CVC

Alternative Credit Solutions for Insurers

Executive summary

Alternative credit encompasses a broad spectrum of strategies – including IG private corporates, infrastructure debt, collateralised loan obligations (CLOs), asset-based finance (ABF), leveraged loans, direct lending and capital solutions. These strategies may enable insurers to earn attractive additional returns in an environment where public markets are defined by persistent rate uncertainty, tight credit spreads and elevated volatility.

Key Takeaways

Across liability-matching and return-seeking allocations alike, alternative credit provides insurers with a scalable, capital-efficient pathway to enhance yield, strengthen portfolio resilience and capture long-term value creation.

- **Harvesting spread advantage with resilience:** Private and structured credit strategies provide meaningful spread pick-up over public markets while maintaining defensive credit characteristics.
- **Enhancing capital efficiency:** Across solvency regimes – including Solvency II, US RBC, BSCR, and ICS – private credit strategies may offer favourable capital treatment, improving return-on-capital outcomes.
- **Supporting ALM and liquidity needs:** From long-dated private debt and ABF to CLOs, liquid leveraged loans and evergreen credit vehicles, alternative credit provides insurers with a flexible menu of options to balance duration, yield and liquidity.
- **Europe rising:** Europe has become a compelling landscape for private credit investments, with structurally wider spreads, stronger covenants and lower leverage than the U.S. – advantages reinforced by market fragmentation that rewards local expertise.
- **Innovation through capital solutions:** Subordinated private corporate debt and bespoke financing structures are filling the gap between senior debt and equity, offering insurers the potential for equity-like returns with fixed-income risk.

Navigating the Allocation Dilemma

Introduction

Insurers have traditionally invested in high quality government and public corporate bonds to meet their asset and liability management objectives. However, the current market environment – characterised by slower-than-expected rate cuts, compressed spreads and heightened equity market volatility – has challenged the effectiveness of conventional strategic asset allocation.

At the same time however, structural shifts in global credit markets have opened new avenues for investment. The evolution of the private credit universe, encompassing private IG placements, private ABF, middle-market corporate direct lending and capital solutions, now grants insurers access to differentiated credit exposures that combine attractive spread pick-up with enhanced structural protection.

As banks pivot towards capital-light activities under Basel III, insurers are increasingly stepping in as long-term, stable capital providers. Regulators now recognise this important role insurers play in supporting real-economy growth through lending from their long term balance sheets.

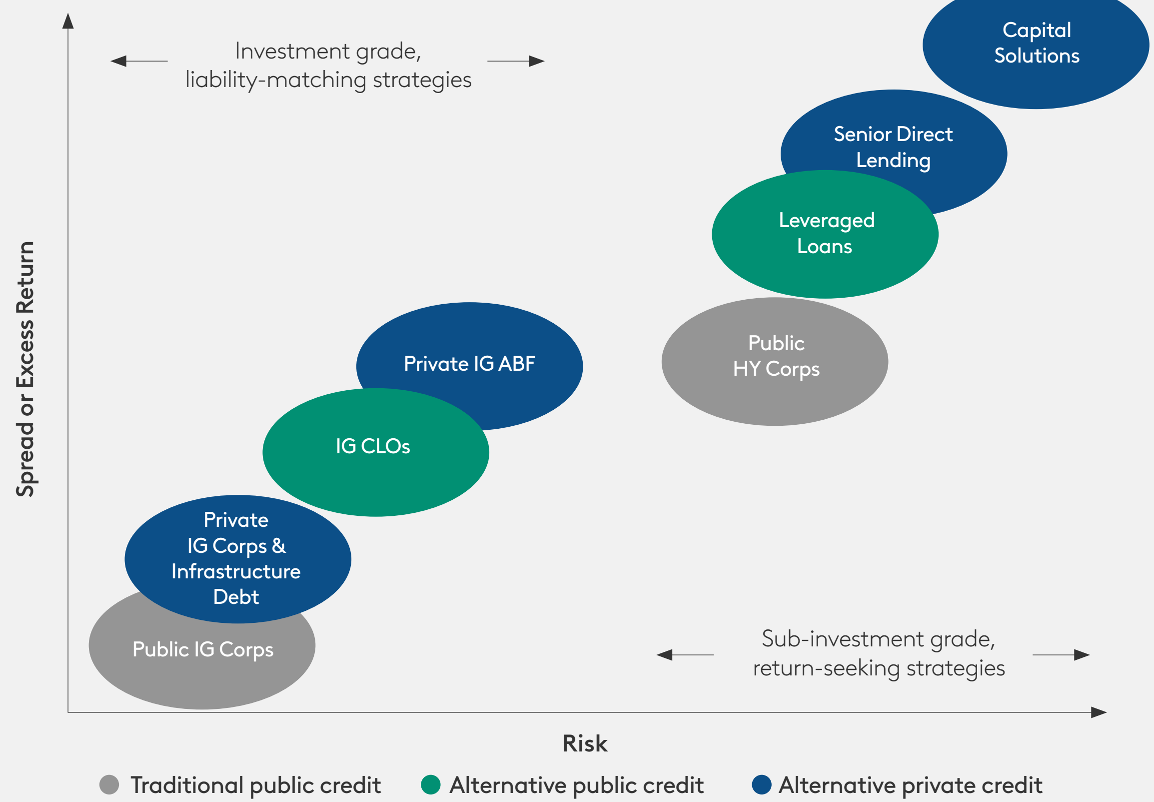
In parallel, the growing complexity of insurance products, such as with-profit and unit-linked offerings, also demands greater adaptability and innovation in portfolio construction. In this context, alternative credit has become an essential building block for delivering superior risk-adjusted yields, broader diversification and improved capital efficiency alongside traditional public fixed income and equity holdings.

