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Structured Capital: A Complement to PE Investing for Insurers

Private equity's liquidity problem has created an unusual opportunity—one that aligns closely with the return, duration and regulatory capital needs of European insurance investors.

Private equity has quietly accumulated a structural problem. Buyout net asset value (NAV) has grown roughly fourteen-fold over two decades, yet the cash returned to investors tells a different story.

In 2025, cash distributions to limited partners (LPs) as a share of NAV remained below 15% for the fourth consecutive year—around half the long-run average—even as buyout-backed exit volumes recovered to $717 billion.[1] The industry is sitting on an estimated 32,000 unsold companies worth $3.8 trillion, and the backlog is struggling to be cleared.

The consequences are tangible. This kind of starvation of distributions-to-paid-in (DPI) capital—where the velocity of capital return collapses even as paper valuations hold up—means LPs are receiving fewer distributions than at any point over the past 20-plus years.

At the same time, private equity sponsors or general partners (GPs) face a mounting structural bind: prized portfolio companies they would prefer to hold are trapped inside aging funds approaching the end of their life cycle. The result is an industry under growing pressure to find solutions that can return capital to investors without forcing premature or value-destructive exits.

[1] Source: Bain & Company, Global Private Equity Report, 2026.

Structural Capital Solutions

While M&A volumes have begun to recover modestly, a persistent and meaningful bid-ask spread continues to cause auction processes to struggle. Sellers, anchored to the elevated valuations of 2021 and early 2022, are reluctant to accept the markdowns that buyers now require to justify the higher cost of leverage in a higher interest rate environment.

In this context, structured capital solutions have emerged as an attractive alternative solution. Rather than forcing a sale, sponsors can use these hybrid instruments—preferred equity, convertible notes, structured equity—to access liquidity while retaining control of their most valuable assets. These instruments provide the capital needed to bridge the current environment, buying time until the exit window re-opens under more favourable market conditions. For experienced investors in this space, we believe sponsor urgency combined with reduced competition from traditional lenders creates an unusually attractive entry point.

The Benefit of Contractual Returns

One of the most distinctive features of structured capital solutions is the return profile. Unlike traditional private equity, which is entirely dependent on exit valuations to generate returns, structured capital instruments are designed around contractual return protections. Investments can feature paid-in-kind coupons, original issue discounts, liquidation preferences and call protection typically lasting two years, all of which combine to create a minimum return floor that is independent of market conditions.

What's more, convertible preferred securities are usually structured to deliver contractual minimum net returns, for example 1.5 times invested capital or greater, according to our own proprietary data. Beyond the floor, these instruments can retain full upside participation rights: convertible preferred securities may be converted into common equity, offering unlimited participation in the value appreciation of the underlying business. Instruments are generally redeemed either as part of a refinancing event or at exit, creating natural liquidity moments that align well with the investment cycle.

A Shorter Duration Profile

Duration management is a central discipline for insurance investors. Here, structured capital solutions offer a meaningful advantage over traditional private equity.

One approach among capital solution providers is to underwrite positions to an approximate three-year maturity, often retaining a forced sale right, which provides an important structural discipline on portfolio duration. In practice, most instruments are, in our view, realised within two to four years—a meaningfully shorter lifespan than a traditional private equity fund and one that reduces both the illiquidity and the mark-to-market risk to which insurance investors are particularly sensitive.

In terms of the return profile, these strategies tend to target net IRR of mid-teens, a range broadly consistent with long-run private equity averages. However, we believe the risk characteristics are materially different. Entry multiples average 7.7x earnings before interest, tax, depreciation and amortisation over the last 12 months compared to a sponsor valuation multiples average of 16.9x, providing an average equity cushion of over 50% from the point of entry. With a loan-to-value ratio of approximately 46%, contractual coupons, original issue discount, two-year call protection and equity participation rights, the strategy can offer private equity-like returns while structurally sitting senior to the common equity, with minimum return provisions designed to protect capital in adverse scenarios.

