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Fixed income roundtable

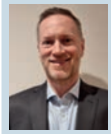
PANEL

Martin Collins, Client Director, Vidett

Martin became a professional trustee in 2020. He began his pensions career in 1989 with a trainee actuary job at Mercer, and was later a scheme actuary for Pointon York, Aon and WTW. Martin then completed a four-year spell in investment banking solutions at Santander, before joining Lloyds Banking Group in 2010 as it stood close to collapse after the financial crisis. As a treasury and investment director, he secured the pensions of 300,000 members with a £14bn collateral pool and then saved the bank £20bn in capital through successful pension investment and funding strategies.

Lee Dodds, Investment Partner, LCP

Lee is a partner at LCP, with 20+ years of experience as an investment consultant. He helps clients achieve better investment results, with better managed risks, by focusing on the key, long-term investment issues that make a difference. He then gives clear, practical advice on how to tackle them. While Lee has a particular focus on setting and implementing investment strategy, he also advises on a wide range of investment issues including investment manager selection, asset transfers, and liquidity management. He is also a member of LCP's pensions risk transfer team.



Tom Hawthorn, Senior Investment Consultant & Head of Manager Research, Cartwright Pension Trusts

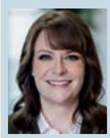
Tom is a senior investment consultant and head of manager research at Cartwright Pension Trusts. He has been advising trustees on investment strategy, portfolio structuring and manager selection for more than 20 years, and has a track record of building and developing excellent working relationships that deliver exceptional results. Having built absolute return bond, multi-asset credit and diversified growth manager universes, Tom also has extensive manager research experience and knowledge.

Kate Hollis, Senior Director, Credit Manager Research Team, WTW

Kate joined Willis Towers Watson in September 2014 as a manager researcher on the fixed income team. She leads on traditional and smart beta credit strategies. Kate previously spent 10 years at S&P Capital IQ, most recently as global head, fixed income/alternatives fund research. Before that, she spent five years working for funds of hedge funds and 15 years in fixed income sales and trading in London and New York, working for Deutsche Bank, Daiwa Securities, Scotia McLeod and Schroders.

Laura Parrott, Senior Managing Director, Head of Private Fixed Income, Nuveen

Laura is responsible for the growth and commercialisation of the private fixed income platform at Nuveen, which has over $70 billion in AUM, as at 30 September 2025, and includes corporate credit, infrastructure debt, credit tenant loans and private ABS. She was responsible for acquiring and integrating Nuveen Green Capital, a leading provider of C-PACE financing in the U.S., as well as energy infrastructure credit, launched to further assist companies' efforts to reduce carbon emissions.



Emma Pittaway, Professional Trustee, Law Debenture

Emma is a professional trustee at Law Debenture, having joined in 2025. A qualified actuary with 15+ years of experience, she previously advised pension schemes as an investment consultant before taking on practical implementation roles as head of client delivery at Cardano and head of fiduciary/OCIO research at PwC. Emma works with a diverse portfolio of schemes, from those progressing wind-up and short term buy-ins to those pursing run-on strategies with surplus sharing.

Dan Redwood, Senior Investment Consultant and Head of Investment Strategy, Quantum Advisory

Dan is a senior investment consultant and actuary with 15 years of experience across pensions and investments. Prior to joining Quantum Advisory, he worked for the Pensions Policy Institute and Mercer, gaining exposure to a wide range of asset classes and pension schemes, ranging in size from single figure millions to multi-billion pounds. Dan is the head of investment strategy and is responsible for the investment team's modelling and quantitative analytics capability.

Sam Seadon, Head of Investment Strategy, PwC

Sam is head of investment strategy for the PwC Pensions Network. He works with corporate sponsors and pension scheme trustees on pensions strategy and investment implementation. He has been in the UK pensions industry for over twenty years as an adviser to trustees and sponsors, around eight of these at PwC. Sam has a particular focus on DB investment strategy and liability driven investment. He has long been an advocate for less cost, unnecessary complexity and risk in pension portfolios, and in finding common ground between trustees and sponsoring employers.

Phil Triggs, Tri-Borough Director of Treasury and Pensions, Westminster City Council

Phil has been tri-borough director of treasury and pensions for Westminster City Council, Royal Borough of Kensington and Chelsea and London Borough of Hammersmith and Fulham since 2017, having worked in similar roles at Surrey County Council, Warwickshire County Council and Buckinghamshire County Council. Phil has worked in local government finance his entire career, previously specialising in revenues collection and rating valuation at Havant Borough Council.

Fixed income roundtable

Moderator

Sophie Ballard, Managing Director, Head of Pensions, UK, Nuveen
Sophie is responsible for UK clients at Nuveen and leads the growth of the UK institutional business across multiple distribution channels including local government pensions schemes, outsourced chief investment officers, DB and DC pension schemes. She has over 15 years' experience in institutional sales, relationship management and strategic account oversight, working with investors across the pension and financial institution client segments. Before joining Nuveen, Sophie held client roles at State Street Global Advisors.

