



Financial Services Regulation Committee

Corrected oral evidence: Growth of private markets in the UK following reforms introduced in 2008

Wednesday 29 October 2025

10.10 am

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Members present: Lord Forsyth of Drumlean (The Chair); Baroness Bowles of Berkhamsted; Baroness Donaghly; Lord Eatwell; Lord Hill of Oareford; Lord Hollick; Lord Kestenbaum; Lord Lilley; Baroness Noakes; Lord Sharkey; Lord Smith of Kelvin.

Evidence Session No.11

Heard in Public

Questions 123 – 130

Witnesses

I: Rt Hon Michael Moore, Chief Executive Officer, British Private Equity & Venture Capital Association (BVCA); Joseph Pinto, Chief Executive Officer of Asset Management, M&G plc.

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Michael Moore and Joseph Pinto.

Q123 The Chair: Welcome to today's meeting, which is the 11th oral evidence session of the committee's inquiry into the growth of private markets in the UK following reforms introduced in 2008. Thank you to Mr Moore and Mr Pinto for attending.

The session is open to the public, broadcast live and subsequently accessible via the parliamentary website. A verbatim transcript will be taken of the evidence and put on the parliamentary website. A few days after this session, you will be sent a copy of the transcript to check for accuracy, and it would help us if you could advise us of any corrections as quickly as possible.

If you want to clarify or amplify any points made during your evidence or have any additional points to make, you are welcome to submit supplementary written evidence to us. Did either of you want to say anything by way of an opening statement?

Michael Moore: First, I am really grateful to be given the opportunity to be here. I will say at this stage that it is a real pleasure to be asked; I might reserve judgment about the overall experience and see how the next hour goes. If it would help to set the scene for where we sit in the broader private markets I would be happy to make a few observations, if I may.

The British Private Equity & Venture Capital Association—BVCA for short—is the trade body for private equity, private credit and venture capital here in the United Kingdom, and within private credit specifically for direct lending. We are an industry that has had a great deal of success over the last four decades in attracting capital and investment to the United Kingdom, particularly looking at long-term investments in high-growth British businesses focused on building better businesses and, through that, a better economy.

To give a sense of the scale of that, we estimate that there are some 2.5 million people in jobs that are backed by private capital across the UK, contributing roughly 7% of GDP. In 2024, our last year of figures, we invested nearly £30 billion in UK businesses. About three-fifths of the businesses are outside London and nine in 10 would be classified as SME, so they are really important parts of the economy.

Typically, the investment period in the businesses is for about six years and then we look perhaps to sell on to another part of our industry, but always with a focus on growth, which is the driver of the value. It is active ownership, not just the provision of the capital. In addition to that capital, the hands-on support and expertise provided is key to delivering value for the shareholders and investors.

There is a very close, direct relationship between the private capital investors and the companies. We believe that, through the investment

that is made, we are helping to drive innovation and therefore enhancing productivity across the economy. We have a fairly diverse ecosystem with lots of different types of funds that focus on different parts of the market and varying balances in terms of the way the businesses are financed between equity and debt financing. We have equity-based investing through the largest buyout firms on the planet, as well as growth capital-focused smaller business funds and credit-based investing, which is supporting those businesses as well as venture.

This is an area of the economy that, as this committee's work rightly highlights, is getting growing attention, which we welcome because we believe it is an important part of helping us to deliver the capital in different forms that will deliver Britain's growth. It is already a well and highly regulated part of the economy, with a lot of the long-established regulations such as the alternative investment fund managers directive now incorporated into UK law post-Brexit and with a huge amount of interaction with the FCA, which regulates the firms in our membership base.

We are dealing with closed-ended funds that are financed by institutional investors, so we are very obviously different to the banks, which I appreciate this committee knows better than most. We do not take deposits or offer investors redemptions and are not engaged in maturity transformation. In truth, we believe that closed-ended fund structure allows us to ensure that we mitigate risk for liquidity and reliance on short-term funding. There are interconnections with the banks, which I know you wish to explore and we look forward to that. In essence, they are contractual and often collateralised, including around acquisition finance and other forms of finance. These relationships have grown in step with private capital and we believe they remain proportionate and fit for purpose, but we look forward to the discussion we can have about that today.

The Chair: Do you want to say anything by way of introduction, Mr Pinto?

Joseph Pinto: Absolutely. I will make just a few introductory remarks to set the context for M&G. I am the CEO of M&G Investments, which is the asset management arm of M&G plc. The group is one of the leading UK-based asset managers. It manages £345 billion,¹ of which £78 billion is in private markets.

