



The Alternative Investor

Performance

News

Trends

Regulatory updates

**Mimicking
the banks
in the new
world of
private
credit.**

This month, the focus turns to private credit, with **SLR Capital Partners' Mitch Soiefer** writing about the rise of asset-based lending. **Prosek's Joshua Clarkson** goes "all aboard the asset-based train." **M&G's Aramide Ogunlana** looks at the opening up of private markets. **Pluto Finance's Robert Swift** zooms in on UK housing and how private credit is playing an important role. And **LyRa's Paolo Dotta & Adil Kurt-Elli** look at Significant Risk Transfer transactions. In **Letter from America**, **Prosek's Mark Kollar** heads to what he terms the "silent green" in Climate and Energy Transition policies.



Trump II suits funds with an impressive November

November was all about Trump's return, his aggressive policies, controversial appointments and his influence on crypto markets, which encouraged a very healthy US rally. To see our market review, [click here](#). Hedge funds clearly profited, with the HFRI Fund Weighted Index +2.6% for the month, with gains across all significant strategies and sub-strategies.

Equities was the best-performing strategy, with the HFRI Equity Hedge (Total) Index +3.4%. Technology led the charge, +6.7%, followed by Quantitative Directional +6.7% and Multi-Strategy (with its heavy tech exposure), +3.9%.

Event Driven closely followed, +3.3%, with the Activist Index +4.9% and then the Multi-Strategy Index +4.5%.

Macro gains were also healthy, although somewhat more muted than equities, with the HFRI Macro (Total) Index +1.9%. The Systematic managers and Trend following managers were the best performers, both +2.3%. While the Discretionary Index lagged, +0.5%.

In Relative Value, the HFRI Relative Value Index was up +1.1%. Fixed Income Sovereign focused managers were the outperformers in this space, +2.1%, with the only sub-strategy in the red (across the board) the Volatility Index, which was very marginally in negative territory.

Turning to the regions, North America and respective Trump bounce stood out, with the regional index +4.0%, while the Western/ Pan Europe Index was only +0.4%. Emerging markets, however, trailed with the HFRI Emerging Markets (Total) Index -0.8% and the HFRI Emerging Markets China Index -1.7% as tariffs concerns weighed heavily on sentiment.

\$2tn

Estimated size of the private credit market end of 2023

Source: McKinsey & Company

\$3.5tn

Estimated size of the private credit market end of 2028

Source: BlackRock

EQT raises hard cap

Swedish listed hedge fund manager EQT hard capped its ninth Asia-focused fund at \$14.5 billion. This is above the \$12.5 billion target that it only set in August.

BPEA Private Equity Fund IX will invest in healthcare, technology, business services, education, financial services, consumer and advanced manufacturing. The previous fund raised \$11 billion in 2022.

EQT Private Capital Asia is the rebranded Baring Private Equity Asia business, which EQT acquired for €6.9 billion in October 2022.

Bain Special Sits closes at \$9bn

Bain Capital closed its latest Global Special Situations Fund raise at \$9 billion, including co-investments and SMAs. This figure also includes \$3.3 billion from the previously closed Special Situations Asia and Europe regional funds. The fund invests in three core areas: capital solutions, hard assets and opportunistic distressed. Bain today is managing more than \$20 billion in this strategy, which provides capital as well as operating know-how to its underlying investments.

TPG raises \$5bn

According to a regulatory filing, TPG, one of the world's largest impact investors, has first closed its second private equity climate fund, Rise Climate II, with \$5 billion total commitments. New Private Markets has reported that TPG is looking to raise \$10 billion.

\$3bn Life Sciences fund

Bain Capital raised \$3 billion for its fourth Life Sciences fund, which is above the \$2 billion target. The fund is investing in innovative medicines, medical devices, diagnostics and life sciences tools that address unmet medical needs. Since launching the strategy, the Bain Capital Life Science team has raised \$6.7 billion and invested in over 70 companies that have, in turn, launched more than 100 clinical trials and achieved 16 regulatory approvals.

UPCOMING EVENTS

12 January 2025
CAIS25

14 January 2025
ALFI Seminar on Digital Fund Management

15 January 2025
Crypto Finance Conference

20 January 2025
Women's Private Equity Summit APAC

21 January 2025
HFM Future of Fund Technology Summit

Click [here](#) to see all the listings

UPDATES (cont.)

Shamrock closes at \$1.6bn

Shamrock Capital, the LA-based media and entertainment PE business, closed its latest fund with \$1.6 billion capital commitments. The over-subscribed fund invests in buyouts and later-stage growth equity investments in middle-market companies. Shamrock was founded in 1978 as the family investment company for Roy E. Disney and today manages \$6.6 billion.

Millennium accelerates allocations

Millennium Management has accelerated external investment allocations in recent months.

Bloomberg writes that Millennium's most recent investments include \$1.5 billion to Robert Tau's macro trading business and \$1.75 billion to Daniel Engel-Hall's Andora Partners, a Millennium-branded fund.

This follows \$1 billion to the New York

based long/ short equity manager Scopia Capital, in a separately managed account, and \$800 million to Christ Tuzzo and Warren Empey's (formerly at Kepos Capital) NorthArrow Capital, another Millennium brand, for a merger arbitrage strategy.

BlackRock buys HPS Investment Partners

A major development in the private credit sector is BlackRock's acquisition of HPS Investment Partners.

First reported by the Financial Times, this handshake agreement is valued at up to \$12 billion and marks a pivotal moment for HPS, which had previously been exploring its future with discussions about a potential IPO.

The acquisition underscores the growing enthusiasm for private credit markets. By acquiring other larger entities, the BlackRock's of this world

are rapidly scaling their private credit operations.

Even before the transaction, BlackRock's private credit portfolio stood at approximately \$86 billion in private debt assets and \$35 billion in direct lending, which combined with HPS's \$22 billion in public credit and \$123 billion in private credit, takes the total private credit assets to roughly \$250 billion.

The deal not only exemplifies the consolidation trend in private credit

but also signals the increasing importance of this asset class in the broader investment landscape. It puts BlackRock in direct competition with Apollo, which still has a healthy lead in private credit, managing around \$600 billion.

As the appetite for alternative investments continues to accelerate, we can only expect to see more of these types of strategic moves that are fast reshaping this part of the financial landscape.

UPDATES (cont.)

Blackstone JV's with EQT Corporation

A good example of an asset manager being creative in private credit is the \$3.5bn Blackstone investment in EQT Corporation, the US energy business. This particular deal sees Blackstone's credit and insurance arm establish a new midstream joint venture in EQT infrastructure assets.

The investment is a non-controlling equity stake in the JV, valued at approximately \$8.8 billion, which provides EQT with substantial additional capital and retains the rights in future growth projects related to these assets.

With the additional funding, EQT can reduce its debt, which includes paying down a term loan and redeeming senior notes. The advantage of this type of equity-structured JV is that rating agencies do not treat the finance as debt.

Mabadala takes 42% stake in Silver Rock

Mabadala Investment Company announced a strategic partnership with Silver Rock Financial LP, previously Michael Milken's family office before being turned into a hedge fund in 2016.

As part of the deal, Mabadala Capital, the alternative asset management arm of Mabadala Investment Company, upon completion takes a 42% stake in the LA-based credit manager, which today manages over \$10 billion.

Mabadala has a further option to increase this stake to 55%.

This is a significant move for Mabadala Capital, which for the first time brings external shareholders into its alternative asset management business.

The move also expands Mabadala's presence in private credit, which in turn gives Silver Rock access to Mabadala's

global network, capital base and industry expertise.

Mabadala Capital will also commit over \$1 billion to Silver Rock funds. The transaction, pending regulatory approvals, is expected to close by Q2 2025.

Silver Rock continues to operate independently under the leadership of CEO and CIO Carl Meyer.

Stonepeak acquires Boundary Capital

Large alternative investors are not only looking for large private credit bolt-ons, they are also interested in some of the more boutique offerings.

A good example is New York's Stonepeak, which manages around \$70 billion in infrastructure and real assets that recently acquired private credit investor Boundary Street Capital.

