cio investment club

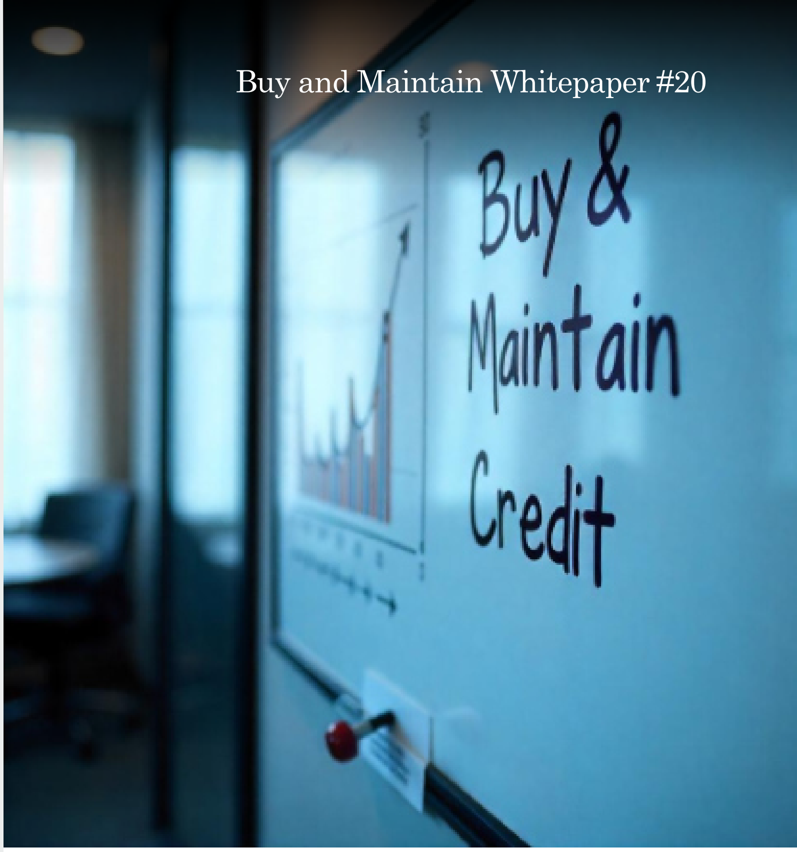
Whitepaper #20

September 2025

Buy and Maintain:
Capturing the credit risk premium

In association with

MFS®



Roundtable sponsors

Thank you to our sponsor for this edition of the Buy and Maintain Roundtable.

MFS®

Contents

sean.thompson@cioinvestmentclub.com
chloe.irapah@cioinvestmentclub.com
www.cioinvestmentclub.com
cio-investment-club

