

Research

The UK alternative investment fund market: Evidence from regulatory reporting

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The Economics Department

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Executive summary

Alternative asset management plays an important role in financial markets. It pools capital from sophisticated and institutional investors and allocates it to businesses, infrastructure and other real economy investments that may be less well served by public markets or traditional bank finance. It also supports the functioning of financial markets through activities such as liquidity provision, risk transfer and investment intermediation. The sector includes a diverse range of funds pursuing different investment strategies, including private equity, hedge funds, real estate, private credit, and fund of funds ('fund types').

Despite the sector's growing importance, public data on the UK Alternative Investment Fund (AIF) market remains limited. This Research Note addresses that gap by providing an overview of the market and its evolution over time, using Alternative Investment Fund Managers Directive (AIFMD) data reported to the FCA. In doing so, it supports a more evidence-based discussion of the sector and provides new insights into its structure, characteristics and risks.

The analysis covers all AIFs available to UK investors since 2021 ('UK AIF market').¹ We also analyse AIFs managed by UK-based AIFMs since 2016, referred to throughout as 'UK-managed AIFs'. These are funds for which a UK AIFM is responsible under AIFMD, irrespective of any delegation arrangements. This measure does not capture the full range of alternative investment management activity undertaken in the UK, including portfolio management activities performed by MiFID investment firms under delegation.

Growth continues, led by private credit

The UK AIF market has expanded steadily since 2021, with total net asset value (NAV) increasing by 30% to £5.1tn in 2025.² Over the same period, NAV managed by UK AIFMs increased from £1.5tn to £1.8tn.

Growth has been broad-based across fund types, although private credit has emerged as one of the fastest-growing segments of the market. The number of private credit funds has more than doubled since 2021 and the sector has continued to attract positive investor inflows, highlighting strong demand from investors seeking exposure to private lending strategies. At the same time, private credit remains a relatively small part of the overall market when compared with larger sectors such as hedge funds and private equity.

The market is highly international. While the UK remains an important domicile and management location for alternative funds, many of the largest funds available to UK investors are domiciled overseas, particularly in Luxembourg, the Cayman Islands and the United States. Asset allocations are similarly global, with North America and continental Europe representing the largest destinations for investment capital. However,

¹ This includes funds managed overseas and marketed to UK investors, meaning the reported assets and exposures reflect the funds' global investor base and investment activities rather than UK investors alone.

² ETFs managed overseas are also reported to the FCA under AIFMD. These ETFs, predominantly managed in the US, accounted for total NAV of £2.9tn, despite only accounting for 2% of funds, at year-end 2025. As these funds do not pursue alternative investment strategies and can obscure aggregated statistics, we exclude them from the analysis.

UK-managed private equity, private credit and real estate funds exhibit a stronger domestic focus, potentially reflecting the importance of local knowledge and expertise in these markets.

Alongside large international fund groups, the market contains specialist sectors that support important parts of the UK financial ecosystem. Insurance-linked funds provide capital to insurance and reinsurance markets, while investment trusts play an important role in facilitating retail investment in private assets, infrastructure and businesses through closed-ended structures.

The UK alternative Investment fund market

Evidence from AIFMD regulatory reporting

1 Market composition and footprint

Segment	NAV	Share	
Other	£1,272bn	25%	
Private equity (PE)	£1,234bn	24%	
Hedge funds (HFs)	£1,024bn	20%	
Fund of funds (FoFs)	£719bn	14%	
Real estate (RE)	£527bn	10%	
Private credit (PC)	£334bn	7%	

Funds	UK-managed	managed overseas
	43%	57%
NAV	35%	65%

2 Investment profiles by NAV

The dominant exposures by fund type are closely aligned with their economic function

85% Collective Investment Undertakings FoFs	86% Derivatives HFs	53% Loans PC	79% Unlisted equity PE	75% Physical assets RE
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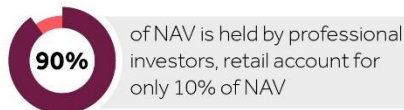
Geographically, asset exposures are mainly concentrated in North America and Europe (ex-UK)

40% North America	25% Europe	16% Asia & Pacific	15% UK
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Some fund types are more domestically focused

36% vs 12% in UK-managed RE vs whole market	34% vs 14% in UK-managed PE vs whole market	30% vs 12% in UK-managed PC vs whole market
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3 Investor base and retail participation by NAV



Some fund types have relatively higher retail investor concentration by NAV

34% FoFs	12% Other, including investment trusts	60% Investment trusts
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4 Fund structures by NAV

UK-managed only

Open-ended	Closed-ended	Unknown
70%	23%	7%

FoFs, HFs and RE are predominantly open-ended

90% FoFs	92% HFs	54% RE
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PE and PC are predominantly closed-ended

80% PE	56% PC
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UK-managed open-ended funds only

Daily redemptions	Weekly to monthly redemptions	Quarterly redemptions	Other or not reported
38%	24%	16%	17%

Predominant redemption frequencies vary by fund type

47% FoFs weekly to monthly	36% HFs quarterly	82% RE daily
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5 Fund management

Half of NAV is held by top 25 managers	>80% of managers specialise in one fund type	£0.5bn NAV held in average fund	4 funds per manager on average
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Source: AIFMD reporting. Note: The analysis excludes overseas-managed ETFs (£2.9tn NAV), as they do not pursue alternative investment strategies.

Professional investors remain at the centre of the market

Despite increasing interest in private markets, alternative funds remain overwhelmingly a market for professional investors. Institutions and non-institutional professional investors hold 90% of NAV, while retail investors account for just 10%. The composition of the investor base has remained broadly stable over the past five years.

Investment trusts play an important role in facilitating retail investment in private assets, UK businesses and infrastructure. Retail investors have consistently held around 60% of investment trust NAV over the past decade, helping to channel long-term capital into the real economy. This function is also relevant in fund of funds, where 34% of NAV is held by retail investors.

Leverage and liquidity risks concentrated rather than widespread

UK-based AIFMs manage 43% of AIFs and 35% of total NAV in funds marketed to UK investors. As these firms are subject to more FCA regulatory and supervisory oversight, their use of leverage and liquidity management practices are a particular focus.

Aggregate leverage has remained broadly stable at around 99-114% of NAV (100% indicates no leverage) between 2016 and 2025, excluding hedge funds, on the Adjusted Leverage Ratio (ALR). Hedge funds account for a disproportionate share of reported leverage, particularly macro, managed futures and relative value strategies, whose median ALRs in 2025 were 812%, 664% and 358%, respectively.

The typical fund reports little or no leverage on the ALR. However, real estate and private credit funds exhibit greater dispersion and a higher concentration of funds with ALRs above 150% than private equity or fund of funds. It is important to note, however, that the ALR captures only leverage reported at the fund level. Leverage within underlying portfolio companies is generally not reflected in this measure.

On a NAV-weighted aggregate basis, the reported liquidity profiles for UK-managed AIFs do not indicate a market-wide liquidity shortfall under normal market conditions, although some liquidity mismatch is still observed over shorter time horizons, particularly among real estate funds. However, real estate funds account for less than 8% of UK-managed funds and 3.5% of NAV.

A specialised and concentrated management sector

The AIF management sector includes participants beyond AIFMs, including delegated investment managers, depositaries, custodians, prime brokers, fund administrators and valuation firms. This analysis focuses on AIFM activities captured by AIFMD reporting.

The AIF management sector is characterised by specialist firms operating alongside a relatively small number of very large managers. Most firms (80%) focus on a narrow set of investment strategies and manage only one principal fund type. While average fund sizes and the number of funds managed by each firm have increased over time, the sector continues to exhibit a high degree of specialisation.

At the same time, assets remain concentrated among a limited number of managers. Across fund types, around half of total assets are managed by the largest 25 firms, with concentration particularly evident in sectors such as private credit and fund of funds. This reflects the presence of established managers operating at significant scale alongside a long tail of smaller specialist firms.

1. Introduction

The alternative asset management sector has become an increasingly important component of the UK financial system. Over the past decade, the net asset value (NAV) of Alternative Investment Funds (AIFs) managed by UK Alternative Investment Fund Managers (AIFMs) has increased by 89%, from just under £1tn in 2016 to £1.8tn in 2025. The sector plays an important role in capital allocation, supporting investment in businesses, infrastructure and other assets across the economy. Given its scale and international reach, it also provides valuable insight into the structure and operation of global asset management markets.

Despite its growing importance to both the asset management industry and the wider financial system, public data on the AIF market remains limited. This Research Note seeks to address this gap by providing an overview of the UK AIF market and its evolution over time, presenting new aggregated data to support evidence-based discussion. To date, this is the first publication to present market-wide statistics on the UK alternative asset management sector using FCA regulatory reporting data.³

From a policy perspective, the note serves two purposes. First, it has informed our proposals to modernise the UK Alternative Investment Fund Managers regime (Financial Conduct Authority, 2026b). The UK AIFM regime provides a framework for monitoring and supervising risks posed by UK AIFMs and the AIFs they manage, and for strengthening the UK market in alternative funds, with rules applying based on the risks AIFMs may pose. The analysis helps inform the calibration of those proposals by examining how risks and vulnerabilities are distributed across the market. Second, the note provides a snapshot of the market prior to regulatory reforms, establishing a baseline that may support future evaluation of regulatory change.

