



2026 GLOBAL CONFERENCE

LEADING IN A NEW ERA



THE RISE OF INSTITUTIONAL PRIVATE CAPITAL

Announcer 00:00:01

Thank you for joining us. Please welcome the panel to the stage.

John Foley 00:00:20

Hi, everyone. Thank you so much for joining us. My name is John Foley. I'm an editor of the Financial Times. I run what's called the Lex Column, which is our back page opinion section. I'm delighted to be here to host this panel today on the *Rise of Institutional Private Capital*. This, I think, is the question about an industry that is at least \$20 trillion and growing. The questions about the speed, the nature, the sustainability of that rise. We're going to get to a lot of that today, some of the risks and the opportunities. And I've got a really fantastic panel that I'll introduce in a moment. We have a mechanism by which you can ask questions. I have an iPad here, which I believe will show me questions that you submit in the audience using a QR code that you can scan. So, if you do have questions, send them over. I will keep an eye on this and either weave them into the conversation or we'll come back to some of them at the end. So I'm just going to run through the panel and let you know who we've got here from your left to your right. Here we have John Aylward, who's the Founder and the CIO of Sona Asset Management, which is a credit alternative asset manager with about \$18 billion of assets under management. I, by the way, added up everyone's assets under management, and it came to a trillion dollars, which I loved, but you can check my maths later. Then we have Oscar Fahlgren, who's the Chief Investment Officer and the Head of Private Equity globally at Mubadala Capital. That's \$430 billion of alternative assets under management. Then we have Madelaine O'Connell, who's Managing Director at HPS, focused on high-grade private credit. HPS, obviously part of BlackRock, running over \$190 billion alternative assets under management. Fred Pollock is the Chief Investment Officer at GCM Grosvenor, publicly traded alternative asset manager with 90 billion of assets under management. And then at the end, we have John Vibert, the Head of Credit at PGIM, which is, of course, Prudential Financial, with roughly \$350 billion of alternative assets under management. We have three Johns today, so I'm sorry that our parents weren't more imaginative when thinking of our names. I want to start off. I was struck this morning by a comment from the Deputy CEO of Mubadala, Waleed Al Muhairi. He was talking about how we're not going to be defined by a few weeks of

disruption and volatility, and I think that's a sentiment that a lot of people at this event today will share. I do want to be real, though, and acknowledge that we are in a period right now of some disruption and volatility, and I thought we could start by just addressing some of that. We've got a situation where we've seen investors in several private market semi-liquid vehicles trying to get money back. In some cases, they've been successful. In some cases, they haven't. Gate mechanisms have been in most cases observed, and in some cases not. But I'd just like to start off by going down the panel and asking you just high level, concise, how worried should we be or not? And on whom should the spotlight now fall? Is it investors? Is it the folks structuring these investments? Is it the people selling them? Or is it us? Is it the people writing and talking about them? And I'll start with you, John.

John Vibert 00:03:29

This was an easy question. Look, I think there's a lot to worry about. The world is moving very fast. In terms of who's in the crosshairs or who should most be concerned, look, I think anybody who has a traditional credit investing model needs to worry a lot about the restrictions and limitations they have. The marketplace for solutions provision continues to grow rapidly in size, but also across areas. And if your platform isn't able to sort of follow the flow and be around the ultimate solution, whether it's investment grade, leverage finance, whether it's corporate or asset-backed, whether it's public or private, if you're stuck in a lane, you will just be fed an answer. If you're able to float and move flexibly to where the solution's going to be, you will add value. And I think it's those people, or all of us, should really be focused on the capability set and the mandates that we have, because that's what's going to drive alpha.

John Foley 00:04:33

Oscar.

Oscar Fahlgren 00:04:34

Yeah. Thank you. Listen, I think if you divide the question a little bit into different parts and you said, "how worried should we be about the global economy?" I think we're undoubtedly standing just in front of the worst energy crisis we have seen in living memory. I think we haven't felt the effects of the closure of the Strait of Hormuz on the energy markets quite yet. And it's hard to see what will happen to the real economy once that comes through, and it depends, obviously, on how long it lasts. But clearly, it doesn't look like we have an easy solution anytime soon, and I think we also, even with the best will in the world, if you open it up tomorrow, it's going to take time for markets to normalize. So, I think we're going to have a lot of disruption, and I think we haven't seen nearly even the beginning of what's to come in terms of physical prices and deliveries and whatnot around the world. So that's number one. Now, personally, for us, we love complexity. We run into it. We embrace it as one of the sources of alpha for us as an investor, and I think in this environment, capital is scarce. We have some of it, and we have an organization that is used to digging in and embracing that complexity to try to find value on the buy. So, from a pure investment perspective, from our point of view, we're actually pretty excited. We think this could be a tremendous opportunity for us to generate returns. But I think we're in an environment where—and it's

not a high-cost environment, but the cost of being wrong is really high, right? If you get this wrong when you buy companies, you could get hit pretty hard. So I think that's my perspective on where we stand today.

John Foley 00:06:25

So just to go back to the question, the investors are where you would say the spotlight falls. Are they?

Oscar Fahlgren 00:06:34

Yeah, I think so.

Madelaine O'Connell 00:06:36

Yeah. So, thank you for having me. Happy to go next. I think, taking it back to maybe the panel, institutional capital, private credit, I think obviously we've all been in the headlines in a variety of ways, and I think defining what private credit is holistically is quite important. Whether that's you're talking to institutional investors, you're talking to retail or otherwise, really going through this market has evolved tremendously since its infancy. We now have many different products. It is no longer just a middle-market direct lending, private credit business. You have the junior capital side. It moved into infrastructure, project finance, investment-grade asset-based finance, and really unpacking that for investors and making sure they understand the nuances and where they should be deploying capital, where they should be allocating capital. And then I think maybe a worry or a concern is as there has been more institutional capital still flooding in, over time, that means there's too much capital in the system, and maybe focusing on the investment-grade side as an example. So much capital is coming in, so much capital needs to go out, but ensuring that the underwriting standards, the way private credit has historically dug into documentation, downside protection, structure, and, thereby, generating a premium for our LPs and our accounts, making sure we continue to hold that standard even as there's more and more opportunity. And as you bring more in, you have to deploy more out so—