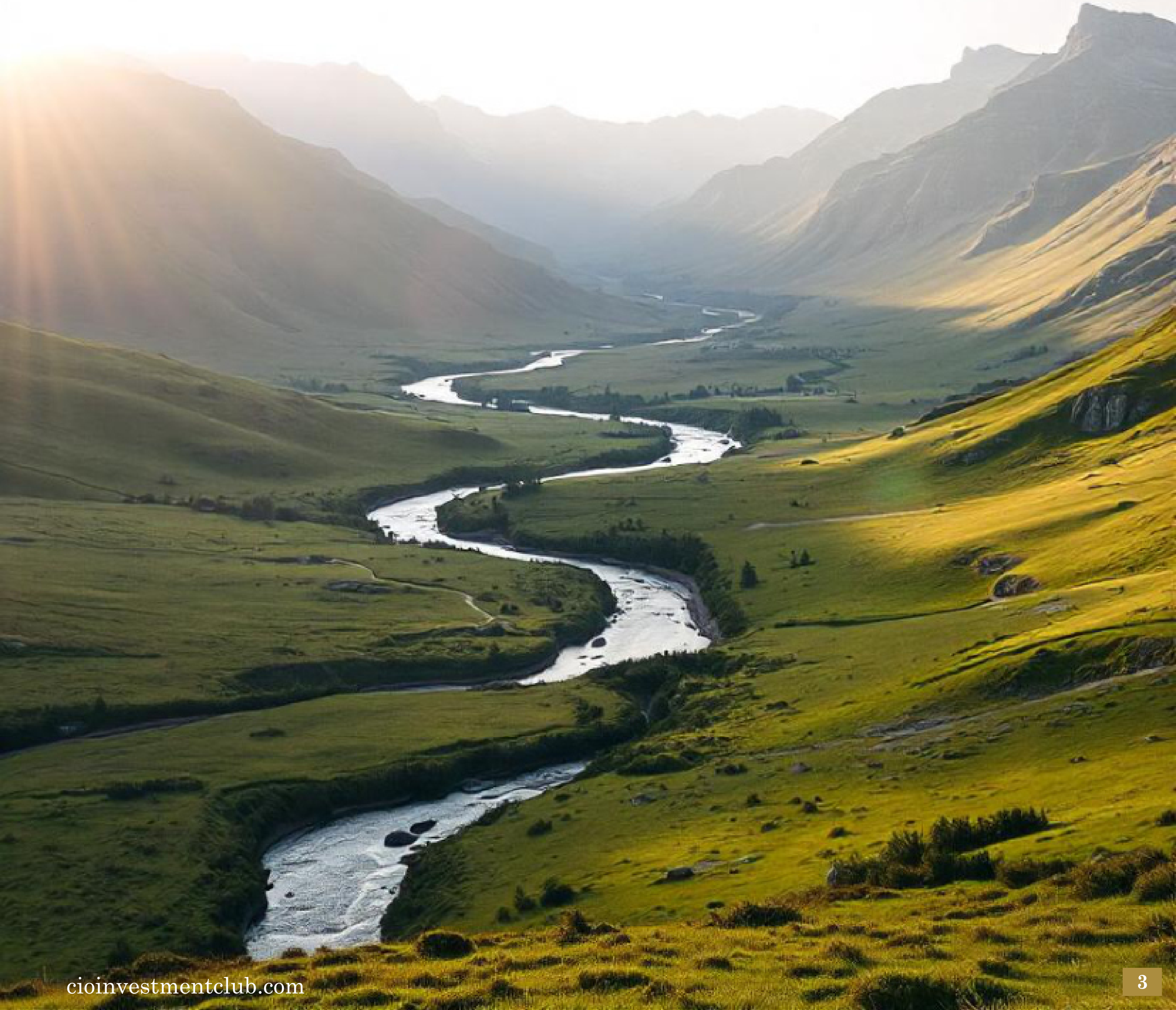
Design by Go Vicinity Creative

Buy and Maintain: Capturing the credit risk premium

Buy and maintain portfolios have become an increasingly popular choice of investment to use alongside LDI and CDI strategies in recent years. Their focus on capturing the credit risk premium, low turnover and cost efficiencies mean they are particularly well aligned with pension funds and insurers who have long-term liabilities and cashflow requirements to meet.

However, there are nuances to the ways investment managers approach buy and maintain. While in the UK many strategies focus on sterling investment grade securities, some have scope to dip into high yield or invest in dollar and euro bonds to expand their investment universe.

Having assessed clients' specific requirements and investment horizon, asset owners need to identify which buy and maintain providers are a good fit.



Committed to the cause

At a cio investment club roundtable, asset owners were asked how they approach these decisions and what they look for in an investment manager when they're considering buy and maintain strategies.

For Peter Martin, investment officer at the Medical Defence Union, it's essential firms with a buy and maintain franchise are committed to the asset class, given the ways it differs from other credit strategies.

"Firms need to have the right structures and processes to support buy and maintain strategies, because it's a fundamentally different philosophy to managing active credit," he said.

"Potentially active credit managers who also offer buy and maintain remain active credit managers at heart. It's a different mindset, and the buy and maintain franchise also needs to be important within the business, commercially viable and self-supporting.