We have a set of capabilities ranging from private credit, structured credit, infrastructure, real estate and impact investing. Most of our investment teams are located here in the UK with a few located in Europe and Asia. We mostly operate for clients around the world, where we provide them with the best of private markets within the European sphere, including the UK and in a limited way in Asia. We do not operate in the US when it comes to private markets. We have been doing that for

¹ Note by the witness: M&G Investments managed £365 billion as of 30 September 2025, per revised numbers published 5 November 2025.

more than 25 years and have a long experience and track record in all those asset classes that I have mentioned.

Q124 The Chair: Could I ask you both to expand a bit on the range of investors who invest in private credit funds? What is the approximate proportion of high net worth individuals relative to institutional investors? Is there evidence to suggest that these investors are using bank lending to invest in funds? It would be really helpful if you could help the committee by walking us through the whole transaction process. At what stage do people utilise banking services such as subscription lines in these transactions and where would they use their own funds as collateral?

Joseph Pinto: As far as M&G is concerned, the bulk of our investor base is institutional clients, meaning mostly insurance companies, pension funds or sovereign funds. We have two kinds of structure: open-ended or closed-ended vehicles. I am happy to expand on those if needed. We have some retail customers, or wealth management clients; it is a growing area.

We launched a European long-term investment fund at the back end of 2023—our first ELTIF—and we expect to launch an LTAF using the UK regulation early next year. In both cases, we have packaged those products using our best private credit strategies. We attach to it a lot of liquidity options to make sure that product is liquid enough to answer the client's needs and adapted to the retail customers.

We have a quarterly redemption mechanism and a daily valuation mechanism. The product we launched in Europe at the end of 2023 is probably the same as the one we are launching next year in the UK under the LTAF regime.² In our ELTIF fund, the allocation is about 70% into leverage loans, which is the highly liquid part of the private credit spectrum, and 30% into direct lending. We are extremely cautious in terms of client experience. It is the first one.³

Back to your question: it is not only a topic of product; it is also a topic of how we educate the intermediaries, banks, financial advisers or anyone who will promote such products. We have developed a very extensive educational programme of nine models that we have deployed across Europe—we are also about to deploy it in the UK—to explain to intermediaries how to position such a product. Eventually, it will also explain to clients who want to move away from public credit, or divest into private credit, how and why to do it, and how such investments support the growth of the economy by having the testimony of companies we have been supporting and lending money to.

All in all, while the bulk or vast majority of our clients are institutional, we are progressively talking to intermediaries, private banks and financial

² Note by the witness: M&G's ELTIF and LTAF share similar characteristics but are not identical, with the LTAF slightly broader in focus.

³ Note by the witness: M&G's ELTIF was the first semi-liquid corporate credit ELTIF launched in Europe.

advisers to promote those kinds of vehicles as well. As far as we are concerned, we are not aware whether the investors use bank lending in any shape or form. That is probably more a question for the intermediaries themselves than for us.

The Chair: So you do not know the extent to which retail investors might be using bank lending to invest?

Joseph Pinto: We do not have access to that information because it is their assets and liabilities that they have with the banks.

Michael Moore: I might step back a moment just to make sure we are clear about the fund structures here. Our main industry is private equity firms that create funds that draw in institutional investments and invest capital that is then deployed in businesses up and down the country. Frankly, the UK is the second-largest hub of private capital expertise in the world, so a lot of global investing is going on from here. Typically, 50% of the capital allocated to be managed here is then deployed here in the UK, so it is important for the country as a whole. The businesses within those fund portfolios will in turn have a mixture of the equity provided by those funds but also leverage debt. That would traditionally have been provided by banks, but now private credit funds and direct lending funds that are also in a membership will be providing that.

The investors in those direct lending private credit funds are drawn from a very similar institutional investor base that you would recognise for private equity and venture capital. There are different appetites for the different types of investment, but our estimate is that institutions, sovereign wealth funds, endowments, whatever they might be, are typically providing about 84% to 85% of the capital. Private banks and family offices are providing as much as another 10%, and the balance—5% to 6%—is from retail, so it is a relatively small amount. We do not have details of how they are financing those investments in turn, but the significance that they represent to the provision of capital to the businesses is relatively small.

Q125 Lord Sharkey: This question is mainly for Michael Moore. The IMF GFSR of October 2025 has raised concerns about NBFI generally and the growth of private markets specifically. The Bank of England recently told us that it would undertake a system-wide exploratory scenario on this growth. At what point should we consider private credit and equity to be systemic? Of course, there have been other contributions to this debate that talk about cockroaches and alarm bells.

Michael Moore: But that is not language that you have ever used yourself, I know; you are far too charming for that. The IMF—which I respect is doing its job—has given a fairly broad range of analysis on it. Parts of the report that struck a fairly optimistic tone included saying that, “The industry has demonstrated flexibility in managing short-term pressures”, and pointing out that, “Continued earnings growth, declining policy rates, the use of payment-in-kind features ... and recent restructurings ... have helped lift some cash-flow pressure from

borrowers". In other words, it recognises that there is a really important role for this form of finance within the economy.