Fred Pollock 00:07:52

—Maybe I'll answer it two different ways. So the first, just on the investment environment, kind of macro, there is not going to be probably in any of our lifetimes, a more important decade to be invested than this next decade. So I don't think it's an option for people to sort of sit out the markets, and there will be volatility during this period of time. It could be quite substantial. It can be related to geopolitics; it can be related to anything. But our perspective, you have to have a long-term programmatic frame for investing, and you would not want to be under-invested, I think, given what's going on with AI and technological change, et cetera. The second, I think, real frame of that question, which is probably what's in the newspaper, right, is when you open up the cover of the newspaper and you talk about the institutional markets, or you talk about individual investor markets, it's all about vehicles and the packaging to access

things like private credit. I think I'd remind people why is it happening at all? It's happening because if there's a 35-year-old who has a 30-year horizon for their savings, it's inappropriate for them not to be invested in the private markets. And it's inappropriate for them not to be invested in alts. They need it in their portfolio, and the market is trying to find a way to sort of port these high-quality institutional solutions that we have to those individuals. And it's a challenge. You have to find the right vehicles, and there's an evolution in the vehicles. But I wouldn't lose sight, even though there are some issues with it here and there, and you see some of them in the private credit markets today, that it is a very good goal to make those investments accessible to those individuals, and they should be part of their portfolios. And so I think it's sort of—we could all talk about the wrappers and is the wrapper the right one and is it a right frame, et cetera. I wouldn't lose sight of the goal, which is we should make these assets accessible to these individuals, and I think that will happen if we fast-forward over 10 or 20 years, and then we could talk on this panel about some of the ramifications near term.

John Vibert 00:09:42

So I'll take the other side of the premise of your question. What is, I think, surprising to us, but shocking to us, frankly, is how little volatility there has been. So, I think it's a bit of an indication of how much people have craved, I think, a certain amount of market disruption that everybody has glommed on to one or two accidents in what has otherwise been a relatively calm period for the market, and it's particularly all the more surprising, given the amount of geopolitical uncertainty and given the amount of macroeconomic uncertainty, given AI disruptions and obviously, the unfortunate events in the Middle East. So, for us, I think, the volatility is welcome, and it's also, I think, a bit of a shot across the bow, I think for people who have leaned into the low volatility story. I think the reality is if you think about, in particular, middle market direct lending, there are a lot of people who I think leaned into the idea that you get these 10 percent IRRs and no volatility and kind of monotonically increasing asset prices, and I think that was a false premise. And so if the other part of your question was where should the focus fall, I think it needs to focus on valuation for sure, particularly as we look to find ways to offer alternatives to a retail audience. I think we need to look at valuation. I think the focus needs to fall a little bit on the asset management industry and also the regulatory construct.

John Foley 00:10:58

Right. Because a lot of the problems we've seen so far have been liquidity related, haven't they? Rather than to do with actual losses, which either are so far apparently nonexistent or quite small. But do you think then that we need to move into a period of being a bit more—knowing more about what the valuations actually are?

John Vibert 00:11:16

Well, I think it depends a little bit on the construct of the fund, so I think product design matters a tremendous amount, right? So, I think from a PGIM perspective, right, we take our responsibilities incredibly seriously. We're a 150-year-old company that wants to be around for another 150 years. So, for

us, particularly when you're talking about retail alts, and I know the premise here is more institutional capital, but when you're talking about retail alts, some of that is a very retail-oriented sale, and some of that is a very institutional-oriented sale, and I think you have to gear your product differently depending on whether this is a small sleeve of a target date fund, which is much more of an institutional quality sale, versus whether it's a very retail-oriented product where retail investors can get in and out at will. And then I think if it is the latter, then I think you need to be particularly—in both cases, you have to be honed in on valuation. But I think the disclosures obviously matter a great deal in product design and the quality of the conversation with the retail investor needs to be incredibly well thought through. So I think the nature of that retail sale matters a lot.

John Foley 00:12:15

Got it. And just focusing on the wrapper still for a second, so Fred and Madelaine, obviously your companies are also taking advantage of what you might call semi-liquid structures that exist both on the institutional side as well as on the retail side. How is that model holding up more broadly, and is there anything that we can learn from the way that some of the elevated redemptions that some funds have been handled or not handled that will help us to make sure that RAPM does continue to be fit for purpose?

Fred Pollock 00:12:43

So, maybe a couple of different features. We have a lot of different practices. One of them is a credit secondaries practice. And every year, we probably look at \$20 or \$30 billion worth of essentially credit funds, marks, these types of things in the market. There's no systematic overvaluation or undervaluation in the credit markets today. You have pockets where the values are wrong, but that's always true. Right? Meaning things get stale, they're actually undervalued, there's an opportunity to purchase, or there's an AI disruption, there's a tech disruption, things that people thought safe, say, software lending, isn't really safe, and there needs to be an appropriate revaluation of those assets. So, I think that's happening, and that goes to the markets. But at every given day, someone has things valued too richly, and someone has them valued too poorly, and there's a market. I don't think there's any systemic bias. In terms of how the vehicles are holding up and these types of things, obviously, it's very specific to the individuals. I'd remind everyone, they're a very small part of the market. Overall, that's not what's setting price in the credit markets at all or even remotely. I think the real challenge that we've seen and where the evolution is, is about the communication and did people give the right information to the ultimate buyer or decision-maker around a product, if that makes sense. So, where I think you see stress and you see, for example, redemptions that may be in excess of what's allowed in a quarter, and it'll take a couple of quarters to work your way through it. Some of that where people have consternation, is it with the structure? Not really. Right? People will wait if 5 percent. There's lots of vehicles in the world where most of the institutional capital we manage, people don't have any liquidity, and they wait a long period of time for it. It's the mismatch between someone's expectations for liquidity based on how they were communicated to when they purchased that instrument and what actually is there in the underlying. And you'll see some stress around that, but I think the industry's trying hard to—and this will be a learning experience for the industry to work its way through that.

John Foley 00:14:45

I guess the question that comes from that is whether—because you hear that a lot, that the gates are a feature, not a bug. Which is true, right? And it's on the first page of the—it's right there. You shouldn't be able to miss it. And then the question is: Is it then an issue with the way the product is sold in some cases? And I'm sure that's true. Or is there just a vulnerability in retail money that means that it's less well-suited to being able to work around those kind of disruptions?

