



Financial Services Regulation Committee

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

Wednesday 29 October 2025

11.20 am

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

Evidence Session No.12

Heard in Public

Questions 131 – 140

Witnesses

I: Blair Jacobson, Partner and Co-President, Ares Management Corporation; Daniel Leiter, Senior Managing Director and Head of International & Global Head of Liquid Credit Strategies, Blackstone Credit and Insurance; Tristram Leach, Partner and Co-Head of European Credit, Apollo Global Management.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Blair Jacobson, Daniel Leiter and Tristram Leach.

Q131 The Chair: Welcome to the second part of today's meeting, which is the 12th oral evidence session as part of the committee's inquiry into the growth of private markets in the UK following the reforms introduced in 2008. Thank you to Mr Jacobson, Mr Leach and Mr Leiter for attending.

The session is open to the public, broadcast live and subsequently accessible via the parliamentary website. A verbatim transcript of the evidence will be taken 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 be helpful if you could advise us of any corrections as quickly as possible.

After this evidence session, if you wish 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. Do any of our witnesses want to make any kind of opening statement?

Blair Jacobson: We are all happy to.

The Chair: Mr Jacobson, do you want to go first?

Blair Jacobson: Good morning. Thank you to Lord Forsyth and members of the committee for inviting me to appear before you today. I am co-president of Ares Management. I have lived and worked in the United Kingdom for the past 20 years, and my family and I are dual citizens of the United Kingdom and the United States.

Ares Management itself is a global alternative investment manager. We manage a little over £570 billion of assets comprising credit, property, real estate, infrastructure and private equity. I am in my 14th year with Ares. Before assuming the role of co-president early this year, I was the co-head of European Credit. Ares has a nearly 20-year history in the United Kingdom; we opened our office here around 2007. We directly employ more than 460 people in the UK, more than 700 across Europe, and we manage about £120 billion of assets across Europe.

We believe Ares is the only global alternative investment manager with executive leadership permanently based outside the United States, which is a sign of how strategically important this region is to our firm. We welcome this inquiry as the United Kingdom continues to be one of the largest and most sophisticated private credit markets in Europe. In reflecting on the role of private credit in the UK economy, we believe private credit plays a very important role in supporting sustainable economic growth, particularly in the middle-sized company segment, long recognised as an engine of UK enterprise.

Over the past nearly 20 years, Ares has invested over £40 billion in more than 200 different companies in the United Kingdom, helping to fuel growth, innovation and job creation. We believe that in both stable

periods and times of stress, private credit has proven to be both a resilient and reliable source of financing. Again, our goal for our clients is capital preservation. We saw this during the global financial crisis, Covid, Brexit, and more recently during periods of high rates and inflation.

We think private credit access to capital is enhanced, diversifies funding sources and actually helps to reduce risk in the financial system, and that the growth in private credit reflects the value it brings to the economy as well as our investors more broadly. We welcome this open and transparent dialogue with the committee on the vital role we believe that private credit plays and will continue to play in supporting UK economic growth and competitiveness on a global scale. I look forward to answering your questions and contributing constructively to this transparent review.

Tristram Leach: Thank you for having me with you today. I am a partner at Apollo and co-lead our European credit business. I am pleased to share our perspectives on the way that private credit and private capital can help fund the UK's growth.

Apollo is a global asset management and retirement services firm with about \$850 billion or £640 billion of assets under management, including the assets of 85 UK pension and investment institutions. Our London office is our European headquarters, where we employ about 500 people. Across our activities, we bring scaled, long dated and flexible capital to fund the UK's future growth.

I would like to open with three key messages. The first is that private capital sources will play an important role in helping the UK meet its long-term investment needs. UK companies need approximately £2.5 trillion over the next decade to meet domestic priorities such as energy transition, defence, housing, and physical and digital infrastructure. Private credit can play a key role in providing that capital alongside other capital sources.

Secondly, we see private credit as a £40 trillion predominantly investment-grade market. The breadth and depth of private credit reflect the real economy that it funds here in the UK and around the globe.

Thirdly and finally, private credit is typically funded by long-term capital sources, within our business specifically the retirement services business. The long duration and diverse nature of these pools of capital add resilience to the financial system and provide stability during periods of stress. Also, that long-dated nature of the capital acts as a good counterpart for banks, which tend to be best at providing shorter-dated financing.

In sum, private capital and private credit provide diversity in financing and enable critical projects to access capital. They support long-term growth, provide resilience and play an important role in the UK's future. I look forward to expanding upon my comments.

Daniel Leiter: Thank you for inviting me to the session today. I serve as head of international for Blackstone Credit and Insurance and global head of liquid credit strategies for Blackstone. I am based here in London, which has been my home since 2010.

I will briefly cover two points: first, Blackstone's track record in the UK; and, secondly, what private credit is and is not. Just quickly on Blackstone in the UK, Blackstone is the world's largest alternative asset manager, with \$1.2 trillion—£900 billion—of assets under management. We employ over 5,000 people globally and have invested in the UK for over 25 years. The UK is our second-largest market after the US and we back UK-based companies and assets worth roughly £85 billion, supporting over 50,000 British jobs. London is our European headquarters. We employ nearly 700 Blackstone professionals in London, including around 100 in the business unit. I am part of Blackstone Credit and Insurance, and we remain committed to the UK's long-term economic success, with plans to deploy an additional £100 billion here over the next decade.

Quickly on private credit, Blackstone has been active in private credit for over 20 years, and today our credit and insurance platform is our largest business with over £500 billion of assets under management globally. The UK is our most active European market, with around £11 billion of private credit lending exposure to UK-based companies.

Put simply, private credit is lending directly to companies without going through public bond markets or traditional banks. By removing that intermediation, we are able to provide borrowers with tailored solutions and execution certainty. By bringing our long-term investors right up to the borrowers in this way—what we call a farm-to-table model—they benefit from a durable premium over public markets by cutting out intermediation costs.