Alternative Credit Spectrum

Alternative credit spans a broad array of public and private market strategies (Exhibit 1). With respect to insurers' balance sheets, these strategies can be broadly grouped into:

- **Investment grade, liability-matching strategies** such as IG private corporate debt, infrastructure debt, IG CLOs, and private IG ABF, which offer predictable cash flows and attractive illiquidity or complexity premia.
- **Sub-investment grade, return-seeking strategies** such as broadly syndicated leveraged loans, senior direct lending and capital solutions (flexible forms of junior and hybrid capital), which provide enhanced spreads, portfolio diversification and a natural hedge against rising rates.

Exhibit 1
Liability-Matching vs. Return-Seeking Strategies



Note: for illustrative purpose only

The table below provides a comparative overview of major alternative credit strategies used by insurers.

Exhibit 2
Alternative Credit Options for Insurers

<table>
<tr><th colspan="2"></th><th colspan="4">Liability-Matching</th><th colspan="3">Return-Seeking</th></tr>
<tr><th colspan="2"></th><th>Private Placement Corp IG</th><th>Infrastructure Debt</th><th>CLO IG</th><th>Asset Based Financing IG</th><th>Leveraged Loans</th><th>Senior Direct Lending</th><th>Capital Solutions</th></tr>
<tr><td colspan="2">Strategy Description</td><td>Privately-negotiated, long-dated corporate debt, offering structural protection and illiquidity premium.</td><td>Long-term project or corporate debt financing for infrastructure assets. Often secured and inflation linked.</td><td>Structured vehicle backed by broadly syndicated loans(BSLs). Senior, IG tranches offer insurers additional spread over corporate bonds.</td><td>Financing backed by pools of assets (e.g., consumer and auto loans, leases). Provides structural enhancement and diversification benefits.</td><td>Broadly syndicated loans (BSLs) to sub-IG corporates offer HY exposure with shorter duration and floating coupons.</td><td>Privately-originated senior secured loans made directly by non-bank lenders to middle-market companies.</td><td>Subordinated debt and hybrid instruments providing flexible capital to larger borrowers with more complex capital structure requirements; higher yields but lower liquidity.</td></tr>
<tr><td colspan="2">Investment Characteristics*
Avg. Life | Rating| Rate Type | Liquidity</td><td>7yrs+|IG|Fixed| Illiquid</td><td>10yrs+ | BBB | Fixed/ Floating | Illiquid</td><td>5-10yrs* | IG |Floating | Liquid</td><td>Varies | IG | Fixed/ Floating | Illiquid</td><td>~5yrs | BB/B | Floating | Semi-Liquid</td><td>3~4yrs | Unrated | Floating | Illiquid</td><td>5~6yrs | Unrated | Floating | Illiquid</td></tr>
