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Capital at risk.

ROUNDTABLE WITH L&G

Mobilising insurance capital into Private Market opportunities through strategic partnerships



Our panel of experts unpack the role of capital and strategic partnerships in scaling investment into areas of social and environmental need



Chair: Adam Cadle, Editor, Insurance Asset Management

Adam Cadle is a business and finance journalist with over ten years' experience, and is currently the editor of *Insurance Asset Management*, *MoneyAge*, and *Corporate Finance News*. He previously worked as deputy editor on *Pensions Age* and *European Pensions*. Adam has a wealth of experience in chairing conferences and roundtables, as well as judging awards' panels both in the personal finance and insurance asset management spaces. He is a graduate from Sussex University with a BA honours in French and History and is NCTJ qualified.

Chair: Alex, could you explain L&G's ability and track record in combining catalytic capital and strategic partnerships to scale investment and deliver assets that aim to drive commercial returns alongside positive social and environmental outcomes?

Wharton: L&G set out to deploy surplus balance sheet capital in a way that was both purposeful and productive—driving investment into housing, infrastructure, and UK enterprise, while delivering strong returns for shareholders. The goal was to achieve double-digit returns in a zero-interest rate environment. As an annuity provider, our matching adjustment (MA) portfolio faces a scarcity of suitable assets—ones that we and our peers actively compete for. So, we took a different approach: we began manufacturing our own assets by investing at the development stage, accepting higher initial risk, and then stabilising those assets over time to make them MA-eligible. This strategy proved highly successful, ultimately contributing around a third of the Group's operating profit over the course of a decade.

Under António Simões' leadership, L&G underwent structural changes that have reshaped how we think about opportunity and growth. We are now far more integrated across our balance sheet and asset management capabilities. This alignment brings authenticity

to our conversations with investors when we talk about crowding in capital. We're building a network of like-minded partners who co-invest with us—an efficient and scalable way to grow our business and support our insurance clients. These partners gain the confidence of working with an organisation that not only understands the assets but also has real skin in the game.

For a partnership between an asset manager and an insurer to thrive, two things are essential: the ability of the asset manager to originate assets and the ability of insurer to conduct rigorous due diligence. At L&G, we aim to be recognised in insurance asset management for three things: partnership, innovation, and leadership.

Peppiatt: We are looking at new areas of private debt financing building on our strong track-record in this space, especially in emerging markets. Our Nature and Social Outcomes Strategy, part of our £57 billion⁴ Private Markets platform, invests in projects which are contributing towards nature conservation and sustainable development in emerging markets. Importantly, the strategy leverages innovative debt financing that typically benefits from multilateral guarantees and insurance, so these are investment-grade opportunities.

There is a \$4 trillion annual funding gap for emerging market nations to reach the UN Sustainable Development Goals (SDGs) by 2030¹, and a lot of the countries we work with are some of the most climate vulnerable and biodiverse nations in the world. We think that this opportunity set allows us to have a real-





“ We structure these deals in two or three different ways, and it is not a ‘one-size-fits-all’ solution

world impact with these emerging markets, but, from a financial perspective, we believe they are also attractive for our clients. The strategy not only uses balance sheet capital but has been launched with investment on behalf of our 5.6 million UK Defined Contribution (‘DC’) members through our main default retirement funds.

The opportunities revolve around three main types of debt financings. One is use of proceeds bonds, where the proceeds are used for financing projects with social and environmental outcomes, and we have conducted deals in Senegal and the Ivory Coast around this. Debt conversion bonds are another opportunity set where we work with emerging markets and sovereign nations to restructure their existing debt. These bonds are often guaranteed or insured by international financial institutions or organisations to mitigate risk for investors. This makes their debt servicing costs much cheaper, and they can use a portion of those savings for funding nature conservation or sustainable development projects. We have conducted deals with Ecuador, where the savings have been utilised to help conserve the Galapagos Islands and the Ecuadorian Amazon, as well as in Belize and Gabon. And the third is outcome bonds, where the return on investment is directly linked to the success of specific development projects or conservation targets.

Pistarino: What is the monitoring framework that you are using to ensure that this money is directed to nature positive programmes?