Fred Pollock 00:15:12

Yeah. I don't think so. I think at the end of the day, capital is capital. A product needs to be communicated appropriately. People need to understand what they own and what they bought and what the feature set are, and you could do it. To the extent someone is in the marketplace promising financial alchemy, that they can take an illiquid investment and make it liquid, and they're misrepresenting that fact, then there will be stress, and there will be problems from that. And the market will sort that out, and I think you'll see that live. People will sort out the market participants and how people can participate. But I think we all read the newspaper articles, and it's stressful, and you see it. I think it's a moment in time. I think if you fast-forward 10 or 20 years, it would be shocking to me if this part of the market isn't huge, if it doesn't rival or exceed what you see from the institutional side of the market, and then the market has to accommodate that flow of capital in the right structures. I think that's absolutely what's going to happen.

John Foley 00:16:03

Got it. Madelaine, does that gel with what you're seeing as well from where you sit?

Madelaine O'Connell 00:16:07

Yeah. No, I absolutely agree. I think at the end of the day, if you just take a step back on private credit, wherever you are within that spectrum, what are we doing investing in long-duration illiquid assets? So, to a certain extent, is institutional capital the better match for that, meaning they have long-duration illiquid needs? Perhaps. But I do agree that there has to be a way for the retail community to continue to invest in this asset class, especially as you think about the growth, the scale, the changing, whether it's an investment-grade, non-investment-grade, new asset classes coming in, hard assets, contractual cash flows. These are important deals that we believe should be in the hands of both institutional and retail, and it's a matter of disclosure, transparency, and openness around what we are investing in.

John Foley 00:16:48

Got it. So, Oscar, you talked about opportunities, and that is a great question. What are the opportunities in some of this dislocation? And I'd just love to know a bit about what else you've been seeing.

Oscar Fahlgren 00:16:59

On this, firstly, obviously, I think the issue or the inherent issue with the liquidity here is that retail investors' propensity to misjudge their own liquidity position is probably higher than institutions. Right? So, you get more volatility on the redemptions and what they want back quickly to cater for whatever situation is happening. But having said that, obviously, access to private credit or other alts, for that matter, is critical in the long run, right? It doesn't make sense that retail would not have access to it over the long run. What you're seeing today is an environment where I think by and large, there is no material issue with the underlying portfolios, whether it's credit or even equity today. But you're seeing volatility on the market triggered by rumors, liquidity demands, and whatnot, and that obviously presents opportunity. Like, there's great opportunities to buy assets at a discount from sellers that are not solving for problems with the underlying portfolio, but they're solving for problems of their own balance sheet, so to say. And that's a good environment to buy in.

John Foley 00:18:12

Got it. And is it to some degree, I guess, are we going to see a slight substitute, like public capital being substituted for—sorry, retail capital being substituted for institutional capital as you get some people slightly withdrawing and others coming back in

Oscar Fahlgren 00:18:26

I don't think so in the long run. Maybe temporarily, but I think in the long run, you're going to see a continued tremendous growth of retail capital, I think, for these types of products. We own a company called Coriant, which is an ultra-high net worth platform. Clearly the demand from the ultra-high net worth community is sky-high for these types of products, whether it's credit or equity or both—and I think we expect that to accelerate, not de-accelerate, for sure.

John Foley 00:18:58

I have a question for you, John, but I just want to ask one thing of you, Oscar, while we're on this topic. Because one thing that I hear a lot when I'm talking to folks about valuations and about particularly the software story, the idea that a lot of software companies are going to be in severe distress, and that should be reflected through valuations. One of the things you often hear as well, if you're worried about the credit side, you should be really worried about the equity side, because obviously the equity absorbs the losses before the credit does. So, why is no one talking about private equity? And it is a slightly disingenuous question because there are lots of quite good reasons, I think, why people are not talking about private equity in the same way. But I'd love to know how you answer that question.

Oscar Fahlgren 00:19:35

Well, intellectually, that's a pretty good statement, right? Theoretically, the equity should get wiped before the debt. Listen, I think the problem is that a lot of people, particularly when it comes to retail, have been lured into a position to believe that credit carries no risk, right? You're getting 10 percent coupon, and then seven years later, you're out, or five, or whatever. And I think what has happened in the public space is that that belief has been a little bit shaken. That's why it's grabbing headlines. But clearly, we're not going to end up in a situation where all credit funds are wiped out and the private equity sponsors are doing great. Sure. That's just impossible.

John Foley 00:20:12

And I guess it's also true, isn't it? That private equity hasn't been retailized in quite the same way as private credit yet.

Oscar Fahlgren 00:20:19

That's probably right, and to the extent it has been, I think the risks have been more explicit or better understood. People have a sense of security when they're investing in credit.

John Foley 00:20:29

Got it. So John, Europe. You are obviously here in LA hearing people talk about how their view of how things look. I'm guessing you hear something slightly different in Europe, but I'd love to know what the mood is there, but also how different the setup is in terms of the wrappers in which these products are delivered and in terms of the opportunity set that you see.

John Aylward 00:20:52

Well, life is different in Europe than Beverly Hills.

John Foley 00:20:54

It really is, isn't it?

John Aylward 00:20:55

That's my take after 24 hours. Look, I think that the US is naturally so much more optimistic than Europe about everything. Yeah. And at this moment in time, it's fairly reasonably justified given the differentials in growth, the vulnerabilities to further tensions in the Middle East, and all things in between. What Europe has to confront right now is a, hopefully not as bad, but still a rerun of the realization in 2022 that it's just got major structural weaknesses across its entire economy. Yeah. And that's a real challenge, but it's also a huge opportunity for us. And what I'm really struck by when I consider Europe are the simple facts that the size is large, the needs are urgent, and the amount of capital over there that is flexible or constructive is very limited. We have to fix things across all of security, energy, technology, infrastructure. It's going to require money. Some is going to come from governments, some is going to come from straightforward sources, but a huge amount is going to be required in a more flexible manner. And whilst Europe offers so much less growth for your equity dollars than the US does, it has a very large and complex financing regime that simply does not have the competitive nature that the US has. If we're to break it down to something super basic, this great country has three huge telecoms companies that access the capital markets incredibly efficiently, and Europe has four telecoms companies in 27 different countries needing 100 different financings of all different shapes and sizes. And so I think that Europe is in a very challenged place, dealing with problems of the old and trying to figure out how to be part of the new. But that really is what is exciting as a credit manager to take advantage of and be part of.