<tr><td rowspan="7">Capital efficiency</td><td>Solvency II</td><td rowspan="7">Similar capital charge as comparable public IG corporate credit, but offers spread pick-up</td><td rowspan="5">Attractive capital charge for qualifying infrastructure investments</td><td colspan="2">Attractive if structured as STS** compliant, or can be modelled under the insurer’s internal capital model</td><td rowspan="7">Similar capital charge as comparable public corporate high yield credit, but offers spread pick-up</td><td rowspan="5">Offers additional credit spread to leveraged loans with the potential to receive “unrated bond” capital charge or use private letter rating</td><td>Potential for equity-like total return on credit-like capital charge</td></tr>
<tr><td>HK RBC</td><td colspan="2" rowspan="4">Attractive spread pick-up relative to a marginally higher (Singapore RBC2) or similar (HKRBC, K-ICS, J-ICS) capital charge compared to public IG corporate credit</td><td rowspan="2">Potential for equity-like total return on credit-like capital charge under HK RBC and Singapore RBC2</td></tr>
<tr><td>Singapore RBC2</td></tr>
<tr><td>J-ICS</td><td rowspan="2">May achieve greater efficiency under J-ICS and K-ICS with further structuring</td></tr>
<tr><td>K-ICS</td></tr>
<tr><td>US RBC</td><td colspan="3" rowspan="2">Similar capital charge as comparable public IG corporate credit, but offers spread pick-up</td><td colspan="2" rowspan="2">Efficient under suitable strucutre such as rated-note feeder</td></tr>
<tr><td>BSCR</td></tr>
<tr><td colspan="2">Strategic Investment Role</td><td colspan="2">ALM / MA portfolio***</td><td colspan="2">ALM/MA or return-seeking sleeve***</td><td colspan="3">Return-seeking, suitable for life insurers’ participating business, surplus capital and P&C insurers</td></tr>
</table>

* Typical characteristics. IG CLO Avg. life is tranche dependent. ** STS = Simple, Transparent and Standardised, ***ALM = Asset Liability Management, MA = Matching Adjustment.
Note: for illustrative purpose only intended to offer a comparative overview of various alternative credit strategies. There can be no assurance any such investments will be profitable.

Efficient | Efficiencies Available

The Strategic Value of Alternative Credit

1. Enhanced returns and spreads

Challenge: Securing incremental yield within a constrained credit risk budget.

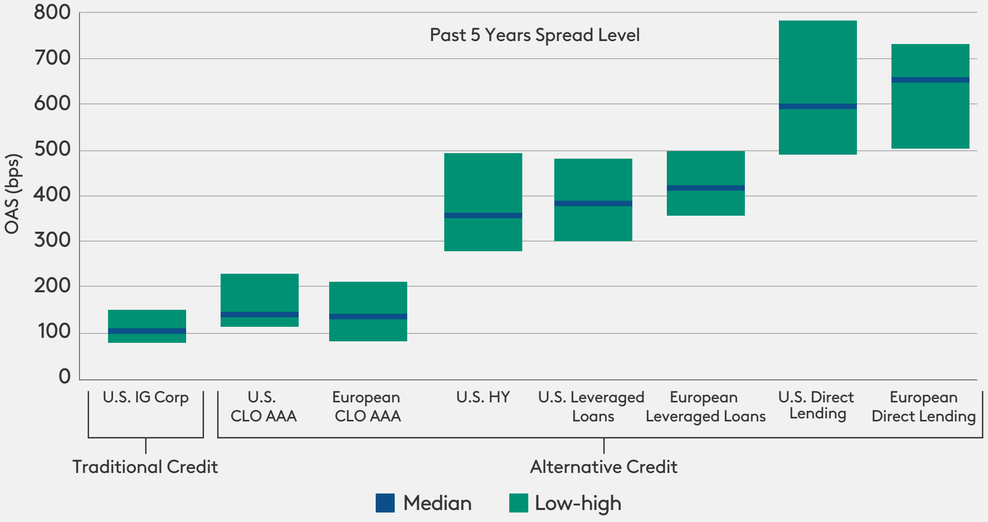
Solution: Reallocate traditional return-seeking exposures – such as high yield or distressed debt – toward leveraged loans, CLOs and private credit to achieve superior risk-adjusted returns.