Private credit: Opening up new opportunities

Our panel of experts discusses the role of private credit in today's pensions landscape and explores emerging opportunities in alternative credit to meet market demands

Chair *[Sophie Ballard]:* Nuveen manages $1.4 trillion, as at 30 September 2025, globally across multiple asset classes, but today we are here to talk about private credit, as well as the evolution of alternative credit and the role it can play in pension funds. There's a lot of experience around the table from across pensions, from defined benefit (DB) and defined contribution (DC) schemes, as well as the Local Government Pension Scheme (LGPS). It will be interesting to hear how those different sectors can utilise credit to get the best outcomes for their members.

What are your feelings about the use of fixed income in UK pensions today?

Kate Hollis: UK pension schemes can be divided broadly into four types, which all have their own needs and biases. There are the DB schemes that are still open, of which there aren't many – and a lot of those are in the public sector. There are the DB schemes that are closed and are going to be buying out in the next few years; many of the smaller schemes fall into that camp, but some of the larger schemes do too. Then there are the closed DB schemes that are going to be running on for a while. And then there's DC.

In my experience, DC schemes don't use fixed income very much at all at the moment. They have started looking at it for stability, now that yields are not as skinny as they were, but they're basically equity/growth investors.

DB schemes that are closed but buying out, I find, are focused on how they can immunise their portfolios. They've got to track their liabilities, but equally they've got to track the buyout pricing of those liabilities. That means they will have credit, but it affects how they use it. The more return-seeking aspects of credit are going to be more difficult to use here particularly since, again in my experience, insurance companies can be reluctant to take assets in specie, even investment-grade (IG) liquid corporate credit.

For closed DB schemes that are still running on, where they are looking to maintain some growth, it's a question of how they choose to build that growth portfolio. There, return-seeking credit is an option, but it has to compete with equities, infrastructure and real assets. Also, while the scheme might have agreed with the sponsor that it is going to run on, a new CFO or a change in the sponsor's attitude might mean the whole thing is re-jigged again, so they can't be too inflexible with their investments.

Chair: What is the LGPS perspective?

Phil Triggs: The LGPS remains open and there are no plans in the pipeline to make it a closed fund. It's the only one in the public sector that's funded, and it has over £400 billion of assets. We've moved from a situation of deficit funding to, in more recent years, healthy surpluses; and now there is significant pressure on us to do something about those surpluses – a nice problem to have.

In terms of the role of fixed income,

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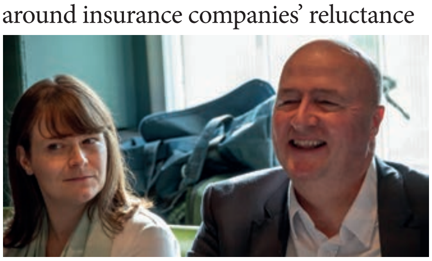
it can be used for risk reduction in the portfolio – it's a diversifier. Traditionally, we've been heavy UK and global equities, which were the main contributors to the outperformance we needed in the past. It's only in recent years that this emphasis has worn away and there's a focus on alternatives, including private markets. There is less emphasis now on global equities, given there is no longer the need to recover a deficit funding position.

The exception to that rule is the Kensington & Chelsea (K&C) fund, which has always been punchy and the best-funded scheme in the LGPS – it has taken all its outperformance from heavy exposure to global equities since the crash in 2009. It has only recently diversified into UK commercial property, which is a proxy to generate an income stream which is inflation-protected. But K&C has not been a fan of fixed income given the yields have been so low since 2008. Recently, it put 5 per cent in index-linked gilts, planning to hold them to maturity.

In the other three funds I work with, we have exposure to multi-asset credit portfolios. We did offer the Westminster Fund an opportunity to de-risk and put significant assets into fixed income about three/four years ago when yields had just risen, when it was considered good value. But the Westminster Committee was cold on the idea, so we switched to infrastructure income instead – again, inflation-protected assets with an income stream.

Chair: Picking up on the point made around insurance companies' reluctance



to take assets on in specie, are other panellists seeing something similar?

Lee Dodds: It's quite nuanced. For the biggest deals, you can still generally pay investment grade credit in-specie to meet the premium. The treatment of any alternative credit is then part of the commercial negotiation with the insurer – if it's of interest to the insurer, there's naturally a discount or haircut involved, and investors will weigh that up, versus what they might be able to achieve on the secondary market.

The challenge, though, has been that since the middle of last year, insurers and DB schemes have been looking closely at the very tight spreads on liquid investment grade credit (not the yield; it's the spread over gilts that they're more interested in).