It is structurally different from traditional corporate bank lending. We make private credit investments intending to hold them until maturity, funded by committed, long-term capital, such as from pension funds, insurers, other institutional investors and, increasingly, individual investors; in other words, our funding matches the life of our loans. There is no asset liability mismatch, and by contrast, banks often lend with the aim of selling on and are funded by short-term deposits.

We also use far less borrowing in private credit. Where leverage in our funds is used, it is typically up to £1 of borrowing for £1 of investor capital, compared with banks, which often borrow more than £10 for £1 of their own capital. Most of our lending is first in line to be repaid by companies' assets and made to healthy, established businesses. Private credit is not about taking on failing companies or distressed investing.

We see private credit as complementing bank lending, offering choice, flexibility and resilience to the financial system more broadly. It provides liquidity, including when public markets are volatile, as we saw during the 2023 banking crisis and during the pandemic. We believe its growth is a

long-term, positive feature of a healthy financial system, helping UK and global businesses of all sizes grow. We welcome scrutiny and ongoing dialogue with policymakers and regulators, and I look forward to discussing these points with you today.

Q132 The Chair: Thank you very much. Perhaps I could kick off. I wonder if you can help me. I am trying to get a handle on the range of investors who invest in private credit funds; in other words, the approximate proportion of high-net-worth individuals relative to institutional investors. What is the evidence to suggest that these investors are using bank lending to invest in these funds?

Blair Jacobson: If we examine our business in the UK and Europe, our funds tend to be more institutional in nature via limited partnership structures that last eight to 10-plus years. The underlying investors in those funds are disparate. Our most recent one for European private credit had more than 250 distinct investors. However roughly 40% of the capital came from pensions, both corporate and public: about 20% was directed by insurance company clients and about 20% from sovereign wealth funds. The investor base in our funds would be very global.

As it relates specifically to high net worth, it would be very rare for them to participate directly in one of our large institutional offerings, where the minimum investment size per investor is £15 million or £20 million. We can also talk a little about the wealth channel, which is more relevant to high-net-worth investors. From that perspective, on a European basis we manage about £85 billion of corporate private credit. Maybe about £3 billion or so of that comes through high-net-worth investors in vehicles that are specifically created and managed on their behalf by Ares, which are marketed to them through intermediaries. It is a smallish percentage of the overall capital base in Europe more broadly for Ares as well as our perception of the market.

To answer your last question directly, we do not have direct line of sight into how high net worth would finance or pay for investments into their fund. That is a confidential relationship that they would have generally with their own banking partners. I would not say it is our perception that those investments are indeed highly levered, but that might be a question to ask them directly as well.

Tristram Leach: I would maybe just add a comment on Apollo's investor base, which is a little distinct from Ares's. We have \$690 billion of credit assets under management, of which 60% come from our retirement services insurance business, so it is essentially our own capital. Of the \$250 billion that is third-party capital, approximately 20% comes from our wealth business, which might be individuals. The really important thing with regard to Apollo is that a majority of our credit AUM is our own retirement services capital, and the vast majority of that is seeking out investment-grade opportunities.

Daniel Leiter: I would just add for Blackstone and our credit business, we call it the three Is: about a third, a third, a third across institutional,

insurance and individuals. That being said, penetration with individuals in that client segment in Europe is much lower. In fact, I mentioned before that in the UK it is our second-largest area where we invest, but we raise less than 1% of our individual capital in the UK. There are various reasons for that, which we can expand on if of interest, but at the moment that is not a big part of our European business.

Q133 Lord Smith of Kelvin: We have been spending quite a bit of time talking about systemic risk and how you detect it. I would be interested to know whether any of your companies had any exposure to First Brands or Tricolor. If so, could you set out the interconnections through which this exposure came back to your funds or to captive insurers?

Mr Leach, I have a specific question for you. I am told that Apollo shorted First Brands before its collapse. Were concerns with the opacity and complexity of First Brands' and Tricolor's leverage factors in that decision? If so, could you elaborate on warning signs that you were looking for?

Tristram Leach: Certainly. At the outset, neither Apollo nor any of its managed funds had any exposure to First Brands at the time of its bankruptcy. As has been publicly reported, there is an ongoing Department of Justice criminal investigation into First Brands, so I will have to confine my comments to a relatively high level. None the less, First Brands is a sub-investment grade business. Inevitably, that requires and necessitates a higher level of investment rigour. It had grown rapidly through debt funding without incremental equity contribution over the last decade. These were all things that necessitate a degree of rigour and perhaps caution in your underwriting process.

Why it did not give more caution to other market participants I cannot speculate on. I would note—especially in the light of some of the reporting around it—that First Brands was predominantly financed in the public credit markets by broadly syndicated loans, and there were some other small, off-balance sheet facilities, which appear to have been predominantly held by banks, according to public reporting. It is important that that is noted.

There have also been reports and allegations of fraud around First Brands. There will always be bad actors in any credit environment. The importance is that you fall back on the rigour of your credit underwriting and the caution you necessarily deploy when allocating into sub-investment grade businesses.

Blair Jacobson: I would just say from an Ares perspective we did not have direct exposures either. Maybe I can address the question from a slightly different direction, which is to say that one of the strong messages that came out in the prior panel—and will in this one, I think—is that we are looking for the best credits and companies that we can possibly find because our goal is capital preservation and minimising investment loss.

When you look at these two specific businesses, First Brands distributed automotive supplies. That type of business is cyclical, tariff-impacted and impacted by a weakish end consumer in the United States. When you look at Tricolor, it sold cars, the ultimate discretionary purchase by a consumer. In fact, its customer base was almost the lowest-quality customer base that we could find; people are calling it subprime. For our firm, when we would screen one of these opportunities, we actually would not get very far because those would be relatively disqualifying at the beginning.

The second point I would make—again, echoing what Tristram said—is that there are fraud allegations. One thing we think very carefully about is who the owners of the companies are. Again, we are talking about a lending context. We do not own or run the businesses; we lend. Who those fiduciaries managing the businesses are is important to us. For example, neither of those companies is owned by private equity, which probably represents 80% or 90% of the counterparties that we generally deal with. If you ran a correlation between fraud and private equity, it would actually be very low. Again, that is another thing to think about.