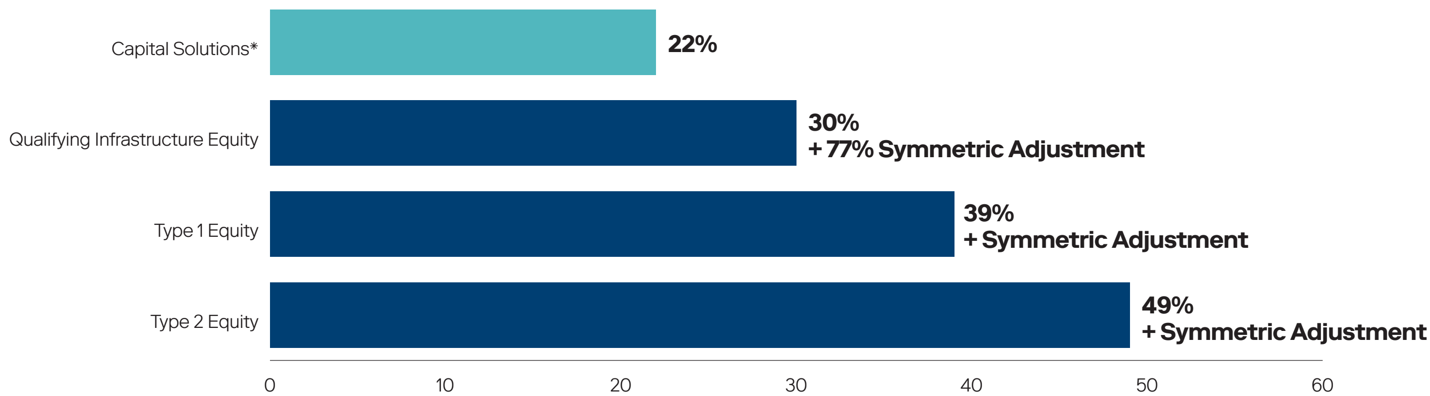
A Good Fit for European Insurers

For European insurers specifically, the timing of this opportunity coincides with a significant and favourable shift in the regulatory landscape—one that materially improves the economics of allocating to qualifying private markets strategies.

The anticipated reforms to the Long-Term Equity (LTE) sub-module under Solvency II, due to take effect on 30 January 2027, are set to meaningfully reshape how European insurers allocate to private markets.

Under the LTE framework, qualifying equity positions benefit from a reduced Solvency Capital Requirement charge of 22%, compared to 49% plus symmetric adjustment for private equity. The expected revisions provide clear guidance on eligibility for application for both life and non-life insurance companies, reducing the period to avoid forced sales from 10 years to five years, as well as removing ring-fencing requirement, reducing the structural friction that has historically limited insurer participation.

Qualifying Equity Positions Benefit from a Reduced SCR Charge Under Solvency II



Source: Neuberger.
*Assuming European Long-Term Investment Fund (ELTIF) and low-risk EU Alternative Investment Fund (AIF) structure.

For structured capital solution strategies, we believe a more explicit and accessible LTE framework could materially improve the risk-adjusted, capital-weighted return profile for insurance investors, making it easier to justify allocation alongside traditional fixed income and equity investments.

A Differentiated Solution

The conditions that make structured capital solutions attractive today—a substantial NAV overhang, record-low exit ratios, a persistent valuation gap in M&A markets and sponsors under growing pressure from their investors—are structural in nature and unlikely to resolve quickly. This is not a cyclical window; it is a multiyear dislocation.

For European insurers seeking to access the return potential of private markets while managing duration, volatility, and regulatory capital requirements with precision, these strategies can offer a differentiated solution: contractual returns, meaningful downside protection and equity-like upside, all within a shorter-duration, sponsor-grade investment framework. Together, these features position the strategy not merely as a complementary solution to traditional private equity investment, but as a purpose-built solution for the constraints and objectives that define the European insurance investor.

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