obligations (CLOs), particularly AAA-rated tranches, are gaining traction as a way to meet these goals. Yet despite their strong performance and structural resilience, CLOs remain underutilised in DC schemes — especially among smaller own-trust arrangements. This article explores the case for CLOs, the barriers to adoption, and the smart structures that are making access easier and more aligned with ESG and member outcomes.

What Are CLOs — and Why Now?

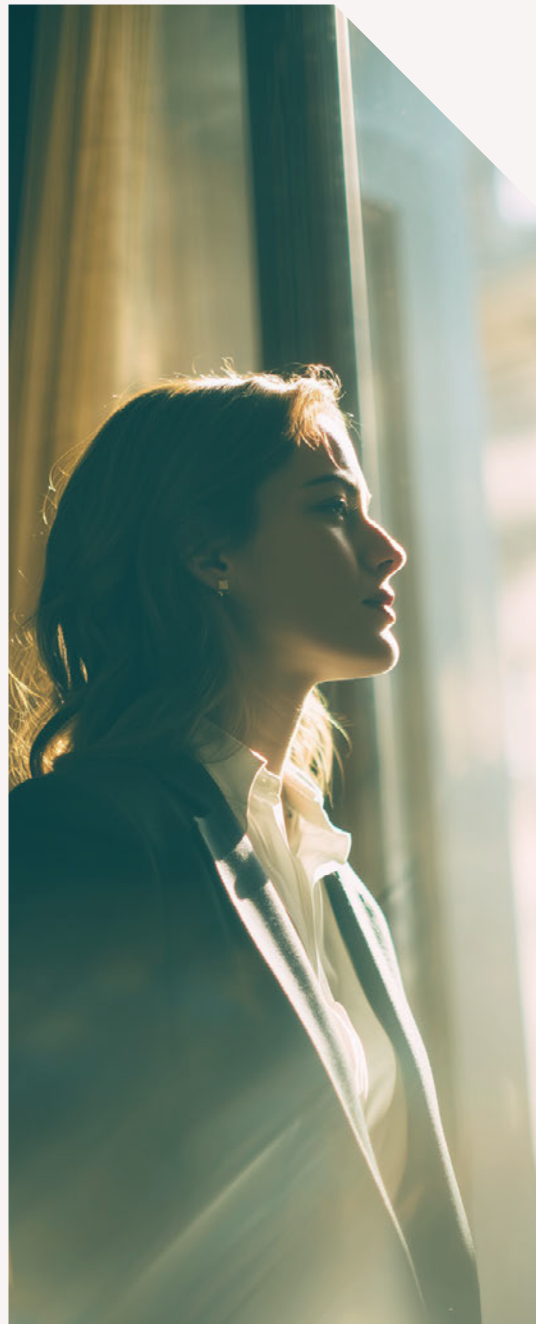
CLOs are securitised portfolios of senior secured loans, actively managed and structured into tranches with varying risk profiles. AAA-rated CLOs sit at the top of the capital structure, offering high credit quality, floating-rate exposure, and robust protections. Their low duration makes them a natural hedge against inflation and interest rate volatility — key concerns for pension investors.

The global CLO market has grown to over $1.4 trillion, reflecting increased demand for resilient credit exposure. CLOs are no longer niche instruments; they are becoming a mainstream way to access private credit with attractive income characteristics and diversification benefits.

US vs European CLO market growth over 20 years



Source: BofA Global Research, Intex through June 30, 2025



The Case for AAA CLOs in DC Portfolios

From a portfolio construction perspective, AAA CLOs offer:

- **Income and yield pickup:** AAA CLOs consistently outperform similarly rated corporate bonds in terms of yield, without compromising credit quality.
- **Floating-rate protection:** Their structure helps mitigate interest rate risk, supporting member outcomes in volatile markets.
- **Diversification:** CLOs are backed by hundreds of loans, and their modest correlation with traditional bonds and equities enhances portfolio resilience.
- **Structural safeguards:** Coverage and collateral quality tests automatically redirect cashflows to senior tranches if thresholds are breached, reducing risk.