Strategic benefit: With public credit spreads near 15-year lows, alternative credit strategies may offer an attractive way to enhance portfolio returns through complexity and the illiquidity risk premium, while potentially benefitting from embedded structural risk mitigants. These benefits may help deliver enhanced returns without requiring investors to add incremental risk exposure by travelling down the credit quality curve.

From 2015 to 2024, leveraged loans exhibited average annual default rates of just 1.7% in the U.S. and 1.8% in Europe, compared with 3.6% for U.S. sub-investment-grade corporate bonds and 2.8% for their European counterparts.[1] This difference underscores the stronger creditor protections embedded in leveraged loans, including their senior-secured position and tighter covenants.

Direct lending further enhances risk controls and credit selectivity through bespoke deal structuring, customised documentation and active monitoring, while CLOs deliver portfolio-level diversification by holding 150–250 broadly syndicated loans across sectors to reduce idiosyncratic risk, combined with active portfolio management and a resilient, time-tested structure. The floating-rate nature of these assets also enhances portfolio resilience during interest rate hiking cycles.

Exhibit 3
Alternative Credit's Spread Advantage



Source: ICE, PitchBook | LCD, CVC. Quarterly average spread data from Q4 2020 to Q3 2025. European direct lending spread is proxied using CVC Credit European Direct Lending Portfolio Company Margins, excl. Arrangement Fees (LTM Quarterly Weighted Average). Spreads shown are relative to local risk-free curve and exclude FX hedging costs, which are subject to investor-specific implementation.

Alternative credit may enhance yield, capital efficiency, and portfolio resilience – empowering insurers to perform across market cycles.

1 Pitchbook Leveraged Loan Index Factsheet, S&P 2024 Annual Global Corporate Default And Rating Transition Study

2. Improved capital efficiency

Challenge: Managing capital requirements amid evolving regulatory frameworks, particularly for Asian and European insurers.

Solution: Adopt capital-efficient structures and allocate to asset classes offering superior capital-adjusted returns, tailored to the jurisdiction-specific regulatory regimes.

Strategic benefit: Strengthened capital productivity and investment flexibility allows insurers to unlock new sources of yield while maintaining robust solvency positions.

Exhibit 4
Spread (or Excess Return)-to-Capital Ratios Across Regulatory Regimes

Calculated as estimated spread divided by capital requirement, reflecting the efficiency of return in excess of risk-free rate relative to capital requirement

	Solvency II	HK RBC	Singapore RBC2	J-ICS	K-ICS	BSCR	US RBC
Corporate Bonds (A rated)	12%	15%	10%	25%	39%	55%	101%
CLO A[1]	2%	36%	16%	58%	95%	133%	245%
Corporate Bonds (BBB rated)	8%	12%	8%	19%	27%	41%	81%
ABF (BBB rated)	16%	25%	25%	20%	56%	83%	164%
HY (B rated)	12%	21%	16%	20%	23%	44%	37%
Bank Loans (B rated)	13%	22%	18%	21%	24%	48%	40%
Senior Direct Lending[2]	29%	49%	52%	41%	48%	95%	128%
Capital Solutions	35%	60%	62%	30%	31%	29%	33%

Source: Pitchbook, FRED | St. Louis Fed. CVC. COMMISSION DELEGATED REGULATION (EU) 2015/35 (updated as of 14/11/2024), Cap 41R Consolidated version for the Whole Chapter (22-05-2025) (English), MAS Notice 133_14 June 2024, Japan Insurers Field Testing Sep 2024, 新지급여력제도(K-ICS) 해설서, 2024-03-28-13-20-55-Insurance Prudential Standards Group Solvency Requirement Amendment Rules 2024, NAIC US RBC C-1 factors. Solvency II capital requirements assume standard formulas and exclude the symmetric adjustments. Spread-to-capital ratio is calculated as historical median or target spread level divided by capital requirement. Capital solutions assumes a mixture of 20% senior debt, 70% subordinated debt and 10% preferred equity.