John Foley 00:22:57

Do you think that, because Europe, as you say, is really different? You have all these different regulators, different rules—

John Aylward 00:23:02

—Yeah.

John Foley 00:23:03

Different rules on lending. I think in Germany, you cannot lend unless you're a bank, right?

John Aylward 00:23:07

Yeah.

John Foley 00:23:08

Do you find that people in your position in Europe are looking at the US and thinking, "We need to be more like this"? Or are they saying, "It's quite good to go second in this market because you can see where the wrinkles are and avoid them"?

John Aylward 00:23:24

I think that from a policymaker perspective, from a general citizen consumer wellbeing, the weaknesses in European capital markets are one of the key weaknesses alongside energy and technology, whereby Europe is deficient compared to the US. So if I was a policymaker, or generally thinking about the wellbeing of the continent, I'd like to see things improve for sure. But in its current fractured, fragmented state, that is the opportunity set for those with flexible capital.

John Foley 00:23:54

Right.

John Aylward 00:23:55

And we're trying to add our own benefits the way we can, but definitely it could be made better.

John Foley 00:24:00

Got it. So if we widen the aperture a bit and talk about one of the other huge source of volatility and disruption is geopolitical. And actually, I want to broaden that out still further because we have questions like sovereign indebtedness, we have geopolitical turbulence and geopolitical fracturing, which is happening over a longer time horizon. What is the—what's the role of private capital in that world, whether it's debt or equity? Is there a way that you are sort of pitching what you do as a solution to this increasingly fractured world? Or is this something that makes you feel that we should be a bit more cautious before we start allocating resources? How do you think—I'm going to ask this to you, Oscar, first, because—

Oscar Fahlgren 00:24:48

—Yeah. So, listen, we're an investment company. I don't think it's our role to solve the world crisis or make Europe a better place. Our role is to try to find great investment opportunities, and I think the first thing that confusing sort of a good company with a good investment is not our business model. So I think our model is these uncertainties present opportunities, right? So, if we can embrace those uncertainties, if we can embrace the structural issues in Europe, if we can find opportunities to buy companies or provide debt

solutions or hybrid solutions to these businesses that are in need of capital in an environment where it's constrained, whether it's constrained because Europe can't get their act together or it's constrained because the world economy is going through a shock, in some ways it's all the same, right? Our job as private capital in this situation is to find those opportunities and provide a solution that isn't there for whatever reason. And I think, you know, is the US doing better? For sure. Is there much better capital markets? Yes, for sure. But is competition 10 times higher? Yes. Right? So it all goes hand in hand, and it doesn't necessarily mean the better opportunities are where the better system is functioning for the moment. It's in and out. So, I think we see our role as this to really step in, analyze, and provide those investment opportunities for our investors and generate really outsized returns. And I think the more volatility you see, the more complexity, the more geopolitical mass, the bigger the opportunity.

John Foley 00:26:27

Is geopolitical risk being priced in? I'll throw that to that half of the room, right? Everyone knows that it is a thing and we can feel that it's elevated, but is it something that is actually reflected in the way that assets are being priced, or is it just a thing that you think about afterwards and say, "Oops, geopolitical risk turns out to be higher than we thought"?

John Vibert 00:26:47

So, I'm a big fan of the idea of, don't tell people what you think, tell them what's in your portfolio. So, I'll answer that by saying, in a lot of our multi-sector portfolios, which have fairly liberal guidelines, we're running about 30, 40 percent of our risk budgets. And so at the end of the day, I think the market continues to be priced closer to perfection and seems to be looking through a lot of the geopolitical risks that are out there. And so I guess, I would say kind of voting with our capital, I think we're skewed towards being more conservative right now, and I think it's actually a relatively comfortable place to be, because I think spreads are tight, and I think it's important to have dry powder, so that when you do see a dislocation, you're in a position to take advantage of it. And so I think the short answer would be, a lot of the geopolitical risk, I think, is not yet priced in. And then I think to your previous question about the role of private capital, I think the main feature of private capital used to be its durability, its long-dated, patient nature. And I think that's where it really offers, I think, something quite compelling, whether it's in the US or outside the US. And, I think for us, this is an exciting time. I think to have patient capital there are, I think, opportunities. We're seeing good opportunities in Europe. I think we'll see more. We're quite excited about securitization reform in Europe. I think this is a really interesting time for Europe, as it kind of awakens to the challenges of its own security apparatus. And I think there's a growing realization, although it's not uniform, that securitization is an important part of the financing of Europe's needs around infrastructure and security and energy. And I think private capital has a really important role to play there. And it's not philanthropy. I think the risk premium that we're able to get in Europe are really good. But I think the patience and durability of private capital, I think, is a really important feature of what it offers to policymakers and to borrowers.

John Foley 00:28:52

Madelaine, you're dealing with high-grade issuers, high-grade borrowers, and I'd be curious about—and this is linked to a question that we've had from the audience about the sort of relative risks of private versus public sources of capital. But when you're dealing with a world that has all these fragmentations and fractures, presumably in direct lending or private deals, you have a lot more bespoke bilateral negotiation about covenants and so on. And it should be possible to tailor something that is more suitable for unusual times. But obviously there are costs that come with that too, that you don't get from the public market. So, how would you first characterize that sort of trade-off? Why would your issuers be going to the private market for their debt when they kind of have the pick?