We've seen a dislocation between insurer pricing, relative to gilts, and the investment grade credit spread – they used to move together quite strongly, but it is dislocated now. Therefore, investment grade credit has become a poorer match for insurer pricing.

It was never perfect, but it was a good proxy. Now we are saying to clients, 'should we step back from credit and, if so, step back to what?' If you're looking at a transaction in anything like the near term, then it has to stay liquid. Therefore, you're probably back to gilts. But if you've still got work to do on the funding level, then gilts are not going to help with that.

For regular-sized or small deals, when we come to working with insurers on transactions in the exclusive phase, they're more often happy to not involve credit in the pricing at that point (i.e. the price-lock). So, you're often in a position where you're selling credit into the open market to pay the premium.

Trends in the US

Chair: Laura *[Parrott]*, could you offer some high-level macro views around where you're seeing spreads between public and private fixed income, and offer some insight into the conversations you're having with insurers in the US?

Laura Parrott: I began my career at the Teachers Insurance and Annuity Association of America (TIAA), which owns Nuveen, investing for the general account with a focus on private markets. My team currently manages approximately £50 billion in assets, primarily investment-grade corporate private placements, private asset-backed finance (excluding 144A securities), credit tenant loans (CTLs), and infrastructure credit in sectors like ports, airports, and contracted energy.

Our insurance clients face historically tight spreads that compress further each year, making any relative value pick-up attractive. Many of these clients prioritise gross earned yield and fixed-rate opportunities.

In today's benign environment of higher rates but tight spreads, everyone seeks relative value, but credit dislocations are inevitable. The key question becomes: How will your portfolio perform? Beyond spread pick-up, private markets offer covenant protection – a critical advantage. This is why TIAA has overallocated to investment grade private credit. While they can absorb greater illiquidity, the primary motivation is covenant protection, which provides a voice during downturns. We witnessed this first hand in 2009-2011, when our private portfolio significantly outperformed public holdings.

Since commercialising beyond TIAA, we're seeing other institutions recognise these same benefits. Clients want to diversify from traditional public corporate debt and seek stability through financial covenant protection. We're experiencing strong investor demand, including from US pensions, looking to diversify beyond public markets. Even modest illiquidity allocation can provide valuable ballast during credit events.

Dodds: There's a lot of talk about dry powder and cash waiting to be deployed into alternative credit, and also money being slow to come out of the maturing vintages. In UK DB pension schemes, a lot of them are still over-allocated in percentage terms because of the sharp drop in liability-driven investment (LDI) assets in 2022. So, if you've got an investor who's interested in staying in alternative credit, sometimes the challenge is the money is not coming out of the existing older vintages they hold as expected, and then there seems to be a large amount of international money trying to get into the best newer vintages. Clearly these are technical factors rather than pure investment factors, but they do weigh on investors' minds.

Parrott: The investment grade private credit market is predominantly a new issuance market so our clients would, through a separately managed account, for example, say 'here's $1 billion for the year' and then invest throughout the year generally as a co-investment alongside our parent TIAA. That's how we've been able to put money to work for our clients.

There is a lot of dry powder in the traditional private credit market and a lack of investment activity/M&A – we're not experiencing that as much in the IG space. That being said, it's a small market – approximately $100-$150 billion in annual issuance. So, it's critical to work with managers that have access to deal flow because, similar to private credit, deal selection is critical. It's important to find a manager that has that strong pipeline of investment opportunities.

For us, the stability of the general account of TIAA, that annual allocation that we have – this year, they've asked us to invest $8-$10 billion in the private IG market for them – gives us a big cheque book to be able to go out and, to the benefit then of our other clients, to co-invest alongside. When you can take down entire transactions, $300-$400 million-type transactions, you have access to good deal flow. So, we haven't seen those dynamics.

What I am more concerned about is, as the market becomes more crowded with new investors, is there going to be degradation of the financial covenants that are so important? I'm more concerned about that than spread, because spreads are going to bounce around. At the end of the day, if there's a downturn, who cares what the relative value was? Who cares if you got 30 versus 100 basis points (bps) of premium? It's about whether you will be able to get recovery.

Covenant degradation

Hollis: In relation to degradation of covenants, cov-lite is something we're definitely seeing coming into upper mid-market direct lending.

Also, on basis points, if you're going to have an illiquidity premium, because you're locking money up for eight years or so, we think a couple of hundred basis points is what you ought to be looking at. Illiquid IG corporate private placements in the UK are insanely expensive, just because they're one of the few things that insurance companies can buy that are Solvency II-friendly. So, if you're looking at private credit for return seeking – and we think it's a return-seeking asset class – what you should be looking at is stuff that insurance companies can't buy because that's where you get much better value.