The analysis also highlights limitations in the existing reporting framework, both in terms of the actual data points collected as well as challenges in the interpretation, consistency and comparability of reported data. These issues are among those that our proposed integrated fund reporting regime for asset management entities seeks to address through a simpler more proportional reporting framework, requirements more closely aligned with risks, and greater consistency across regulatory reporting regimes (Financial Conduct Authority, 2026a).

The note begins by describing the data underpinning the analysis, including sample construction and fund classifications. It then examines the size, composition and domicile patterns of the UK AIF market before analysing portfolio composition, geographical exposures and investor composition. Finally, it considers leverage and liquidity characteristics before assessing the AIF management sector.

³ Previous FCA research (Financial Conduct Authority, 2015) has focused on specific types of AIFs and/or has not been based on the regular reporting data collected under the Alternative Investment Fund Managers regime.

2. Data

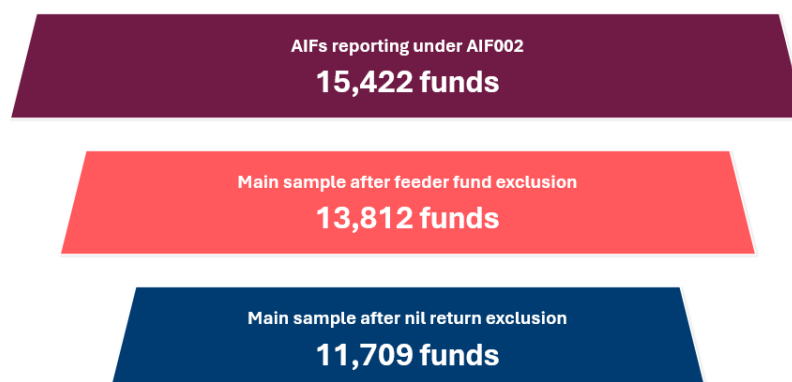
Our analysis relies on AIFMD regulatory reporting submitted to the FCA.⁴ These data provide a broad view of AIFs within the UK reporting perimeter, covering both funds managed by UK AIFMs and non-UK funds marketed to UK investors under the relevant marketing regimes (more on the UK AIFMD regime under 'Overview of the reporting universe').

Although the AIFMD framework regulates managers rather than funds directly, it generates both firm-level and fund-level information: AIFMs submit AIF001 reports on the manager and AIF002 reports on the individual AIFs they manage or market into the UK. We rely on AIF002 reporting for both fund-level and aggregated manager-level analysis, as it contains a broader set of fields relevant to our analysis.⁵ The frequency of these submissions varies depending on the size of the AIFM and its use of leverage (Financial Conduct Authority, 2026f). As all AIFMs are required to report at year-end, we rely on year-end reporting as this data is the most comprehensive.

2.1 Our sample

Our sample covers AIFs marketed to UK investors from 2016 to 2025, covering the period since the introduction of AIFMD reporting. At year-end 2025, 15,422 funds submitted AIF002 reports. To construct our analytical sample, we apply two exclusions, summarised in Figure 1.

Figure 1: Main sample construction



Firstly, to avoid double counting where both master and feeder funds are reported, we exclude feeder funds where the AIFM has provided the identity of the master fund and we have reporting on it. This results in the exclusion of 1,610 feeder funds at year-end in 2025. This adjustment is necessary because some AIFs operate as master funds,

⁴ See European Securities and Markets Authority's final guidelines (European Securities and Markets Authority, 2014) for more details on the reporting obligations of AIFMs. The FCA makes ongoing efforts to support firms in understanding reporting requirements and ensuring compliance with them.

⁵ As some AIFMs report AIF001 but not AIF002, our sample may exclude managers not submitting AIF002. This has only a small impact on the sample size as the vast majority of these submissions relate to AIFMs with no active AIFs.

investing directly in underlying assets, while feeder funds invest predominantly in master funds rather than holding assets directly. With more than 2,000 master funds reported to the FCA in 2025, including both master and feeder funds would lead to double-counting in aggregate statistics. We apply the same approach throughout the sample period. For a detailed breakdown of feeder fund exclusions, see Annex 2.

Secondly, funds submitting nil returns are excluded from our analysis as they are either not AIFs or they do not contain relevant information, typically because they are not marketed to UK investors, have not yet launched, have ceased operations, been liquidated, or are in the process of winding down. Of the remaining 13,812 funds in year-end 2025 following feeder-fund exclusions, 2,103 submitted a nil return.

As some AIFMs manage only funds that are excluded under these two criteria, 207 reporting AIFMs are excluded from the analytical sample. Following these exclusions, our sample covers 11,709 funds, managed by 2,531 AIFMs, at year-end 2025.

Coverage varies across AIF002 fields, reflecting differences in reporting requirements, applicability and data completeness. Sample sizes for key variables across the sample period and summary statistics for the year-end 2025 sample are provided in Annex 2.

To distinguish between the full range of funds available to UK investors and activity undertaken by UK-based managers, we analyse two sub-samples:

- The whole UK AIF market (11,709 funds in year-end 2025): all AIFs available to UK investors, including those managed in the UK and those managed by overseas AIFMs and marketed into the UK. Following post-Brexit changes to reporting requirements, this sample is only representative of the UK investors' full opportunity set from 2021 onward.
- UK-managed AIFs (5,151 funds in year-end 2025): AIFs managed by UK-based AIFMs within the scope of the UK AIFM regime. This excludes UK firms that provide portfolio management services to overseas AIFMs.

2.2 Data limitations and preparation

We apply basic data preparation and validation steps before undertaking the analysis. All monetary values are converted from reported base currencies into GBP using information from exchange rates reported by AIFs. We also apply basic data cleaning to remove implausible observations and reporting errors, such as negative values where these are not economically meaningful.

In terms of our sample, we proceed with the elimination of feeder funds when a master fund is reporting in the sample, as mentioned above. While the intention of this adjustment is to limit double-counting, some duplication may remain as Legal Entity Identifiers (LEIs) are currently neither mandatory for all funds nor used consistently as fund identifiers. This limits our ability to match feeder funds to their master funds, meaning some double-counting may remain in the aggregate statistics. Consistent reporting of LEIs for funds would make these relationships easier to identify.

Throughout the note, we highlight limitations from smaller sample sizes in certain market segments and data validation challenges affecting specific variables. Where sample sizes are small for the UK-managed sample, we focus on market-wide statistics. When

analysing leverage, we construct our own leverage metric from underlying data rather than using reported measures. This approach reflects concerns that the leverage metrics required under AIFMD reporting can be complex, open to interpretation, or reported in different units.⁶ This can lead to challenges with validation and interpretation.

As AIFs do not report whether they are open-ended or closed-ended in AIF002, we infer fund structure using related reporting fields. However, many AIFs do not provide the information required for this classification, resulting in incomplete coverage of fund structures. As a result, our sample of open-ended funds used to assess redemption-driven liquidity risks may not capture the full population. We discuss the classification methodology and associated coverage in more detail in 'Fund structures'.

While these adjustments help improve data consistency and address identifiable reporting issues, we generally rely on information as reported by firms and do not seek to impute or replace reported values. Consequently, the analysis remains subject to any inaccuracies or omissions in the underlying data.

2.3 Adjustments to reported fund types

AIFMs self-report the type of their funds in AIF002 using a predefined taxonomy (private equity, hedge funds, real estate, fund of funds, or 'other'), which we refer to as 'fund types'. Within each fund type, managers also report the fund's investment strategy using a predefined set of sub-categories.

Throughout this note, we use the self-reported fund types. However, the original AIFMD taxonomy does not adequately capture several fund strategies that have grown in importance since it was introduced in 2014. Consequently, the 'other' AIF category accounts for a significant proportion of aggregate NAV, limiting insight into the nature of the underlying funds. We therefore make several adjustments to the classifications to improve the classification of certain fund types.

The first adjustment relates to private credit funds. The taxonomy does not separately identify private credit funds, despite their growing importance in financial markets. We therefore identify private credit funds using a conservative multi-stage process involving name- and strategy-based classifications, manual review, machine learning and large language models (LLMs), as outlined in Annex 3. We also use LLMs and manual reviews to identify specific fund classifications presented in the boxes throughout this note.

The second adjustment relates to exchange-traded funds (ETFs). ETFs managed overseas are also reported to the FCA under AIFMD and are not separately identified within the taxonomy. We identify ETFs using a conservative name-based approach designed to capture most ETFs in our sample while minimising false positives. The identified funds, predominantly managed in the US, accounted for total NAV of £2.9tn, despite only accounting for 2% of funds, at year-end 2025. As these funds do not pursue alternative investment strategies and can obscure aggregated statistics, we exclude them from the analysis.

⁶ This is an issue that the European Securities and Markets Authority has documented in the past (see table ASR-AIF.94 in European Securities and Markets Authority, 2019).