"In terms of philosophy, failure for credits held in buy and maintain, for instance, should not really be an acceptable option, or viewed as an acceptable outcome, whereas in the active credit space defaults – depending on risk appetite – are potentially more contemplated in the pursuit of return and added value."

Expanding on the differences between investment managers, Martin continued: "Investment managers can and do have different philosophies, which are nuanced. Some are very passive in approach and will not sell investments unless they default, effectively. Others can potentially apply more elements of a relative value technique, where they can and do trade.

"Asset owners need to know whether there will be additional transaction costs, which can dilute return and yield, as well as a realistic expectation around the level of active trading that could be undertaken."

Dan Poole, deputy head of public credit at Pension Insurance Corporation, takes a holistic approach to appraisal to ensure the buy and maintain partners offer a good fit.

"It's important to make sure the research team looking at these investments is incentivised to spend the appropriate amount of time on analysis.

"You can end up with a scenario where the ballast of the business is buy and maintain, but a manager is incentivised by the fee-paying part of their business, which is often active. While buy and maintain might be low turnover, it's not low touch."

Dean Wetton of Dean Wetton Advisory agreed the fundamental differences between active credit investors and buy and maintain managers can come to light when things go wrong.

"If buy and maintain managers have done the fundamental work, even if bonds are priced badly, they've got the recovery techniques. They're immune to market movements."

But these beauty parades for investment managers aren't passive exercises, as Neil Taylor, group CIO, Riverstone International pointed out.

"So having an asset manager who really understands what our business model is, and what we're trying to achieve, is fundamental."

"When we're looking to award these mandates, we want to see which of these managers genuinely understands our business.

"We're acquiring blocks of insurance liabilities in the secondary market with a very short duration. They have a relatively predictable payment pattern. The nature of our business is opportunistic and then it's lumpy.

"There can be changes in currency profile with changes in geographic location depending on where we're doing deals. So having an asset manager who really understands what our business model is, and what we're trying to achieve, is fundamental."

This chimed with Clarence Er, group head of credit risk at Just Group, who agreed aligning goals is particularly important in the insurance sector, due to the regulatory requirements of Solvency II, notably Matching Adjustment regulations.

"The buy-and-maintain strategy aligns well with the fundamental principle of matching adjustment, which is to hold assets to maturity. However, there are instances where trading may occur, and these tend to be specific to each firm's circumstances or portfolio needs," he said.

"We found fund managers' flexibility and ability to tailor their solutions to meet our needs, both in terms of fundamental investment approach and regulatory requirements, is key."

"Being a life insurance company, there are extensive reporting requirements on our end, so they need to be able to provide us with the appropriate reporting support."

Picking up on some of the points raised, Lior Jassur, credit portfolio manager at MFS Investment Management, said MFS begins all conversations with asset owners by ascertaining the clients' requirements, and whether MFS can meet these requirements and expectations.

He affirmed MFS is "driven by research", utilising the findings of the analysts who research companies day in and day out, and issue buy, hold or sell recommendations.

However, as not all 'buy' recommendations may be suitable for the buy and maintain portfolio, Jassur said MFS analysts also issue a specific buy and designation to assess eligibility.

> *Firms need to have the right structures and processes to support buy and maintain strategies.*

Playing it safe

Poole raised concerns that some buy and maintain managers can wrongly avoid recovery stories as they wish to avoid volatility or headlines risks.

For example, while concerns about the UK water sector's ageing infrastructure, regulatory issues and associated public health concerns are valid, Poole suggested strong operators could provide opportunities for buy and maintain investors who are able to look through short-term volatility.

"If investors have the depth of research to understand the downside from a ratings or payments perspective, they should be willing to step into the market when the rest of the market steps away, if credit premiums justify those risks," he said.

"Investors should be willing to look through some volatility, instead of being driven by the market. At PIC we're cash flow matching, so our benchmark isn't the available universe, it's our liabilities."