On systemic risk, I hope you will not mind me deferring to yourselves but also to the scrutineers at the Bank of England; ultimately, this is their judgment. Nevertheless, we are confidently engaging with the system-wide exploratory scenario exercise that it has been talking about as it prepares to undertake that next year. It is really in our collective interest that everybody understands the dynamics of what is going on and has confidence in the outcomes of that kind of exercise. We are at the early stages, but at the same time as saying it wants to understand how that works and get the interconnectedness between our world and the world of the banks better understood, the Bank itself has been pretty clear that it sees us as an important part of the overall economy and the providing of capital.

In the end, we are a relatively small proportion of what goes on in the financing of the economy, particularly from the private credit side. We think it is entirely fair that people should understand what it is. We are keen to ensure, though, that a lot of the data that firms already provide to different regulators is shared and co-ordinated so that what is already there is better understood and better used.

Lord Sharkey: Are you at all concerned by the growth of open-ended funds and the potential liquidity risks that they pose?

Michael Moore: Clearly, that is an area where you move into a totally different world of getting liquidity mismatches and demands for redemptions. I stress that the funds we are talking about are almost exclusively all closed-end structures. In both the private credit and private equity worlds, you get commitments from investors that are locked in for the entirety of the fund duration; there are no redemptions on a daily or other basis.

We welcome the way the Investment Association and Governments past and present have taken forward LTAFs and the like. We believe that getting new structures will help to get more capital into the economy and fuel growth, which has to be a positive. We also understand that that needs to be done in an appropriate regulatory setting.

Lord Sharkey: Can you share any forecasts you might have on the likely growth of private credit in the UK, in particular its position as a provider of credit to corporates and the profile of your typical credit investors?

Michael Moore: Some numbers I will use here are global rather than in the UK. Our estimate is that global direct lending markets are some \$900 billion of assets under management, or approximately 40% of the \$2 trillion that is in private credit as a whole. Again, we are talking about direct lending here. There is a broad range of other categories that other industries will focus on providing that are not part of what we do in our funds. To give that some context, that \$900 billion is less than 20% of the capital in private equity funds. It might be apples and pears at this

stage, but it is less than 1% of the global fixed income assets under management, so it is relatively small compared to some large sources of finance.

Q126 Lord Hollick: Joseph, I want to explore some of the same issues through the lens of M&G. You said that about 20% of the total funds that you manage go into private finance. To what extent has that grown over the last five to 10 years? You made the point that 70% of it is leveraged finance, so that is effectively funding of the acquisition by private equity of companies. How do you satisfy yourself that it is a good bet? To what extent are you able to do due diligence on all the companies that are being invested in? How do you deal with the point that Lord Sharkey just raised, which is a question of liquidity? A problem that private equity has at the moment, if I can put it somewhat indelicately, is constipation: funds are now five to 10 years, and there are continuation funds. The ability for your investors to get out of these funds is somewhat curtailed by that problem. There are two or three points there. It would be very interesting to hear how M&G responds.

Joseph Pinto: Absolutely. If I may, Lord Chair, I would like to come back to your second question, which I have not answered. You asked us to walk you through the transaction process and how we deal with banks.

The Chair: Apologies, I should have given you a chance to answer.

Joseph Pinto: If you do not mind, I will come back to that after I have answered the first set of questions. We have been growing in private markets as much as in public markets over more than 20 years, hand in hand. In the results we published for the first half of this year, we grew more in public markets than in private markets. It was probably the reverse last year. There is a willingness to grow both parts, public and private, as long as we answer client needs. We do not have a specific push on one subcategory; we want to promote all categories of asset classes to clients. It is up to them to decide what they want to buy from us.

When it comes to the broadly syndicated loans—leveraged loans as we call them—we have a very solid and robust risk management process, which has been proven over the past 25 years and we have been reinforcing it over the years. We have also been following guidelines that we recently received from the FCA, which published a report at the end of last year on private markets about private market valuation, risk management and conflict of interest. We have kept implementing and upgrading our processes and capabilities in that area.

Looking at the outcome of it and some flagship funds we have, for example in the loan funds in the private credit part of what we manage in the private market, the default rate was around 1.1%—probably half as much as the average of the default rate in the industry. That is a proven track record of how we are extremely cautious about who we lend money to. To give you more data, out of every case we look at and every company we want to invest in and believe in, probably less than 30% are

the ones with whom we are ultimately going to work with and lend money to. We have to review a lot of cases before we lend money, so we are careful about how we deploy the money given to us by the type of investors I mentioned before. That is extremely clear. That has been the culture of M&G over the past 25 years and it remains as we speak now.

