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Late Breaking News, EMEA

Superfunds splash new cash on private credit

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LONDON, May 8 (LPC) – Commercial pension superfunds, which pool together UK defined benefit pension schemes, could unlock tens of billions of pounds for private credit investments.

Clara-Pension, the first and so far only such superfund, announced last month that it had set up a private market strategy, in collaboration with Dutch wealth manager Van Lanschot Kempen, which will initially focus on the European mid-market.

“We are aiming to hold 30% of our total assets in private credit and expect to have £1bn invested through our private markets vehicle by next year,” said Richard Zugic, CFO at Clara.

Clara currently has around £1.5bn in assets under management, with plans to grow this to over £10bn over the next three to four years.

A study by PWC estimates that Clara and other superfunds could potentially tap a market of more than £250bn. This money is currently locked up in hundreds of small pension schemes which lack the resources to invest in private markets.

“When all these small pension schemes pool together, they can actually invest quite a significant amount of capital even though individually they may be not that large,” said Christopher Kandel, partner at McDermott Will & Emery.

Clara is currently the only active superfund in the UK, but Zugic expects at least one or two competitors to enter the market by next year.

The launch of new superfunds has been slowed down by stringent regulatory hurdles and high expectations from the pensions regulator on what a superfund needs to deliver and how it is structured.

But regulatory obstacles are only a short-term barrier and will not hold superfunds back over the long-term, according to Aymen Mahmoud, European head of finance at McDermott Will & Emery.

“What’s probably a bit difficult is, there is already so much dry powder out there,” he said. “There is no structural hurdle; it is an inherent hurdle because there’s already so much money out there.”

Private credit relies on the M&A pipeline, which is sluggish, to be healthy. A revitalised broadly syndicated market, albeit one that was jolted again in April, has also meant a lot of firms which were previously focused on the large-cap and upper mid-market are now pushing down into the core and lower mid-market, said a placement agent.

Nonetheless, Nikesh Patel, head of client solutions and CIO UK at Van Lanschot Kempen, is confident that superfunds like Clara will not struggle to source sufficient deals, thus allocating committed capital and scaling up. Clara’s return requirements are relatively conservative, which should help in assembling an attractive and suitable portfolio, he added.

Direct lending focus

Private credit -- and senior lending in particular -- offers a lot of desirable characteristics that work well for the return requirements of superfunds, said Patel. The asset class offers stable and attractive yields, and strong recovery values if market conditions worsen.

Clara will for now focus on senior secured direct lending in the European mid-market, but it has plans to diversify into North America once AuM have grown. The fund expects to eventually target other debt asset classes such as real estate or infrastructure if returns become more attractive.

“We now focus on the mid-market European space, because on a global level that’s the best risk-adjusted returns to meet Clara’s needs,” said Patel. “But if that shifts, then we’ll adjust. It all depends on where we can find the most attractive yields for the risk appetite.”

Zugic added that the firm expects to make roughly half of its investment in the UK to support economic growth.

Superfunds are not the only large pension providers eyeing private markets.

A report by Aviva found that more than two-thirds of UK defined contribution funds, which are subject to different regulations than the defined benefit schemes Clara is pooling, plan to increase their allocation to private markets over the coming years.

NEST, Britain's biggest defined contribution pension scheme, expects to pivot about a third of its portfolio into private markets, according to Kandel. Its current exposure to private assets is around 15%.

The schemes have the blessing of UK chancellor Rachel Reeves, for whom enabling pension schemes to invest a larger share of their assets into private markets is an essential component of her pension reforms, said the placement agent.

UK pension funds currently hold over £1.1trn in assets.

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