Lastly, even though private credit is in the news about these situations, if you look at First Brand's \$12 billion balance sheet, maybe 2% or so of that was in private credit hands. The balance would have been on banks' balance sheets—several have been mentioned in the press thus far—as well as in the broadly syndicated markets.

Daniel Leiter: I would just add that we also had no exposure at the time of bankruptcy. To be clear, the broadly syndicated loan market that First Brands used is what a company will use when it does not use what has been growing in private credit, which is the direct lending market. If you think about our private credit business, the biggest segment is direct lending. That is when we make loans directly to companies. In this case, First Brands decided to do a bank-originated deal. It went to the banks, and the banks originated a broadly syndicated loan, which means that they made the loan and then sold it. The alternative would have been to go to private credit, but that did not happen. There has been a lot of misinformation on this credit; this was not a private credit origination.

Q134 Baroness Donaghy: Just pursuing this issue of risk management, I realise you cannot comment on the detail of First Brands, et cetera, but it implies a potential decline in lending standards. The asset managers we met earlier were keen to emphasise the reinforced risk management system and their independent valuation panels, which were chaired by people who had no financial interest and were carrying out appropriate stress tests. Would you like to comment on the kind of risk management that your companies adopt in order to reassure people about the accurate valuations of your assets?

Tristram Leach: There are probably two distinct questions we might delve into there. One is about risk management broadly and the second is about valuations.

As regards risk management, really, we think about two things as the core of our risk management. The first is rigorous credit underwriting—the kind of underwriting that allowed us to stay clear of First Brands, for example—and which is really the bedrock of everything we do as we search for safe yield for both our retirement services business and our third-party asset management business. A culture of rigour, curiosity, scepticism and thoroughness in your underwriting is always the first line of defence against bad credit risk.

The second thing that is really important is appropriate asset liability matching, making sure that whatever the liabilities you have are matched with the appropriate duration of assets. We think that is something that is appropriate across our firm, both on the retirement services business and the third-party asset management business.

With regard to valuations, we have detailed valuation policies—like, I suspect, most of our peers—designed to ensure transparency and consistency across all our various funds and balance sheets. The methodologies are consistent, overseen by independent valuation committees and audited by third-party auditors to ensure consistency. There is a lot of transparency and consistency in our valuation approach.

I would add that we are incentivised to be as transparent as possible about valuations. If I think about the worst imaginable headline that we could get, it is that something went bankrupt that you had marked at par. There is no incentive for that to happen because it damages your credibility as an investor in the eyes of your end investors and the market. We have these third-party processes in place to ensure that there is no conflict, but everyone is incentivised to have things marked appropriately.

Blair Jacobson: To pick up and expand on one of those points, Tristram talked about the pre-deal risk management. We are selective and do a lot of due diligence. Daniel talked about the one-on-one relationship that we have with these companies so we can do a lot of work, structure our own legal analysis and write our own documents.

I would like to spend a moment on risk management after we make the investment. A powerful part of what we do is that in our loans with companies, 90% of the time we at Ares are the sole or majority lender to the company. What does that mean? That means we have direct access to the CEO, CFO and management team of that business. Further, we get monthly accounts from those companies. If you compare that with the listed markets, for example, it is much more frequent.

In our view, we always have our finger on the pulse of what is going on at our underlying companies. In fact, of the 100 people we have in our investing business in Europe, 25 are dedicated risk managers. We feed those numbers into our proprietary software. We are looking for anything that is behind plan or just any whiff of an issue. Further, our companies have financial covenants. They have tests that they need to meet—generally on a quarterly basis—that we track. So, again, if there are any

issues there, we are in a position to be very proactive in our risk management.

Things happen with these companies. Our average company is a middle-sized business. If things happen, we also have an internal workout team of professionals who know how to get our clients' money back as and when that is required. If you look at our firm's track record in this asset class for the past 20 or 25 years, our loss rates are in the very low, single basis points. Again, not only does a lot have to go wrong mathematically for us to have capital impaired but we are very proactive and very good at getting capital back.

The last thing I would say on valuations is that we have had a very active, consistent, firm-wide valuation policy for over 20 years. We mark every loan every quarter. It is independently reviewed outside our firm every quarter and at the end of the year, there is a formal accounting audit of those marks. Maybe just to bring it to life for you, if we write a loan at 6% and the market for new loans is 7%, we have to mark that loan down on a yield basis to make it equivalent to where the market is today. That is something that is very common with us.

The next thing we do is also consider the creditworthiness of our borrowers. Again, if we see deterioration in financial performance or if we think our loan-to-value is increasing, that could also be a reason for changing the valuation of a loan. By the way, we never write our loans above par either, only at par or below. What Tristram said is right: the worst thing that could happen is a loan is marked at par and then there is a sudden event, but we get out well ahead of that and are also held to task by independent reviewers.

Daniel Leiter: I agree with many of the comments made. I would maybe just say that the mentality of underwriting a credit to hold to the maturity is different from the mentality of underwriting a credit to syndicate it. Everything we do, we generally hold the credit to maturity. We work with the companies for many years and have a setup that is similar in terms of the asset management that is ongoing. We even have other programmes to help these companies grow, such as a value creation programme—which has created millions of pounds of savings for UK companies over the years—where we help them find operational synergies and with procurement and even cybersecurity, et cetera. We are long-term investors. That mindset is very important when you think about the rigour that goes in up front and on an ongoing basis for everything we do, really.

The Chair: Can I just make sure I understood what you said, Mr Jacobson, which was certainly an important point to me? Were you arguing that where finance is being provided for an unlisted business, you are able to get financial information that you would not be able to get from a listed company because of the interests of other investors, and therefore the ability to monitor things and the risk profile is considerably less? Am I oversimplifying what you said?