Boundary Capital, a Virginia-based business

specialising in private credit investing in digital infrastructure, energy and energy transition, is a relative tiddler with capital commitments of \$700 million.

Stonepeak already has a decent sized private credit business, having invested in private and secondary infrastructure credit since 2018, but with Boundary Street, it can offer a "more comprehensive set of credit and credit-linked capital solutions."

UPDATES (cont.)

SSGA partners with Bridgewater

State Street Global Advisors (SSGA) has announced a partnership with Bridgewater Associates, which they say will give SSGA's private wealth clients access to Bridgewater's core alternative strategies.

The first joint product is the SPDR Bridgewater All Weather ETF (the same name as one of

Bridgewater's best-known funds), sub-managed by Bridgewater, which will trade their risk parity strategies.

As the Financial Times reminds us, other tie-ups have included Capital Group and KKR, BlackRock and Partners Group, and a separate SSGA partnership with Apollo.



Bitcoin fund's 130,000% gain

With Bitcoin breaking the \$100,000 barrier, it would be remiss to not point out that crypto funds have had a stellar few weeks, buoyed by the post-Trump ("you're welcome") bounce.

One fund worth noting is Pantera Capital's Bitcoin fund, which, according to reports, has gained over 130,000% net of fees and expenses. The Menlo Park-based fund specialises in cryptocurrencies and blockchain technology.

This particular fund was launched in July 2013 when Bitcoin was sitting at a lowly \$65. These same crypto investors have said that they believe Bitcoin will hit 740,000 in 2028.



LETTER FROM AMERICA



A Silent Green Seen Emerging on Climate and Energy Transition As New Administration Heads to White House

Silent green may become the guiding catchphrase under the Trump administration.

The upcoming changing of the guard in Washington in January has prompted lots of educated guesses on what shifts may take place with Donald Trump as president for the green economy and energy transition.

Several factors are at play.

On the energy front are several of President-elect Trump's choice in his new administration, who lean more toward fossil fuels than toward renewables and do not see climate change as a top priority.

On the regulation front is the SEC, which will be under close watch by climate advocates amid predictions for more restrictive policies for ESG-related initiatives.

For starters, it's probably a safe bet that the SEC's pending climate risk disclosures, which would require companies to report details on climate-related activities, will not become mandatory requirements.

Even so, US companies will still need to follow reporting requirements for Europe and California, but a broader measure is not likely. The EU, as no surprise, has and will likely continue to mandate strict regulations impacting US multinationals. However, in recent months, there have been indications from EU regulators to revisit some of the overly onerous reporting regulations.

In addition, experts say, the Trump administration is expected to weaken ESG-related policies, including restricting shareholders from filing ESG-related proposals and revising a 2022 rule that allows retirement fund managers to consider ESG risks.

So what does this all mean?

Climate investing comes in many forms, from energy and energy companies to climate funds that invest in proven businesses providing decarbonization and energy efficiency-

focused products and services.

The LP community will continue to look for opportunity in climate, turning its attention more and more to the energy-transition sector. There is unabated momentum in the infrastructure and energy transition buildup.

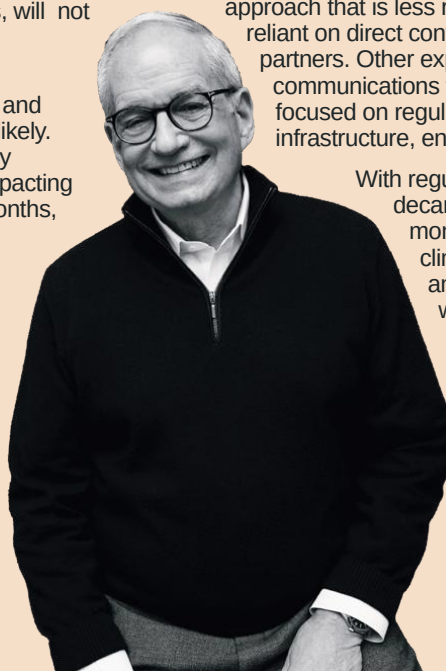
“
...changing of the guard in Washington in January has prompted lots of educated guesses on what shifts may take place... for the green economy and energy transition.”

“Energy transition remains one of the buoyant corners of the private markets, even in a tough fundraising environment. Although policy uncertainties are weighing on capital deployment and it will be a while before clarity emerges on how various policy measures – from tax credits to tariffs – play out and their precise impact on project economics,” said Sharadiya Dasgupta, founder of Blue Dot Capital, a sustainable finance and private markets consultancy.

From a communications standpoint, the activity will be focused on how investments in climate add value or help reduce costs, a more silent targeted

approach that is less reliant on media relations and more reliant on direct conversations with investors/limited partners. Other expected activity will include more communications from private markets platforms focused on regularly sharing their outlooks on infrastructure, energy transition, and digitalization.

With regulatory requirements to decarbonize likely low in the coming months and years ahead, some climate businesses will face demand and price headwinds no doubt but will still be an important alternative in the private markets, searching beyond the silent green.



Mark Kollar
Partner, Prosek Partners

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We're not investing to get the best returns that we can on an annual basis. We are investing over decades, 30 year time horizons. And, you know, climate is causing changes today that need to be recognized in the valuation of the companies.

Marcie Frost, CEO, CalPERS



GUEST ARTICLES

Private Assets for All: The Growing Necessity

Aramide Ogunlana, Investment Specialist Director, Private Credit, M&G Investments

Almost forty years after the introduction of the Undertakings for Collective Investment in Transferable Securities (UCITS) directive, which enables regulated, transparent access to public assets for individual investors, market participants are increasingly exploring how this can be replicated for private assets in Europe. Specifically, there is interest in how the mass affluent can be included, as high-net-worth individuals have historically accessed these opportunities as professional investors through private banking networks. Although their allocations have traditionally been overweight in private equity investments, they are increasingly diversifying into other areas such as private credit and structured credit investments.

Some might view this as an attempt to tap into a new investor base, as traditional sources of assets under management (AUM) become more challenging to secure. This difficulty may be due to factors such as consolidation, the denominator effect, or defined benefit (DB) pension schemes

moving into buyout. However, there are fundamental economic factors that necessitate individual households' participation in private markets. According to the European Central Bank, Europe needs an additional €5.4 trillion¹ to address climate change, digitalise, and defend itself over the next six years. Both private capital and governments will need to fill this financing gap, but the lion's share must be borne by private firms, investors, and households.

Overlay this with the fact that 99% of companies in Europe are private - even large-cap names worth over €100 million or more in earnings are 96%² private companies. Relying solely on traditional sources of funding, such as public equities and bonds, is unlikely to lead to sustainable economic growth.

The origins to find the right route to access private assets within Europe dates back to the launch of the European Long-Term Investment Fund

¹ Mind the gap: Europe's strategic investment needs and how to support them ([link](#))

² World Economic Forum 2022 and Apollo 2024



The simplification of ELTIF 2.0 asset definitions, provision for semi-liquid structures, and the removal of minimum investment amounts allow for better scope to democratise access to private assets.

Aramide Ogunlana, M&G Investments

GUEST ARTICLES (cont.)

(ELTIF) Framework in 2015. The core philosophy aligns with UCITS to provide well-regulated, transparent access to private assets with an EU marketing passport. However, a highly prescriptive framework, including complex definitions of eligible assets and provisions for only closed ended vehicles, means only about 100 ELTIFs being launched over the past ten years.³

Encouragingly, ELTIF 2.0, which came into force in January 2024, has made important improvements. The simplification of asset definitions, provision for semi-liquid structures, and the removal of minimum investment amounts allow for better scope to democratise access to private assets.