Note: 1. Solvency II standard formula is assumed for CLOs 2. senior direct lending is assumed to be in a rated-note structure for US RBC and BSCR

Regulatory watchlist: key developments

U.S.: CLOs currently receive bond-equivalent capital treatment and offer significantly higher yields. The National Association of Insurance Commissioners (NAIC) is reviewing capital charges, with adjustments expected to focus on mezzanine tranches with limited impact on senior exposures.

Europe: CLO allocations have remained modest due to Solvency II's conservative framework for securitised assets. However, proposals to reduce capital charges for qualifying CLOs were included in a consultation paper published by the European Insurance and Occupational Pensions Authority (EIOPA) in July 2025, creating potential for increases in insurer participation.

Asia: regulators are also recognising the role of private credit in long-term financing – infrastructure debt may benefit from favourable treatment under evolving regimes such as Singapore's RBC2 framework, which is considering capital relief for qualifying projects with stable cash flows.

3. Optimal ALM management (Life Insurers)

Challenge: Maintaining alignment between asset and liability cash flows while achieving attractive yields.

Solution: Allocate to long-term private assets or structured credit to capture the illiquidity premium and improve asset-liability matching.

Strategic benefit: Life insurers, particularly annuity writers, are fundamentally credit spread investors – seeking to harvest the differential between asset yields and the crediting rate to their policyholders. Allocations to IG private credit may deliver higher spreads than public corporates while maintaining long-duration, fixed or highly predictable cash flows.

In the U.S., insurers have steadily expanded their allocations to privately placed bonds, rising from around 29% of total bond holdings in 2015 to roughly 46% in 2024,[2] reflecting the attractiveness of higher spreads and better duration matching.

For UK pension risk transfer (PRT) writers, long-duration, high quality private placements, including infrastructure project debt and private ABF, are increasingly integral to matching adjustment portfolios. These assets leverage the illiquidity premium to enhance portfolio returns while matching cash flow requirements. Select CLO structures – such as middle-market transactions or large original-issue-discount tranches – can also serve as effective liability-matching instruments, offering more predictable prepayment behaviour and enhanced yield efficiency.

4. Alpha embedded liquid solutions (P&C Insurers & Unit-linked products)

Challenge: Enhancing yield while preserving liquidity.

Solution: Allocate to leveraged loans, CLOs, or evergreen private credit vehicles that offer flexible entry and redemption mechanisms.

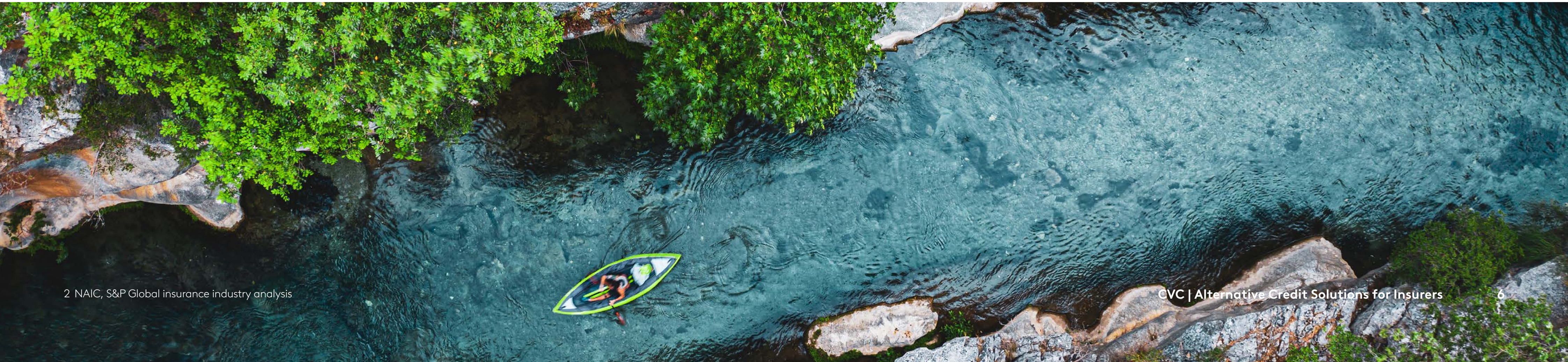
Strategic benefit: For P&C and unit-linked portfolios, liquid leveraged loans and CLOs can serve as effective "parking" vehicles – delivering immediate exposure to income-generating assets. These instruments preserve insurers' liquidity and ability for timing capital redeployment toward less liquid private credit opportunities.