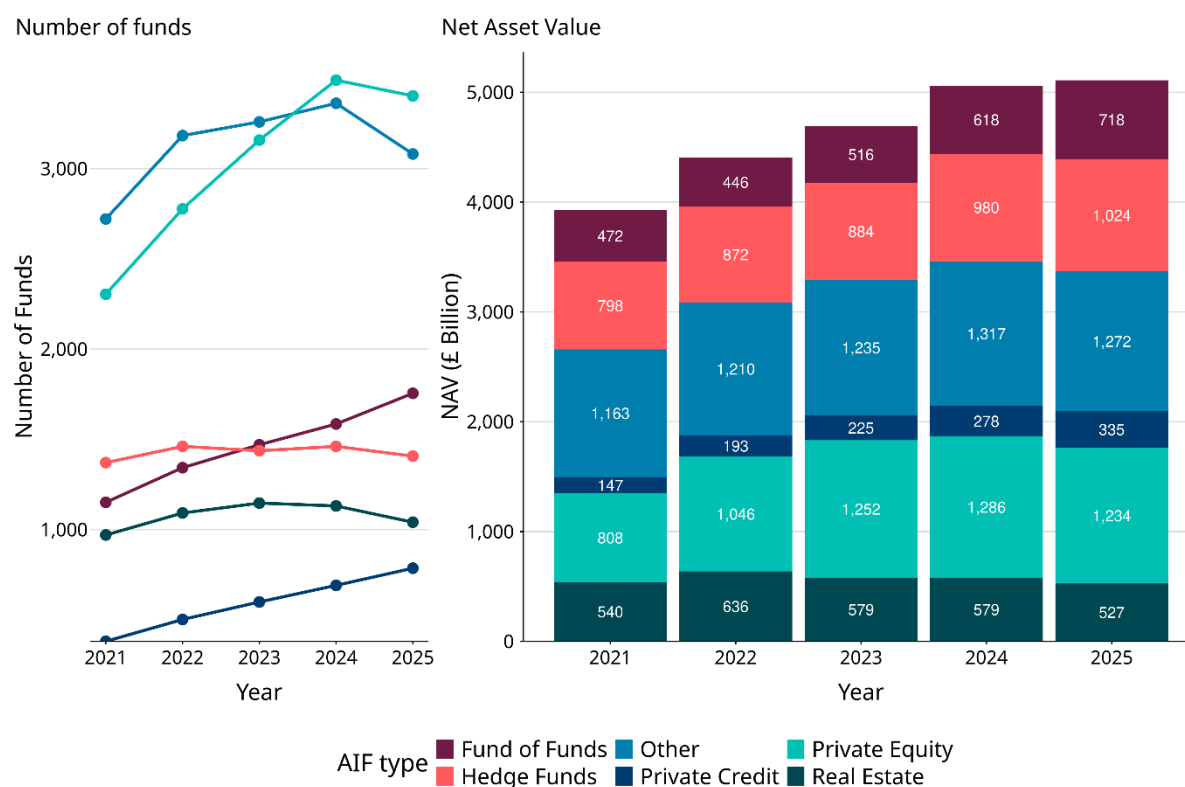
The third adjustment relates to the identification of investment trusts, which are also not separately identified within the taxonomy. We identify investment trusts using public data from the London Stock Exchange Group (LSEG) (London Stock Exchange, 2026).

3. Overview of the reporting universe

3.1 The UK AIF market

The set of AIFs available to UK investors has expanded steadily over the last 5 years, with total NAV increasing by 30% to reach £5.1tn in 2025 (Figure 2).⁷ All fund types increased their total NAV between 2021 and 2025, except real estate funds, which experienced a modest contraction of 2%. While private credit and private equity grew significantly, with NAV increasing by 127% and 53% respectively over the period, the residual category 'other' remained the largest fund type by NAV.

Figure 2: Growth in the UK AIF market by fund type (2021-2025)



Source: AIFMD reporting. Notes: Charts exclude funds reporting no AIF type.

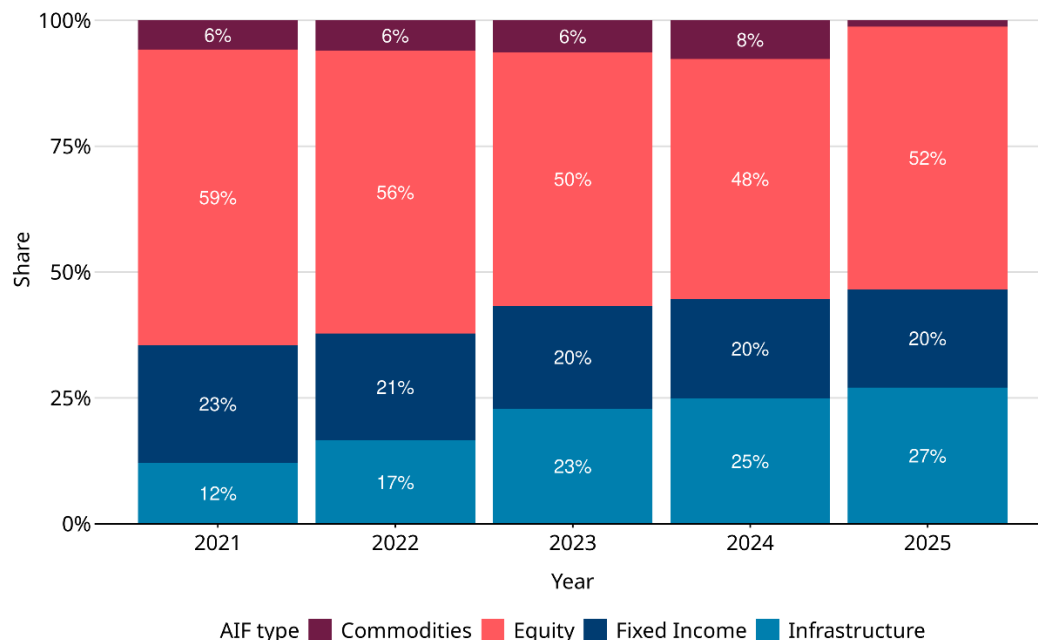
Around 3,000 funds are classified as 'other', accounting for 25% of reported NAV, even after we separately identify private credit funds previously included in this category. To better understand this segment, we use funds' reported investment strategies to provide a more granular breakdown. Figure 3 shows the other funds category is dominated by funds pursuing equity and fixed income strategies. These strategies are primarily

⁷ Fund positions reported to the FCA may overlap with data published by other jurisdictions, as some internationally marketed AIFs may report the same underlying positions to multiple regulators.

associated with public market exposures, as shown in asset allocation patterns in Figure 12.

Figure 3: Breakdown of other funds by investment strategy (2021-2025)

Whole market - Other category breakdown



Source: AIFMD reporting. **Notes:** The figure represents the share of funds reporting 'other' as predominant AIF type per reported principal strategy.

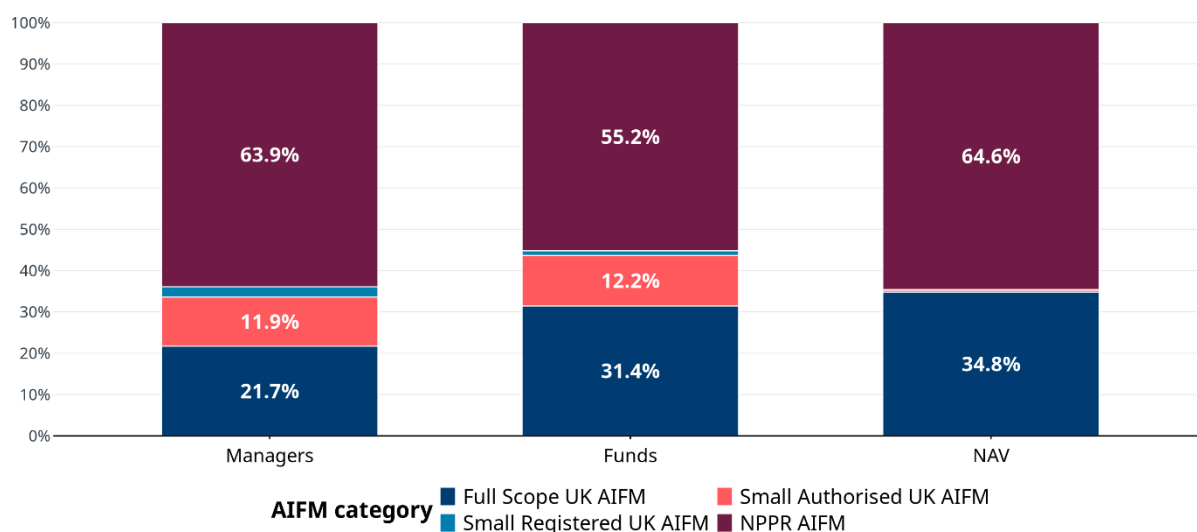
3.2 UK-managed funds

There are 2,174 AIFMs managing AIFs marketed to UK investors. Under the current regime, UK AIFMs are classified as full-scope AIFMs, small authorised AIFMs or small registered AIFMs, based on their size and use of leverage. As the largest firms, or those managing the most highly leveraged funds, full-scope AIFMs are subject to the most stringent regulatory requirements. AIFs that are not domiciled or managed in the UK can be marketed to UK investors under the National Private Placement Regime (NPPR).