Madelaine O'Connell 00:29:36

Yeah, no, it's a great question, right? If you're a public IG borrower and you have access to the public IG markets at the lowest cost of capital, why would you move into a private solution? And I think, a couple of things have happened with private investment grade, and that's why you've heard so much about this in a different format. It's not new. It just used to be a much smaller part of the capital markets when you think about syndicated private investment grade, that was over time \$70 billion, now growing to \$225 billion. But those are small numbers when you think about the landscape of public fixed income, private credit, private equity, et cetera. And, so, what we've seen in the private investment grade side is more and more new entrants. And, really, when you think about private investment grade versus maybe private credit 1.0, the strategic asset allocation, when you think about an institutional investor, is really looking at their public fixed income side of the house and saying, "Can I allocate something into an e-liquid private investment grade instrument where you're getting the same rating, same credit quality, but you are going to be able to get a premium?" And what that premium is, is not going to be the same as private credit 1.0, but when you look at that asset allocation, you are getting, call it, 50 basis points was what the syndicated market used to get. In private credit, now, that's up to 100, depending on the corporate structure or asset-based finance, and even 150, 200 plus of excess spread over public comp. So what private capital is now in the investment grade side is more and more has come in. So if you looked back over time, deal sizes, if you saw a billion-dollar transaction 10 years ago in private investment grade, I would be shocked. Now we're just seeing deals on a weekly basis that's 5 billion to 25 billion. And so there's more and more capital coming in, which allows us to provide more customized solutions to these public IG borrowers, who otherwise, if you look back over time, never would've had an opportunity to do a private investment grade offering. And, usually, when they're looking to do something off balance sheet or something structured or a pool of assets where they're not getting the right leverage, they're willing to pay a premium because the alternative is typically equity or something else. And so we can step in and provide that really customized, highly flexible structure, yet utilizing our private credit style due diligence, which is underwrite first, documentation, terms matter, then we price it appropriately, and thereby you get 150 to 200 of excess spread. And I think to be frank, with some of the questions around geopolitical nature and things going on, this is a very interesting time to be providing private capital solutions to these borrowers in a much more customized format because the public IG market is a bit more cookie cutter when it comes to the type of deals and the structure of deals that can go through the system.

John Foley 00:32:05

Fred, how do you think about this? How do you think about the sort of what you get from public versus what you get from private and what the relative puts and takes are, if you like?

Fred Pollock 00:32:14

Look, we are exposed to everything, right? So if you think about it, we've got a \$25 billion hedge fund business, who's also got private credit. I think all of this stuff, it's all going to grow. It's going to grow at different rates. It all has different measures of utility for the users in each of the categories. The geopolitical question, what do I really think? I think people should focus on things that actually matter to them, is what I really think. And what do I mean? If you're in a hedge fund and you're not focused on tomorrow's geopolitical risk, then you're going to go out of business. If you're making a loan for 15 years to an infrastructure project, long-term trends, forces, are what's going to dictate what you're doing overall. I think the challenge a little bit has become people historically had access to some of these different, I'll call them investments, and they've lost them. I'll give you an example, like early stage venture growth companies. Everybody used to get access through an index fund, and it was pretty easy, and it never even fell into our world, or it did for a short period of time, right? So, you think of Google or Facebook or Me—whatever. It lived in our world for a short period of time, and then it lived in the public world, where people got it through index funds or some lower cost investment solution. Today, they all live in the private world forever, or at least from a value contribution perspective for a long time, right? So think of SpaceX, and it's a trillion dollars plus, or Anthropic or OpenAI, any of these companies, a trillion dollars plus. So, I think the idea that you need to live and exist in all of them at the same time to basically deliver on an investment mandate over time, it's just going to become increasingly more challenging to do that, and you just need to be adaptable, if that makes sense. So, we have a lot of hedge funds, for example, that now invest in privates or liquids or hybrid type alternatives to fill the gap. And it's not changing. The idea that we're going back to the idea that you live inside your vertical, or you don't need the private capital markets, the private capital markets are enormously beneficial in stabilizing. It's the most patient, well-structured, lowest leverage capital in the system, right? So, I think if you think of the theme of the panel, which is, is it stabilizing or not, I think it's indisputable that private capital markets are super stabilizing, but there's changes always happening, and we all want to be part of those because to the commentators, that's where the opportunities are. They're where the change is happening on the margin.

John Foley 00:34:41

Don't though, the public markets still-- I mean, the public markets still obviously have an important role in terms of price discovery, right?

Fred Pollock 00:34:47

Yeah.

John Foley 00:34:48

And you mentioned SpaceX. SpaceX is a company that a lot of people thought certainly wouldn't be going public this year, and yet it seems like maybe it is. You could say the same about Anthropic. These companies that we at some point were thinking maybe these companies will live their entire life cycles out in private. Though public markets still do matter, how useful or how much less useful does that price discovery signal become the more activity starts taking place in private markets? So, if you have the world's biggest companies are private, and a greater share of lending is done privately through private lending, where do you find the price discovery, and do you start to see more volatility in those signals that we do have from traded securities?

Fred Pollock 00:35:51

I think there's price discovery in both, and I think that everybody who's been buying and trading actively, kind of interest in making investments in all of these ventures, obviously thinks they were doing it at good value, right? Based on the price. I think the public markets have a particularly useful utility when it comes to price discovery. I'm not sure you're going to get it necessarily quickly, right? Meaning, we could debate the nature of how these things go public. They go public in stages, essentially. Small amounts of—it's like an iceberg—and the top of the iceberg goes public, but not the entirety of the structure in terms of how things will get priced. But I think the public markets are incredibly useful. They're incredibly important. They're also quite flawed. Right. If you think about the nature of index investing, passive investing, what price discovery is being served in that half of the marketplace? Right. They're not pricing anything. So, each of the markets is important. I think if I had to just judge being participants in all of it, I think there's very intelligent people active in all of it, pricing the instruments that are there. And I don't think the quality of pricing in the public markets is any better than the quality in the private markets today.

John Foley 00:36:46

Yeah. That's a fair point. Although, the index argument, there has for a long time been an argument that those huge ETFs do affect price discovery and make the public—

Fred Pollock 00:36:54

They've made it worse. There's no question—

John Foley 00:36:55

Yeah.

Fred Pollock 00:36:56

They've made it worse over time.

John Foley 00:36:57

Yeah.

Fred Pollock 00:36:58

If you went back 30 years, it would've been more on the nose, but that's opportunity for hedge funds, right?

John Foley 00:37:02

Yeah. How do you see this from where you are, John?

John Aylward 00:37:04

Well, I think it's very interesting or very notable to see that these giant companies that are amazing companies, and some people here were smart enough to invest in them a long time ago, are actually now coming to public markets. And it's part of a theme that's been sort of mentioned without being explicitly outlined, is that we live in a very under-invested world. We've gone through a long cycle of, whether it's SaaS or asset light businesses, of just kind of investing on an asset light basis, and the world now is under-invested in hard assets. It's part of the geopolitical theme and why it's playing out. People don't have enough stuff. People have to reshore, and these giant companies are now coming to public markets because they need the size and scale of capital is there. Now, to Madelaine's point, I agree that the private side is also going to grow because they just need lots of capital from lots of places. But the things that we think about or the things that we see, is that we see a continued public-private convergence. And whilst on the equity side, it's pretty clear if you're listed or you're not listed, that's fine. Yeah? On the credit side, being private versus public isn't the same thing as being tradable and untradable. Yeah? And the whole way the credit market originates asset, distributes assets, and trades assets is very changed away from what it used to be. It doesn't fit neatly into the buckets of public and private anymore. Over the last three years, it's changed enormously, and I think that these major companies coming to market, it's a symptom of the need for investment in many places, and it's going to provide opportunity across both public and private markets in good size.