On liquidity, going back to what Michael mentioned, we are extremely conscious that new vehicles are offered by regulation—LTAF, in this country. That is why we decided to go with a conservative more liquid part of the private market spectrum—a mix of broader syndicated loans and direct lending—with the 70:30 mix that I mentioned to test the water and provide a better return to clients compared to what some public markets can provide to clients. We want to gain experience, as we are extremely conscious of the topic of liquidity when it comes to retail clients as opposed to institutional clients. The ones we deal with often have long-term liabilities and try to match their asset allocation to their liabilities, hence the need to provide them with closed-ended vehicles in the private market space.

Lord Hollick: Given the challenge on liquidity and the fact that you are providing an investment to other insurance companies and high net worth people with the opportunity of going into an unregulated market, what risk premium do you expect to receive for those factors?

Joseph Pinto: It depends on the nature of the paper we invest in. We usually provide a risk premium of 1% to 3%. Some can provide much more than that. We tend to be into the lower risk-return category; that has been the philosophy and the culture of M&G so far. The category of clients we have been dealing with—especially insurance companies—tend to be extremely cautious as well. Indeed, that is the type of target returns we can provide above a given return they could get in the public markets. That is what is called the illiquidity premium.

Unless you have more questions, I will come back to the first question, because it is connected. To walk you through the whole transaction, as I said, we can originate bilateral loans tailored to the companies to which we lend. We are extremely selective about which companies we lend the money to.

We have sound risk management processes, a large credit research team that helps support the selection process, independent investment committees and an independent valuation committee to make sure that whenever we decide to lend money it is valued the right way into the fund that clients will put their money into. We do not use any leverage; we do not leverage our funds. If we were to leverage we could provide a better return to clients; that is not our philosophy and has not been so far.

We do use subscription lines, especially in closed-ended vehicles—or capital call facilities, as we call them. By the time we call for the commitment of the long-term investors, we can use those facilities to have a more efficient process. As soon as the money from investors

comes in, we tend to reduce our exposure to the banks progressively. We use it operationally, let us put it that way; it is more of a working capital, if I may use that phrase as an asset manager, but we do not leverage our funds.

Lord Hollick: Has M&G itself ever put any principal money at risk in these funds?

Joseph Pinto: We have two businesses as a group at M&G. For sure, M&G plc has a balance sheet as a group, but we also have the policyholders. We have a with profit fund of £120 billion, with 4.5 million customers in the UK. If you call principal investing the balance sheet of the holding company, we do not invest in it necessarily, except when we have to create some alignment of interest. It is a small proportion of what is required by regulation, depending on the vehicle.

Having said that, when it comes to policyholders in this country, the £120 billion with profit fund could be characterised as a very wide and diversified multi-asset fund, investing in public markets, treasuries, cash, the public bond market and private markets. The proportion of assets in private markets in the with profit fund, where we have almost 5 million UK-based customers, is between 15% and 20% depending on the risk profile of the profit fund. We have been in business for more than 20 years in that respect, so we have a lot of liquidity cushion.

My insurance colleagues are the ones who decide on the asset allocations and we are their provider. They are the ones deciding on doing some stress tests when it comes to liquidity. As I said, it is a very well-diversified multi-asset fund that also has a smoothing mechanism when it comes to returns and a guarantee of the capital provided to the policyholders. The insurance company within M&G plc has reserves to provide the terms of the product that I have just explained.

Q127 Baroness Bowles of Berkhamsted: It has already been mentioned to some extent by Michael, but we have also received evidence that banks undertake a large volume of transactions with private credit, including co-investing, and providing fund finance and secondary market trading services. I was wondering whether you could walk us through a full range of the transactions between private credit and banks. How large are those in the UK? Could you clarify where the risk from those sits?

Joseph Pinto: There are interconnections between banks and private market players, like private equity or private credit. If I start by looking at it from the banking perspective, because of capital constraints and the economy growing at the pace that we have seen in the world, banks have moved into models that we tend to call "originate to distribute"—meaning originate, eventually paper, keeping them partially in the balance sheet. That is the risk that the bank has. Eventually, part of it is distributed to end investors through private market players. That is where we enter into play: to select the paper that banks want to pass to us, or us buying those papers. It goes back to exactly what I described before with our selective process. Whenever a bank presents a set of assets to us, it is up

to us to select which one we want to buy on behalf of our investors once we package them into closed-ended or open-ended funds. We apply our risk management process—a very rigorous one—to select what we believe we want to buy.

We have also been involved in transactions like structured credit or SRT, significant risk transfers. To list those, banks that have those RWA—risk-weighted assets—constraints through their capital constraints may eventually want to offload some assets from their balance sheets. We are often a candidate to buy them, as we have some long-term investors who are interested in the returns provided by them. Last year, for example, we looked at 120 transactions and selected less than 10% of them. We have been extremely selective, probably because we have our own sound risk management process, or because some competitors were ready to give a higher price than the one we gave. We are in a competitive world; some peers or competitors may want to outbid whatever we bid. That is how the connectivity works between an asset manager and the bank.