Blair Jacobson: That would be our viewpoint and perception. Again, when you have a bilateral relationship with a company, you can essentially ask it whatever you like as to whether it is creditworthy or not before you make your decision. We have 100 people doing this in Europe and have been doing it for a very long time. Clearly, we know how to analyse these businesses, but we also get help. In every transaction we hire a third-party accounting firm to undertake a full financial review of the business. We generally hire a consulting firm—Bain, McKinsey, et cetera—to help us better understand the company, its competitive positioning and industry outlook. We hire a law firm to make sure that we understand not only the contract that we will enter into with the business but any potential obligations or liabilities that that business might have outside of what we are doing.

Whenever we do one of these transactions—I think Daniel put it well—when your mentality is to hold to maturity, which is what we do, what we do is very thorough. In our market and business, that lends to a 60-page investment committee paper that is reviewed by our investment committees to make a decision that is backed up by hundreds, if not thousands, of pages of underlying analysis. In the private markets, the work we can do is very thorough and should help mitigate risk.

Q135 Lord Hill of Oareford: What do you think might have changed that explains why the regulators are suddenly poking around?

Daniel Leiter: Any time you see a market grow so substantially and rapidly, it is probably prudent to take a look and see what is actually happening. The good news is that the regulators will do this work and come to the conclusion that the system is going to be more stable whenever we go through economic shocks because now—away from just relying on the banking system—private credit can provide a source of financing through difficult times.

Our investors trust us with capital. It is paramount for us to perform through cycles. We are long-term investors that originate to hold to maturity; that is the key point of what we really do. In periods of stress—when things are more difficult and returns are higher—actually our investors like us to deploy even more capital. It is a big countersignal—

Lord Hill of Oareford: So general market growth rather than specific factors?

Daniel Leiter: Yes. Why has this market grown? It is because borrowers have had an advantage in or prefer this market. We cannot force any companies to work directly with us. There are good reasons: they get certainty of execution but also much more customised financings. We have many examples where, for example, a company will want to grow over the coming years. They know we are going to be their lender over time. If they go to a broadly syndicated market, they do not know who their lenders are going to be even the next week. We can work with them on a lending facility that can scale with their ambitions, their business plans, et cetera. That is why it is growing from the borrower side.

It is growing from the investor and capital side because, generally speaking, the returns have been well in excess of the public markets. The investors who are giving us capital say, "Okay, we are giving you this dedicated capital for the maturity of these financings and we expect to get in the context of 200 basis points or 2% above the public".

Lord Hill of Oareford: You do not think it might be because they are concerned particularly about the relatively rapid growth of bank investment in private markets?

Daniel Leiter: I do not think so. What is happening is that the borrowers have really seen the benefits. I will give you an example. Tristram mentioned this earlier when he quoted some bigger numbers than the existing private credit market or the direct lending-focused market, which is a bit more than £1 trillion, maybe £1.5 trillion now. Where the market has been going is from a relatively risky market post financial crisis—where private credit was more focused on companies that were stressed or in a difficult spot—to a much broader direct lending market, which is basically an alternative to the bank syndicated loan market.

Where it is going from here and has been going for the last few years is an expansion into financing the real economy across infrastructure credit, asset-based credit and the safest part of the credit spectrum, which is investment-grade private credit. That is a very material market and the capital need for the UK is tremendous there.

Lord Hill of Oareford: Do you think the regulators will look at it all and conclude that there is nothing to worry about at all, that they are not likely to be worried about the potential systemic risk from the growing involvement of banks in private credit?

Daniel Leiter: I think that is what they will focus on. They will realise or come to the conclusion that what is happening in private credit is fundamentally safer to happen there rather than on banks' balance sheets. Banks are 10 times-plus levered institutions and have a big asset liability mismatch because of deposits. With banks, if you have a single point of failure in any business, it can bring down an entire bank because they are relatively complex institutions.

If you think about how we are structured, our funds are at most one times levered and a lot of funds are unlevered. We have dedicated capital to maturity, and if we had a catastrophic event in one of our funds, it would have no impact on the other funds. It would damage our reputation and might impact us more broadly as an organisation, but it would not have an impact on any other funds for us and definitely not on competing.

Lord Hill of Oareford: What would it mean to your model if bank lending were reduced through regulatory action?

Daniel Leiter: It depends. Where do we interact with banks? I just mentioned that, for example, we have some funds that have leverage.

That is low leverage, call it one turn of leverage. What does that mean? If you think about one of these direct lending loans that we make in Europe, they are quite defensive. They are at roughly 40% loan to value. We generally lend to sponsors, another private equity firm, and that firm will put in 60% equity before we would take a loss because we have 40%.

What the banks are doing for us on funds that are levered is that they will lend at most one turn of leverage, call it 50% of the 40%, so we are down to 20% loan to value, and they will do that on a portfolio of loans so they are not exposed to any one company. It goes beyond that: they also have other structural protections so that if there were a huge amount of defaults, they would actually de-lever more quickly. That activity is happening instead of these loans being directly on banks' balance sheets—which was happening pre financial crisis—so the regulator will come to the conclusion that a lot of that is much better for the banks. Many banks have come to that conclusion too in how they have set up their business lines. They have been growing these lending books because it is more attractive for them to do that from a returns and risk perspective than to make the loans directly.

Tristram Leach: I really agree with that. If you think about what banks do, they do private credit. Banks make loans to the real economy. The growth of what we call the private credit industry is new participants and sources of capital—typically, longer-dated—moving into that market to fund many of these activities. There is this complementarity between banks and private credit funds where banks can first act as advisers to companies that might choose to take capital from private capital institutions such as ours. On occasion, banks may also be providers of senior financing at the fund level, but that is extremely loss remote.

When we talk about bank involvement in private credit, banks have always been involved in private credit; that is what they do. What you are seeing here is longer-dated capital—capital that is not funded by deposits—making those same loans. I hope there will be some incremental capital for the UK and Europe that can fund the growth and strategic needs of the UK and the continent. It should be complementary with what banks are naturally best at, which is shorter-dated and very senior.