John Foley 00:38:40

How—Because I want to come back to some of these CapEx monster stories, like the infrastructure, and I think you said about how this is going to be the most important decade, and I'm guessing that the reason is some of these giant shifts in green energy and so on. Where in the capital stack do you see the most opportunity in some of these huge generational, if not sort of even less frequent than generational shifts? And I'm thinking AI data center build-out. I'm thinking the green transition, which just seems still to be on track, well, not on track, but happening. And also rearmament, I guess, in Europe is another one. And if we're living in a more geopolitically fractious world, we're going to see more defense spending, I guess, everywhere. So where do you play in that stack? I'll leave this to anyone who wants to take it.

Madelaine O'Connell 00:39:34

I can start. I think that for these massive projects and all the themes you just described, every single financing source is going to be needed. I think if you look back over time, you know, there are stories where you're a private issuer first, and then you move into the public space, and do you go back? Typically, not, because of that lowest cost of capital story. I think now as you think about the significant scale and the amount of financing that's needed, whether it's on the equity side or the debt side, they're going to have to utilize the bank market, the public market if they have access from a fixed income side, private solutions across investment grade, non-investment grade, junior capital solutions. And I think what you're starting to see is these hybrid solutions are being creative, even within the same transaction where we all have different pockets of capital, different return profiles that we're looking for. How can we bring that all to bear and create structures that work for many different pockets? And so I agree that the lines will blur as private transactions become larger and larger. There is more liquidity in them. It's hard to argue that a \$10 billion private solution, it's definitely not going to be in the hands of one, and even if it's in one asset manager, if you look under the hood how many institutional investors are in there, there will be more liquidity than maybe what we thought about in the past. So, I think that for these, whether it's AI or otherwise, all of these capital markets access private public banks as well, it's going to be critical for everyone to play a piece.

John Foley 00:40:56

Yeah. Oscar, where do you see the opportunities in those big shifts?

Oscar Fahlgren 00:41:00

Well, I think there are two things. Obviously, I think on the AI side of the equation, due to the nature of those contracts and how they're structured, they're obviously very, very attractive financing stories, and I think that's the bulk of the capital that are going into that story. Green energy, which is a completely different story, I think that's where we have been historically reluctant to invest in entities where we don't see economic sustainability without policy. And in light of what has happened in the US, particularly in the last few years, that's turned out to be a wise strategy. But having said that, we have now just launched and

are investing \$1 billion of equity into a sustainable aviation fuel project down in Brazil because we believe that on its own two legs, it can produce energy as cheap as fossil without subsidies. That means we believe there's a real transition happening, that's a scalable project. Anything that requires tax subsidies and whatnot to be sustainable is, at the end of the day, only going to be a fringe activity from a capital allocation perspective. If you can find a project that can literally take us to the next level of transition and take on fossil at its own game, if you wish, then, you know, that is a huge capital deployment opportunity. And when we find those projects, you definitely want to play the equity because the upside is potentially huge if you get it right. So I think it depends, right? Each story is different—and I think carbon credits is coming up as a very attractive financing story for these types of developments as well, so.

John Foley 00:42:41

John, I'm curious, because it seems like the roles are changing a bit too, right? So you have new sources of financing. Private lending kind of grew partly because banks had to somewhat pull in their horns after the financial crisis and Dodd-Frank. There are other things that banks do that are now being done increasingly by big asset managers, it seems to me. And data center is a great example. We're seeing asset managers syndicating loans to data center projects. What else can you do that banks do today, and where are the opportunities there? Not just in terms of where the capital goes, but what you're doing around it?

John Vibert 00:43:21

So, it's an interesting premise. There are certainly some people in the asset management community who are leaning into the narrative of wanting to disintermediate the banking system. That's not our philosophy. We view them very much as partners for us, and we think they serve actually a relatively important function in the broader financial ecosystem. So, I'd say that generally we're not I think focused on a bank disintermediation trade. What I think we bring to the table is a much more durable liability structure, by and large. The vast preponderance of our assets under management tends to be longer duration. In just the credit business, we manage a trillion dollars. About 30 percent of that or so is insurance-based assets, and the rest of it is third party, both institutional and retail. So, it's a mix. But I would say, generally speaking, our client base is more patient, it's more durable, and it doesn't have a daily demand deposit liability structure the way a lot of depositories have. And so I think that we're set up, frankly, to hold illiquid assets and really take advantage of the credit continuum that exists across asset-based finance and corporate lending writ large. So one of the things that we did that was really a driving force behind bringing our public and private businesses together as a single credit business was to be a better solution provider for the types of capital that we have. We had clients who really didn't just want the all private solution or the all public solution. We had clients who were really looking for us to help solve effectively an optimization problem for them, which is "how did they think about liquidity, how did they think about risk, how do they think about reward?" And that's increasingly important. As private credit has evolved into much more of a continuum, charging the right liquidity premium and charging the right complexity premium, I think is very important. And so, I think the role we play is providing patient capital and trying to help our clients solve their solutions and trying to figure out how do we extract the right concessions for them. But I think we tend to be focused a little bit more on partnership with our banking partners than really the disintermediation trade.

John Foley 00:45:42

Got it. So, they don't need to be nervous about you stealing their lunch.

John Vibert 00:45:47

Never.

John Foley 00:45:48

Okay, great. John, I just want to ask you a quick question about sponsors.

John Aylward 00:45:50

Mm-hmm.

John Foley 00:45:51

So, when you're looking at what's available, to what extent is the question you're asking who is the sponsor? Does the sponsor matter in a private lending deal? Would you rather see a sponsor than no sponsor? How does that all fit together for you?