The UK AIF market is highly international. Overseas fund managers marketing into the UK under the NPPR accounted for 57% of AIFs and 65% of total NAV in 2025 (Figure 4). By comparison, UK AIFMs managed 43% of AIFs and 35% of total NAV.

Figure 4: Distribution of UK AIF market by AIFM category (2025)

Managers: 2,531 | Funds: 11,503 | NAV: £5,114bn

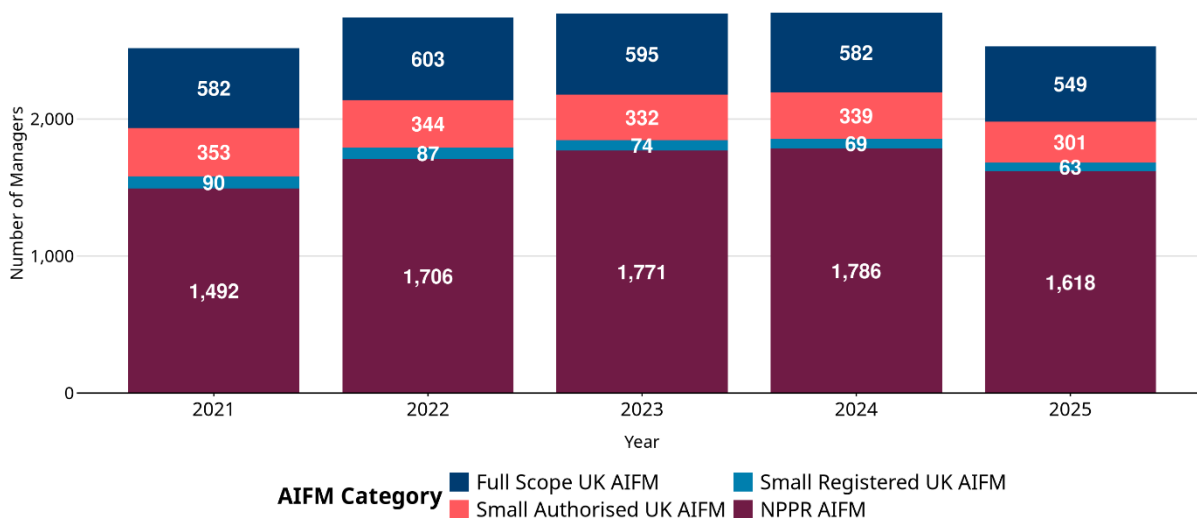


Source: AIFMD reporting

UK AIFMs accounted for 36% of the total population of firms marketing into the UK in 2025, down from 41% in 2021. This decline in share occurred despite the total number of managers increasing by 5% over the same period (Figure 5).

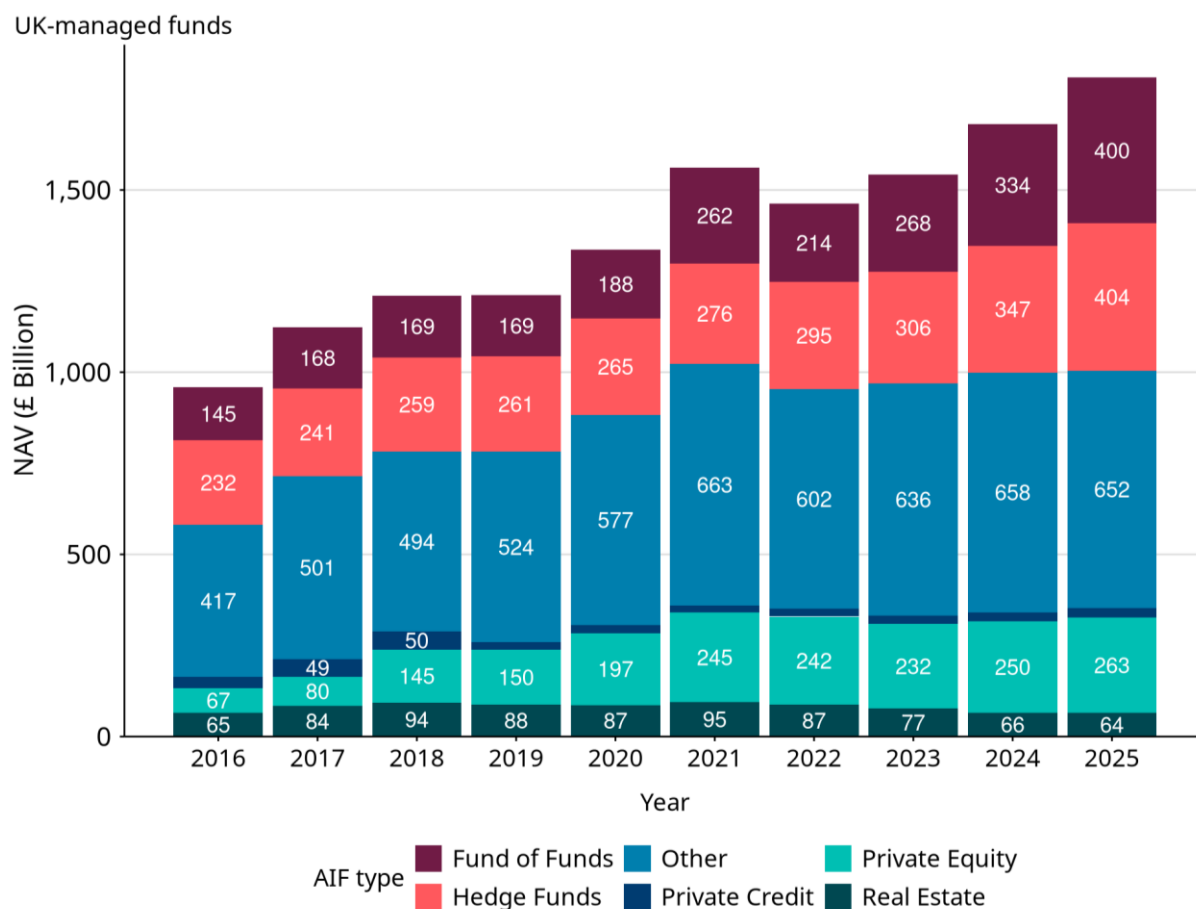
Figure 5: AIFM count by AIFM category (2021 - 2025)

Whole Market



Source: AIFMD reporting and FCA Authorisations data.

Whilst the number of UK AIFMs has declined over time, the NAV managed by UK AIFMs increased by around 17%, from £1.5tn to £1.8tn between 2021 and 2025. As shown in Figure 6, this growth was driven primarily by hedge funds and funds of funds, whose NAV increased by 46% and 53%, respectively, over the period. Relative to all AIFMs in the sample, UK AIFMs have a greater concentration of NAV in hedge funds (23% compared with 13%), funds of funds (22% compared with 9%), and other funds (35% compared with 15%).

Figure 6: Growth in funds managed by UK AIFMs by fund type (2016-2025)

Source: AIFMD reporting. Notes: Figure excludes funds reporting no AIF type.

3.3 Fund domicile

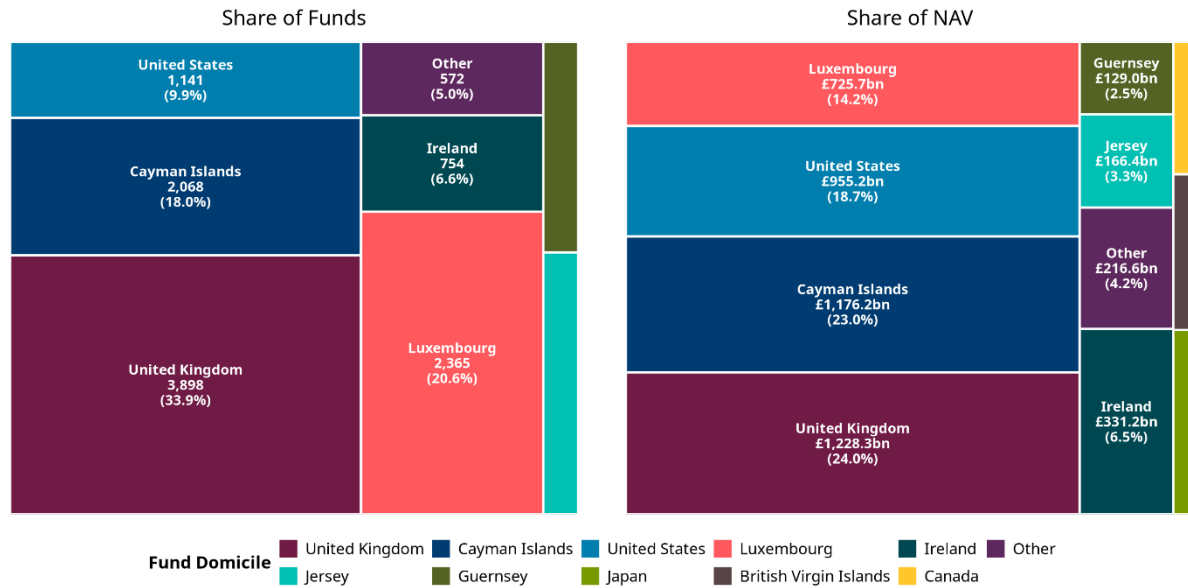
AIFs are concentrated in a relatively small number of domiciles. That said, the relative importance of these jurisdictions differs when measured by fund counts and NAV. Figure 7 shows the UK, Luxembourg, the Cayman Islands and the United States account for the majority of AIF domiciles. UK-domiciled funds account for only 24% of total NAV despite representing 34% of AIFs, while US-domiciled funds account for nearly 20% of NAV despite comprising just 10% of AIFs. This suggests that US-domiciled funds are, on average, larger than their UK-domiciled counterparts.