Peppiatt: Specifically, in relation to the debt conversions for nature, deals will typically have key conservation milestones. NGOs, such as the Nature Conservancy and Pew Bertarelli



Alex Wharton, Managing Director, Partnerships & Insurance, L&G

Alex is a managing director within the Asset Management division of L&G where he is responsible for building third party partnerships with like-minded investors, delivering investment performance through purposeful catalytic capital. Bringing a wealth of knowledge and over 20 years’ sector experience, he was most previously head of insurance relationships at Aviva Investors, where he successfully built out Aviva Investors’ third party insurance channel, crowding-in capital with large scale, tier one insurers, across traditional and alternative asset classes. Prior to that, Alex has held senior client facing positions at Natixis Investment Managers and the *Financial Times*.

Ocean Legacy, will help to set these and monitor progress. Typically, there is additional third-party auditing of these as well. L&G also utilises a proprietary sustainable investment framework to assess and monitor the impact and outcomes of its investments for the strategy. Individual investments are measured against key performance indicators aligned with the strategy’s targeted core themes: inclusive economy; health, wellbeing, and quality of life; and protecting and enhancing nature.

Pistarino: What happens if there is a breach? What is your enforcement around this?

Peppiatt: Usually, the underlying sovereign will face penalties if they fail to meet key milestones. The government department responsible for that milestone will have to pay a penalty that will then have to be put towards further nature conservation. In some cases, if key milestones aren’t hit, investors can call an event of default. Investors would then look for payment from the party that is providing the political risk insurance. Debt conversion bonds are very well constructed and a key part of this is also making conservation grants, but most of these also involve setting up an endowment fund as well. Importantly, that endowment fund will receive regular annual contributions with the idea that this then exists into perpetuity to fund conservation. That endowment fund is set up outside of the underlying sovereign with independent non-executive directors as well as representatives from the underlying sovereign.

Wharton: It’s worth noting that we structure these deals in two or three different ways, and it is not a ‘one-size-fits-all’ solution. This is where

we see ourselves bringing a lot of the value. L&G has been among the vanguard in the new generation of debt conversions for nature. This has meant that the sponsors of these debt-for-nature conversions have approached L&G and asked us to get involved. We are at the coalface with these sponsors, setting the terms of the deal that we know are suitable both for ourselves and stakeholders, as opposed to being part of a wider syndication.

Devlin: You have some of these structures and deals in your unit-linked funds and some in your balance sheet. How do you work out what goes where?

Peppiatt: Some deals are very suitable for our balance sheet and may not be suitable for our strategy. There are going to be opportunities within our strategy that we cannot make matching adjustment (MA) eligible. So far, we have done deals for both, and it is shared across them.

Wharton: As with other strategies where we are looking to partner, we want to crowd in capital into projects that we are already leading. We have a large balance sheet and strong demand for private credit opportunities, particularly where the spread is competitive and where it adds impact as well, but we simply can't wear all that risk on the balance sheet ourselves. We would love to bring in partners alongside us for this, and this is where the like-minded partnerships come in. The wider point here in this part of the conversation is around emerging markets and it is to do with capacity. David (Devlin), you will know about this as a

fellow MA investor, the competitiveness for assets in that space, particularly long dated, is so high that there is a constant squeeze on the spread that we all must address, not least because the pricing in pension risk transfer (PRT) gets ever more competitive as well. You balance this against emerging markets where there is a \$4 trillion annual investment shortfall⁵. The opportunity set here is enormous and is perpetual at least in terms of the lifespan of the PRT industry as it stands today. We believe emerging markets are an area where you must be looking at purely from an opportunity perspective, and if you can generate the social and environmental impact on top of that, then that is fantastic.

Ramroop: Do you determine whether say debt conversion bonds are guaranteed or insured? And do you determine which guarantor, which insurer underwrites them or does the issuer do that?

Peppiatt: Each transaction is assessed independently and the decision whether to use a guarantee or insurance is undertaken in partnership with the other stakeholders within the transaction - this may include the DFIs themselves who may prefer one over the other - for example.

Wharton: This is where we are evolving as well. We came into this as part of a syndicate, and we were a willing investor. We have recognised the opportunity; we have scaled up. The market is now coming to us to ask us to lead the underwriting. In terms of which deals get underwritten and by whom, that is a bit of a moving target and will be different from deal to deal. We have also committed capital to a women-led infrastructure debt investor called ImpactA Global and have a significant minority stake in the company. It's an EM infrastructure debt specialist but operates at the sub-IG end of the market, so not MA eligible and not for our own balance sheet, but we partnered with the firm in 2023 because we saw a huge opportunity in emerging markets. It is proving to be a really good investment for us.