Despite the recent move to abolish Ofwat and streamline water regulation, Jassur is bearish on UK water due to the regulatory framework, which he said affects the entire sector.

"The regulatory framework essentially prevents companies from ever deleveraging, even if they want to. The only way to invest is to borrow, and when you borrow, then whatever your acceptable rate of return, whether it's a 0.1% return to investors or 10%, it all comes from borrowed money."

However, Jassur is positive on the water sector in Europe, which he says is "less stressed" than the UK water sector. Jassur also favours the consumer cyclicals sector across the Euro, sterling and dollar markets, on the grounds consumer cyclicals are ahead of other sectors in pricing in the risk of a recession.

"All sectors are now tighter than their five-year spread average, but the one that is least tight, is consumer cyclicals," he said.

Jassur also has some exposure to tech in his strategies, largely through US companies as these are highly cash generative, with huge equity cushions.

"Tech companies issue bonds to minimise their tax liabilities, not because they need the money. Often the best bonds to invest in are the ones that no one should have issued. These give us some duration, some credit spread, at what is essentially almost zero credit risk."

But while preserving value is a cornerstone of buy and maintain investing, so too is capturing the credit risk premium. Identifying managers who can balance these is an important consideration in selection for Poole.

"Managers need to be incentivised to avoid the downside but also to take risk, and that means they have to be able to get things wrong sometimes," Poole said.

> *Investors should be willing to look through some volatility, instead of being driven by the market.*

"I think managers worry the thing the client will remember is the one thing they got wrong, not the 10 things they got right."

On the basis buy and maintain is a risk management exercise and different to investing in the return-seeking space, Wetton said his firm try to philosophically separate the two processes.

"Part of the excitement of buy and maintain is what it allows you to do on the other side," he said. "There's a strategy I'd like to use where we immunise the pension payments for the next 10 to 15 years through buy and maintain, and invest the residual assets in private equity, because you've got the liquidity freedom and the time to allow the prime equity in several cycles to mature."

Do what you do best

In a bid to align clients' interests and risk appetite with investment managers' processes, Poole said PIC has shifted from a predominantly outsourced model to select in-house management.

"Our analysts benefit from the upside of good borrower selection while also understanding the extent of the potential downside. It can be difficult for external managers to have that alignment of interest in the same way," he said.

However, he highlights the decision to bring strategies in house is sector specific.

"We do it where we think that setup is beneficial to us. We don't expect to do it across all groups of public credit. We ask ourselves whether we have the expertise, and if we don't, would it be scalable to bring the expertise in-house. Where you don't have those things, the external setup can make more sense."

At Just Group, external managers are used to complement internal capabilities.

"We aim to do as much as we can in house," Er explained. "But we use fund managers in areas where we have less internal expertise. It's a more targeted approach than simply outsourcing everything."

While Riverstone has an in-house team, with $7bn in liabilities and working across multiple legal entities, this is part of a group function," Taylor said.

"We provide advisory; asset allocation, manager research and selection, but it's an outsourced model. It has to be."

Naturally Jassur is confident about the continuing demand for investment managers, not least because of the economics of setting up the infrastructure to roll out in-house funds.

"It makes no sense to replicate the infrastructure that an investment manager has," he said. "You don't need a global high yield team or an EM team for the purpose of managing an in-house buy and maintain

> *We ask ourselves whether we have the expertise, and if we don't, would it be scalable to bring the expertise in-house.*

portfolio. The cost of such in-house infrastructure will be far higher than any fee paid to an external manager that benefits from economies of scale."

Whether pursuing an outsourced or an in-house model, it is important to have independent oversight and challenge on mandates, said Chris Pritchard, head of strategy research at Barnett Waddingham.

But with consolidation in both the DB and DC arenas ramping up, Martin sees potential for DB and DC schemes bringing buy and maintain strategies in house.

"We may see DB schemes expanding their skill sets to build an in-house model. In the same way we've seen with private equity; they outsource, get knowledge and experience in the asset class, and then bring this in house."