Baroness Bowles of Berkhamsted: Can we be confident that there is then full risk transfer from the bank to you and your investors? As you are buying only the slices that you like best, how many of the slices do you think go unsold? Do you have any idea about that?

Joseph Pinto: As I mentioned before, our loan default rate is about 1.1% of the paper that we eventually buy. That is the track record we have had over the past 20 years. As I said, we have been investing a lot in our credit research and risk management processes. We have also followed guidelines from our regulator in the UK—the FCA—to make sure we are up to speed. We understand that these are moving parts, as it has been a growing area of the industry. We want to make sure that all players have a sound risk management process behind them. As far as we are concerned, we are pleased with the outcome of it but I cannot comment on our peers or the industry at large.

The Chair: On that point, at an earlier point in the inquiry we had evidence from someone who was involved as a lawyer in the transactions. He described how it was possible to do deals that were never thought possible before, that there was huge growth, great innovation, and things were remarkably buoyant. Certainly to my mind, Lord Sharkey's canary came flying into the room when we heard that. You are saying that you reject 90% so, looking at the others, do you think that there is a case of exuberance and less attention to risk than you have seen in the past, or is that just a simple commercial rejection of 90%?

Joseph Pinto: Each firm and client that we represent has its own risk appetite. The outcome and numbers that I am giving you are just a reflection of how M&G has decided to position itself and the clients we want to go after.

The Chair: I get that. I am not asking you about what you do because you are telling the committee you are very careful and straightforward. I

am asking you if—looking at the material that you reject—you see evidence that there is risky exuberance happening in the market.

Joseph Pinto: We do not have any evidence of it because, in many instances, we do not even know if the transaction will be delivered or come through. Banks may show us some papers; it does not mean that our peers will necessarily buy it. What we know is what we do; we do not necessarily know what others will do.

Baroness Bowles of Berkhamsted: I turn to Michael now to give him a go on these issues. In your written evidence, you highlighted that NAV lending sat at £150 billion globally and that that was a modest market. In the Bank of England's written response to our inquiry, it referred to that as "leveraged on leverage". Can you discuss how this type of lending works in practice and why the Bank has that view?

Michael Moore: Put that way, one can say that is a perfectly legitimate question to ask, but it is great to have the opportunity to set out a bit of the landscape more clearly.

As I have said before, the private credit funds that we represent are about direct lending and lending to the portfolio businesses that are purchased by the funds in which our private equity members invest. That is mostly about good-quality lending to good-quality businesses and is done in the way that our industry has developed over the last 15 or so years. It follows a very similar model to the rigour that is an active engagement model, which is at the core of the success of what the industry does.

As Joseph was saying a moment ago, the subscription lines are typically brought into a fund—not the actual business—that holds the investment at a relatively early stage in the fund's 10 or so year life cycle. Joseph used the term about working capital. It is not an overdraft, but it is basically giving you a credit facility that enables you to go ahead and make an investment in a business—the opportunity may be there in front of you and gone very quickly—without having to go back to the institutional investors, the limited partners in the fund, and say, "I'm drawing down that capital commitment you have made to me right now". They do that in a more orderly fashion through the cycle but a subline will help in the short term between those capital calls. Relatively speaking, that is at the early stage of the fund.

Later, when all the capital has been drawn down from the commitments made by the institutional investors, there may be new growth opportunities that present themselves to that fund. The manager might see that, in one particular investment, there is now a buy and build option that was not there when they did the original planning, and getting net asset value funding—basically, looking at the value of the fund as a whole—is a way of providing that credit in the short term with a view that it will be paid back by the returns in the fund in due course.

As the evidence we have submitted highlights, it is a relatively small area of what is going on, but that is fund-level leverage rather than the business level. They are both very carefully monitored. Standing back further from that, in the reporting that is done by all the different funds, the exposure to different types of lending is very clear.

Baroness Bowles of Berkhamsted: The Bank was saying that there was potentially this nested lending or “leveraged on leverage”, implying that the fund is leveraged then there is also leverage in the individual company. Are you saying that that is not the case?

Michael Moore: It is not the way I would describe it, but the Bank is entitled to use the language it wishes to use. I am describing the difference between the business that the fund has purchased and what it is now managing for growth, which will itself have leverage as part of that financing. Nowadays, much of it is provided by the private credit direct lending funds that are part of our industry.

Thinking about a fund life cycle, you will have the fund manager, frankly, going on the road around the world, pitching to raise a certain size of fund for a certain strategy in a certain geography. If we go back to where most of our capital is sourced in funds that are managed here in the UK, typically over 90% is international capital. Whether it is a North American teachers’ pension fund, a Middle East sovereign wealth fund or a family office in Asia, they will sign up to binding commitments to provide capital to the fund. That is them: they are tied in and do not get their capital back until the end of the process. They will want to see things going along the way, but that is basically the lock-in commitment.