Ramroop: How do you choose whether an insured product or a guaranteed product is the right one for the underlying risk?



Jonny Peppiatt, Director, Private Markets Distribution, L&G

Jonny is a director in the private markets distribution team focusing on partnerships and capital raising across L&G's private debt capabilities. Previously Jonny spent time in L&G's private credit solutions team, overseeing investment solutions for new and existing private credit (private corporate debt, real estate debt, infrastructure debt and alternative debt) client capital. Prior to this Jonny spent nine years working in the LGIM institutional client team most recently as a client director. Before joining LGIM, Jonny worked in the UK institutional client relationship team at UBS Global Asset Management. Jonny has a degree in international business and holds the IMC.



Peppiatt: What we should make clear here is that currently when we mention insured – this is political risk insurance provided by a DFI or MDB and not necessarily commercial insurance. This is not to say we would not consider the latter, but with that context the selection between either a DFI insurance policy or guarantee is often driven by the risk-return dynamic of the transaction – both assessing the underlying transaction i.e. the sovereign or project as well as the strengths or weaknesses of the guarantee and insurance policy. Clearly a guarantee is a stronger position to be in versus an insurance policy, but this should be reflected in achieved returns.

Ramroop: Part of this is to do with your proposition as an asset manager, because if the sovereign is coming to you with a relationship with an insurer or a guarantee, then they are doing that work. But if you have a panel of insurers and a panel of guarantors, and you are matching up with underlying sovereign or sub-sovereign exposures, then you are probably doing a bit more work there. It does feel to me as if it's more the former though.

Isaac: So, assuming the structure of these types of deals are fine and the guarantees are fine, what are the underlying fundamentals of one of these deals? You said they are investment grade but who has rated them and what is the return profile linked to them? Being a P&C insurer, I don't have an MA book. I don't have that extra impetus to invest in these securities. I must do it based on return for a very limited capital allocation.

Peppiatt: Typically for the IG opportunities that we see, these have an A or AA risk. Ratings have mainly been provided by Moody's, S&P or Fitch. You are probably in the high one hundreds above US Treasuries for that type of investment-grade risk that we have discussed.

Isaac: Over similar corporate debt?

Peppiatt: Clearly there is a difference between a sovereign guaranteed/insured debt to corporate



debt. The way we would ask investors to view the value proposition would be to compare versus the guarantor or insurer – if they have public debt that is and this is normally quite a healthy pick up. If that is not available, then we would look against AA-index's and would see a pick-up of around 30-50 bps or more.

Isaac: What is the tenure of a common loan then in these opportunities or are they different?

Peppiatt: It depends on the different type of opportunity that I have mentioned. Debt conversions are typically longer-dated, up to anything around 20 years maturity. Use of proceeds and outcome bonds will be shorter dated than that. We also do see some opportunities which are much shorter dated. It is an exciting pipeline of opportunities, because you can blend them depending on duration requirements, risk-return characteristics, and potentially targeting specific themes or UN SDG alignment.

Pistarino: So, you are taking liquidity risk on your balance sheet for seven years or say 20 years?

Peppiatt: There are a range of durations available. Yes, many of these opportunities are relatively illiquid, however many can be publicly traded, albeit it should be noted these are not fully liquid markets.

Wharton: The conversation we would have with a life company would be quite different



Todd Isaac, Chief Investment & Treasury Officer, Hiscox

Todd is an investment, treasury, and accounting professional with over 30 years' experience in the insurance industry. He has worked in a range of markets including North America, Europe, the UK, and Bermuda. His experience covers investing in public and private markets, financial systems debt capital markets and joined Hiscox from Monument Re, where he was deputy chief investment officer for Europe and oversaw portfolio construction and manager selection for the reinsurer.



It is an exciting pipeline of opportunities

to what we would have with a P&C insurer. A life company tends to work with us based on co-investing. We would simply have visibility of trades and ask it to work alongside us or not. We recently worked with a P&C insurer who had shorter-dated liabilities and needed an average investment-grade rating rather than an investment-grade rating on all assets. The P&C insurer wanted a 300-plus pick-up which is in the more competitive space, and that's something where we have built a multi-asset credit portfolio out of the best of what we do at L&G.