Sam Seadon: Private DB schemes in the UK are also, to a certain extent, in limbo at the moment. Everyone's still a

bit scarred by 2022, but funding positions have improved a lot, and there's the whole question of insurers and buyout and so on – but that equates to about £50 billion a year, so around 5 per cent of the market. There are lots of other schemes that, looking at it from a corporate sponsor perspective, are trying to figure out what they want to do with their now very well-funded schemes. Plus, there's a government regime potentially emerging around surplus extraction.

So, we almost have to start with the question of: What are we trying to do? What return are we trying to target? And how long are we going to do that for? That probably brings back in some of the conversations around the longer-term illiquidity that we were having before 2022. At the moment, a lot of schemes perhaps want to run on, but with the ability to buyout soon if they decide to do that, and that does limit you.

Tom Hawthorn: That's an important point. Private DB schemes in the UK are at a fork in the road: Do they want to insure, or do they want to run on? But a lot of schemes want to keep the option of insuring open while running on. If you're in that place, private credit is an asset class you want to think carefully about, particularly if you're going to go into a closed-ended fund where you might have to wait seven/eight years to get the money back.

But if you want to run on and the sponsor's behind that, and that isn't going to change, it becomes much more interesting. But then it's also about

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scheme size – whether you can afford to allocate in a way that will give you value for money. You also need to think about the actuarial risk – so how tight you want to lock down the cashflows, how well-funded you are. Those kinds of considerations become important.

Seadon: And almost why fixed income is a bit more attractive. If you're in a world where you're trying to define risk and say, 'we can run this on safely, we've got enough money, here's our risk capital, therefore there's enough money that I, as a corporate sponsor, can take some money out', then fixed income works a little bit better in that kind of world because of the defined cashflows.

But you still need to be asking: What are we trying to do, and can we do it? What return are we trying to target? We want to extract surplus, but can we actually do that? At the moment, the government has said it can be done in excess of low dependency, but it's ultimately up to the trustees.

Addressing illiquidity

Chair: Can we talk more on liquidity?

Martin Collins: As a trustee, we have been nervous as a firm about liquidity for a long time, even before the gilts crisis. In the year leading up to the gilts crisis, gilt yields did rise from below 1 to 2.5. During that year, we were stopping investing in illiquids for smaller schemes because we were getting surprises – when gilt yields were coming up to 2, employers that had previously said they had no interest in buyout were now saying, 'here's a cheque!' So, you didn't know what was going to happen.

And then we've done lots of buy-ins and, yes, there are clever solutions for illiquids, but they all cost you money. So, thinking sensibly, can you really hold illiquids for any of your schemes?

Even with the long-term run-ons, it can be challenging.

I was on the Pension SuperFund board for a while, and in that regime there are three zones – a zone for when things are going well, so you distribute to members and sponsor; the neutral zone, where everything's fine, and we tick along; and a bad zone, where there is enough money to go to buyout, but something's going wrong with the sponsor, you go to the markets and you insure. It's that mentality about the long-term run-on. So then we're thinking, in what scenarios can you have illiquids? There are few schemes you'll be left with that can safely invest in them.

Emma Pittaway: Back to the earlier point around what we are trying to target, the complexity element is a key challenge that we're seeing. Pension schemes have long been investing in fixed income and IG, for example, and now there is discussion around adding in new things like trade finance and fund finance. While there are advantages to these investments, it does need to be balanced with the additional layers of complexity and understanding required, which may be barriers for some trustee boards. It relies a lot on advisors and due diligence.

Hawthorn: On the illiquidity point, one of the things that's happened post the gilts crisis is, because investors couldn't sell those illiquid assets but everything else generally fell in value, you had to go elsewhere to recapitalise LDI portfolios. So those illiquids are higher proportionally than maybe they were intended to be. So, they're overweight those illiquids, which is probably making trustees reticent to allocate back into illiquids, including on the credit side of the illiquid space.

Collins: It is a problem. I've sometimes said that private credit is the least bad illiquid, because at least it does run off eventually, but then those ones where it is at least running off, you're ending up with quite concentrated risk. You get a small number of names you're invested in, so that's uncomfortable for a different reason.

Hollis: That doesn't matter so much at a total portfolio level, but where it does matter, particularly with the closed-end funds, is when there's a position which hangs around long past the time the fund should have closed, and I would imagine every time the investment committee looks at it, it's asking, when is this going to run-off? When are we going to get our money back? We just want to get rid of this position.

Dodds: I have seen that – it becomes an outsized concern economically, but it's there and it just keeps popping up and everyone's ready to move on, but it's hard to do so.

Surplus distribution

Seadon: Could you envisage a situation where you have trustees and sponsors in a room making a deal on surplus?

Collins: Yes! I've got my first one of those discussions happening with a big overseas sponsor coming up and we're going to see if we can strike a deal. There are advantages to the employer of coming up with a long-term strategy in that you can get better accounting if you have a long-term plan for surplus distribution. So, it's something we're all learning how to do, but some of us are learning quite quickly because it's happening now.