Importantly, AAA CLOs have a strong track record. Out of over 23,000 investment-grade CLO tranches tracked by S&P Global Ratings, only 19 have ever been impaired — and none of those were AAA-rated.

Challenges and Considerations

Despite these benefits, CLOs are complex instruments. Their multi-tranche structure, active management, and regulatory oversight require specialist knowledge and robust systems. Liquidity can also be a concern, particularly for smaller schemes used to daily-dealing funds.

Perceptions shaped by the Global Financial Crisis still linger, even though CLOs performed well through that period. Operational complexity and lack of straightforward access have also been barriers — especially for DC schemes with limited internal resources.

Smart Access Structures for Smaller DC Schemes

Recent innovations are helping to overcome these hurdles. CLO ETFs and fund-of-one structures offer simplified access, daily liquidity, and transparent pricing. These vehicles allow schemes to benefit from CLOs without the operational burden of direct investment.

For smaller own-trust DC schemes, this is a game-changer. ETFs provide diversified exposure across managers, vintages, and tranches, while fund-of-one structures can be tailored to specific scheme needs. Open architecture and improved reporting standards further reduce complexity and enhance oversight.

Manager Alignment and Oversight

Regulatory frameworks such as the UK Securitisation Regulation require CLO managers to retain a 5% net economic interest, aligning their incentives with long-term performance. This helps ensure that managers are invested in the outcomes they deliver.

Active management is also critical. Selecting the right deals, managing risk, and capturing relative value all require deep expertise. Platforms like Invesco's — with over 125 professionals covering US and European credit markets — bring institutional-scale capabilities to CLO investing.

ESG Integration: Raising the Bar

ESG integration is central to modern CLO strategies. Invesco applies a proprietary ESG framework with analyst-assigned ratings, annual reviews, and full look-through reporting. This ensures transparency and alignment with responsible investment standards — supporting both regulatory compliance and member trust.

Partnerships between asset managers and pension providers are key. By combining stewardship expertise with global research capabilities, schemes can set high standards for responsible investing and ensure portfolios reflect members' values.

Beyond CLOs: The Broader Case for Securitisation

While CLOs are a compelling entry point, the broader case for securitisation is gaining momentum. In the US, securitised credit accounts for around 50% of GDP; in Europe, it's just 7%. Expanding the European market could unlock economic growth, lower borrowing costs, and create new opportunities for long-term capital providers like pension schemes.

For DC investors, this means more tools to build resilient, income-generating portfolios that support retirement outcomes.

Conclusion: A Balanced Perspective

CLOs aren't a silver bullet — but they are a valuable addition to the fixed income toolkit. Here's what matters:

- They do a job: AAA CLOs offer income, floating-rate protection, and diversification — useful in today's market.
- They're not as scary as they sound: The structures are well-tested, and top-rated tranches have a strong track record.
- Access is improving: ETFs and fund-of-one structures are making CLOs more accessible and transparent.
- It takes teamwork: Asset owners, managers, and consultants must collaborate to make CLOs work for members.

For smaller DC schemes, CLOs — when accessed through smart structures and aligned with ESG principles — can help deliver better outcomes. The key is thoughtful integration, robust oversight, and a commitment to member-first investing.

JOIN OUR THOUGHT LEADERSHIP NETWORK

Are you passionate about shaping the future of the pensions industry? We're inviting organisations and professionals to collaborate on insightful guides, reports, and trend analyses that drive meaningful conversations.

By partnering with us, you'll:

Showcase your expertise to a wide audience

Gain visibility in high-value industry content

Contribute to shaping best practices and future trends

Adrian Messina
Head of Business Development
PMI

Charlie Culley
Business Development Manager
PMI

Get in touch with our team today to learn how you can be featured in upcoming thought leadership pieces.

sales@pensions-pmi.org.uk

PMI

Registered Office:
6th Floor
9 Appold Street
London EC2A 2AP

T: +44 (0) 20 7247 1452

E: info@pensions-pmi.org.uk

pensions-pmi.org.uk

PMI