He continued: "In the DC space for decumulation products, if you can buy a mature product that also amortises for income, this could potentially help solve some of the decumulation issues in DC."

Indeed, Barnett Waddingham has been working with different providers to identify decumulation solutions using buy and maintain strategies, Pritchard said.

"I think that market will develop in a positive way to solve the problem of decumulation. We're already having conversations with asset managers and helping them to develop those solutions."

While some buy and maintain-focused decumulation solutions already exist, they don't currently have the funds in them to develop further.

"We've put those solutions in place for the past eight years, but they don't currently have the funds in them to roll out at scale," Wetton said.

"Where we have built things, there's not enough flow in there, so you've got to use sub optimal liquid elements. Deferred annuities would be perfect, but it would be difficult to convince the public to buy an annuity that's going to pay in 20 years. No trustee is going to take that decision."

The government's plans to introduce a guided retirement duty in the Pension Schemes Bill, meaning trustees are required to offer their own decumulation services or partner with another provider, should help solve the DC conundrum, Martin said, reiterating that in his view, master trusts also need to focus more effort on decumulation solutions.

"If nothing else from this conversation we need to get the message out that DC decumulation is an area that needs to be explored for solutions with regard to buy and maintain."

Participants

MDU

Peter Martin

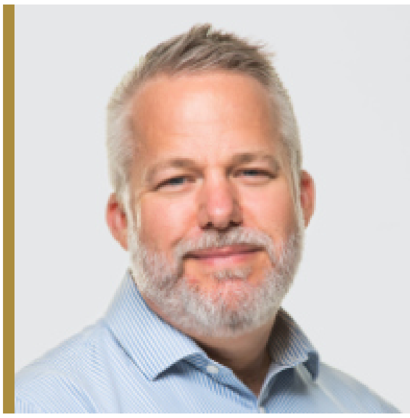
Investment Officer, The Medical Defence Union

Peter is the Investment Officer for The Medical Defence Union and has been with the MDU since 2016.

He has over 30 years' experience as a senior investment professional. Prior to joining the MDU, Peter was head of manager research at JLT Employee Benefits and before this at Aon Consulting. Peter's investment research specialisms have included bonds, LDI and property.

He is currently a member of the Investor Committee of the Association of Real Estate Funds. Peter was also a member of the Society of Pension Professionals (SPP) Investment Committee for many years and in addition was a member of the Investment Committee to the Pensions Board of the Institute of Actuaries. More recently, Peter was a member of the Management Committee for the Association of Member Nominated Trustees and a Trustee for the MDU Pension & Life Assurance Scheme.

He is a Fellow of the Institute and Faculty of Actuaries and also holds the Investment Management Certificate (IMC).



PIC

Dan Poole

Deputy Head of Public Credit, Pension Insurance Corporation

Dan is Deputy Head of Public Credit at PIC, having joined the company in 2009. Dan's main responsibilities include in-house portfolio management for USD corporates as well as oversight of PIC's externally managed public credit. Dan specialises in corporates, emerging market sovereigns and US municipal bonds. Dan is Chair of PIC's Asset Valuation Committee and is a member of PIC's Sustainability Oversight Forum.

Before PIC, Dan worked for Capita Financial Group. Dan has a degree in civil engineering from the University of Nottingham and holds the CFA designation.

Dan enjoys time with family and walking his beloved labrador Ivy. In 2008, Dan cycled unassisted across the USA raising money for charity.

Neil Taylor

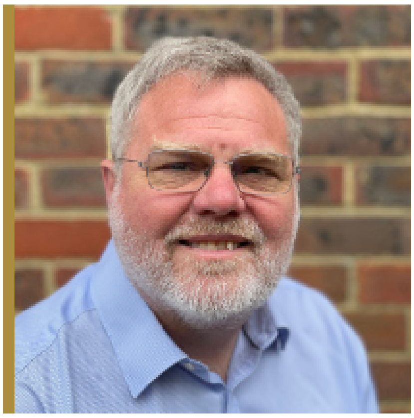
CIO, Riverstone International Group

Neil joined Riverstone International as Group CIO in November 2021. He is responsible for all aspects of Riverstone's investment activities, including the build out of an in-house investment function.