Lord Hill of Oareford: Are you saying there is no systemic risk?

Tristram Leach: Our view is that if you look at the current market, systemic risk has been reduced by virtue of private capital playing a role alongside banks.

Daniel Leiter: I very much agree. That does not mean that we will not go through elevated default cycles in the future and there will not be certain losses in areas. We have seen some examples recently, as highlighted. But the risk of contagion in the financial system has been reduced overall through the expansion of private credit and that will be the conclusion.

The Chair: Just on that point, the wheels have been grinding in my brain on what you said, and if I could just ask a bloody daft question. You explained how you had very careful underwriting and follow-up, you followed the businesses and got all the financial information. I think I heard you say that if you spot a problem, you get out, so where does the loan go then?

Blair Jacobson: I am sorry; if that is what I said I did not mean it.

The Chair: That is what I thought you said.

Blair Jacobson: I said we can act quickly to engage with the company on ways to make things better by creating a new business plan for it, et cetera. Something I know that was on the mind of the committee is around trading of these types of corporate direct lending loans. I do not think we have ever sold one of our loans and we have written hundreds over time. In fact, our investors rely on us to sort out the problems ourselves, capture any degradation of value and bring that back to the highest recovery possible. In fact, we do not see much meaningful, if any, trading of these middle market corporate loans in the UK, Europe or otherwise—maybe a little more in the United States market, where the market is much larger and deeper and you can have more lenders to a single company.

The Chair: You can see where my question was going and you say this is not a problem?

Blair Jacobson: Correct.

Baroness Bowles of Berkhamsted: This is just a very quick question. Mr Leiter, you said that the lending has moved from where it used to be to perhaps more risky and in-difficulty companies, and now it is, if you like, more ordinary, general lending to healthy companies. When would you say that switch occurred, if you could approximately date it? The other point is: where do those in trouble now go?

Daniel Leiter: First, that happened quite a long time ago—I would say over 10 years ago—when we really started to see direct lending compete with the broadly syndicated market. Borrowers seek out direct lending solutions from private credit providers such as us. I would say that was a few years post the financial crisis.

In terms of troubled or distressed companies, special situation strategies still exist. They existed before this financial crisis and they exist today. They are a very small part of the market. By the way, some are in the public markets and traded probably more than in the private markets. As Blair rightly pointed out, if something becomes problematic within a private credit portfolio, generally the manager will work out those names.

One advantage of private credit is that, because we are sticking with the companies for the entire time, if there is a problem we can work with them. If you are in a broadly syndicated loan and are one of 20 lenders, you cannot actually do that proactively. You have to wait until there is an

event that is quite negative for the company to actually get together for the most part—typically, let us say—to do something about it. Within the private credit space, usually we or the manager would work them out, and in the liquid space, special situation distress strategies still exist.

Tristram Leach: There is just one nuance I would add because Daniel spoke to the shift from special situations to more performing direct lending. Most of that is within the sub-investment-grade credit space. Especially within our business, if you think about the kinds of assets that our retirement services and insurance balance sheets need, what they need is a very safe yield. They need investment-grade. There has been a somewhat more recent evolution of capital such as ours—long-dated insurance and pension liabilities—meeting the needs of investment-grade companies, typically on a very large scale.

Here in Europe we have done multiple deals with BP, a deal with Intel in Ireland, a deal with EDF to fund the Hinkley Point construction, and a deal with RWE in Germany. These are multi-billion deals. Again, these are high-quality, investment-grade, safe corporates, where the private credit solution and the bespoke tailored nature of those solutions are attractive to them as borrowers. It is extremely attractive to us to be able to capture incremental safe yield for our retirement services business.

Q136 Baroness Noakes: We have been told that in the US, private equity-owned insurance companies have over \$1 trillion in assets under management. Could you explain how insurance companies and the pension sector fit into the private capital markets in the UK?

Tristram Leach: First, a really important point of clarification for us is that our retirement services insurance businesses have never been owned by private equity funds. Athene, our retirement services business, is wholly owned by Apollo. It is essentially our own capital. It is not owned within a private equity fund with differing incentives. If you think about what a retirement services business and insurers do, they collect premium on which they need to pay out generally quite long-dated liabilities, and then they seek to earn safe yield to make a spread between the two. This is why the evolution of investment-grade private lending has been so important. It is great for the economy and for investment-grade borrowers to have this option, but the need to generate that return to fund retirement incomes means that there is a huge retirement gap on both sides of the Atlantic. So the need to source that safe spread from investment-grade borrowing is really important.

If you look at Athene, a very small minority of what it does is sub-investment grade. What these businesses need is safe yield, which is why, when we talk about private credit, we talk of it as a very large, predominantly investment-grade market, and that is where our retirement services capital is typically deployed.

Daniel Leiter: Our model is very different from most of the models in the market. We do not own a captive insurance company. There are pros and cons to any model, but for us, we wanted to stick to being a very

large asset manager for insurance. We did not want to compete with those clients that we have mandates to. Insurance is a \$250 billion business for us in terms of capital, so those clients entrust us with their capitals to invest, as Tristram was saying, in investment-grade predominantly, and so that has been a big area of focus—infrastructure, asset-based credit, et cetera.

Blair Jacobson: Ares has the same model as Blackstone. We do not have a captive on-balance sheet insurance business.

Baroness Noakes: Can I ask a specific question in relation to Athene? I understand that in the US, Athene is a very prominent player in funded agreement-backed notes, which are being used to raise funding in Athene and are then recycled back into, in particular, private credit. Is that a specifically US phenomenon, or is there anything equivalent happening in the UK market?

Tristram Leach: As you say, many US insurers, including Athene, have used funding agreements generally and funding agreement-backed notes as a way of sourcing fixed-duration liabilities, which we can then pair with typically longer-duration assets. It is just another way of sourcing a liability for our insurance partners. To the best of my knowledge, this is not in use in the UK at the moment. It is a US phenomenon, as far as I understand.