Pittaway: We're seeing it on a lot of schemes as well. Several of the schemes we work with already have surplus sharing agreements in place with the sponsor, with different ways of doing it, relating both to the rules we have now and also planning for the future.

Private IG evolution

Chair: As a pension fund, if you were in a world where you were running on and were looking at private fixed income and IG private fixed income, do you think we're using it to its full potential? How has that world evolved over the years?

Parrott: In general, I would argue that the fairway has got wider in terms of the types of issuers that we're seeing. If you're thinking about going ultimately down the insurance path, there's only a few different levers within investment grade that would work but, in general for clients – and in the US, where we have a different regulatory regime – we're seeing a growth in asset-backed finance (ABF).

For example, if you've got access to long duration investments, but they are going to be lower yielding, you can add in some shorter-dated, shorter duration type private ABF, which has the potential for much higher spread pick-up. That's where it becomes interesting. You're talking about A-rated credit at plus 350bps types of opportunities. And you are building a more diversified portfolio within your investment grade credit portfolio.

In addition to ABF, we have access to infrastructure debt opportunities in investment grade to add in more diversification with the benefit of gaining access to good contracted cashflows and it provides an inflation hedge.

Chair: Have the consultants and client advisors in the room seen any new opportunities or strategies coming into the market? Nuveen is getting a lot of questions from UK clients around ABF, for example. Any other trends?

Dodds: We have seen a lot of interest in trade finance, working capital finance, capital call finance and significant risk transfer (SRT). We also see lots of interest in supporting the energy transition – so if you have a sponsor who's happy to commit to run-on seriously, rather than just run-on for now, that's an interesting less liquid area which often combines with other considerations such as ESG.

Overall, we see trustees getting bolder and braver; not necessarily because they want to, but because of the credit spread pressure on liquid investment grade credit. Even in areas like asset-backed securities (ABS), the best times to go into that asset class are definitely behind us, and a lot of clients have already allocated a lot of capital to it.

Collins: ABS was interesting for a while, because one of the problems with IG was around the spread compression, so it was no longer the asset choice for the lead in to buy-in. ABS was better in that it had better spreads and also, because you didn't have credit spread duration in there, it worked from a risk perspective.

Dodds: Yes, but the best times for ABS are a long way behind us. So, it's definitely a good time to be having those conversations about whether to hold existing investment grade and perhaps looking outside the trustees' natural comfort zone for credit assets.

Chair: Phil *[Triggs]*, from an LGPS perspective, are you seeing opportunities in certain spaces?

Triggs: We are making the opportunities happen. Being the LGPS, there's a focus on societal impact and local investment, which also seem to be key for the government, with a focus on UK growth. We have turned that into two opportunities – one at Kensington & Chelsea, and the other at Westminster. We are the only two funds in the LGPS looking at this.

There will be respective meetings over the coming weeks where this will be approved to create a quasi fixed income investment – we are purchasing property in the London area to use as temporary accommodation. The homelessness scenario in the government is severe. Authorities are overspending vast amounts on temporary accommodation. So, to try and alleviate that, we are using two different methods.

Kensington & Chelsea's pension fund will buy property, lease it to a special purpose vehicle (SPV) which in turn will lease it to the general fund of Kensington & Chelsea, and there'll be an inflation-protected rental income stream over the next 50 years.

Westminster is slightly different in as much as it will purchase existing property owned by Westminster City Council, bring it into the pension fund and the general fund will receive a capital receipt. So, for Westminster it's probably going to be £50 million; for Kensington & Chelsea, £100 million. But it has to be done before the end of March because, then we switch to pooling and the LGPS pools take over full investment responsibility.

Hawthorn: I'd like to hear more about credit tenant loans if we can?

Parrott: We're actually working with a UK client specifically for a portfolio of CTLs and it is matching adjustment (MA) eligible. It's a US product because of the tax laws but, essentially, corporations and other institutions don't want to own all of their real estate on

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balance sheet. A CTL finances real estate that is owned by an SPV where there is an ironclad lease on that facility, and we are financing one-on-one the lease payments. We're essentially monetising that lease payment, and our interest is the lease payment from a strong credit obligor who is the tenant of the facility. CTLs gets bond treatment in the US, and in the UK as well.

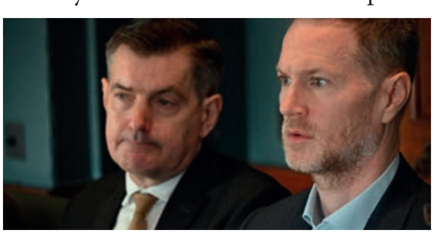
Nuveen is one of the larger investors in this area – we have a c$14 billion CTL portfolio. And it's an interesting way to access duration in the market. These are primarily A-rated-type credits because we're not going to take 20-to-30 year lease risk on lower risk tenants, and you are getting a nice complexity premium and the liquidity premium in a CTL.