Patterns of fund domiciles vary across AIF types. For example, fund of funds, private equity and real estate funds are more likely to be domiciled in the UK, whereas hedge funds and private credit funds tend to be domiciled overseas (see Figure 8).

Equally, UK-domiciled funds tend to be smaller, on average, than those domiciled overseas across several AIF types. This is particularly evident in private equity and real estate, where the UK accounts for a relatively large share of fund numbers (58% and 53%, respectively) but a much smaller share of aggregate NAV (22% and 15%, respectively).

Figure 7: Fund domiciles in UK AIF market (2025)

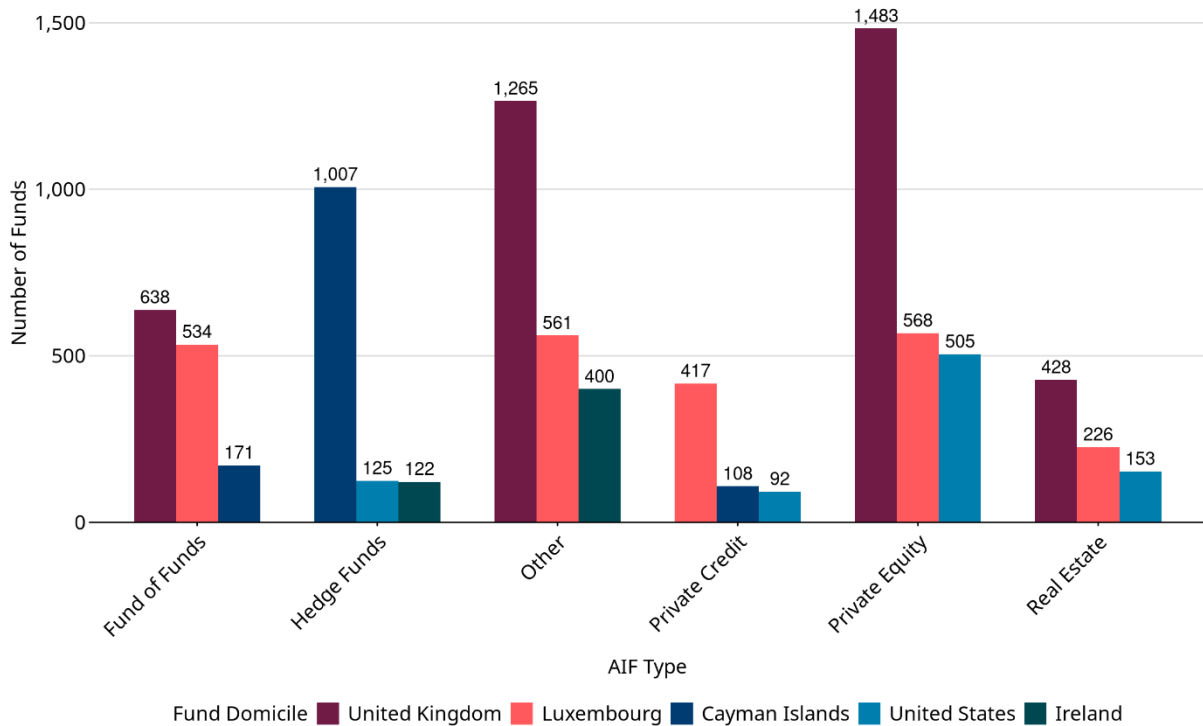
Whole market



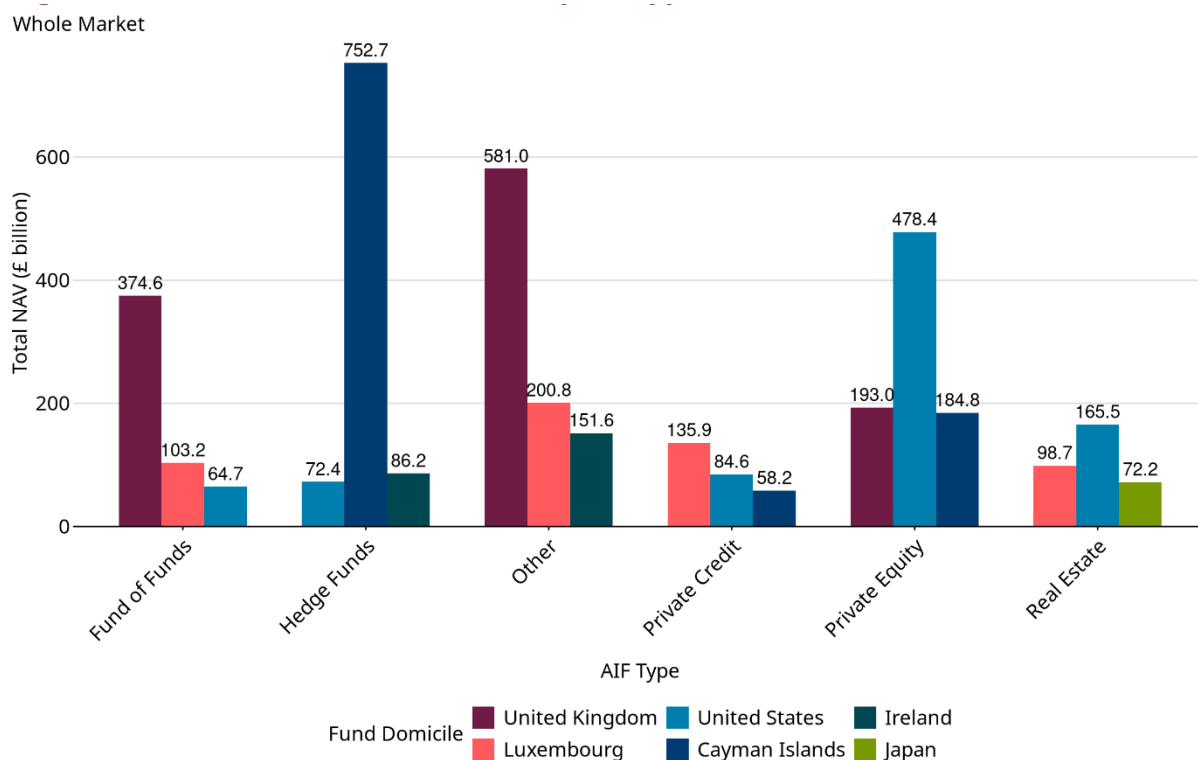
Source: AIFMD reporting.

Figure 8: Number of funds by AIF type and domicile (2025)

Whole market



Source: AIFMD reporting.

Figure 9: Total NAV in UK AIF market by AIF type and domicile (2025)

Source: AIFMD reporting.

Although most AIFs are domiciled outside the UK, some specialist offshore AIFs support important forms of capital provision and risk transfer linked to UK financial sector specialisms. Insurance-linked funds, for example, facilitate the transfer of insurance risk to capital markets and are particularly significant given London's position as a leading global insurance centre (London Market Group, 2026). Box 1 provides more details on insurance-linked funds.

Box 1: Insurance-linked funds

Insurance-linked funds provide an important source of capital to the insurance sector by giving institutional investors access to insurance-linked returns. These returns can be accessed through vehicles such as reinsurance funds, insurance-linked securities (ILS) funds and Lloyd's investment vehicles, which invest in instruments such as catastrophe bonds, collateralised reinsurance contracts and underwriting participations. This source of capital helps insurers transfer risk, expand underwriting capacity and diversify their funding sources. In doing so, they can contribute to the competitiveness of the UK insurance sector and the broader economy.