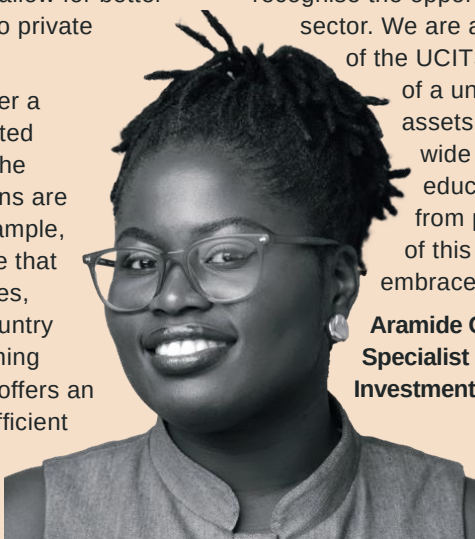
More generally, the drive to offer a variety of options has accelerated over the past 18 months, and the considerations and combinations are not mutually exclusive. For example, a UCI Part II is an AIF structure that allows for open ended structures, but would require individual country registrations. Therefore combining this with an ELTIF label which offers an EU marketing passport is an efficient solution.

Market offerings include single and multi-asset private

asset funds, providing the flexibility of separate building blocks or off-the-shelf blended solutions. Others are offering blended public and private asset funds through funds of funds (FoF) or via strategic partnerships between two firms, as few investment houses have the scale and expertise across both public and private assets. There are hints towards indexation and passive strategies as well with the acquisition of alternative assets data firm Preqin, and an upcoming investment grade public/private credit ETF.

It is important to remain forward looking and recognise the opportunities that exist in this sector. We are already on the 10th revision of the UCITS 2009 Act, so the creation of a unified framework for private assets will take time, sector-wide collaboration, and investor education. Innovation and learning from past mistakes will be a part of this journey, which we should all embrace.

Aramide Ogunlana, Investment Specialist Director, Private Credit, M&G Investments



³ Scope ELTIF study 2024

Variety of Investment Approaches⁴

Fund Structure	Regulatory Label	Liquidity Profile	Asset Exposure	Capabilities
UCI Part II	ELTIF	Semi-liquid	Direct	Inhouse private assets
Other AIFs	Individual Country Registrations	Traditional Closed End	Fund of Funds	Inhouse private and public assets
		ETFs	Single Asset	Partnerships across private assets
			Multi-Asset	Partnerships across public & private assets

⁴ M&G for illustrative purposes only

GUEST ARTICLES (cont.)

Asset Based Lending: The rise of an alternative financing solution

Mitch Soiefer, Partner and Head of Lender Finance, SLR Capital Partners

The rapid expansion of private credit investment products has led to increased competition and overlapping issuer exposure among funds. As a result, diversification within an allocation to the asset class has become increasingly important. Of particular note, increased entrants into traditional cash flow lending has led to significant spread compression and a loosening of terms in 2024. This trend has spurred investors to seek managers that provide exposure to differentiated private credit strategies with higher barriers to entry, such as asset-based lending (ABL).

In ABL, the loans are secured by assets, such as accounts receivable, inventory, or fixed assets, enabling asset-rich companies with working capital challenges to access increased liquidity. A high degree of expertise is required in the structuring, valuing, and monitoring of these loans and the underlying collateral. Regional bank pullbacks have resulted in less competition in ABL compared to cash flow based, sponsor-backed direct lending.

ABL provides investors with exposure to private credit via investments which typically have lower leverage than traditional cash flow loans while also avoiding the cyclicality that can come from variability in cash flows across business cycles. Furthermore, they offer greater downside protection and often a higher recovery value in situations of default since loans are based on the ongoing liquidation value of assets which serves as collateral for the investment.

Typically, ABL has outperformed cash flow loans during periods of market volatility and economic contraction, providing a countercyclical component to a multi strategy private credit portfolio. Funds constructed with multiple specialty finance strategies can provide greater diversification and lower correlation to the liquid credit markets.

Given the counter cycle nature of our ABL business, a bear market or an industry under stress can be a bull market for these investments. Asset-based lending provides an alternative financing solution



GUEST ARTICLES (cont.)

when a borrower's risk is elevated, and sponsor-owned companies can no longer efficiently access the cash flow loan market. With the yield curve remaining elevated, we anticipate some leveraged borrowers may struggle with high interest expense and inflationary expense burdens. This dynamic creates demand for our working capital financing solutions backed by borrowers' assets.

In addition, ongoing bank consolidation, regulatory pressures, and risk reduction are driving commercial banks to reduce their loan exposure, exit non-core business lines, and consider strategic partnerships, resulting in increased investment pipelines for specialty finance teams.

There are opportunities for specialty finance platforms



to collaborate with banks that are shifting their asset-based lending strategies in reaction to these challenges. As an example, our public BDC, SLR Investment Corp., recently acquired an ABL loan portfolio and servicing platform from a regional bank, and we continue to evaluate portfolio purchases, joint ventures, and referral programs.

As we look into 2025, we are very optimistic about the growth prospects for asset-based lending.

Mitch Soiefer, Partner and Head of Lender Finance, SLR Capital Partners

SLR Capital Partners is \$13bn private credit platform focused on the US middle-market investing across direct lending, asset-based lending, and specialty finance and life sciences.



Funds constructed with multiple specialty finance strategies can provide greater diversification and lower correlation to the liquid credit markets.

Mitch Soiefer, SLR Capital Partners

GUEST ARTICLES (cont.)

All Aboard the Asset Based Train of Railcars Financed with Private Asset Based Credit

Joshua Clarkson, Managing Director, Prosek Partners

Private credit's popularity is now well established. However, what can be lost in that headline is that private credit is a broad category, and while the first leg of the rapid expansion in the space was driven by direct lending, today much of the focus is on asset-based or asset-backed lending.

So what exactly do we mean by asset-based/backed private credit? These can be loans tied to an extremely wide range of underlying assets. They generally fall into two broad categories:

- Specific hard assets the loans are secured against, such as aircraft, railcars, or real estate.
- Portfolios of financial assets that can range from business or loan receivables to music or pharmaceutical royalties.

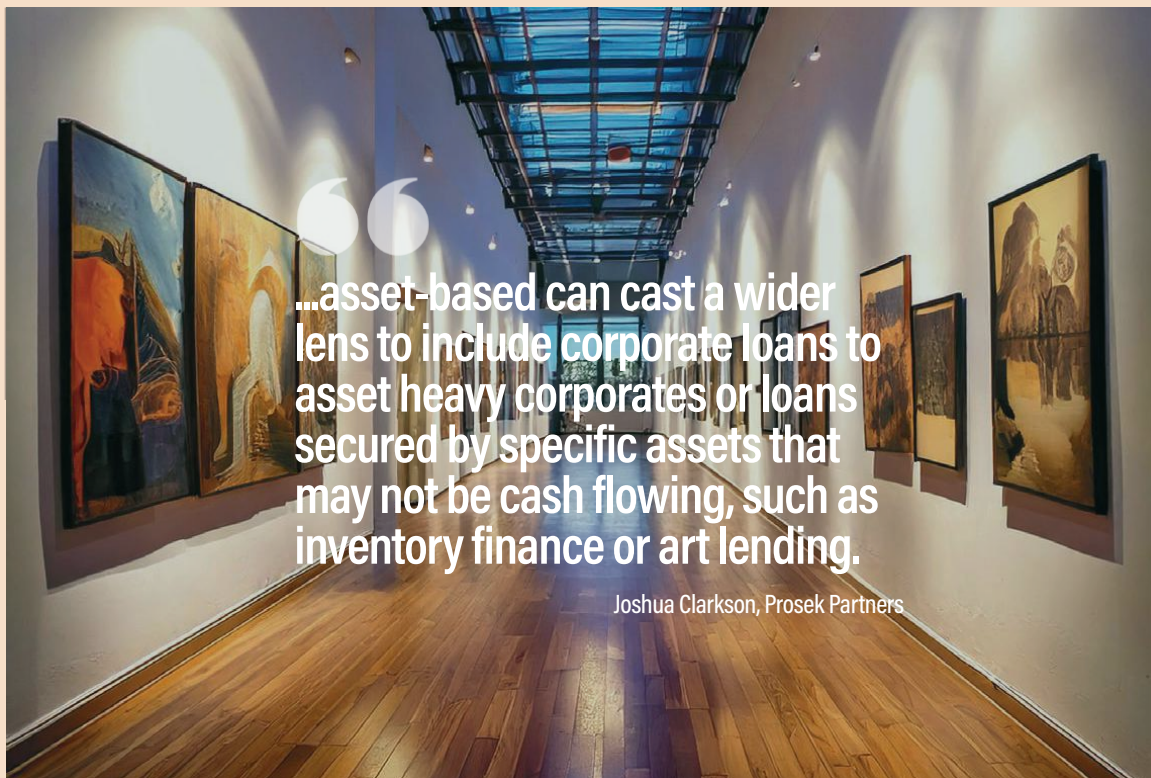


Very often the loans will be pooled into an SPV and then tranching for different levels of risk in a manner generally similar to a public ABS, but done privately. This enables managers to offer ratings sensitive clients such as insurers IG portions of these structures and higher return seeking investors the lower rated and equity portions. This is another manifestation of the increasing nexus between the alternative asset management industry and insurance, which we discussed over the summer.