In the short term, if the fund before it has drawn down the capital—again, that is done in an orderly process and not asked for all at once—that would be an unproductive use of the capital for the institution that is applying it and, frankly, for the manager receiving it. If you get sublines, they allow you to facilitate the purchase of that company in the short term. That will be repaid as you go through the broad draw-down of the capital.

Q128 Lord Eatwell: Mr Moore, a persistent theme of your written evidence and your evidence today has been that everything is relatively small. You seem to be saying to the committee, “Nothing to see here; move along”. The figure that you give is that net AV lending is £150 billion globally. The IMF says that banks’ exposure to private markets is \$4.5 trillion. How do you reconcile those two numbers?

Michael Moore: The NAV financing is a very specific form of financing within a fund.

Lord Eatwell: Yes, but we are looking at the general exposure of banks to private credit; that is the concern of this committee, not a particular subsection.

Michael Moore: If I may, I can only answer for the bits that my industry is engaged in. I am not able to talk on the broader range of finance that

is asset-backed finance, special situations finance and the various mezzanine types of finance, which are not typically part of our industry. What we are focused on in our industry is the financing around what happens to the businesses that we invest in, or—as just described to Baroness Bowles—in a situation where the fund itself might need some additional liquidity for a period of time, which that borrowing can allow.

I will be slaughtered for suggesting that we are satisfied with being a small part of this. It is an ambitious industry that wants to grow further and I imagine it can do because the business case for it has been growing over a long period of time. The private credit side of it is newer than the private equity side but, again, it is almost always focused on the businesses that the industry is already investing in.

Lord Eatwell: I wonder if I could relate that to a point made by Mr Pinto just now. He said that the banks have moved into the “originate to distribute” model, which is a real alarm bell because that is exactly what happened before the 2008 financial crisis with respect to the mortgage industry. That origination is typically highly leveraged. The various investments are then packaged. We are told that, although these are packaged into the equivalent of collateralised debt obligations or collateralised loan obligations, the particular maturity structure of the CLOs and the seniority within those maturity structures are obscure. If that is so, surely this is exactly the same pattern we have seen before, which had unfortunate consequences.

Michael Moore: I am very conscious of the limitations of my expertise. You might say this has been obvious for many years. This area of the market is a bank issue rather than private equity and private credit issue. We are basically not invested in that. By and large, there are no funds being created to invest in these more complex financial instruments, but they have a role in providing liquidity to the market and allowing the right investor with the right risk appetite to take on the investment. In terms of the day job, our industry is overwhelmingly focused on investing or supporting the growth of businesses that are very clearly tangible and you can touch.

Joseph Pinto: Just to complement what Michael just said, if you go back to 2007/2008, the root cause of it—I respect your comments on the leverage—was also the underlying assets and loans. It was more of a subprime market, if you remember what happened. Ultimately, it is all about the quality of the borrowers. What Michael and I have been trying to explain is that we all pay attention to who we lend the money to and the companies behind. We have all reinforced our risk management processes and learned the lessons from 2008 to make sure that money ends up in good hands—at least the ones that respect our risk management process. That is probably the big difference versus what may have happened in 2008.

Lord Eatwell: I take your point, but a theme that recurs again and again in discussion of the private credit market is that it is opaque. People do not know; there is a lack of data. In those circumstances, you are asking

us to be confident that the investments are safe when people do not actually know.

Joseph Pinto: The FCA's recent report and the guidelines it gave to the players in this market says, "Please review your valuation process, be more transparent, provide more information". We have all been improving our processes and following those guidelines for a while. We are providing as much transparency as possible to the end investors. It is not structured like a centralised liquid market; that is clear. That is why we all now have independent valuation committees shared by people who do not manage the money on a daily basis to make sure there is no conflict of interest. We have access to enough data by asset class from outside providers to make sure that whatever valuation point we have is a good reflection of the valuation of the fund itself, where investors put money. We have reinforced all those processes over the past years, and we keep doing it and following the guidelines of the regulators. We are regulated as well, in that respect, and are completely conscious of the point you are raising.

Indeed, stepping back a bit to look at the big picture, in particular the US versus Europe, the question is whether Europe, including the UK, will follow what happened in the US over the past decades. If you look at the lending market at large, it is in the hands of non-banking lenders—private market players among others—for roughly 65% to 70% versus 30% in the hands of banks, whereas Europe is probably the reverse. It is still the banks that own, say, two-thirds of the lending market, and one-third is in the hands of the private market players.