Baroness Noakes: The governor has expressed some concern about the use of reinsurance vehicles by private equity-owned insurance companies and their involvement in the private markets, and I wondered whether that had any connection.

Tristram Leach: I will maybe hesitate before repeating that we would not define Athene as a private equity-owned insurance company.

Baroness Noakes: Sorry.

Tristram Leach: It is part of our business. It is one of our two businesses alongside our asset manager. Athene engages in reinsurance activities as an incremental way to attract growth capital for its retirement services business. We typically do so in Bermuda, which is approved by both Solvency II and US risk-based capital. Our capital needs in Bermuda are very similar to those in the US, so we think it is a relevant way of freeing up capital for incremental investment.

Q137 **Lord Kestenbaum:** I wonder whether I could go back to the point about the exponential growth of the asset class, which you have set out in formidable terms as far as assets under management and assets deployed are concerned. It is quite a story, your asset class. First, what do you think it says about the traditional sources of lending? Of course, you will have heard or read some of the evidence that we have taken that a whole variety of regulatory demands, capital adequacy and the like have meant that traditional sources of lending, notably banks, have disappeared from the market and facilitated new entrants such as

yourselves and others. Is that a good thing?

Secondly, what might it mean for the classic traditional supply-and-demand dilemma? We have heard from some witnesses that there is absolutely no problem with the supply of capital in the real UK economy, and from others who have said quite the opposite: there is supply, but it is highly restricted to UK plc, which has certain features to it, and if you sit outside those features, you are not eligible and hence the disappearance of the traditional lender has become a problem. I wonder what your views are on that.

Blair Jacobson: I am flattered by the phrase exponential. Our firm is roughly 30 years old. We have been growing 15% to 20% per year relatively steadily. Maybe we are now at a point where we are of notice to you all. The growth has been long-standing; it is not actually terribly recent, but it has been consistent. As I mentioned earlier, we set up in the UK in 2007. That was before there was any market for this direct-to-company lending because hitherto it had been done primarily through the banking sector. There were some private lending funds that might invest at a higher LTV or behind where the banks were, but not the safe, first-out, first-in-repayment line types of loans that we make today. The great financial crisis changed that dynamic, particularly in the UK, quite a lot. You were all, I am sure, paying close attention, but for those of us who were here as well, banks went out of business, such as Northern Rock, HBOS and Lloyds consolidated, and RBS was subsumed by the Government. A lot of Irish and Icelandic banks that were doing business in the UK went bankrupt, and European banks active in the UK went back to their home markets. Simply put, one thing that happened during that timeframe was that the number of active banks participating in this market shrank, so there was less capital available.

It was really subsequent to that that the regulators said what happened in the GFC was bad, and if it happens again, we want it to be less damaging to the economy, so let us think a little harder about how banks should reserve capital against these types of loans. If you fast-forward, what that led to was that the cost of capital on banks making these loans went up. The incentive for them—the return on equity to make these loans—went down. We had been in the market and had raised capital from other investors who were looking for yield in this type of exposure.

The great thing at that time was that companies had a choice. They could still talk to banks, which had less capital, or they could talk to us. We offered different things. As was said earlier, we can never force companies to take our loans, but we thought having more options in the markets for companies to grow and do what they need to do was a big positive. We would not necessarily have predicted this 10 or 15 years ago, but what has happened is that the growth has been significant over time, in part because companies like working directly with firms such as ours. Perhaps they like working with us slightly differently from how they like working with banks in some regards. They tend to like to use us a lot over time, and we have seen the market share of what we're doing grow significantly. So in terms of the traditional sources, it is still kind of out

there. Again, we are viewed as an attractive partner for these companies, especially when banks have to think really hard about how they are investing their own balance sheets.

What the banks have found is that there are other ways to allocate their balance sheets that, for their own risk-return objectives, work better for them. Maybe it is a little less, in some ways, than the pretty standard loans to companies that we get excited about and make on behalf of our clients.

In terms of overall supply and demand in the market, our view is that it is not wildly out of balance. Again, maybe like the other managers, we are still very selective in terms of what we do, but for the companies that we may not want to finance, there is room for that because there is more capital in the market, and we do not see that overall being way out of balance.

Q138 Lord Lilley: What would be roughly the minimum size of firm and/or minimum size of loan for the credit you would be thinking of? I ask that in the context of whether the type of finance that you deal with would be of any relevance to SMEs and scale-up companies.

Tristram Leach: As I have mentioned a few times, the bulk of our business is focused on very large and investment-grade companies. That being said, we also have 16 wholly owned platforms that originate individual kinds of risk. For example, we have a platform called Haydock Finance in the UK that provides equipment lending to 10,000 small businesses in the UK. So, again, the diversity of private credit is that while the bulk of what we do is often focused on the large stuff, we also have businesses that are engaged with SMEs in the more granular parts of the economy. You are likely to see us do a little more of that in Europe in the future.

Blair Jacobson: For us, the average profitability of our companies is about £30 million. We would go as low as £5 million or £10 million, and obviously it can go up quite a bit. Why do we do that? First, in fixed income particularly, as we all think about developing our portfolios, diversification is really important. Having a large number of companies, generally speaking, is a better thing than having a more concentrated portfolio.

Secondly, we back growing businesses and like helping smaller companies grow into larger ones. There are some businesses we have stayed with for 10-plus years, and it is helpful to start that relationship when they are a bit smaller. We are less focused on really small businesses—mom and pop, so to speak—where the credit risk is perhaps higher, because please understand that job one for us all is capital preservation and not losing money, which means we want companies that we believe are professionally managed, have strong ownership, and will be around for a very long time.

Lord Lilley: Could you talk specifically about whether there is any

relevance to this or to other aspects of financing that are relevant to scale-up companies, because we hear about companies that have good ideas and are terribly attractive but can get money only from the States? It may just be irrelevant to you.