While estimates on the amount of capital raised and the overall market opportunity vary, the numbers for the latter are all well into the trillions and it is clearly a far larger, more diverse market than the below investment grade corporate lending private credit had previously been mostly associated



GUEST ARTICLES (cont.)



...asset-based can cast a wider lens to include corporate loans to asset heavy corporates or loans secured by specific assets that may not be cash flowing, such as inventory finance or art lending.

Joshua Clarkson, Prosek Partners

with. The amount of this market that is able to be efficiently financed in the private markets is also growing rapidly as banks retreat from the space following the US regional banking crisis and ahead of tighter capital regulations and as private credit increasingly seeks to deliver IG assets to those aforementioned ratings sensitive clients.

It is worth highlighting that while banks retreating from lending markets has been the overarching theme powering private credit for over a decade, the asset backed/based space is the frontier of that retrenchment as many of the assets now being financed privately would have been comfortably on a bank balance sheet only a few years ago, whereas levered middle market corporate lending has not truly been a bank balance sheet business in many, many years (not to be confused with bank intermediated leveraged loan markets).

Given the cornucopia of contractual cash flows that can underpin these transactions, it is important for managers to clearly articulate where they are focused, why they believe those areas of the market are most attractive, and their expertise in them. Similarly, investors need to understand what exactly they are investing in and ensuring it aligns with the risk/return and liquidity needs of that portion of their portfolio.

First this will often involve the collateral involved

and articulating its fundamental attractiveness and the fundamental and economic factors that drive its performance and/or are creating an opportunity in the space right now. However, as with corporate lending structure and documentation is also very important. Traditionally asset-backed lending would involve assets with contractual cash-flows, which would often be self-amortizing, placed in a bankruptcy remote SPV to minimize any corporate level risk for investors. Today, asset-based can cast a wider lens to include corporate loans to asset heavy corporates or loans secured by specific assets that may not be cash flowing, such as inventory finance or art lending.

Alternative asset managers keen to capture investor interest and allocations in the space would be well served by developing a refined, thoughtful narrative advocating their strategy over the many others in the market and then strategically disseminating it where it will resonate with the pools of capital the firm seeks to access.

Joshua Clarkson, Managing Director, Prosek Partners

GUEST ARTICLES (cont.)

Private credit is playing a crucial role in delivering affordable UK housing

Robert Swift, Head of Investor Relations, Pluto Finance

The Need for Housing

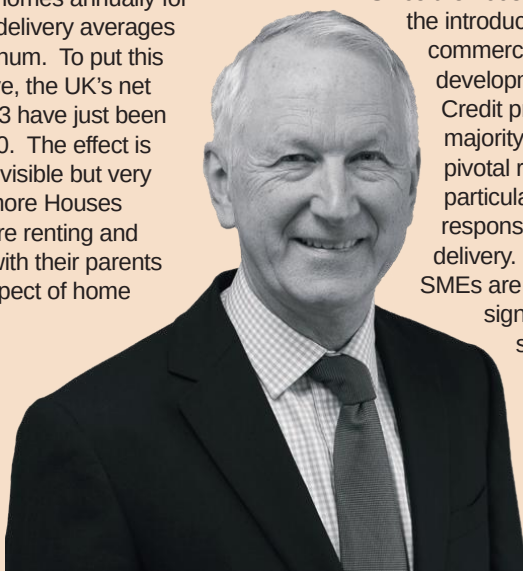
The UK has a severe housing crisis with profound social, economic and political ramifications. A chronic shortage of affordable, quality housing has left many people in substandard accommodation or enduring lengthy commutes to work or to see friends and family. Our new Government has set industry a target of delivering 300,000 new homes annually for the next five years, recent delivery averages 188,000 new builds per annum. To put this figure into some perspective, the UK's net immigration figures for 2023 have just been revised upwards to 906,000. The effect is 'overcrowding', not always visible but very real for those impacted – more Houses in Multiple Occupation, more renting and more young people living with their parents for longer and with no prospect of home ownership.

The majority of the UK's housing undersupply can be resolved through redeveloping brownfield sites, be they disused industrial areas, obsolete offices or other abandoned buildings.

Not only does this drive urban regeneration (good locations with proximity to existing infrastructure) but such redevelopments can also offer a low carbon solution by utilising the embedded carbon from the existing frames and groundworks.

The Role of Private Credit

Since the 2008 Global Financial Crisis and the introduction of Basel III regulations, commercial banks have scaled back their development lending activities. Private Credit providers such as Pluto are now the majority lenders in the sector, playing a pivotal role in the delivery of new homes, particularly for the multitude of SMEs responsible for 40% of overall housing delivery. Unlike national developers, SMEs are agile and innovative, contributing significantly to local economies, supply chains, wider employment sectors and fostering closer community ties. Private credit providers are fast and flexible, delivering to SMEs the tailored financial solutions that recognise their unique site, planning and development opportunity.



“Private Credit is playing a critical role in the delivery of affordable housing in the UK and provides a route for institutional investors to deliver environmental, social and governance impact...”

Robert Swift, Pluto Finance

GUEST ARTICLES (cont.)

Delivering Impact

Institutional investors can deliver impact from their private credit allocations as a supplement to financial returns. Bridge and development lending to the residential sector deliver the following impact:

- **Environmental:** homes that meet the highest environmental standards (ie exceeding current building regulations and standards). Pluto's Low Carbon Lending Programme provides a financial incentive to SMEs for the delivery of homes that meet optimal operational carbon (EPC A) and embodied carbon (LETI B) standards.
- **Social:** creating affordable housing, social housing, local employment opportunities and robust supply chains is a social good. To date, Pluto's institutional investors have funded the delivery of over 10,000 homes, translating into the creation of 27,700 jobs in construction and the supply chain, generating £1.5bn in tax receipts, with £260m directly benefiting local communities (statistics from National Housebuilding Federation).
- **Governance:** new house building planning and construction governance regimes are well established and rigorously enforced. Local impact can also be a target, for example Pluto's newest

investor is a Local Government Pension Pool, committing an Impact Sleeve that targets lending in its region - utilising local pension fund money to deliver economic benefit and much needed housing locally, aligning credit quality and financial returns with social outcomes.

To conclude, Private Credit is playing a critical role in the delivery of affordable housing in the UK and provides a route for institutional investors to deliver environmental, social and governance impact within their community.

Robert Swift, Head of Investor Relations, Pluto Finance

Pluto Finance is the leading real estate private credit platform specialising in the UK residential sector. The firm was established in 2011 and, to date, has advanced over £3bn across 273 SME bridging and development loans. Pluto lending vehicles are funded by institutional investors, including Universities Superannuation Scheme (USS), the UK's largest private sector pension scheme. In 2021, USS also made a significant, minority investment in Pluto itself supporting the Co-Founders with their growth plans for the business.



Private credit providers are fast and flexible, delivering to SMEs the tailored financial solutions that recognise their unique site, planning and development opportunity...

Robert Swift, Pluto Finance

GUEST ARTICLES (cont.)

Do we need to talk more about SRTs?

Paolo Dotta & Adil Kurt-Elli, Co-Founders, LyRa

In a recent deal, Apollo bought most of Deutsche Bank's SRT linked to [\\$3 billion debt](#).

A brilliant trade for all parties involved.