A legitimate question is whether Europe will follow the pattern that has happened in the US. What does it mean in terms of risk? Is it a systemic risk? For sure, we call out for any regulatory frameworks put in place by the FCA, as far as this country is concerned, and follow those regulatory patterns. We want to make sure we have appropriate stress tests across the system so that it is under fair control, risk management is sound, and the players act properly according to what the clients want. That is what we are ultimately looking for.

Q129 **Lord Lilley:** We are interested in establishing whether the growth of lending via the private market constitutes a systemic risk in the financial sector. As far as I can see, systemic risks arise when people borrow short and lend long. If I invest something for 100 years and it goes wrong, that is my problem. If someone lends something to me that they can get back within three months and I invest it for 10 years, then there is always the risk that, when they want their money back, other people may also want their money back because they think, "Oh, something must be going on", and you get this contagion effect. That is systemic risk.

Do you think you are involved in any way in borrowing short and lending long? That could happen because you borrow from the banks, but you say you do not really. The banks—by definition—borrow short and lend long. You talked about the liquidity of your investors. That implies that they can get money out even though it has been invested long term.

What happens if they all want it out? Does that not lead to a collapse of the fund?

Joseph Pinto: Banks do maturity transformation, as you mentioned. We do not do maturity transformation in asset management. That is a radical difference between what a bank does through deposits and what an asset management firm does. We do not invest, lend money or deploy capital that investors did not commit to us logically. We deploy only when we know that we have raised money with investors and then we know how much we have raised. It goes back to the topic of capital deployment and how we ultimately deploy it. That is how we have been working so far. There is no maturity transformation, in essence, in the way we have been managing the money.

Whatever funds we promote commercially to our clients—let us start with long-term investors, insurance companies, pension funds, endowments, family offices or sovereign funds—they understand the terms of the products we commercialise. They know that it is long term and understand the liquidity risks and we invest accordingly. If they were to decide to redeem money, there are terms in any prospectus that protect all the other investors if some want to get out too quickly and with too much. There are some terms, such as gating a fund or closing for redemptions if needed. Those terms exist; they are well governed by the regulatory frameworks around the world and help protect the investors. As long as we have no moral hazard from most of the investors, we ultimately know how to manage the money long term.

When it comes to LTAFs or ELTIFs, which I mentioned earlier, we are extremely cautious and clear on the liquidity terms. We put in place a quarterly redemption mechanism and manage the assets in accordance with those terms. That is how it has been working.

Lord Lilley: But if people have been given liquidity, what happens if they all try to exercise it at once?

Michael Moore: There is possibly no system on earth that is fit for that particular judgment day, but I can understand—as we all do—after the financial crisis 15 or so years ago that ensuring we do not get into that situation is really important.

I would emphasise the points that Joseph has been making. The type of lending that is being done by the private credit direct lenders—typically the ones in our industry—is basically for a period that is locked in alongside the investment that it is financing. The people who are financing those funds are the same broad institutional backers that you have elsewhere. As a rule, they are not retail products. The funds themselves are not regulated but the firms are. Where a fund is going to be open to retail investors—such as the LTAF—it is pretty heavily regulated. Typically, getting the balance between the regulation on the one hand and the marketability of those products on the other is the creative tension that is always in the system. At this point in the evolution of our industry, that is really not at all significant. The crucial

thing—the governor himself drew attention to this—is that the banks need to be secure because of the deposits, the way they are crucial to operating the payment system and so much else, whereas in our situation people can make losses but those are ring-fenced to the provider of the capital, whatever type of capital that might be.

Lord Lilley: So you are not a systematic risk; I rather suspected that all along, but I had a duty to ask. An element of the crisis in 2008 was securitised loans. I just do not understand how that works and why one bank should get its loans off its balance sheet by putting them in a securitised vehicle, then another bank invest in a securitised vehicle. My bank happened to be BNP, which sparked off the whole thing in August 2007 because it had invested in these securitised vehicles. I appreciate that you may not do much of it, but you are much closer to it than many of us. Do you have any comments about that process? Does it shift or reduce risk from one area to the other?

Michael Moore: I have two high-level observations. One is that regulation is different now from where it was before, as are the returns that need to be made by anybody who is regulated under the alternative investment fund managers directive as was and the regulation now in the UK. Not that anybody is going to weep for the poor people who have to do this, but 300 lines of data that are fed back regularly to make sure that there is an awareness of what is going on there. The regulation is night and day compared to where it was.

Alongside that, it is about the quality of the underwriting. Dare I say it, the more esoteric the product, the harder the underwriting is going to be; the more removed it is from the real economy, the harder it is to point and touch the thing that you are buying a share of. In our industry, the real core to the success of it is, essentially, that underwriting process and the diligence that is done by an institutional investor before they commit capital to a fund. They need to know about the manager and want to know about the strategy; they are scrutinised within an inch of their lives. Then they are required to report on an ongoing basis on how things are going and do the valuations, which are done to international standards and audited. A huge amount of data is going on there. Before a business is purchased and thereafter, there is a huge amount of detailed inquiry about what is going on. Of course, a lot of this is for the institutional investors or the firm that is the investment manager rather than out there in the public domain, but it is pretty serious stuff. Without it, you would not get the returns.