We are very strong in the investment-grade space; we have portfolio companies like Pemberton in the sub-IG space to build a blended portfolio, but then we can provide overarching portfolio management on top of that. Because we have our own internal multi-manager processes for our Lifetime Advantage Fund (LTAf), we are ready, and that's how we take solutions to the P&C space.

Pistarino: So, who buys into the shorter dated opportunities?

Wharton: There are two answers to this. One is on the life side, and the other is in multi-asset portfolios where some of that portfolio

could invest in some of these assets. There is an interesting dynamic in the life space because there has been a move to the shorter end of the spectrum with leveraged gilt trades rather than public/private credit. We are doing more in-house around shorter-dated assets that you think would have a mismatch with liabilities, but we can structure those with leveraged swaps to bridge the gap.

Ramroop: If these underlying credits are CCC or D say, and are sub-investment grade, that means that their probability of default is relatively high compared to an IG asset. So, the fact that it is insured or guaranteed isn't particularly helpful because if it does default, we will get the cashflows early, but it will only ever pay out in part. So, we will still have to take that reinvestment risk if that happens.

Peppiatt: It is worth noting that the transactions we are partnering with multilateral development banks (MDB) and development finance institutions (DFI) and, while the probability of default is certainly higher than investment grade, it's lower than what one would expect. The Global Emerging Markets Risk Database (GEM) database is a particularly strong in reflecting this information as it collates actual data from the majority of DFIs and MDBs. It shows significantly lower defaults even in CCC / D countries where a guarantor is present. So, while there is a higher chance of being repaid earlier due to the credit risk, we don't view it potentially as high as the underlying rating shows given the presence of the MDB or DFI.

Pistarino: There is a question here as to why a Lloyd's insurer wants to insure this if it is going to default?

Wharton: There is a common misconception about the risk of these EM infra debt projects. If you look at the underlying risk, it looks much more like lower-end investment-grade risk than the rating that you get. I think the underwriters on these deals have also recognised that. They are not there to be paying out on breaches of their insurance policy because they will eventually go bust. They have recognised that the risk priced in is different to what it looks like when you get under the skin of the underlying risk. We see it as much more like B



Corrado Pistarino, Chief Investment Officer, Foresters Friendly Society

Corrado has over 25 years' experience in investment banking, asset management and insurance. He is CIO and chair of the Climate Risk Forum at Foresters Friendly Society. Corrado holds a degree in Physics from Turin University and a Masters in Finance from London Business School.



David Ramroop, Chief Investment Officer, Just Group

David Ramroop is chief investment officer of Just Group, a UK life insurer, whose purpose is to ensure that people have a better later life. Just has c.£25bn in policyholder assets and is active in the defined benefit and retail annuity markets. He started his career in M&A, moved thereafter into asset management and has been at Just since 2013.



or BB risk underlying. We know this because of the sheer amount of due diligence that was spent on this both in terms of our Nature and Social Outcomes Strategy and through our commitment to ImpactA Global.

Kansagra: There are a lot of discussions around biodiversity, investments etc. Some of the deals we have seen in the past, where you are also looking at joint ventures, the investments didn't pass all our criteria, because we are comparing it with other investments. If you are thinking about it from a charity point of view that is a different hat, if you are thinking about it from an investment point of view that is different. In the same company you might have two teams who are looking at these two things. I would be interested to understand the returns on the unwrapped part of the deal sub-IG, and also when we think of investments from a P&C insurance point of view, one of the things that we try and avoid is the risk of other insurance companies. When they are guaranteeing a deal, especially with some Lloyd syndicates coming in, we will be doubling down on the risk. If it is an agency guaranteeing, then it is fine.

Wharton: So, concerning the charity part, in the P&C space we would use a multi-asset portfolio as opposed to just a single sleeve. The three big variables in that are spread, rating and impact. Every firm that we work with has a different feel on that and we can dial up and down all three metrics. The spread at the lower end is B/BB risk in that fund and that is 11% total return with a 9% cash shield.