Hawthorn: What kind of length?

Parrott: Approximately 17-20 years average life, although some CTLs go as long as 30-40 years.

We've also done some interesting things in the space that are comparable to what Phil *[Triggs]* was referencing. With the City of New York, for example, we had a construct with a CTL where essentially the City of New York is obligated, but we're helping with transitional housing, and we look to the City as our guarantor. They're working with various non-profits, but the City is ultimately obligated to provide these transitional housing opportunities. We're trying to find good responsible investing type of things like these for our clients.

Hawthorn: When you think about credit risk, are you looking at FedEx, and the City of New York in those examples?



Parrott: Yes, exactly. With a strong lease in place, the risk is with the tenant not the underlying real estate.

Hawthorn: Are you writing covenants into those deals?

Parrott: There are some financial covenants, but it's really looking to that lease, of which there's no getting out of the lease payment. We actually have some 'dark buildings' in our portfolio, which I don't love, but given the lease requirements, they are money-good investments.

It's an interesting way to get diversity within the investment grade landscape that approximates an infrastructure/ commercial mortgage play, but with added duration.

Hawthorn: The issue for the UK pension schemes here is getting access. I'm not aware of a fund available to UK investors that would provide that kind of exposure. But for schemes looking at run-on, that would be very interesting.

I have heard some talk about convertibles and mezzanine debt, but a lot of people would think that is far too punchy for run-on, and I'd agree.

In terms of ABS, some investors are still looking there, particularly private, where for residential mortgage-backed securities (RMBS), the yields are probably still quite attractive. Floating is less attractive now that gilt yields are more like 4 per cent rather than 1 per cent, but depending on how well-funded the scheme is, that's still a pick-up. If that's enough, if that's all you need, you can get the quality of those kinds of bonds, if you think about historical default rates and you're holding at the senior end, it's not really a concern. I wouldn't be too worried about the credit risk there for the yield pick-up. That's a good trade-off.

Smaller schemes

Dan Redwood: With all this talk about new opportunities, I feel that the smaller end of the market is being left behind because, even if we do have some schemes that are looking to run on, there are too many governance constraints, and a lot of these options are off the table in terms of minimum investment sizes as well.

So, when it comes to alternative credit, we're very much focused on that high quality short end – like ABS still – which is an attractive asset class at that size particularly as liquidity is such a big focus for schemes at the moment. For a lot of these schemes, even if they're approaching buyout, they've still got leverage in their LDI portfolios and it's quite a nice stop on the collateral waterfall.

But in terms of the more exciting high yielding end, we're not seeing anything like that. And if you're going to get any access, it'll be through a multi-asset credit fund. But the focus is much more on, 'our funding position is very strong, we want to be diversifying but not necessarily increasing risk at this stage'.

Hawthorn: Yes, and for the smaller schemes, once you start talking about that high risk and you add in the points on capacity, complexity and illiquidity, then you start thinking, why not just go multi-asset or equity? If you think about all the other risk and then how much equity do I need, how much do I want, you come full circle on that argument, at the smaller end.

Also, for smaller schemes, typically insurance is the best route simply because the cost of running the scheme on proportionally to the assets can be high. In that case, unless the sponsor is determined to run it on, it often makes no sense.

Seadon: And for bigger schemes, it goes back to the point of, what are you actually trying to do, which, because they're so well-funded, it has to be something to do with what you're doing with surplus, and people are already thinking about that. But the topic of surplus extraction does need some clarity – it needs a regime to be defined either by the industry or by government.

Pittaway: The surplus investment point is an interesting one also because, for those schemes that are running on for now, the investment decisions associated with assets can become more nuanced. The core of the assets would of course be invested such to back the liabilities, with a safety buffer, and then for any meaningful surplus above that, there are other decisions to be made. We are seeing a lot of discussions vary amongst our schemes in terms of how engaged the sponsor is and how much they feel they own that portion and therefore how specific they are about how that money should be invested.

That's going to be an interesting governance dynamic for trustees to work out. Balancing the fiduciary duty under the governing rules whilst also paying due attention to the sponsors' views and wishes for what they may see as fully "their" assets.

Hawthorn: Also, as a trustee/consultant of smaller schemes, if the sponsor is dead against insurance for potentially balance sheet hit reasons – and that can be the case particularly with overseas sponsors – then you end up in a position where the assets are being eroded because of the ongoing costs of the scheme, so you're drifting; a surplus on an estimated solvency basis might be being eroded slowly over time but then, how do you invest? If the sponsor does not want to insure, that's an interesting question.

Risks and barriers

Chair: What conversations are you having around perceived risks of the private IG market? What about barriers to entry?

Parrott: Accessing the best dealflow is key to this market. The risk is that you are only accessing a market that is broadly syndicated – we have seen deals that are done MFL or MFN only, for example, and those are deals that we don't do on my team because we have a very strong mandate to have that covenant protection as a diversifier.