Daniel Leiter: That is probably more on the equity side or venture capital side than in credit. The only thing I was going to add is a very similar theme in that we would focus on the larger companies versus mom and pops. First, it would be hard for us to access mom and pops. When you think about our model, we are lending to big sponsors on the companies they own.

One way we are seeing some of that, though, to the question before on the banks, is that the banks are more and more focused on that type of lending—granular lending. They have the origination platforms and have been doing this for a while. What they need is capital because they are running less levered than they used to. Prior to the financial crisis, banks were much more levered, even though they are still quite levered today. They are changing some business models, and we are seeing this through a couple of different themes, one of which is that they are rotating their balance sheet more frequently. If they do twice the origination, that helps, but they cannot hold it all, so they have to find partners such as us and others to take some of it. They are also doing significant risk transfer, which is helping them, again, hold less capital versus portfolios of granular assets, including SMEs, and is really expanding across all the lending products they do. We are active in that capacity with the banks, and that is a format in which private credit will be able to help the banking system expand with this profile of borrowers.

The Chair: Not wanting to put words into your mouth or Mr Jacobson's mouth, you seem to be saying that the tightening of capital regulations has meant that the banks have changed their business models and that the growth of private capital is in part resulting from that: the balloon was squeezed in the regulated sector and has grown in the unregulated sector. Your evidence suggests that the unregulated sector is actually quite safe because of the way in which you operate. Is that too crude a summary?

Daniel Leiter: We are regulated, and I know there are questions around regulatory arbitrage, for example. When I think about arbitrage, I think about similar activities happening in different spots, but one being at a big advantage. We are not doing the same activity as a bank. Banks take deposits. Anyone opening a bank account expects to be able to access that money at any time. Then, they run a business model that is more levered because they have to make the returns work, and they have an asset liability mismatch.

When someone entrusts us with capital, they do months of diligence specifically to invest in these strategies. They expect us to make a return, and they know there is variability around the outcome of that. We are not using leveraged strategies. We are very low-levered, and we have the assets and liabilities matched. It should be regulated differently.

Tristram Leach: I cannot speak to what the regulators intended when they regulated the banks, but my guess is that the idea of diminishing the asset-liability mismatch and the knock-on effects that any stress could have on the economy was probably a big part of what they sought to achieve. It is difficult to argue that some risks being taken in a better-matched format by private credit is not a successful outcome of that.

Blair Jacobson: I would just like to spend a moment on a word they use, which is “partly”. This is very important. Is it partly impacted? Yes, but, again, companies have options. For example, if a company is seeking to obtain a loan, it might be able to obtain a loan where Barclays, RBS and some other banks come together and say, “We can do x for you”, but they would call someone like the three of us as well and ask, “Well, what can you do?” Then, we might say, “Well, guess what? We can provide you with the whole loan through just dealing with one of us. It is much easier”. Building on something Daniel said earlier, we can say, “We have this for you, but also if you want to grow in the future, build a new manufacturing plant, need working capital to fund increasing sales levels, or you may want to consolidate one of your competitors, we have capital for that too”. So again, there are other reasons why—

The Chair: I understand that; I was just really picking up on Lord Lilley’s point that the effect is that the banks’ business model has moved in a direction as a result of the regulation, and therefore there is less interest in the smaller and medium-sized enterprises when they turn up at the bank and ask for support. I think we are agreed on that. Good. Lord Lilley, had you finished?

Lord Lilley: More or less, except investment equals savings—by definition, according to economists—and, therefore, if more savings are going into credit and the banks have stopped shrinking, your type of credit, private sector credit, is presumably going at the expense of equity. Think about that while we move on to some other questions.

Q139 Lord Eatwell: The term “investment-grade” has been used several times, with sub-investment grade being mentioned with some dismissive tone. So, how much does your business rely on the rating agencies? Rating agencies rate credit risk, not liquidity risk, do they not? So who handles the liquidity risk and the estimation thereof? How important are the rating agencies, and who is handling the liquidity risk?

Tristram Leach: To speak for our business, first, a rating agency letter grade is never a substitute for our own underwriting. The beginning and end of our credit analysis is our own work and our own rigorous diligence of every individual opportunity. Because something is investment-grade rated, it does not mean we would necessarily like it. That is really the most important thing. Obviously, agencies doing their work alongside is incremental and helpful and can be thought-provoking, but we do our own diligence and make our own determination of whether we like the risk.

In terms of liquidity risk, which is a theme you have heard from us a lot, is the absence of asset liability mismatch in most of our strategies. Not needing to sell is an important aspect of private credit investment, as it involves having liabilities that match the duration of your assets. So, for us, the important thing is that when we do the asset underwrites, we acknowledge that in many cases there will be limited or no liquidity in that asset. The thoughtfulness of that underwrite and the conviction we have in the creditworthiness of that company or opportunity are such that we are confident we are getting incremental return for the risk we are taking, including in illiquid format, and thinking about the way one should price risk across both liquid and illiquid formats is a big part of what we try to do.

Baroness Bowles of Berkhamsted: I am just trying to get my head around the various statements that have been made and stick them together. You were talking about the loans having to be rotated more quickly in the banks. That was in the banks, yes. We can probably see that even with mortgage deals and things like that. Then, banks are more risky because in a sense they are open-ended and do maturity transformation, whereas you are safer because you are closed-ended structures. So you are actually saying that it is of itself less systemic, and you are not systemically linked into the banks. What happens when it is time for the lending to be paid off and that cannot happen? Do you see any sort of systemic risk around that?

Daniel Leiter: If a loan comes to maturity and there is a default, that would be considered a credit risk for us, so all the underwriting we do is really around that. When you look at systemic risk historically, the issue is that it is generally focused around the banks because there is contagion; the banking system relies on a lot of trust. If any of us open a bank account and put a deposit in, we expect to be able to get that back at any point in time. Therefore, if you see one bank has an issue, you are worried about all the other banks. These days, with the ability to transfer deposits from one institution to another over your phone, the barriers have reduced substantially compared with even 10 or 15 years ago, and that contagion spreads very quickly.