Evergreen structures are becoming an increasingly popular vehicle for insurers to access private markets. They combine several desirable features and benefits – such as potential for J-curve mitigation, faster capital deployment, immediate yield generation and periodic liquidity – within an operationally efficient framework.

CVC Credit Solutions

CVC Global Yield Fund or SMAs:
- Core focus on global bank loans
- Income and potential for downside protections
- Quarterly distributions and monthly liquidity
- Rapid capital deployment compared to drawdown structures

CVC-CRED (Evergreen):
- Access to private credit platform
- Attractive cash yield
- Monthly NAV valuation, monthly distributions, and quarterly redemption up to 5% of NAV
- Immediate portfolio exposure rather than phrased drawdowns



2 NAIC, S&P Global insurance industry analysis

Emerging Opportunities in Alternative Credit

1. Europe Rising

In 2025, the private credit market focus has shifted from "if" to "where." While the U.S. remains the largest and most mature market, Europe has emerged as a compelling landscape for growth and diversification.

European direct lending volumes in 1H 2025 are well above the same period last year (Exhibit 5) as bank lending amid retrenches under tighter Basel III/IV capital constraints.

Europe's appeal lies in its structural yield premium and potential for enhanced downside protection through typically more robust documentation compared to U.S. direct lending. Since 2017, European leveraged loans have consistently traded at a spread advantage of roughly 50 bps over U.S. peers (Exhibit 6), a premium that also exists in the direct lending market. This premium reflects the region's fragmented market structure – spanning across 18 countries, 8 currencies, 54 official languages and multiple regulatory regimes – which naturally limits competition and rewards managers with deep local networks.

Moreover, European leveraged buyouts (LBOs) typically exhibit higher interest coverage and lower leverage than those in the U.S., highlighting the region's more conservative underwriting standards and disciplined sponsor behaviour. These characteristics have historically contributed to lower credit loss and greater resilience across credit cycles.

Europe's fragmentation, often perceived as a barrier, is, in fact, the region's enduring edge. A complex mosaic of legal, linguistic and regulatory environments reduces the number of effective lenders.

For specialist managers, this translates into greater pricing power, tighter covenants and stronger structural protections – a combination historically delivering superior risk-adjusted returns. However, Europe's complexity also amplifies performance dispersion, making manager selection a critical success factor.