And we have the luxury of having a fairly broad pipeline, with proprietary deal flow. We only invest in about 13 per cent of the deals that we look at. We can find the deals that work best for our clients and meet their needs.

There is a perceived risk around lack of transparency. However, I would argue that because it's privately negotiated, we almost have more access and transparency. We don't get a phone call and then make the decision on the bid. We're talking weeks to months of due diligence. And often, particularly in the structured space and in private ABS, it could be a multi-month process where we're meeting with the principals of the issuer, we're meeting potentially the private equity sponsors that own the issuer, we are doing site visits if there is collateral involved. It is the same with traditional corporates – we're looking under the bonnet, because we're not going to trade out of this name. It's a relationship. So, I feel like we have even more transparency in the private market on our investments.

Hollis: When it comes to barriers to entry, one of the things we haven't spoken about is DC, where the default option ought to be a natural home for illiquids, if you can get over the operational platform/administrative valuation problems. My impression, given first the characteristics of the asset class and

secondly the tone of the conversation, is that infra or possibly real estate equity is the more likely stopping place first.

Collins: You're right, and the way the legislation there has been written has been focused on being able to price things daily, which private markets are terrible at. So, it was almost prohibited for DC. The government's woken up to the fact that, actually, it'd be good for the UK economy if there was private market investment. Trustees and DC providers won't invest UK only, so I'm not sure that's going to happen and there are political discussions there, but generally it's starting to happen now. But it's for younger members where, for example, you're investing for 20-30 years, you don't need liquidity.

The new thing that's coming next that might be interesting is decumulation vehicles – that's where private credit might work really well. But it's a new idea and a few people are starting to build decumulation DC, so for people to do drawdown rather than annuitise at retirement. That might be a new market, but it's developing.

Chair: At Nuveen, we have a very large DC business in the US, and it is growing in the UK, and that's definitely something we're looking at.

I split the DC market between the master trusts – which the government is trying to consolidate with its target of £25 billion AUM by 2030 – and the single trust corporates, of which a handful will continue to operate. In the growth phase,

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Fixed income roundtable

for example with long-term asset funds (LTAFs), it's very much about equity and trying to generate that CPI plus four. I do think private credit has a place there.

I spoke with a client recently who was less keen on the real estate equity markets right now and would prefer to go into, for example, commercial real estate debt.

But to the point around decumulation, in the legislation it said DC schemes or master trusts are now able and should be looking after their members in retirement as well. This opened up a whole new area for investment because previously it was a case of bringing them into the open market. So now these master trusts are looking at how they can build almost another glide path from the age of, say, 60 to 85 plus.

What does that look like? A semi-liquid private/public fixed income portfolio is where that could get interesting, throwing off that income for the members to live off. Does anyone else have views on the DC side?

Collins: For my own pension fund, I would put 15-20 per cent in private credit in retirement when I'm running off myself. But that wouldn't be right for everybody, so it's different when you are thinking about the members. There are some people who would be much better to annuitise. But, if it's well run, why not? Because it's going to boost returns.

Hawthorn: I agree that it's been a longstanding problem for the DC market to get investors into something less liquid, something away from the traditional, standard asset classes. We haven't solved the problem yet. But the discussion around decumulation is interesting – it would make a lot of sense to me, because otherwise a lot of people hit that point and they don't really know what to do, they're just left on their own.

Hollis: You've got two problems. First of all, someone's got to get the platforms on side. Secondly, you can build a lovely portfolio and say it has 20 per cent in private 'whatevers', and then equities drop 30 per cent and suddenly you're outside all your limits and alarm bells are ringing, similar to the point on DB after the gilts crisis that was made earlier.

Chair: Can we talk about the role of the regulators here?

Triggs: I was at a conference recently where The Pensions Regulator presented, and they were asked for their views on surplus extraction and the security for the beneficiaries. They seemed very laid back about any risks; they said it's up to the trustees. I was upset about that because, in my role as an LGPS practitioner, I'm totally biased towards the beneficiaries. That's all we care about. Pensions paid in full, on time, forever. And the regulator didn't seem to care.

Collins: The onus is on the trustees to think about the members but, for 20 years, the regulator has been pushing pension schemes towards the insurance market. Now, if you're cynical, the government could quite like the tax revenue from surplus extraction, so the regulator has probably had a strong steer from government to be less pushy.

But I don't believe for a minute that if, as a trustee, I said to the employer, 'do what you like', the regulator wouldn't catch up with me at some point. They're transferring the responsibility to trustees, and we are yet to see the detailed framework around that. But good trustees will think about that anyway.

The future of fixed income

Chair: How do we think the use of fixed income in the pensions space is going to evolve over the next five to 10 years?