Deutsche Bank is reaping the benefits of a dramatic reduction in risk weighted assets (RWAs), from an estimated 150% to just 15% on 82% of the reference portfolio (the remaining 18% represents the coverage limit assumed by the investor). While NIM remains unchanged, return on RWAs increases significantly.

For Apollo's LPs, the gain is compelling. Recalling the typical synthetic SRT structure, investors get to double-dip: earning yields from Govies while collecting SRT premia from the bank.

The 14% first loss slice was priced at SOFR plus 10.5%, while the 4% mezzanine at SOFR plus 3.75%. Adding the US 5-year

bond yield of [4.28%](#) (assuming a 5-year life span for the SRT), investors should be looking at a blended ~12% IRR.

Apollo's GP will also benefit from strong returns given typical private debt management fees and carried interest.

In a zero-default scenario, the SRT is a strong trade. That is why in 2022 SRT deals hit €170 billion across [118 transactions](#) - with synthetic structures dominating at 85% of volume.

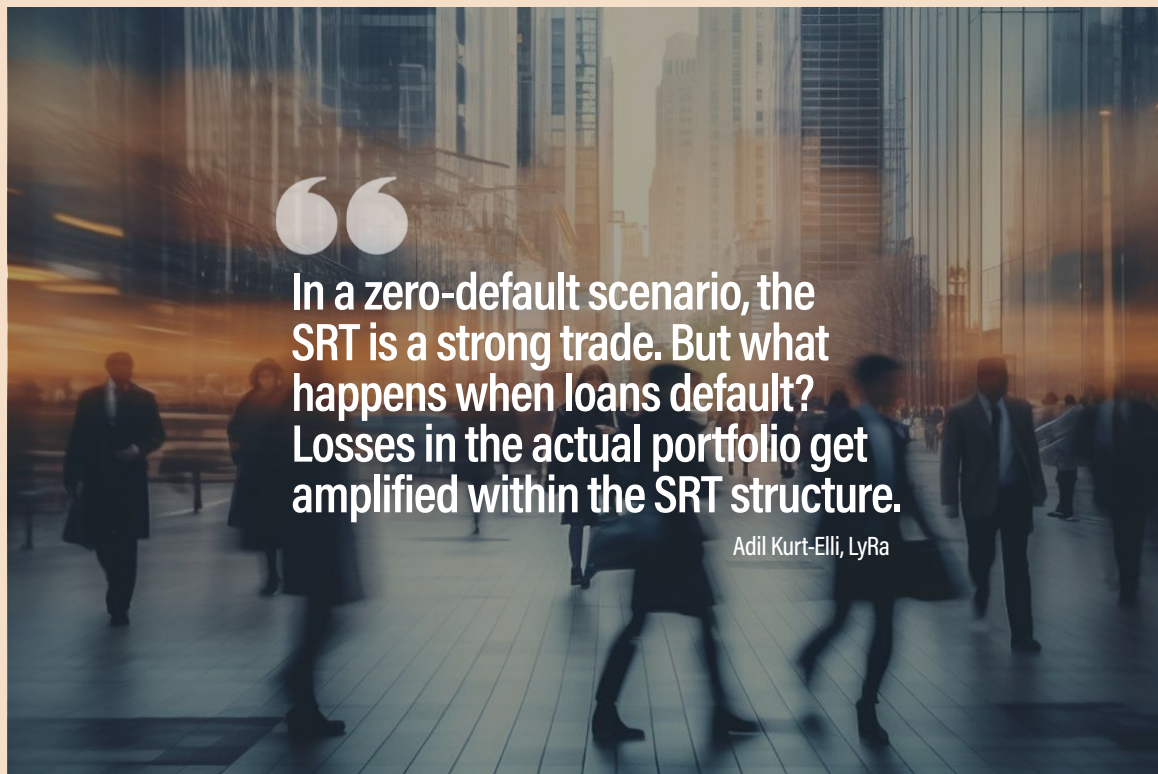
But what happens when loans default?

Fitch Ratings shows leveraged loans have averaged a 2.64% annual default rate over the past 15 years.

If applied to this \$3 billion portfolio in a given year, the 2.64% rate creates a \$79.2 million cash loss in the bank's portfolio, which in turn is covered by the SRT. With a coverage limit of \$540 million, this loss consumes 14.67% of the available protection as there is a



Adil Kurt-Elli, LyRa



GUEST ARTICLES (cont.)

direct capital loss in the SRT. Losses in the actual portfolio get amplified within the SRT structure.

Beyond the direct loss, investors also forfeit the compounding effect of the Govies as these are liquidated to cover the payout. Worse still, SRT premia are reduced as a result of the lower outstanding SRT coverage. If the 2.64% is applied annually, LPs risk negative outcomes.

The GP might emerge relatively unscathed from such an outcome depending on their investment commitment and management fees.

Banks are not immune either.

As defaults erode the SRT's coverage during its lifetime, regulators may require the bank to write back RWAs from 15% to 90%. This will then have material effects on their capital management.

Should we therefore avoid SRTs? Not at all. SRTs remain brilliant trades for all parties involved provided there is a stress test that takes into account material downside events.

The SRT is a high beta product and so, as with any investment strategy, it must not be the only tool in the box. If private market access is the driver for an investor, a combined approach across CLOs, securitisation and SRTs is more prudent.

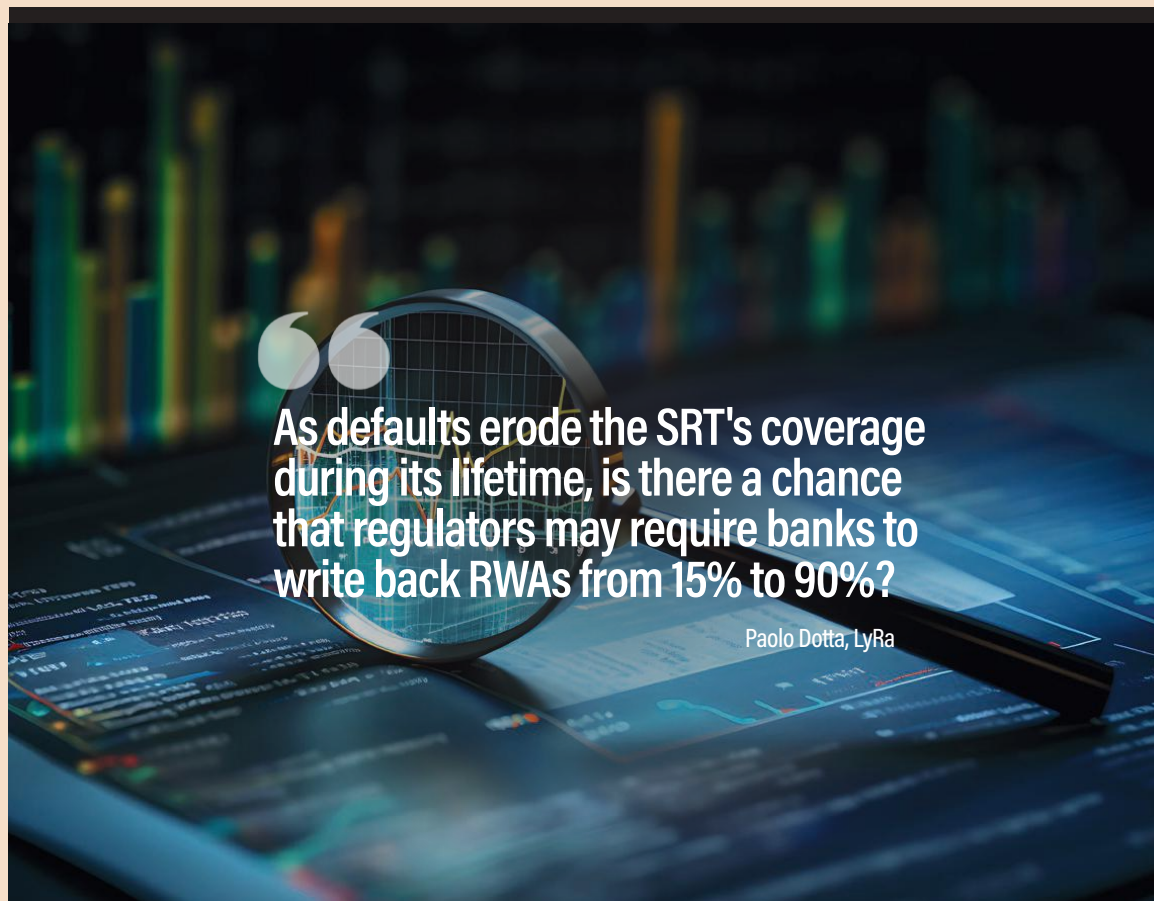
For banks, a similar mindset may also result in a more sustainable capital management policy for banks.