The insurance-linked fund sector appears mature and relatively stable in both size and structure (see Figure 10 and Figure 11). Since 2021, the number of funds in our sample⁸ has remained just over 100, with around half managed from the UK, while aggregate NAV has fluctuated modestly, between £22.5bn and £26.2bn. Funds are predominantly domiciled offshore, particularly in Bermuda and the Cayman Islands. Despite its

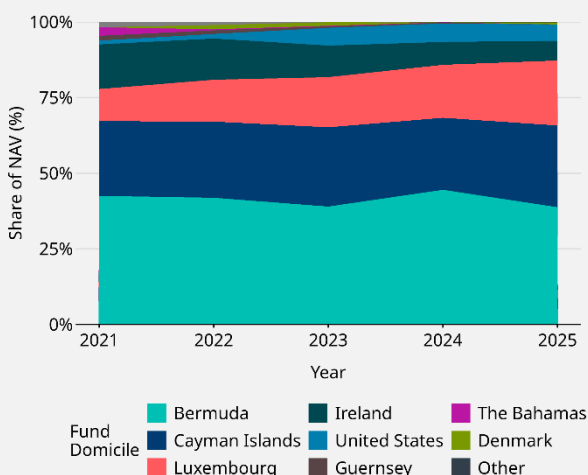
⁸ The sample of ILS funds was inferred by an LLM and manually reviewed. We follow the same procedure used for the identification of private credit funds. See Annex 3 for details on the LLM identification of funds.

relatively small size, the sector supports London's globally significant insurance and reinsurance market. Alternative reinsurance capital reached approximately \$136bn globally at the end of 2025 (Aon, 2026), including almost \$60bn in securitised ILS instruments (Swiss Re, 2026), while the London market accounted for \$46bn (London Market Group, 2026) of reinsurance premium in 2024, equivalent to 16.1% of the global property and casualty reinsurance market (London Market Group, 2026).

Figure 10: NAV and market participation



Figure 11: NAV by fund domicile



Source: AIFMD reporting and internal calculations for identification.

The asset mix of these funds has been stable, with a strong focus on unlisted equities and structured risk-sharing products. About 28% of portfolio assets are held in unlisted equities, reflecting both private reinsurance ventures and participation in specialised insurance pools. Another important sub-asset class is structured products such as catastrophe bonds. Meanwhile, cash, at around 18%, is held not only to ensure liquidity for renewals and payouts, but also to meet collateral requirements. Around 12% of the gross assets are invested in other funds, likely feeding into master structures. In terms of investor base, at the end of 2025, pension funds, other funds and other financial institutions represented 33%, 19% and 17%, respectively.

4. Portfolio composition and geographical exposures

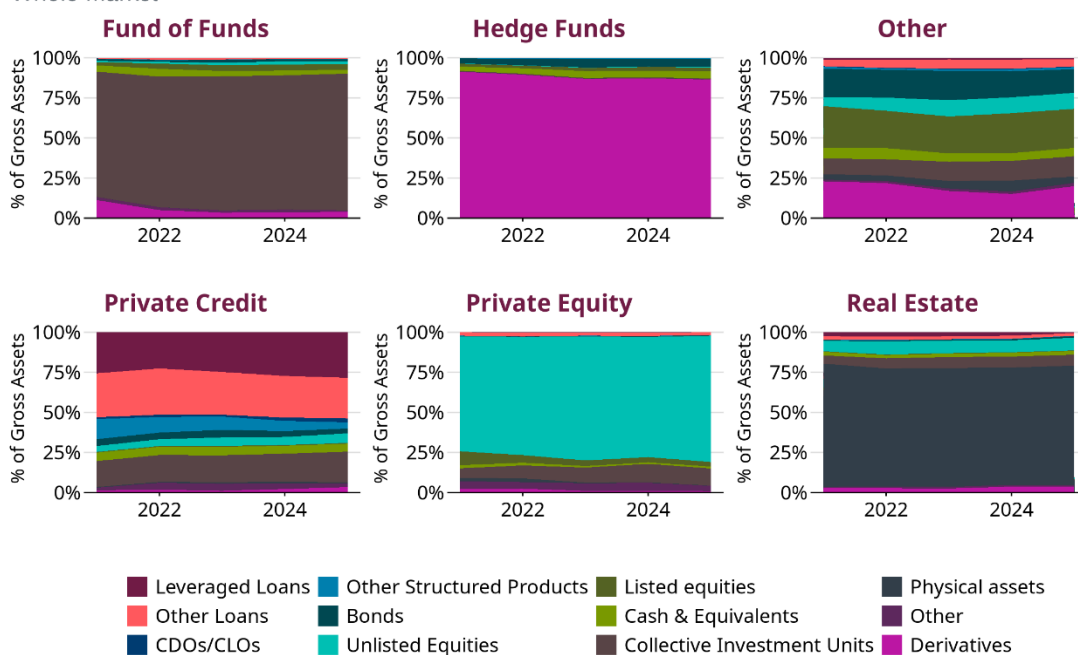
The investment profiles of AIFs provide insight into the role they play in financial markets and the wider economy by showing how capital is allocated across asset classes, geographies and jurisdictions.

4.1 Asset exposures

Asset allocations vary significantly across fund types, reflecting differences in their investment strategies. Figure 12 illustrates the composition of gross asset exposures by asset class⁹ over time for funds reporting detailed asset exposure information.

Figure 12: Share of gross asset exposures by AIF type (2021-2025)

Whole market



Source: AIFMD reporting. Notes: Based on funds providing detailed asset exposure information, where the sum of all exposures as a percentage of AUM is approximately 100%. For 2025, this was true for funds representing 91-98% of total NAV across AIF types (see Annex 2, Essential Statistics, for detailed coverage information). AIFMD reporting data does not enable us to look through to the underlying assets held by the fund of funds.

⁹ The asset categories captured in the AIFMD reporting include: Cash & Equivalents: Money Market instruments and deposits, Unlisted Equities: Private Equity holdings in non-listed companies, Bonds: Investment grade, high yield, sovereign, and convertible bonds, Leveraged Loans: Senior secured loans to highly leveraged borrowers, Other Loans: Other loan exposures, CDOs/CLOs: Collateralized debt and loan obligations, Other Structured Products: Asset-backed securities, RMBS, CMBS, etc., Physical assets: Such as property or infrastructure, All Other Assets: Derivatives, listed equities, physical assets, CIUs, and other.

Looking across fund types, reported exposures are generally consistent with the economic role and investment approach of each fund type, with several categories showing a high degree of specialisation:

- **Fund of funds** are predominantly invested in units in collective investment schemes (85%), highlighting their role as intermediaries allocating capital across underlying funds.
- **Hedge funds** are predominantly invested in derivatives (86%). This is driven by the use of interest rate swaps and foreign exchange derivatives, particularly by relative value and macro strategy hedge funds, for which the notional value of reported derivative positions is substantial and indicative of synthetic leverage. Beyond derivatives, hedge fund exposures include bonds (5%) and listed equities (4%).
- **Private credit funds** are dominated by leveraged loans (28%) and other loans (25%), with bonds (3%), collateralised debt obligations and collateralised loan obligations (3%) and other structured products (4%) representing a smaller share. The relatively large share in units in collective investment schemes (19%) reflects the presence of feeder funds. Box 2 examines the growth and asset exposures of private credit funds.
- **Private equity funds** are predominantly invested in unlisted equities (79%), with smaller exposures to units in collective investment schemes (11%), as is also the case for private credit funds.
- **Real estate funds** are predominantly invested in physical assets (75%), consistent with their focus on property investment, but also hold smaller exposures to unlisted equities (8%) and units in collective investment schemes (7%). These additional exposures likely reflect the use of holding companies and indirect investment vehicles, which are commonly used to structure real estate ownership.

These trends are broadly mirrored in the sub-sample of UK-managed funds.

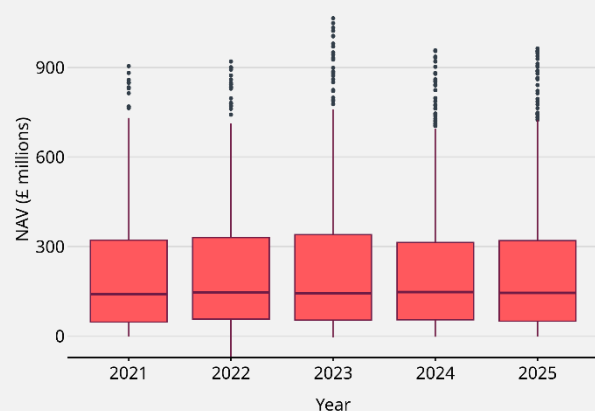
Box 2: A closer look at private credit funds

Size and growth of the sector

Private credit funds have grown rapidly in recent years. In our sample, total NAV increased from £147bn at the end of 2021 to £335bn at the end of 2025, while the number of funds more than doubled from 381 to 786. UK-managed private credit funds remain a smaller segment of the market, accounting for £25.5bn of NAV across 111 funds in 2025.

Growth has been driven by both new fund launches and the expansion of existing funds. However, assets remain concentrated among a relatively small number of large funds. While median NAV increased only modestly from £168m to £182m between 2021 and 2025, mean NAV rose from £386m to

Figure 13: NAV distribution by year



Source: AIFMD Reporting.

£426m, indicating that a small number of large funds account for a disproportionate share of sector assets (Figure 13).

UK-managed private credit funds are generally smaller than those in the broader sample. In 2025, median NAV was £72m and mean NAV was £230m. As in the wider market, the gap between the mean and median suggests a right-skewed size distribution, albeit at a smaller scale.