Q130 Lord Kestenbaum: My question is a broader one to Mr Moore. It touches on the access to capital dilemma, particularly in relation to the asset class you represent. We know that flourishing economies thrive with multiple pools of capital that have different risk profiles, time horizons and return profiles—a kind of ecosystem; there is that “systemic” word again. I wonder where you feel that today—2025, as opposed to when this asset class was developed 30 or 40 years ago in this country, if not more—the asset class sits across that ecosystem. Traditionally, we understood that

the private equity venture capital asset class was about a form of risk capital. It provided capital to those firms that otherwise would not be able to access investment from other institutional sources, therefore it had a broader view on risk and time horizon.

I wonder how you would react to the sceptics who say that has changed in part because of inflated return expectations from the asset class, the IRR expectation and these huge mega funds that need to be deployed over a relatively short time period. Notwithstanding the fact that you spoke of closed ended, they have a maturity. The management is out fundraising within three or four years anyway and has to demonstrate that there have been returns, so actually that closed-ended, long-term investment promise is very often not fulfilled.

I am just very interested to know whether you feel the asset class has changed in terms of where it sits in the system. It is much less to do with risk capital and is much more to do with a form of institutional capital to companies that would probably be able to access it anyway from other sources globally. You are smiling because you have heard the criticism—it is not a criticism—therefore, it would be important for us to understand where you think it sits. Many who have given evidence to this committee have said, “Look, vast pockets of the economy in the UK are uninvestable: too small, too modest, the time horizons are all wrong”. What is your reaction?

Michael Moore: I will try to make this as clear an answer as possible. If I may be so bold, at the heart of your question is a recognition that—as I set out in my opening statement—this is an industry that now plays a huge part in the British economy, the European economy more broadly and, indeed, the global economy. As I said before, there are 2.5 million jobs in businesses backed by private equity and venture capital in the UK. There are 13,000 businesses that are owned by private capital, and it makes it a really important part of where we expect the high growth to come from.

If you do not mind me saying, I do not really accept your characterisation—or those who have offered the view to you—that somehow the model is not delivering. We are very happy to have our returns compared to—

Lord Kestenbaum: I am really sorry to interrupt you. I did not say the model is not delivering; I am saying the model sits elsewhere in the ecosystem. I did not say it is not delivering.

Michael Moore: The point you were drawing out was that as soon as a fund has been raised—within two or three years—the next fund is being done. There is a beautifully simple truth about the industry: if you cannot deliver the returns, if it does not look like your investment thesis for a particular fund is sound, if the early signs are that you have not deployed the capital—because the institutional investors get pretty regular feedback—or you cannot show that this has the makings of the returns that you expect over the 10 years, then the chances that you will get the

same institutional investor providing capital when you go knocking on the door two or three years later are zero. There is a requirement on that.

The model is totally dependent on growth because the growth in the capital assets that you are building is going to drive the returns at the end. You want to build companies that are attractive to the next buyer. This is the simple economics of it. Businesses command higher prices when there is a competition for that asset, and you are not going to have people competing for assets if, essentially, it is a low-performing, stuck business in an area of the economy that does not have much growth potential. All the investors—whether they are the institutional investors committing capital or managers who are acquiring the businesses and then actively owning them—are very focused on that growth objective, not just for themselves but the next owners too. That is a very good, positive dynamic and is part of the reason why it has extended.

Where private credit provides real value in the industry is that you are not driven simply by the need to show that you are totally on track every quarter or half year. Indeed, if you hit a wobble—one might argue that the macro conditions of the last few years have been more than wobbles—then you have the ability either to provide more capital from the original providers of it or to borrow more if that is appropriate. Each bit of that process is heavily diligenced and so on. My proposition to you is that what is attractive about our industry—both to a business that wants to grow and the investors who want to invest in the opportunity—is that there is a track record, but there is also a model that actually gets people invested for the long term.

Joseph Pinto: I agree with what was said. I add that I would not oppose public and private markets. Sometimes companies decide to remain private. It is up to us as operators to look for the best investments and best returns for our clients. We could do it in the public market as much as in the private market, so I would not say one market is good and one is bad. There are potentially great returns in both cases, but both require sound risk management processes.

As Michael said, we are not trying to raise as much money as possible and just deploy it. If we do it badly, we are out of business; it is as simple as that. We will lose the trust of our clients and then there will be no second or third fund if we miss the first one. These are clear rules of the game we operate by.

The Chair: That is a very good note on which to conclude this session. Thank you both for answering our questions so well and directly. We will have a short break before starting the next session with our witnesses.