John Aylward 00:46:10

Well, we do sponsor and non-sponsor lending, and they're of quite different types. Non-sponsors are slightly more esoteric and bespoke, because they're less frequent users of capital markets. From a sponsor basis, I mean, the who matters an enormous amount, right, on many levels. And all the things you would think about in terms of their credibility, their track records, you know, they're front and center. But at the same time, it's a valid question because the credit market has changed over the last couple of years whereby if you were a credit investor a couple of years ago, you could play a little bit of moral hazard on certain sponsors because—the fear or shame that they would be scared to endure if they didn't pay all their debts on time, was a little thing you had over them, right? You come to the table and somebody wanted to be smart with you, well, they don't want to be known as somebody who doesn't pay their debts on time. Whereas in the last couple of years, the embrace of LMEs and a more forthright engagement with creditors, where they regard the optionality they have in their documents as a technology, so to speak, to extract some value, has been a real change. And it's been one that we've seen in Europe progress from those non-sponsor founder-led people, the maverick founder who wants to save his business. Then it's progressed to the lower quality, I'll be careful with my terminology, but the slightly lower quality sponsor who's in a bit of trouble and won't push for it. And now it feels like it's a mass market technology to exploit

the optionality in all documentation to extract value from creditors. And so the who still matters a ton—but what they all do these days has changed.

John Foley 00:47:51

Got it. And on that theme of the who, Madelaine, I just wanted to ask you, and we've had a question from the audience about investment grade issuance concentrating in a few massive borrowers, and I guess this links particularly to the data center. And we're seeing it in public markets with the Magnificent Seven sucking all the air out of the room. We're seeing it in VC with some very huge deals dominating. What are you seeing in terms of the sort of indexing towards the very big borrowers? And, are they crowding out the smaller borrowers? Is there enough liquidity for everyone? How does that work?

Madelaine O'Connell 00:48:21

Yeah, no, I think there have been a ton of massive deals, white whale trades, if you will, as I mentioned earlier, kind of 5 billion to 25 billion, especially on the investment-grade side. I think taking a step back as a firm, I think our credit view is always bigger companies better in a way. They have scale. If you can structure the right transaction and step in, bigger could be better. I think, on the investment-grade side of things, these deals are going to continue to scale. So they won't be as one-off or bespoke, but I think at the end of the day, as we think about creating pools or portfolios for our clients, it's all about diversification. So, really blending in the smaller deals with the larger deals. Then, I think on the larger deals, price discovery is super important right now as the last dollar will price those transactions and seeing where that goes, whether it's tied to the single hyperscaler and where is pricing going to go for that particular name. But at the end of the day, as we think about creating these investment-grade corporate and asset-based finance portfolios, it's all about diversification. So, really investing across not just the mega cap infrastructure, AI, project finance deals, but really commercial finance, aviation, esoterics, music, sports, media, consumer, et cetera, and really building these diversified portfolios. But the big deals are going to continue to come—and usually there's someone anchoring that transaction.

John Foley 00:49:39

One of the things that I find very curious about the hyperscaler CapEx in particular is that there is a weird sometimes spending more is good, sometimes spending more is bad. So, Meta and Alphabet last week raised their CapEx forecasts for this year quite substantially, and Facebook, Meta stock dropped, Alphabet's rose. People change their mind about whether more is better, more makes you effectively more likely to win the AI race. How does that play out in the debt markets? Do you think that there is a point at which investors' appetite for certain names tails off because they're like, "These guys are going a bit too fast, too far?" Or, are you seeing the opposite where it's like they're all in, they're going to win, they're the ones we want to ride behind, without sort of necessarily being specific about individual names, but how do your markets process that kind of—

Madelaine O'Connell 00:50:29

—Yeah, I'm happy to start with insurance capital, right? Because that's been the dominant source of capital, I think, for many of these project financing deals, given their long duration needs, illiquidity is okay. I think you are starting to see from the risk limitation side of how much exposure can we have to these hyperscalers, as an example, and how much look-through exposure do we actually have as you look across the entire portfolio, not just from the private credit lens, not just from the public credit lens, but through the equity lens. And I think that is a big concern for at least North American insurance companies of just how do we process all of the deal flow that's coming through, and do we have to increase our risk limitations? Do we do that for certain names versus other names? So, I think that that means, given the size and scale of these transactions, is more capital has to come into these transactions. And you're seeing banks are there, but also they are syndicating some of this risk, so pensions are there, but depending on the asset class. So, I think you're just going to have to see more and more new entrants, and that comes back to the comment around public markets, private markets. Everything's going to be utilized as more CapEx is needed and more build-out in this space. But absolutely, I think there are going to be some caps in terms of just institutional investors stopping deploying capital.

John Foley 00:51:39

Does that also sweeten the incentive to start pursuing more of that retailization? I mean, that's a huge source of capital potentially coming into the system that isn't necessarily there right now. We've got eight minutes, and there are a couple of things I want to ask about. One is secondaries. So, secondaries are—we're hearing a lot about secondaries. I read a report from Apollo a couple of days ago that was talking about this section of the space growing maybe 20 percent a year. I think it's only 2 percent of the market now. But secondaries seem to me like a way of kind of having your cake and eat it. You can be in a liquid market with some much more liquid features to it, and they do potentially, I guess, open up the possibility of companies staying private for much longer. I'll throw it out there and if anyone has any thoughts on this, what is the role of secondaries, and are they really squaring that circle between liquid and illiquid in a useful way?

Fred Pollock 00:52:38

I'll jump in. It depends on what we're talking about. So if we're talking about private credit secondaries, it's a tiny market relative to the primary market, and it will only grow, right? So, if you think of normal markets, financial markets, the secondary market is normally multiples of a primary market. It doesn't quite happen in private markets just because of the illiquid nature of it, and capital formation is kind of more difficult. But it's definitely growing. It's growing much faster than the primary market, which in itself is pretty healthy in terms of what's going on. It provides people some measure of liquidity. It provides all these things. I personally think it's provided more opportunity, actually, for just value creation if you're a player, as opposed to really being that useful for sellers of most of the credit instruments. If you get into more illiquid private markets, right, if you're talking about private equity, you're talking about venture capital interest, et cetera, there, I think there are times where someone needs to risk manage just because of the exposure. The more successful their positions are, essentially, the larger they get, and then they need to

risk manage those in that frame. And so I don't think there it always has to be that there's a winner and a loser. There are often two winners in those transactions in terms of the way that people are getting liquidity in them, and that purpose has been kind of satisfied writ large. Credit is just a weird animal because most of the institutional investors have obviously gone into it with a certain vehicle. One of the worst things people have done recently, they go into a direct lending fund after a year or two or three years, is a good example of something people do in secondaries because they want exposure. They wanted to get invested immediately. They wanted investedness. That's a horrible reason to participate in a secondary, right? Because everybody knows with credit, it's sort of like good things happen fast, bad things happen slow, right? And so participating in it that way. So, it just depends how people are kind of using the market as to whether or not it's helpful and useful to them.