Seadon: For private sector DB schemes, as we get further away from 2022 and the bottlenecks around illiquid assets and people reconfiguring strategies (which have completely changed of course because of what's happened in the markets, as schemes have become a lot better funded), it will become interesting. There will be more of a shakeout of what all this change means going forward. There will be more conversations on the potential to run schemes on for a long time – which is naturally going to happen anyway because the insurance buyout market is only so big.

In terms of the appetite for investing in more interesting or more complex assets, time will tell. Everybody is still very focused on liquidity and, being able to go up the illiquidity curve/the complexity curve will depend partly on where government wants us to go, but also, maybe industry is going to lead government on what that regime should look like. As has been mentioned, they have sort of left it to trustees to talk to sponsors about all this, so it's going to be interesting to see how those discussions continue to shake out as we get further from the year that changed everything.

Pittaway: I agree. Whilst not all schemes are going to be looking to buy out, a good chunk are, and even the ones that are running on will have an eye to what's happening on the insurance side. So, a key driver of how pension schemes use credit in general will be what insurers are investing in as well, and whether they start using more IG credit, and that's going to come back to spreads.

Hawthorn: I agree – small and medium-sized schemes that are not committed fully to run-on will stay broadly liquid and they will look to move to the insurance market in a lot of cases. I don't think that's going to change much in terms of the bonds they're holding.

At the longer end, if you've got enough assets to invest, why wouldn't you invest like an insurer? If you're committed to run-on, and you want to run on the scheme for a period of decades, then you're going to end up buying the same assets because, why would you do something different? That's why I was curious on the credit tenant loans, because then you're looking at longer-dated assets with a spread pick-up.

Hollis: The reason you might do something different, assuming you're far enough away from your planned buyout from an insurer, is that once insurance companies enter an asset class, they can push spreads down to a very low level, so you might decide to do something different, not necessarily riskier, but different, which is not Solvency II-friendly, and just do less of it.

Hawthorn: So, arguably you can be nimbler, even with a very large pension scheme outside of the insurance regime.

Hollis: A lot of our best opportunities for the past 10 years or so have come from strategies that insurance companies can't buy – that's where we find the value.

Hawthorn: Also, where you've got a fund manager who's involved in originating and creating the loans themselves, that gives you a potential pick-up on top of what you might get with a fund manager who has perhaps less reach, less experience, not as much of a presence in a particular market.

Collins: Could employers reintroduce DB benefits? That is an interesting consideration.

Why did so many employers, in the private sector, close their DB schemes? It is because when gilt yields went from 5 per cent to 1 per cent, that tripled the cost of pension provision. It would be logical now, and a lot cheaper now, to provide DB benefits, but no one talks about it! The risk management is better, too.

Also, increasingly, people are being employed by the state rather than the private sector, and there you get DB pensions. So, from the perspective of trying to hire when you're competing with the state – which is increasingly an issue as the state expands – could employers reintroduce DB benefits? It feels unlikely, but actually it's a lot cheaper than it would have been at any time in the past 10 years. So, it's not as crazy as it sounds, and that would change everything in terms of investment horizons and how people invest.

Chair: Laura *[Parrott]*, what excites you about the private IG market going forward?

Parrott: It is exciting to see so much more interest in the market because that's going to allow for more growth. We've been able to do some interesting things within the investment grade world, and certainly through ABF, but CTLs as well, thinking about new ways to monetise anything – low-income tax credits in the US, for instance, we've been a big buyer of that. Another example is Commercial Property Assessed Clean Energy (C-PACE); we were the first institutional investor in C-PACE – we ended up buying the leading originating platform there.

C-PACE is a uniquely US product, but we are coming to the UK with something called Property Linked Finance, which is a similar type of construct.

C-PACE is a tool that allows building owners to access financing for energy efficiency upgrades that sit senior to a commercial mortgage and are paid alongside property taxes. So, they sort of serve as a tax assessment on the building and they stay with the building, not the building owner upon transfer. If you pool many of these super senior loans together you can structure a highly-rated ABS note. We did that in 2017 for the first time and have helped to be the balance sheet of the C-PACE market. We bought one of our portfolio C-PACE origination companies five years ago, which is now called Nuveen Green Capital, and they are coming to the UK, partnering with some insurance companies to help create a C-PACE-like market here in the UK. It's about helping private owners access attractive, cost-efficient capital to incentivise the energy-efficiency upgrade to the built environment.

It is an exciting new frontier that is a super senior credit instrument and that is a beautiful complement to a long duration portfolio.

Chair: I agree with everything that has been said on the evolution of alternative credit, both for run-on DB schemes and DC and decumulation. I am also excited about the tie between energy transition and energy efficiency and using credit in a space like that, such as with C-PACE. I believe there's more to come. Pensions have been around for a long time, and they'll continue to be. Sometimes we get caught up in the short-term, but when you think about how long even a lot of these DB schemes have to run on, there's going to be a lot of change and evolution.