We saw it just a few years ago with the regional banking crisis in the US. Banks are relatively complex institutions running levered business models, and in the financial crisis, the crisis was caused by the origination of very bad-quality assets. When we saw the banking crisis in the US two years ago, the asset liability mismatch was on literally the highest-quality assets in the world. US Government-guaranteed securities caused a lot of that issue. So they are hard to regulate, but what we are doing is fundamentally very different. We should be regulated differently in that context.

For us, if a loan ends up maturing and it does not pay off, we will take a loss, and it will impact our returns; obviously, we try to avoid that as much as possible, but it will not have an impact on the broader system. That is what the inquiry will show as the regulators come to a conclusion

that they have achieved a lot of what they set out to do. I am sure there will be things they point out or some interconnectedness with the banks that they do not like, but, on the whole, they have made good progress.

Blair Jacobson: Maybe I can come at that from a slightly different direction. Please remember that the investors that entrust us with capital—pension plans, predominantly insurance, and sovereign wealth—absolutely know that any investment in one of our fund vehicles is a long-term investment that cannot be redeemed. The funds themselves tend to be roughly eight years in duration, with the option to extend an extra two years in case things do not come back as quickly as expected. Further, even if things were to take longer, you have a Covid event or a GFC, which pushes out exit timeframes more broadly. Our funds have mechanisms to deal with an orderly wind-down. But again, to Daniel's point, the underlying loans and assets all have a maturity themselves, where at that time we can get capital back if it has not been repaid already.

Q140 **Lord Hollick:** In your opening remarks, all three of you gave us some very impressive numbers about your investments in the UK, including your investments in providing credit to major projects. The country obviously has a need to raise a great deal of money for infrastructure project financing over the next decade or so. I would love to hear from you about the considerations that you have when you see these opportunities. I will give you two examples: Hinkley Point and Thames Water.

Tristram, on Hinkley Point, you have raised £4.5 billion for seven or eight years at about 200 basis points above the gilt rate for that period. It is unsecured, but it is backed up by an established arrangement to provide £92.50 a year per megawatt hour, even though it is not yet built and is certainly not delivering any electricity, and the cost of which has gone up from £17 billion three years ago to £45 billion now. One might say that is a fairly hairy bet.

The watery grave that is Thames Water is a salutary tale. If you could talk to us about that, presumably it would provide some insight into understanding how private credit really is going to play a big part in this need for infrastructure. Tristram, would you like to kick off with nuclear?

Tristram Leach: The deal we did with EDF, which was the largest ever sterling private placement for £4.5 billion, is an unsecured obligation of EDF, so it is not secured on the Hinkley Point business specifically. We understand that the predominant use of proceeds for that sterling-denominated capital is to construct Hinkley Point. It is worth mentioning that what makes this interesting is that EDF is a well-established borrower in the investment-grade bond market. The reason our capital was of interest for this project was our ability to offer bespoke features, such as a delayed draw feature, so the capital could be drawn as needed over a multi-year period, which clearly you cannot do in the bond market; you either issue a bond or you do not. We gave EDF clarity and

certainty of execution that the capital was there and could be drawn over a multi-year period.

The risk Apollo is taking is the risk of EDF, an investment-grade rated French utility, rather than project risk per se on Hinkley Point. I would say that generally we expect to continue playing a role in the funding of UK infra needs in the future. As already noted, we think our capital is particularly well suited to that longer-dated kind of project and asset. However, obviously it is important to clarify that there are different risks associated with any infrastructure project, including construction risk, as well as the off-take agreement with the UK.

Lord Hollick: Were banks competing to provide that funding?

Tristram Leach: I could not speak to the exact process around that, but it is well known that EDF is an existing investment-grade borrower and could have borrowed in the bond market had that been a proffer, which would have been intermediated by a bank, were that to have been a more attractive option to it.

Lord Hollick: Any comments on the story of Thames?

Daniel Leiter: We are not involved in Thames, but I would add that from our perspective within the infrastructure space, digital infrastructure has been a massive theme for us as a firm. If you think about the key megatrends there, it is around chips, data and data centres, and power. We have been very active particularly in data centres and laying the foundation for the kind of infrastructure around the future of AI and everything around more data, cloud computing, et cetera. In the UK in particular, we are in the process of building the biggest data centre in the UK. We are very committed to doing more infrastructure-related projects in the UK.

Blair Jacobson: We are not involved in Thames either. Our infrastructure focus more recently has been on funding broadband rollout and development. We have invested in the second-largest UK port, serving Liverpool and Manchester, for almost 10 years, but I do not have any specific knowledge about Thames Water. It might be better to ask the equity and lenders directly for their perspectives.

Tristram Leach: Less specifically on Thames, but with regard to investment in UK infrastructure generally, regulatory clarity is what we prize and look for in making these kinds of long-duration investments into UK assets.

Lord Sharkey: Talking about EDF, I remember that the then chair and CEO of EDF sat in this Room and said that they would never require any extra funding for EDF. The memory was triggered by the conversation a moment ago. What I really wanted to ask was: how much do you invest in what can be reasonably described as scale-up companies in general and in the UK in particular? If the answer is not very much, what can be done about it?

Blair Jacobson: Earlier, we were trying to get clarity around the definition of “scale-up companies” because it is not something we use every day. I will make two broad comments building on something I said earlier. We very much support getting involved with exciting companies that might be smaller to help them grow and get larger; it is mutually beneficial. We have multi-year relationships, can invest more capital, and get a good return, and they can use that capital to grow. The one thing I would say, building on what Daniel said earlier about scale-ups, is that we are credit investors, so it is the extent to which there is equity risk in developing those businesses if they are earlier-stage, et cetera, and that might be less relevant for our credit capital.

Lord Sharkey: I can see there is widespread agreement on that.

The Chair: On that note, if there is widespread agreement, perhaps we should conclude this session. Thank you very much indeed for what has been a very interesting series of exchanges. Much has been given to the committee for further thought and reflection, so that concludes this session. Thank you.