Figure 14: Net inflows and fund count

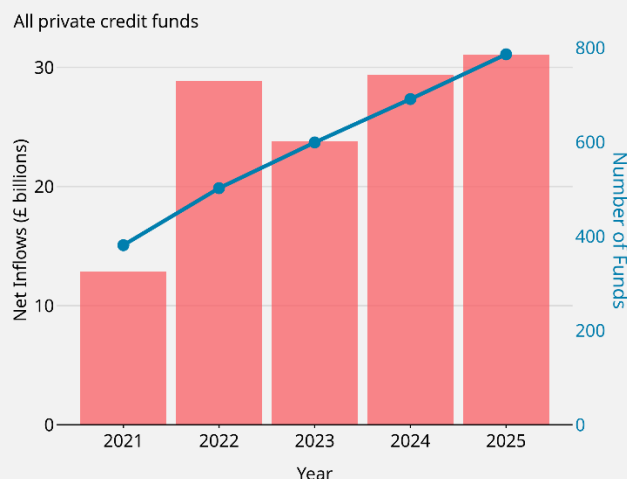
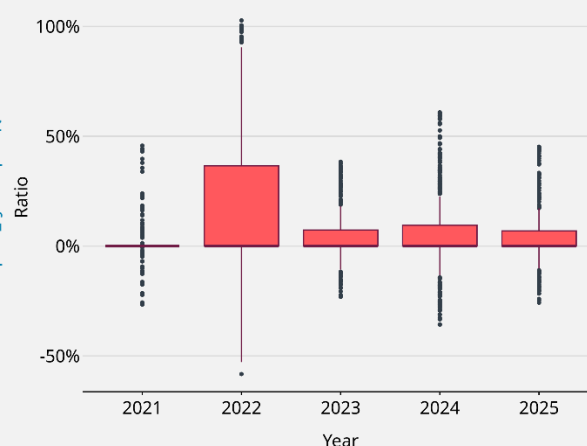


Figure 15: Net inflow rate distribution



Source: AIFMD reporting. The charts above include all private credit funds.

Investor flows

We observe sustained investor inflows into the sector since 2021, with annual net inflows reaching 9% of total NAV by the end of 2025 (see Figure 14). In that year, subscriptions averaged 10% of NAV, compared with redemptions of 2%. Median subscriptions remained positive, while median redemptions were zero, resulting in an average net inflow rate of 4% of NAV.

Collateralised borrowing

The distribution of adjusted gross leverage suggests that leverage is concentrated among a relatively small subset of private credit funds. To explore this further, we examine collateralised borrowing, including borrowing from prime brokers, reverse repos and other collateralised arrangements.

Most collateralised borrowing falls within the 'other collateralised borrowing' category. Relative to aggregate NAV, collateralised borrowing remained broadly stable between 2023 and 2025, ranging from 11.9% to 13.9% of NAV (Figure 16).

The use of collateralised borrowing is concentrated among a minority of funds. Of the 686 funds reporting these data in 2025, only 142 reported collateralised borrowing greater than zero. This suggests it remains a limited source of financing across the sector, although it appears to be becoming more important among funds that make use of it.

Geographical exposures

UK-managed private credit funds have a more domestic and regional investment focus than the wider private credit sector (Figure 17). While North America accounts for 52% of investments across the full sample, UK-managed funds allocate a larger share to the UK (30% versus 12%) and Europe excluding the UK (51% versus 18%), with correspondingly lower exposure to North America (18% versus 52%).

Figure 16: Total collateralised borrowing (2023-2025)

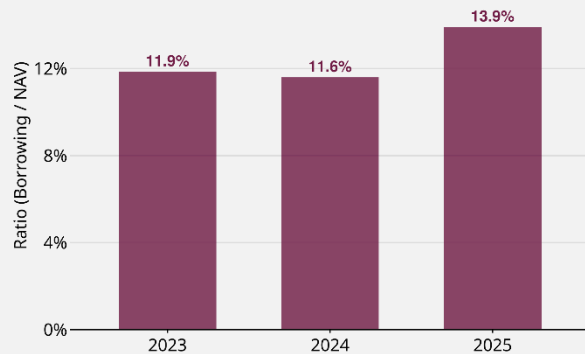
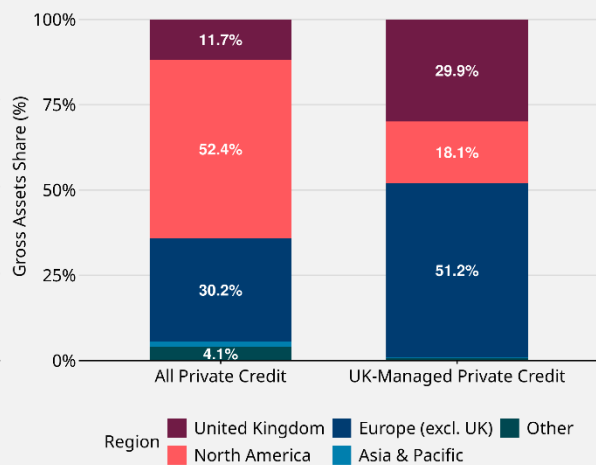


Figure 17: Geographical exposure distribution

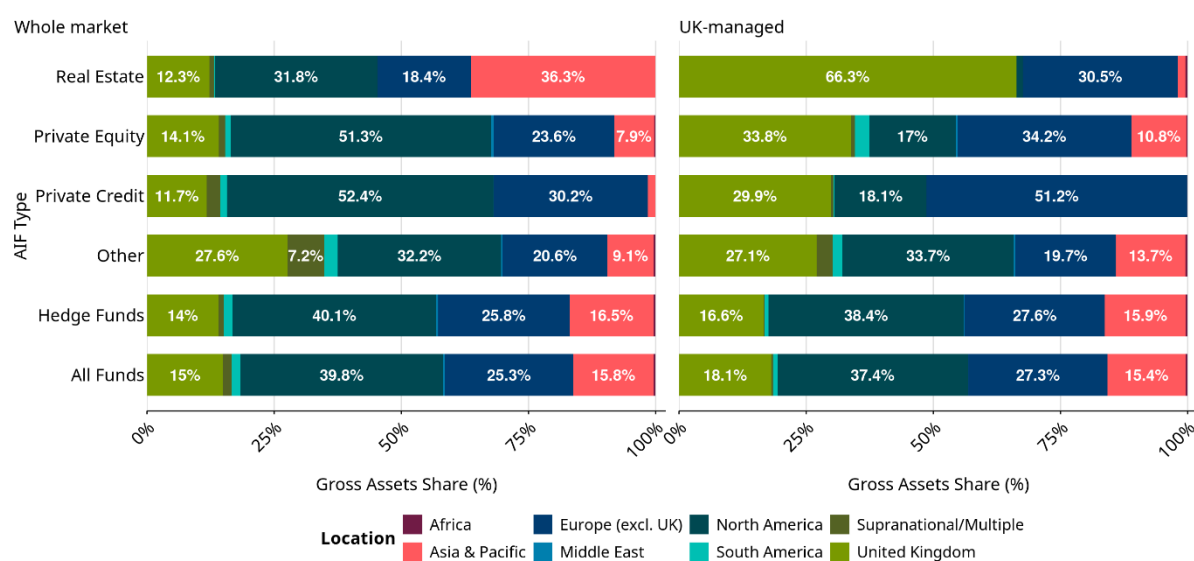


Source: AIFMD reporting. The charts above include all private credit funds. Collateralised borrowing coverage is based on funds reporting at least one collateralised borrowing field. A small number of funds is also excluded after applying leverage data-quality filters.

4.2 Geographical exposures

Gross asset exposures¹⁰ are concentrated in North America and Europe (excluding the UK), which account for 40% and 25% respectively. They are broadly similar across UK-managed AIFs and the wider market at the aggregate level, although UK-managed real estate (36% versus 12%), private equity (34% versus 14%) and private credit (30% versus 12%) funds are more domestically focused (see Figure 18). The geographic allocations have remained broadly stable over the past three years across both sub-samples and AIF types.

Figure 18: Geographical investment exposures by AIF type (2025)



Source: AIFMD Reporting.

Within UK-managed AIFs, geographic exposures vary considerably across AIF types, reflecting differences in investment strategies, the nature of the underlying assets and the importance of local knowledge and expertise. For example, real estate funds invest 66% of gross assets in the UK, consistent with the location-specific nature of property investments, the importance of local market knowledge, and the legal, regulatory and transaction costs associated with international diversification. By contrast, hedge funds allocate only 17% of gross assets in the UK, reflecting their ability to invest and diversify more readily across globally traded financial instruments.