Prior to Riverstone, Neil was European CIO & Head of Portfolio Management at Catalina, an insurance run-off consolidator and competitor to Riverstone. Of total AUM of $4bn, he oversaw $1.2bn AUM across 5 regulated subsidiaries, as well as Head of PM for $3bn of AUM across Europe and Bermuda entities. Further, he oversaw the in-house Real Estate lending business and the external Real Estate effort through join-venture partner Oxenwood Real Estate LLP. He also managed the $500MM in-house CLO portfolio. He was a member of local sub EXCOs and a member of the Investment Committee.

Neil spent the first 11yrs of his career in Investment Banking and Capital Markets based in both London & New York, latterly as Head of the $15bn ABS Principal Finance platform within RBC Capital Markets, and has over 25years of experience in financial markets.

Neil graduated by from the University of Manchester with a BA (ECON) and MA (ECON) in International Political Economy.



Dean Wetton

Managing Director, Dean Wetton Advisory

Dean Wetton, BComm (Hons), MBA, CFA, Managing Director, founded Dean Wetton Advisory in 2009, recognising the need for a fresh approach to providing investment advice to clients: an approach that delivered straightforward, clear advice in a cost-effective way.

Dean has wide experience of advising clients on a range of investment issues, having previously been Head of the Manager Evaluation Function at P-Solve Asset Solutions and a senior member of Hewitt's Manager Research Team.

Clarence Er

Group Head of Credit Risk, Just Group

Clarence is the Group Head of Credit Risk at Just Group.

He is a Life and investment actuary with over 14 years of experience across industry and consulting firms, where he supported firms with various aspects of private asset investments ranging from internal ratings as well as risk and capital management.

Prior to joining Just, he was Director – Life & Alternative Credit in the portfolio management team at Leadenhall Capital Partners.

JUST.

Chris Pritchard

Senior Investment Consultant, Barnett Waddingham

Chris Pritchard is a senior investment consultant at Barnett Waddingham, and leads the strategy research team within the firm's investment consulting practice. He collaborates closely with colleagues to deliver cutting-edge investment strategy insights and asset class recommendations to clients.

Chris has deep expertise in designing long-term investment strategies, including a focus on incorporating buy and maintain mandates for insurers and pension schemes.

BARNETT WADDINGHAM
Part of HOWDEN

Owen Murfin

Global Fixed Income Portfolio Manager, MFS Investment Management

Owen Murfin, CFA, is an investment officer and institutional fixed income portfolio manager at MFS Investment Management® (MFS®). He is a member of the MFS Global Fixed Income portfolio management team. In this capacity, he participates in portfolio strategy discussions, customizes portfolios to client objectives and guidelines and communicates portfolio investment strategy and positioning.

Prior to joining MFS in 2017, Owen served as managing director and global fixed income portfolio manager at BlackRock for 15 years. Before that, he worked as an associate and global fixed income portfolio manager at Goldman Sachs Asset Management for five years.

Owen earned a Bachelor of Science degree with first class honors from University College London. He holds the Chartered Financial Analyst designation.

Lior Jassur

Credit Portfolio Manager, MFS Investment Management

Lior Jassur, DBA, is an investment officer and director of Fixed Income Research – Europe at MFS Investment Management® (MFS®). He is also a fixed income research analyst. He has oversight of MFS' London-based fixed income research team. He works closely with portfolio managers to ensure investment ideas are properly positioned within portfolios.