John Foley 00:54:24

Does it do anything to the illiquidity premium? So, the idea that you will charge more for money when you lend it because it's less liquid, but now maybe it's not less liquid because maybe you've got a better chance of getting it—

Fred Pollock 00:54:35

—It's an actively debated thing whether there is any liquidity premium, right? In terms of the way we think about it, and if it is, it's small, super small in all these assets. There's plenty of capital organized along all of the spectrums. In the same way you wouldn't say there's a premium for small caps—because you get competed out in the market. The same is true for these assets. So, I don't really think it's—I think what happens is the secondary market grows and it's more successful. It actually makes the scalability of the primary market, it enables that scalability to grow. And so I think they tend to grow in unison together.

John Foley 00:55:07

Got it. The one thing that we haven't talked about yet, because we hear a lot about the blurring of the lines between public and private. But the lines between institutional and retail seem relatively more clearly defined. But how much should we take that for granted? Because I was thinking about the 401k, the idea that 401k money might be more easily able to access private markets, and that's a huge pot, right? That's like a, what, nearly a \$20 trillion market for IRAs in the US. John, how do you think about this? Is 401k money going into private markets in sizable quantities, maybe like a trillion or two? Does that blur that line? I know it's technically institutional, but I guess there are also retail features of some of that money.

John Vibert 00:55:51

It's a good question. I think the trend is certainly there, and I think there are good reasons for why 401k should have access to private markets. I think at the end of the day, the design of the product matters.

And so, at the end of the day, if you're talking about something which is more of an institutional sale, whether it's part of a target date fund and the subscription redemption decision is driven more by an institutional quality decision maker as opposed to individual retail-oriented products where retail investors are making a decision about where to invest the marginal dollar based on an understanding of the product and understanding of the risk based on a conversation which is disintermediated by three or four, you know, at least levels between ultimately the person who really understands the product and the person who's making the decision. I think that's where it gets a little bit tougher. At the end of the day, I think the critical feature around this, though, is going to be valuation. And when you are letting people in and out of these products, and if it's designed effectively, the way a lot of 401k products are, so that you've got liquidity features where you're letting people in and out on a daily basis, you have to be crystal clear about what the liquidity provisions are going to be and what the valuation procedures are going to be because at the end of the day, you have to treat everybody fairly. It can't be a situation where everybody runs for the exit. I think one of the catalysts for some of the minute volatility we saw in the market was people thinking they were getting ahead of the valuation, the revaluation that was going to come to the assets, and so a lot of redemptions come in. I think you don't have that if people feel like the valuations are accurate to begin with. So I think it's critical that the way these products are designed, there's a lot of emphasis put on valuation, so you're treating everybody fairly, whether they're exiting or whether they're staying in the pool.

John Foley 00:57:44

Got it. That's really helpful. Okay, and now remaining two and a bit minutes, I just want to have a lightning round at the end, and I want to ask each of you in ideally 30 seconds or fewer to tell me where might the consensus be wrong. Where do you disagree with what you're hearing around this?

John Aylward 00:57:59

30 seconds.

John Foley 00:58:00

Christmas cracker version.

John Aylward 00:58:02

I think that maybe the retail investor impatience in the products they're in may not be that irrational.

John Foley 00:58:12

Oh, interesting.

John Aylward 00:58:13

Yeah. And actually, they are aware that there's an embedded default cycle in some legacy portfolios, as exciting as the future is. And when stuff's trading at 80 cents on the dollar in the marketplace, and there's a guy, when he opens his door, he'll pay you a dollar, you should take it, and retail guys are taking it, and it's not necessarily that stupid.

John Foley 00:58:35

Great. Oscar.

Oscar Fahlgren 00:58:37

Yeah, I think there is clearly a little bit of an overbelief that everything's fine, in my opinion, in the market, whether it's the energy crisis not having come through fully, whether it's the fact that irrespective of markets being okay in credit funds, there is a wall of maturities coming. There's a lot of companies that might struggle depending on where we are in the general economic cycle when that happens. And I think there's a good to medium chance that we're going to end up having a really harsh macroeconomic environment and an energy crisis and a default cycle happening, or a maturity cycle happening at the same time.

John Foley 00:59:14

Yep.

Oscar Fahlgren 00:59:15

And that can get pretty nasty pretty fast.

John Foley 00:59:17

Got it. Madelaine.

Madelaine O'Connell 00:59:18

Yeah. Quickly, I think it's just continued education on the various angles of private credit and not lumping it all into one definition and making sure that whether it's institutional or retail, they actually understand

the underlying investments and the fact that private credit is continuing to scale, grow, evolve in terms of structures, collateral, investment grade, non-investment grade, and I think we all need to do a better job of educating both sides.

John Foley 00:59:41

That's fair. Fred.

Fred Pollock 00:59:43

I have to agree with the economic one, so meaning, I think the consensus in it, we've become acclimated to this feeling that everything will be okay because it always seems to be okay, and everything's a V, and it all recovers quickly, and there's no penalty for that. And I think it's priced into a lot of assets. And I think you see it in a lot of markets, and then there's a lot of market participants who've been lulled to sleep, and they've structured their capital in that way. And I think that will eventually—I don't know what the event will be, but that will eventually get tested, and there will be people who don't react well in that environment.

John Foley 01:00:17

John, you get the last word.

John Vibert 01:00:19

I think the idea that public markets are passé is where the consensus is wrong. I think it's not public or private. It is both. It's a continuum, and I think ultimately, the public markets serve in a really important role, both from a price discovery, but also from a liquidity perspective. It turns out people occasionally need their money back, and that's where public markets really shine. So, we're focused on providing these holistic solutions for our clients.

John Foley 01:00:40

Cool. Thank you all so much for sharing your thoughts with us, and thank you for listening—and asking us so many questions. Thank you.

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