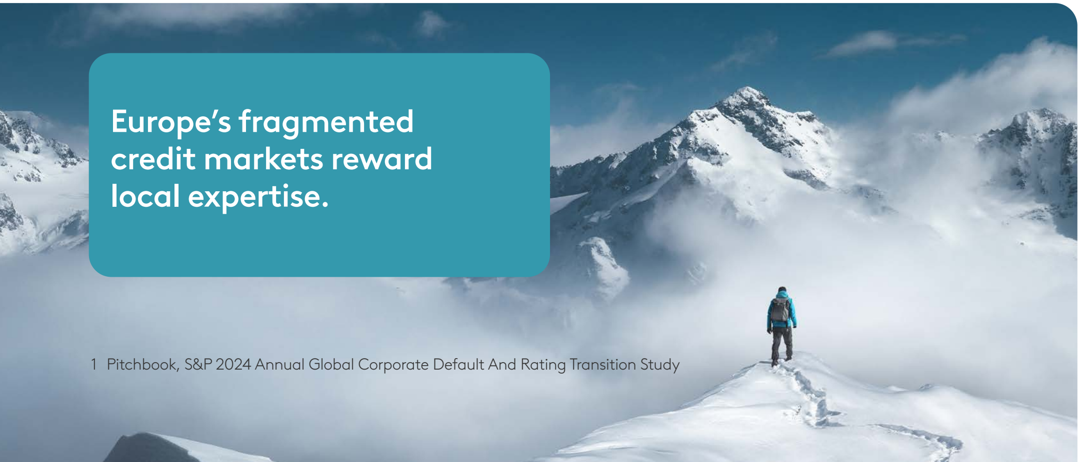
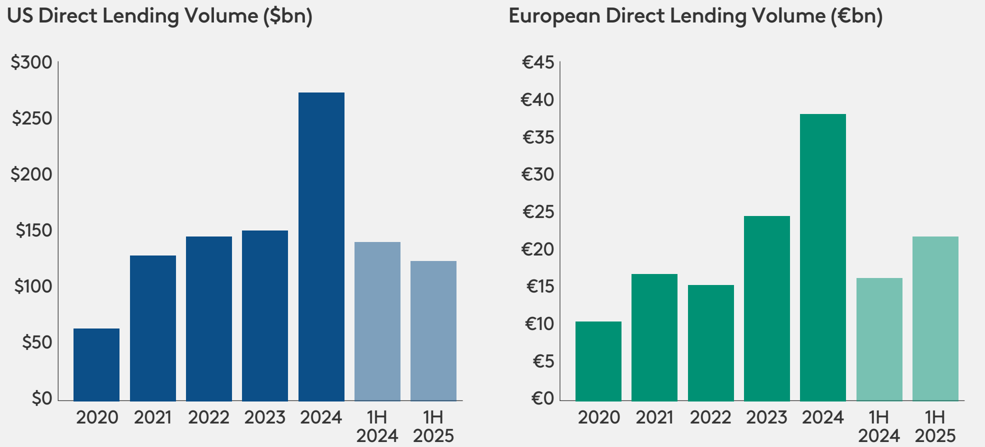
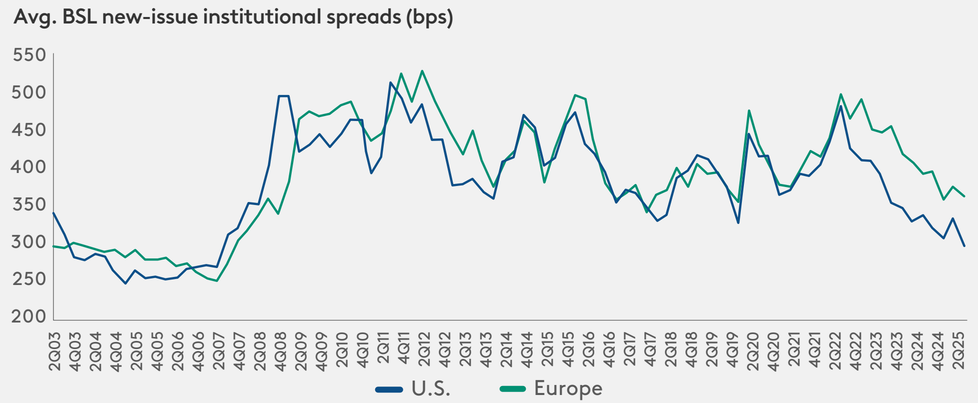


Exhibit 5
Increasing Volume of European Direct Lending



Source: PitchBook | LCD ● Geography: US ● Data through June 30, 2025. Source: PitchBook | LCD ● Geography: Europe ● Data through June 30.

Exhibit 6
Europe vs. U.S. Leveraged Loans: A Consistent Spread Advantage



Sources: S&P LCD. U.S. Leveraged Loans represented by the Morningstar LSTA US Leveraged Loan Index. European Leveraged Loans represented by the Morningstar European Leveraged Loan Index. As at September 2025.

1 Pitchbook, S&P 2024 Annual Global Corporate Default And Rating Transition Study

2. Evolution of Capital Solutions

Over the past decade, demand has steadily risen for capital solutions that address special borrower situations and needs – from financing M&A and refinancing debt to raising non-dilutive equity or securing capital in volatile markets.