Lior joined MFS in 2014 as a fixed income research analyst. He was named director of Fixed Income Research – Europe in 2017. He was previously a managing director and head of credit research (EMEA) at HSBC Bank, Plc., for four years. His prior experience also includes two years as a credit analyst with Alliance Bernstein, five years as an executive director and trader at UBS Investment Bank and four years as a director and head of high yield credit research, Europe, at Dresdner Kleinwort Wasserstein. He also served as an analyst with Sumitomo Trust & Banking Co., Ltd., and as a manager at NatWest Group earlier in his career.

He began his career in the financial services industry in 1993. Lior earned a bachelor's degree with honors from Brunel University and both a Master of Business Administration and Doctor of Business Administration from Henley Management College. He is a visiting fellow at Kingston Business School.

In attendance

Beth Brearley (Moderator)

Freelance Writer

Beth Brearley is a freelance writer specialising in asset management, institutional investing and private equity.

A former editor of several prominent B2B titles, Beth has spent almost two decades covering the financial services sector.

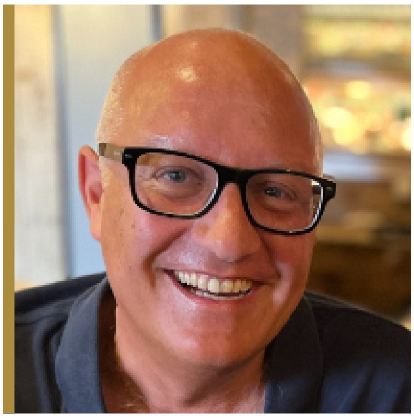
Kelly Tran

Managing Director, UK & Ireland, MFS Investment Management

Kelly Tran, CFA, is managing director of UK & Ireland at MFS Investment Management® (MFS®). In this role, she is responsible for new business development and consultant relations for the UK institutional market for defined benefit, defined contribution and endowment and foundation clients. She is based in London.

Kelly joined MFS in 2021 in her current role. Previously, she held various roles over a seven year period with Newton Investment Management/Bank of New York Mellon including client director, commercial sustainability leader and head of UK sales. She also spent eight years at J.P. Morgan Private Bank managing multi-asset portfolios for ultra-high-net-worth clients, covering Russia, Greece and Israel.

Kelly earned a Bachelor of Science degree from the London School of Economics and Political Science. She holds the Chartered Financial Analyst designation. She is also a steering committee member of the Diversity Project and part of the leadership team of its Race & Ethnicity group. She joined the Pensions and Lifetime Savings Association's Defined Benefit committee in 2022 to help shape its retirement income policy agenda. She also serves as a school governor of the Caterham High School in London and chairs its Finance & Resources committee.



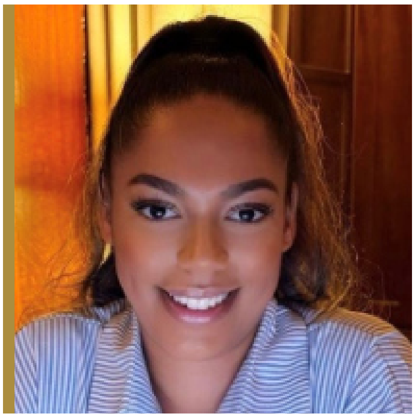
Sean Thompson

Founder & Director, cio investment club

Sean has nearly 40 years of experience working in London's financial services sector and the insurance market. After 10 years as Managing Director of CAMRADATA, Sean launched the cio investment club on 1st January 2024.

The cio investment club's mission is to become the voice of chief investment officers and investment professionals at institutional firms. To help achieve this the club hosts events throughout the year that educate and inform, whilst providing thought-provoking content to its members.

cio investment club



Chloe Irapah

Administrator, cio investment club

Chloe joined the cio investment club in June 2025 to assist with the coordination of marketing, events, and administration of the club.

Chloe is a Marketing and Management professional with over six years of industry experience, starting in luxury fashion and progressing into roles focused on partnerships and project management.

She holds a First Class Honours Bachelor's degree in Marketing and Management and is known for aligning brand vision with innovative marketing strategies and impactful partnerships.

cio investment club