

Letter from London (First of a Series)

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Last week we visited our UK colleagues, clients and friends for a number of discussions around private capital. These conversations echoed similar sentiments from investors at home, with many funds building on already existing positions in both private credit and private equity. We heard about strategies, not related to timing, but rather more sophisticated approaches to private market exposure.

Since our last tour in 2023 economic and market conditions have clarified. As is the case in the US, the UK economy continues to motor along despite BOE's rate of 5.25%, essentially at the Fed's current level. While the nation's predicted growth rate this year of 0.7% is about half of the US, its inflation rate has also been holding steady 2% (vs. 3% here) for a number of months. That is expected to lead to rate cuts later in the year.

The political situation has also been resolved with the New Labor government taking over after a fourteen year hiatus. New fiscal announcements are expected to be forthcoming with a first budget in October. These trends have created a constructive environment for capital markets in the UK, particularly in private markets. For more global-oriented investors, there was also increasing interest in access to assets both in Europe and the US.

As we've reported in our other capital visits around the world, each jurisdiction has its unique characteristics. In the UK institutional investments are largely supported by three overarching pillars. First, there's the Local Government Pension Schemes (LGPS). These are local pension authorities pooled with partner funds from boroughs, municipalities and counties.

Then there are Defined Benefit plans, consisting of corporate pension schemes matching liabilities with some form of buyout. Appetite for illiquids took a hit after the LDI crisis in 2022 when so-called liability driven investments became "unfunded" and lost half of their value. Today DB plans are investing more in private opportunistic assets.

Defined Contribution schemes represent one of the fastest growing investor groups. Opening up eighteen months ago, this market can invest in privates and for the first time can build semi-liquid products. This opens up a whole new pool of capital for private credit managers who become partners with fund directors.

These partnerships are helping to drive the growth of the DC market, which is expected to rise to about £1 trillion by 2030 (according to PLSA). The largest of these plans is estimated to be committing to between 10%-30% in private/semi liquid market strategies. NEST, the largest DC master trust in the UK has stated they are ramping up to a 30% allocation to private markets.

Next week we'll discuss how individual managers in the UK are dealing with private capital allocations, what structures meet their unique sensitivities and requirements, and how those investors view the outlook for the asset class and the top managers with whom they invest.