Isaac: As an asset allocator, if I am thinking about these investments with an EM flavour and the potentials attached to that, I could say I could get 80 over on IG US privates, and that's 80 over corporates, and that market does trade. Why wouldn't I stay there?



Angel Kansagra, Head of ALM & Investment Solutions, Lloyds of London


Angel heads the asset liability management and investment solutions team at Lloyd's. He is responsible for investment strategy, asset allocation and investment risk. He also leads the design and implementation of investment solutions on the Lloyd's Investment Platform to provide customised solutions to insurers and capital providers in the Lloyd's market. Angel is a qualified actuary with experience across insurance and pension investment management, and equity research.

Wharton: For the MA book, we have a strong desire for MA eligible private credit, and we can't source enough of it. We are always looking for new frontiers to do that. It is about diversification. With the sub-IG element, it is a different scenario because if it is purely economic and you can get 8% over the same credit level then that is a good trade. We aren't trying to argue against that. But we have some firms who want that diversification and do want to access these markets and then the spread is another question. They see the 11% total return and 9% yield as attractive enough².

Kansagra: If we leave the public/private classification aside, if someone has an impact bucket where again they look at investments in everything, if you look at the public markets you largely get agency covered bonds from EM which are not very liquid. So effectively you are investing in a semi-private type asset that you can't trade, but the spreads are quite low. From that point of view, the product might work for those buckets, but you might need some critical scale for co-investments.

Chair: I wanted to touch upon another example of innovation and leadership from L&G. Could you explain your strategic partnership and data centre investment in the London Borough of Newham please?



 For the MA book, we have a strong desire for MA eligible private credit



David Devlin, Strategic Partnerships, Phoenix Group

David joined Phoenix from Scottish Widows where he was head of shareholder assets and has been a qualified actuary since 2010. His roles at insurers and consultancies have focused on investment strategy & BPA pricing, portfolio optimisation, ALM and new asset/instrument implementation. David has also been responsible for asset manager and investment bank relationships and asset manager selection, with his current role focusing on asset manager performance, commercials, operating models & M&A.

Wharton: One of the largest investments we made from our surplus balance sheet capital about six years ago now, was in a multi-site data centre platform, headquartered in the UK called Kao Data. This was part of our growing investment in digital infrastructure, driven by increase demand from the digitalisation of society. We are investing in this from an equity perspective, and it highlights our innovation, leadership and the significance of different teams working together to allow us to originate these assets.

In a separate partnership with Goldacre, a family office with significant data centre development experience, and sineQN, a data centre development partner, we received unanimous planning approval for a 77MW data centre to be constructed in the London Borough of Newham with a £1 billion+ development cost. The nature of investing in data centres is that you need to understand

the real estate and the infrastructure in which you are investing in, and given the energy demands, you also need to work with the council and local community to deliver the right kind of investment to meet local needs. This development will create over a thousand jobs, during the construction and operation phases in the local area. We think that all of this is going to generate significant returns³.

Isaac: Digital infra is something we have been a little bit worried about investing in because of the energy requirements. Unless it has standalone direct provision of energy, you really run the risk of backlash from communities that get blacked out to supply the data centre. The biggest problem with data centres is power, and the biggest power consumption is to cool them, so why are we building them where it is warm?

Wharton: Data centres provide the lifeblood of a modern digital economy and functioning society. As designated by the government, they are critical national infrastructure. Data centres need to be built proximate to local customer demand and population centres. Most nations have recognised that they need to have their own supply of data centres, and there is a significant undersupply. Given this dynamic and the need for data centres in specific locations we believe the focus should be on ensuring they are as energy efficient as possible and can provide benefits to local communities.

Chair: Thanks to L&G for navigating us through the powerful world of productive finance through innovation and partnerships, and how the firm is teaming up with institutional investors to invest in this space for the greater good.

Sources:

- 1 United Nations Trade & Development, 2023
- 2 It should be noted that diversification is no guarantee against a loss in a declining market.
- 3 Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.
- 4 L&G's Asset Management business internal data as at 30 June 2025.
- 5 United Nations, 2025.

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Source: L&G internal data as at 31 December 2024. The AUM disclosed aggregates the assets managed by L&G in the UK, L&G – Asset Management, America in the US, and Hong Kong (2018-2019 only) and Singapore from July 2023. Excludes assets managed by associates (Pemberton, NTR, BTR).

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