Paolo Dotta & Adil Kurt-Elli, Co-Founders, LyRa

At LyRa, we are developing the simplest Regulatory Capital Solution for banks, designed to offer better cost-effectiveness and regulatory efficiency than any alternative in the market, to provide investors with a stable annuity stream.



Paolo Dotta, LyRa



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UK

FCA in the crosshairs

On 26 November 2024, the All-Party Parliamentary Group (“APPG”) published its [Report on the Call for Evidence about The Financial Conduct Authority](#). This Report is the culmination of two and a half years of work, runs to 358 pages and includes the testimony of 175 respondents including the victims of regulatory failure, whistleblowers and current and former FCA employees.

The principal findings are:

- The FCA is widely seen as incompetent, especially in relation to its consumer protection remit;
- Its integrity is called into question, including when called to account for its own decisions;
- Its treatment of whistleblowers and their evidence is alarming;
- Defective organisational culture, driven from the top;
- Transparency and accountability are lacking; and
- The FCA's Transformation Programme, which aims to act upon previously identified deficiencies, has not worked.

The Report's recommendations include certain actions the FCA can take internally, such as revising its reward and promotion system, introducing a no-tolerance policy for a lack of integrity and facing up to the criticisms made of it by the general public. Other recommendations require government intervention. These include to establish a body to oversee the FCA's operational effectiveness, strip out fundamental conflicts of interest within the FCA's objectives¹, change the way the FCA is funded, overhaul the way the FCA's senior leadership team is appointed and – as a last resort – carry out a Royal Commission for radical architectural reform.

What next?

The FCA finds itself in a situation where the Chancellor is encouraging it to be less “risk averse” against a backdrop of continued criticism for not taking appropriate affirmative action when this is most needed.

Whilst the APPG Report focuses on cultural and organisational issues at the regulator, it is possible that streamlining the regulatory rulebook could create some positive ripples.

Rules must be adopted not only by regulated firms but by those at the regulator who engage directly with regulated firms, such as supervision teams. Rafts of unnecessary rules create an environment where it is difficult for these teams to distinguish between compliance with rules (which are often unclear or contradictory) and regulatory outcomes. A culture of bureaucracy is fostered, often creating unnecessary tension between firm and regulator.

Furthermore, a more streamlined rulebook means that the regulator can – hypothetically – be nimbler, since the process of replacing or updating rules can be facilitated. The FCA has been given greater powers to make rules itself as opposed to adopting legislation, and this is a positive development. If it is able to truly untangle the myriad of complexities and inconsistencies caused by overlapping legislative and regulatory frameworks then it will certainly earn its plaudits.

From an investment firm and asset management perspective, the regulatory change debate now appears to have moved on from being framed as a trade-off between diverging away from the EU framework and not wanting

¹ By way of example: A regulator that authorises firms might be reluctant to enforce against them if doing so highlights that those firms should not have been authorised in the first place.



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to restrict the flow of financial services between the UK and the EU. Putting in place a regulatory framework that is appropriate to local requirements will likely be prioritised. This will likely build upon initiatives such as the previous Chancellor's "Edinburgh Reforms".

The APPG Report also alludes to the question of whether the FCA's mandate is too wide. The UK regulatory system is often referred to as deploying a "twin peaks" model since there is a prudential regulator (the PRA) and a conduct regulator (the FCA). However, the PRA is responsible for prudential regulation for a minority of firms, such as banks and building societies and such firms are also regulated by the FCA regarding conduct. A "truer" twin peaks model might

mean the PRA becoming the sole regulator for the firms that are currently dual regulated.

Coupled with this is the diversity of firms under the FCA's remit – from HSBC to a financial adviser in Shipton-under-Wychwood; from Legal and General to an independent sofa emporium offering consumer credit in Derby. Could some of the FCA's issues be caused by the remit being too wide?

At the time of writing, the FCA's CEO (appointed by then Chancellor Rishi Sunak in 2020) remains in situ, and the overall regulatory framework is not subject to change – for the time being at least. However, there might be some significant cultural and operational changes at the FCA in the coming months and years.

Transaction Reporting

Market Watch 81

The FCA on 7 November 2024 published [Market Watch 81](#), the latest in its series on market conduct and transaction reporting issues.

This reviews the FCA's observations from supervising the UK Markets in Financial Instruments Directive ("MiFID") transaction reporting regime, including findings from "skilled person" reviews issued under section 166 of the Financial Services and Markets Act ("FSMA") to address transaction reporting failings. It may be relevant to firms reporting under the:

- UK MiFID transaction reporting regime,
- UK European Market Infrastructure Regulation ("UK EMIR") trade reporting, or
- Securities Financing Transactions Regulation ("SFTR") trade reporting.

Back in July 2023, [Market Watch 74](#) reported a trend of improved data quality since 2018, with firms working to improve the quality of their transaction reporting.

However, the FCA is still finding incomplete and inaccurate transaction reports, with some data quality issues remaining even after the issue has, supposedly, been identified and remediated.

As to the root causes, the FCA identifies weaknesses in five distinct but interconnecting areas, as a weakness in one area may spread to others:

1. Change management

Change management activities, such as business analysis, systems and data mapping, new business and functional requirements, and the implementation of new reporting systems, may all give rise to data quality issues within firms.

Data quality issues often coincide with change, whether system- or process-related.

2. Reporting process and logic design

Effective transaction reporting systems and controls must be supported by clear reporting processes and logic design documents, evidencing how reporting processes have been designed to suit business and functional requirements.

3. Data governance

Transaction reporting processes often rely on multiple internal data sources and external feeds. Sometimes, a disconnect between data management and regulatory reporting leads to misreporting. Effective data governance may streamline data flows to enrich transaction reports at different points of the end-to-end reporting process.

4. Control framework

Firms need a control framework to ensure transaction reports are complete and accurate. This may be informed by a firm's end-to-end transaction reporting process.

Ill-designed reconciliation processes may exclude source data or specific data flows, such that data quality issues are not identified. Reconciliations must include front-office records.

5. Governance, oversight and resourcing

Effective governance is key to upholding the operational integrity of the transaction reporting process. Management oversight and monitoring allow for process and data issues to be identified. Resourcing supports the implementation and delivery of compliance

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measures through tools and trained staff.

Though a non-financial risk, transaction reporting should not be excluded from a firm's wider risk management framework.

The FCA announces it may undertake further work on the areas covered by its Market Watch newsletters, to ensure

firms remediate appropriately. Firms should continue to submit notification of any errors and omissions and may direct queries on transaction reporting and reference data to mrt@fca.org.uk. Further information appears on the FCA's [transaction reporting](#) page.



Improving the UK transaction reporting regime: DP 24/2

In its supervision of UK transaction reporting and instrument reference data requirements, the FCA believes it has found ways both to improve the quality of data reported, and to reduce reporting burdens on market participants, “*while maintaining the high regulatory standards our markets are renowned for*”. Seeking stakeholder feedback to inform its consultation process, it on [15 November](#) launched discussion paper [DP 24/2](#).

The transaction reporting regime was first introduced in 2007. The requirements changed significantly in 2018 with a material increase in the number of fields and amendments to scope and application.

Each year, the FCA receives over 7 billion reports covering transactions executed by UK firms, and on UK markets, in over 20 million reportable financial instruments. It uses this data to enhance and monitor the transparency, cleanliness and resilience of UK financial markets.

Rules of the UK transaction reporting regime appear in the UK Markets in Financial Instruments Directive (“**MiFID**”) framework, including Regulatory Technical Standards (“**RTS**”) 22 and 23.