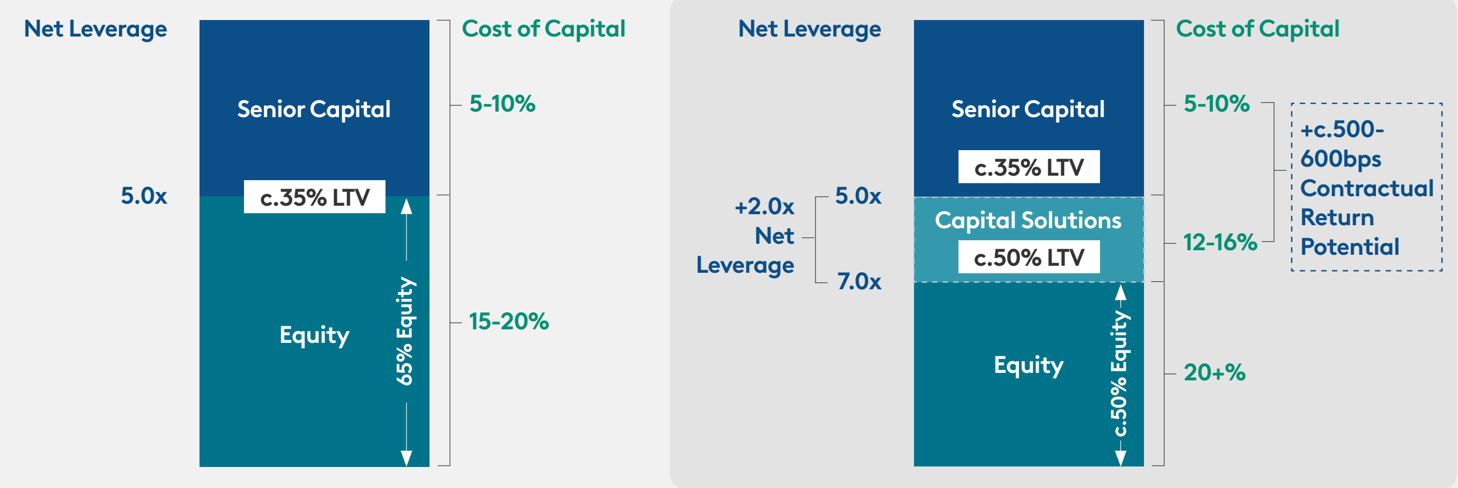
In this environment, CVC's capital solutions strategy focuses on flexible forms of junior and hybrid capital – such as second lien debt, payment-in-kind (PIK) loans and preferred equity – that are increasingly used to bridge the gap between senior leverage and sponsor equity. These structures offer tailored financing to support high-quality companies (often sponsor-backed) in their strategic and growth aims.

For insurers, CVC's capital solutions have the potential to offer equity-like returns with fixed-income risk. Although junior capital tends to attract higher capital charges under Solvency II and other solvency frameworks, the return per unit of capital deployed remains compelling – particularly for insurers not tightly constrained by capital budgets or seeking to optimise overall portfolio return-on-capital.

CVC's capital solutions transactions are underpinned by robust structural protections, including significant equity cushions (often 50% or more), conservative loan-to-value ratios and lending to borrowers with proven, non-cyclical business models. The result is an asset class that combines attractive income potential with downside resilience, providing a compelling addition to insurers' menu of return-seeking allocations.

Exhibit 7

Bridging the gap between senior capital and equity



Source: CVC. **For informational purposes only**. This illustration is intended only to help explain the potential risk/return profile CVC intends to consider when selecting and is not representative of the current or future performance of any CVC strategy.. There can be no assurance that such target returns for any such strategy or investments will be achieved. Investment characteristics are shown for informational purposes only. Investments made for the Capital Solutions strategy in the future may materially differ from the investments described above. There can be no guarantee that the strategy will achieve its investment objectives.

Capital solutions bridge the gap between senior debt and equity, delivering equity-like returns with fixed-income risk.

Conclusion

Alternative credit is rapidly becoming an important solution within insurers' portfolios, bridging the divide between traditional public credit and private markets. Across the spectrum – from liability-matching private placements to return-seeking direct lending and capital solutions – these assets offer enhanced spreads, stronger structural protection and improved capital efficiency.

As regulatory frameworks evolve and the European private credit market continues to develop, alternative credit is poised to remain a core component of insurers' strategic asset allocation strategies. By blending financial resilience, diversification and the potential for long-term value creation, alternative credit becomes a powerful tool for portfolio efficiency and navigating market cycles.