Prominent in the discussion are potential changes to the fields in RTS 22 Annex I Table 2 (supplemented by Annex I

Table I and Annex II) – the “**RTS 22 fields**”.

DP 24/2 runs to around 60 pages, structured as follows:

- Chapter 1: Overview: Market participants to whom this applies, regulatory context, and a summary of the discussion;
- Chapter 2: Background and data on the transaction reporting regime, inviting discussion around data quality and transaction reports’ usefulness for market monitoring;
- Chapter 3: The overall shape of the transaction reporting regime, inviting feedback on the relative merits of simplification against the cost of change. The FCA wishes to learn which areas of the regime firms find most burdensome, and how the FCA might accommodate new and existing technologies.
- Chapter 4: Seeks feedback on the scope, respectively, of firms, and of financial instruments, subject to transaction reporting requirements. It considers the scope of reporting obligations for over-the-counter derivatives and identifiers for these instruments.
- Chapter 5: Looks at the content of transaction reports, and potential changes to the RTS 22 fields to improve data quality. It considers where reporting might be

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streamlined, or data use improved, whether by adding new fields, removing existing fields, or clearer guidance to improve outcomes.

- Annex 1: Contains a list of 41 questions, notably:

Question 1: "How should [the regulator] balance alignment between international reporting regimes with the benefits from a more streamlined UK regime?" and

Question 3: "Which areas of the transaction reporting regime do you find most challenging? Please explain why."

Respondents may use [this form](#) or email dp24-2@fca.org.uk. DP 24/2 will remain open for comments until 14 February 2025.

Extending research regime changes to fund managers

In July 2024, the FCA introduced a new "third way" of paying for research. This has enabled MiFID investment firms to pay for research jointly with execution services, provided certain conditions ("guardrails") are met.

The FCA is [now proposing](#) to [extend this](#) to fund managers such as alternative investment fund ("AIF") managers and

Undertakings for Collective Investment in Transferable Securities ("UCITS") management companies. This would result in a "level playing field" between managers of funds and segregated accounts.

The deadline for comments is 16 December 2024 and the FCA envisages implementing this in the first half of 2025.



Next steps for reforming the UK MiFID

HM Treasury has committed to [making changes](#) to the UK's Markets in Financial Instruments Directive ("MiFID") II framework related to commodity derivatives, transaction reporting and organisational requirements.

This follows initiatives such as the Wholesale Markets Review (2021) which led to The Financial Services and Markets Act 2023, and the removal of the double volume cap and share trading obligation.

The new commitments are:

- Legislation to give the FCA fuller powers of direction in relation to the reporting of over the counter ("OTC") commodity derivatives positions. The desired outcome is to help the FCA ensure that exchanges receive the right transparency about OTC positions, proportionate to the risks associated with different markets;
- Commence revoking the firm-facing requirements on

transaction reporting and delegating the setting of a new regime to the FCA. In this regard, the FCA published a discussion paper, [DP24/2](#), which is discussed in greater detail in our article, "Transaction Reporting", above; and

- Revocation of firm-facing requirements within the MiFID Organisational Regulation ("MOR") so that they can be replaced in the FCA's handbook. Thus, the FCA's real-world, day-to-day experience of supervising financial services firms can be leveraged and standards can be efficiently updated in response to emerging market trends and risks. MOR encapsulates several regulatory concepts including conflicts of interest, outsourcing, recordkeeping, compliance and risk management, information for clients and best execution.

On [27 November 2024](#) the FCA published a [Consultation Paper](#) on how it intends enacting this. The FCA broadly proposed to retain the current substance of the MOR

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requirements, with consequential amendments made to reflect FCA Handbook drafting style or to provide greater clarity. The FCA invited comments on this consultation by 28 February 2025.

In addition, chapter 4 of the document is a discussion on future amendments to the FCA Handbook on certain items. This aims to remove duplicative or difficult to understand requirements, for example where there are

slight differences between regulatory frameworks such as MiFID, UCITS and AIFMD. It also considers modernising requirements that have not been revised for some time.

Immediate opportunities for rationalisation include where multiple frameworks, which are similar but not identical, can be consolidated into one set of requirements. This includes conflicts of interest, best execution and personal account dealing.

Two FCA enforcements

FCA bans director following conviction for grievous bodily harm

On [18 November 2024](#), the FCA banned [Ari Harris](#) from working in financial services.

Mr. Harris was convicted in July 2020 of inflicting grievous bodily harm without intent after stabbing a man twice in the neck. The judge observed that Harris was the aggressor who *"left the scene ... appearing not to show any care or responsibility to a victim who you had harmed... These are life-changing injuries that you caused."* On 22 July 2022, he was sentenced at Isleworth Crown Court to three years' imprisonment.

Harris and his firm, Reeds Motors Ltd, of which he was the sole director, deliberately failed to inform the FCA of his offending, conviction and custodial sentence, as they were obliged to do.² They intentionally provided false and misleading information to conceal the fact that he was in prison.

Mr. Harris made an application to the FCA in October 2022 and was questioned as to why the firm required an additional

approved person. Harris and the firm stated that this was needed because Mr. Harris was overseas and looking into a business abroad. During the telephone call, Harris persisted in misleading the FCA, omitting to mention that he was, in fact, incarcerated at the time.

The FCA cancelled permissions for [Reeds Motors Ltd](#), removed Harris' approval to perform the senior management function at his firm, and [banned him](#) from any future employment in financial services.

Therese Chambers, executive director of enforcement and market oversight, opined: *"These repeated efforts to conceal Mr. Harris' violent criminal conviction and incarceration clearly show a shocking lack of honesty and integrity. This ban is fully warranted."*

² Regulated firms and individuals subject to the Senior Managers and Certification Regime have an ongoing obligation to disclose to the FCA any information of which it would reasonably expect notice - including matters material to an approved person's fitness and propriety.

Warning Notice Statement 24/4: Crispin Odey

On 1 November 2024, the FCA [published](#) a warning notice stating its intention to take action against Crispin Odey, founder of Odey Asset Management LLP ("OAM").

The FCA considers that during the period 24 December 2021 to 17 November 2022, Mr. Odey, a certification employee at OAM who at times held Senior Management functions, breached Individual Conduct Rule 1 of the FCA's Code of Conduct, requiring him to act with integrity.

The notice describes Odey's course of dealings with OAM's Executive Committee ("ExCo") in relation to a disciplinary hearing it had initially scheduled in late 2021, to consider whether Mr. Odey had breached a final written warning issued to him in February 2021 in relation to inappropriate behaviour.

The notice states that Mr. Odey was due to attend a disciplinary hearing in January 2022. Beforehand, he allegedly used his majority shareholding in OAM to remove

and replace existing members of OAM's ExCo and appoint himself as the sole member. He then decided on the indefinite postponement of the disciplinary hearing into his conduct since he would be unable to conduct it with impartiality. Then on a second occasion, Odey used his majority shareholding to remove OAM's ExCo members and appoint himself as ExCo member. OAM's disciplinary hearing to consider Odey's conduct eventually took place in November 2022.

The FCA considers that Mr. Odey demonstrated a lack of integrity, in that his actions:

- were deliberately designed to frustrate OAM's ongoing disciplinary process into his conduct, to protect his own interests; and
- showed a reckless disregard for OAM's governance and caused OAM to breach certain regulatory requirements.

US

SEC & CFTC Enforcement Results

US regulators announce enforcement results for fiscal year 2024

In November, the Securities and Exchange Commission (“SEC”) and the Commodity Futures Trading Commission (“CFTC”) announced their enforcement outcomes for fiscal year 2024, illustrating the continued importance of having a robust compliance program.

SEC

The SEC [announced](#) that during the fiscal year, it filed 583 enforcement actions, a 26% decrease compared to the previous year. These actions included:

- 431 original enforcement actions, a 14% decrease year-over-year;
- 93 follow-on administrative proceedings seeking to bar or suspend individuals from certain functions in the securities markets based on criminal convictions, civil injunctions, or other orders, down 43%; and
- 59 actions against issuers allegedly delinquent in making required filings with the SEC, a 51% decline.

The enforcement actions addressed a wide range of violations, including insider trading, accounting fraud,

disclosure failures and market abuse. Emerging issues such as digital asset compliance and cybersecurity risks remained a focus of the SEC’s efforts.

The SEC also secured a record \$8.2 billion in financial remedies. The financial remedies comprised:

- \$6.1 billion in disgorgement and prejudgment interest; and
- \$2.1 billion in civil penalties.

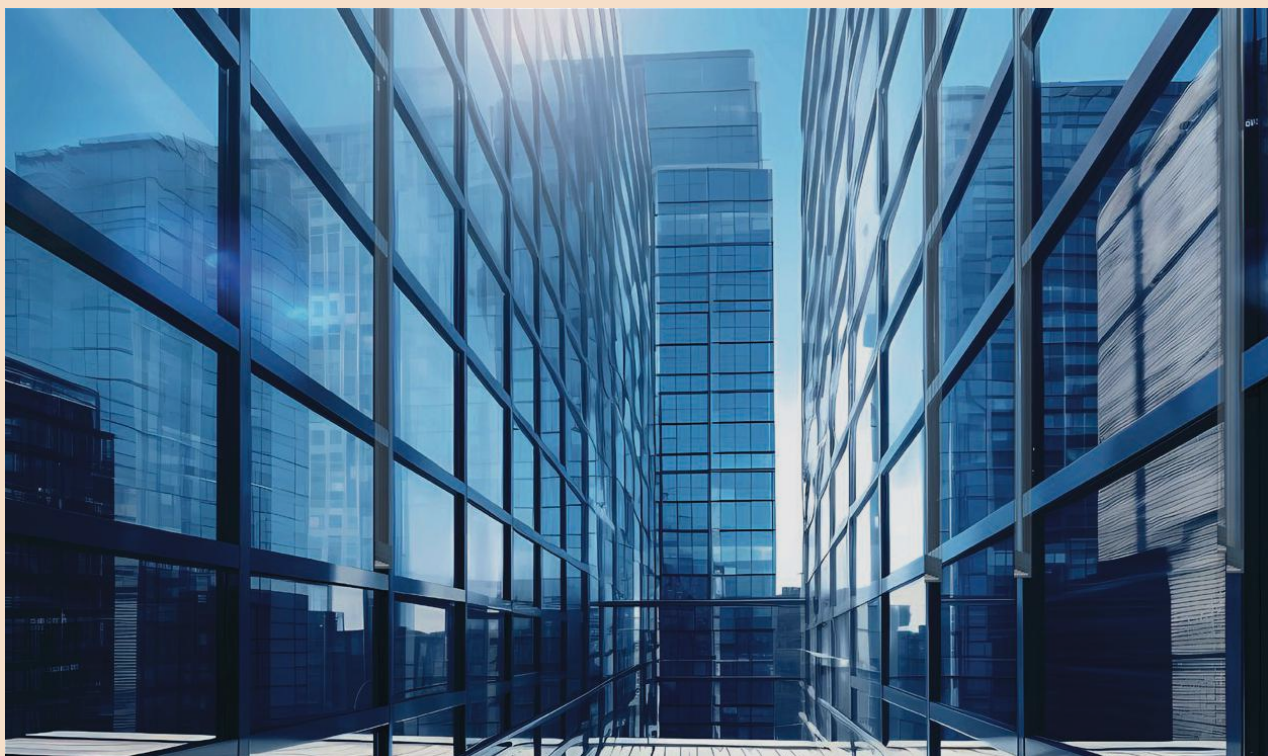
In addition, the SEC distributed \$345 million to harmed investors during the fiscal year, bringing total distributions to over \$2.7 billion since fiscal year 2021.

Whistleblower Program

The SEC’s Whistleblower Program received a record-breaking 45,130 tips, complaints and referrals, including over 24,000 whistleblower tips. The program awarded \$255 million to whistleblowers, underscoring its importance in identifying violations and enhancing market integrity.

Cooperation and Compliance

The SEC emphasized the value of cooperation in its enforcement efforts, noting increased self-reporting and remediation by market participants, including public



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companies, investment advisers, and broker-dealers. These proactive measures reflect a growing culture of compliance across industries.

CFTC

In FY 2024, the CFTC filed 58 actions and imposed more than \$17.2 billion in fines. Ten of those actions were related to digital asset commodities. During the same time, the CFTC's Whistleblower Office granted 15 applications, awarding over \$42 million to individuals whose information led to successful enforcement actions.

Summary

The SEC's enforcement results for fiscal year 2024 reflect its commitment to maintaining fair, transparent and efficient financial markets. Despite a decrease in the number of enforcement actions, the record-breaking monetary sanctions and whistleblower participation demonstrate the agency's ongoing vigilance. As financial markets evolve, the SEC's proactive enforcement strategies and focus on emerging issues like digital assets and cybersecurity will continue to shape its regulatory impact.

US Court Ruling**Federal court overturns the SEC's Dealer Rule**

On November 21, 2024, the US District Court for the Northern District of Texas vacated the SEC's new Dealer Rule, [holding](#) that it exceeded the agency's statutory authority under the Exchange Act. Adopted in February 2024, the rule significantly broadened the definitions of "dealer" and "government securities dealer" to include certain private funds and proprietary trading firms, potentially subjecting them to SEC and Financial Industry Regulatory Authority ("FINRA") registration requirements.

The Court ruled that the Exchange Act does not define trading entities without customers as dealers. It further found that the SEC's interpretation lacked support in the statute's text, legislative history, and subsequent congressional actions. By vacating the rule, the Court limited the SEC's ability to expand dealer registration requirements beyond traditional customer-facing entities.

**Enforcement round-up****SEC fines JP Morgan affiliates over \$150 million for multiple regulatory breaches**

The SEC [announced](#) settled charges against J.P. Morgan Securities LLC ("JPMS") and J.P. Morgan Investment Management Inc. ("JPMIM") for multiple regulatory failures, including misleading disclosures, breaches of fiduciary duty, and conflicts of interest.

JPMS's issues involved misleading disclosures related to its "Conduit" private funds, which pooled investor money to invest in private equity or hedge funds. The SEC found that

JPMS did not disclose that an affiliate had sole discretion over the sale timing and quantity of shares, exposing investors to market risk. The SEC fined JPMS \$10 million as a civil penalty and \$90 million in voluntary payments to impacted investors.

Additionally, from 2017 to 2024, JPMS failed to disclose financial incentives for recommending its own Portfolio Management Program over third-party programs. The

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program's assets under management during that time grew from \$10.5 billion to over \$30 billion. The SEC argued that these incentives were not fully communicated to clients, leading to a \$45 million penalty.

The SEC argues that, between 2020 and 2022, JPMS recommended higher-cost Clone Mutual Funds to retail clients instead of more affordable ETFs. The SEC found that JPMS failed to consider cost differences, affecting 10,500 customers in violation of Regulation Best Interest. Due to JPMS's self-reporting and remedial actions, including \$15.2

million in repayments to customers, the SEC imposed no additional penalty.

JPMIM faced charges for engaging in prohibited joint transactions, which benefited an affiliated fund over US-based market mutual funds. This violation resulted in a \$5 million penalty. Additionally, from 2019 to 2021, JPMIM conducted 65 unauthorized principal trades involving \$8.2 billion in assets, which led to a \$1 million penalty.

NFA fines AC Investment Management \$100,000 for compliance violations

The National Futures Association ("NFA") [announced](#) settled charges against AC Investment Management, LLC ("ACIM"), a New York-based commodity pool operator, for multiple regulatory breaches, including improper loans and failing to act in the best interest of its investors.

ACIM's issues involved an improper loan related to Aurelian Plus LLC, a pool it manages, to an affiliated entity. The NFA's Business Conduct Committee alleged that this loan violated NFA Compliance Rule 2-45. Additionally, the NFA claimed that ACIM failed to uphold high standards of commercial honor and equitable principles by not acting

in the best interests of Aurelian Plus and AGR Master LP, another ACIM-managed pool, violating NFA Compliance Rule 2-4.

For violating NFA Compliance Rules 2-4 and 2-45, the firm was fined \$100,000.

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