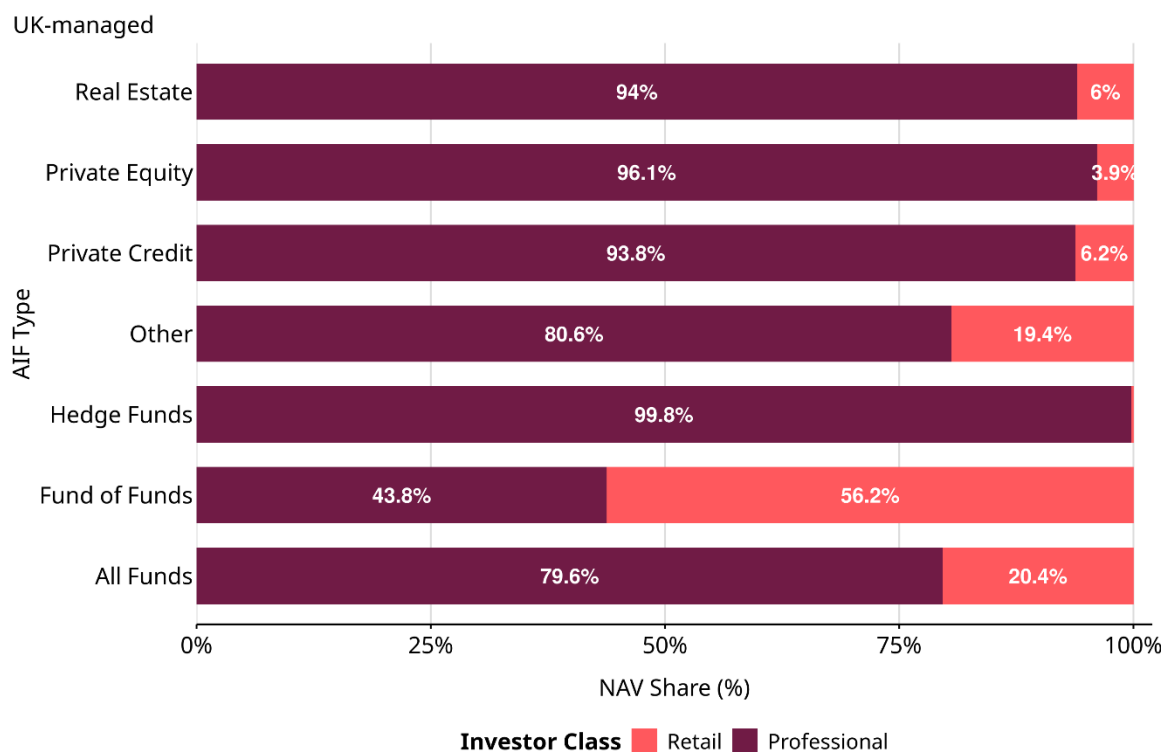
¹⁰ Geographic investment exposures are inherently less transparent for fund of funds structures, where investments may be held through multiple layers of underlying funds, making it difficult to look through to the location of the ultimate underlying assets.

5. Investor base: Retail and non-retail participation

Most AIFs are only available to professional investors, including institutions and non-institutional investors who meet the criteria for professional status set out in our Conduct of Business Sourcebook (COBS). However, certain authorised UK-managed AIF structures, such as Non-UCITS Retail Schemes (18% of UK-managed AIFs) and Long-Term Asset Funds (0.4%), can also be marketed to retail investors. Some other AIFs may be available to sophisticated or high-net-worth retail investors subject to regulatory restrictions. Qualified Investor Schemes (2% of UK-managed AIFs) are also available to certified and self-certified sophisticated retail investors as defined in the FCA Handbook (Financial Conduct Authority, 2026c).

While these structures allow for retail participation in AIFs, professional investors account for 90% of NAV across the whole market and 80% among UK-managed funds. Retail investors account for the remainder. In the whole-market sample, retail investors accounted for 34% of the NAV of funds of funds and 12% of the NAV of funds classified as 'other' in 2025. These shares were higher in the UK-managed sample, at 56% and 19%, respectively (Figure 19). For UK-managed funds, NAV attributed to retail investors increased from £159.4bn in 2016 to £366.9bn in 2025, broadly in line with the growth in NAV across the market, with much of the increase occurring in fund of funds (see Figure 20).

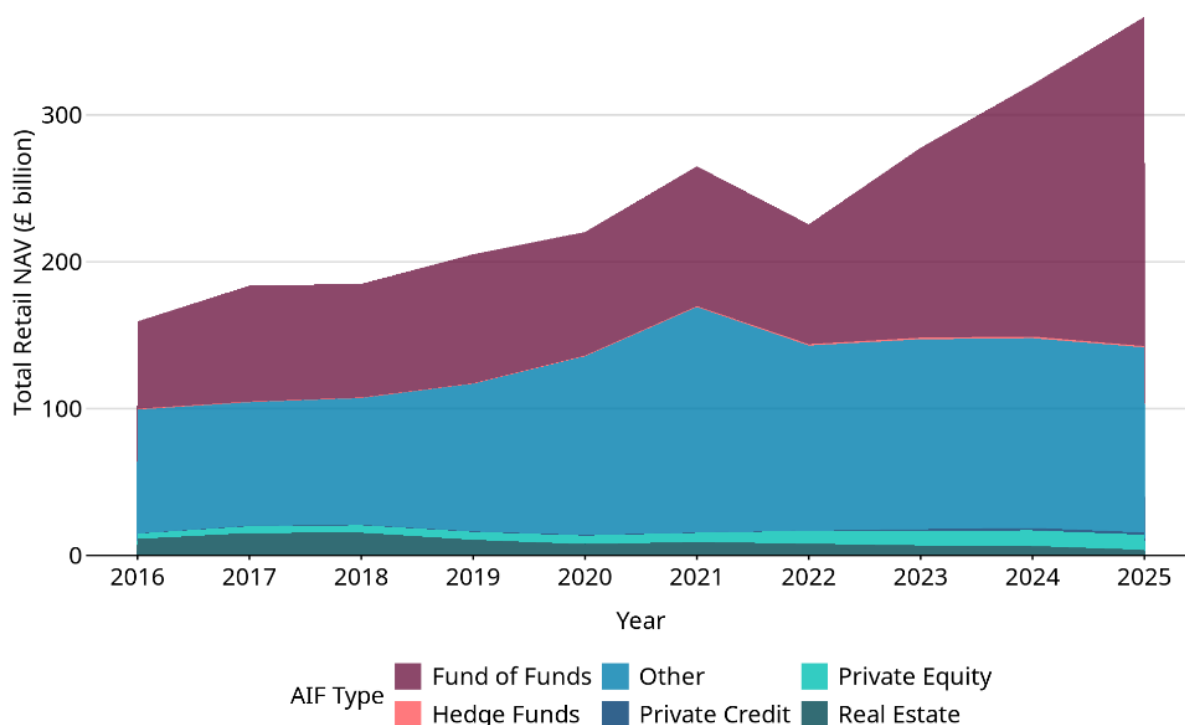
Figure 19: Investor composition across AIF types (2025)



Source: AIFMD reporting. Notes: Based on funds providing complete retail/professional breakdown of their exposures (sum of all retail/professional % NAV $\approx$ 100). For 2025, this was true for 99.7%.

Figure 20: Retail NAV by AIF type (2016– 2025)

UK-managed



Source: AIFMD reporting. Notes: Based on funds providing complete retail/professional breakdown of their exposures (sum of all retail/professional % NAV $\approx$ 100). For 2025, this was true for 99.7%.

Most retail investor NAV is concentrated in fund of funds and the 'other' funds category. The 'other' category includes most investment trusts, which are closed-ended public companies admitted to trading on a UK stock exchange. Investment trusts play an important role in enabling retail investors to access UK and global businesses and long-term investment opportunities through a closed-ended structure that provides patient capital. Box 3 provides further detail on the role and characteristics of investment trusts.

Box 3: UK Investment Trusts

There are an estimated 280 unique investment trusts admitted to trading on the London Stock Exchange, as of May 2026. The majority are listed on the Main Market (258 trusts), with some investment trusts admitted to trading on the Specialist Fund Segment (20), a market segment for professional investors, and the Alternative Investment Market (2). They are a mix of general investment trusts (225 trusts) investing across a range of asset classes, Venture Capital Trusts (44) that channel capital to early-stage, high-growth UK businesses, and Real Estate Investment Trusts (11) structured as funds providing exposure to income-generating property assets.^{11,12}

¹¹ For an overview of our multi-step approach to identifying investment trusts using the London Stock Exchange Group's public data (London Stock Exchange, 2026), see Annex 4.

¹² There are a small number of investment trusts admitted to trading on the Aquis Stock Exchange. As we are unable to match these trusts to our AIFMD reporting data and they represent only a small proportion of the overall population, our analysis focuses on investment trusts admitted to trading on the London Stock Exchange.

We can identify 244 (87%) of these investment trusts in our AIFMD data, representing around £165.2bn in market capitalisation, equivalent to 95% of the investment trust sector. Together, these trusts have a combined NAV of £174.9bn, consistent with the well-established tendency for closed-ended funds to trade at discounts to NAV (Lee, Shleifer, & Thaler, 1991).

Retail investors have consistently accounted for around 60% of investment trust net assets over the last 5 years. The closed-ended structure of investment trusts allows fund managers to invest in illiquid assets without needing to meet short-term investor redemptions. At the same time, investors can buy and sell shares on the secondary market, providing them liquidity without requiring underlying assets to be sold. This allows investment trusts to provide retail investors with access to a broader range of investment opportunities, particularly in illiquid asset classes that are often inaccessible through other retail fund structures.

Around 15% of assets are allocated to unlisted equities, with a further 5% allocated to structured credit and loans, highlighting the role investment trusts play in facilitating exposure to less liquid and more specialised segments of the market (see Figure 21). However, exposure to private markets varies considerably across investment trusts, reflecting differences in investment mandates and strategies. While investment trusts allocate 20% of their assets to private assets on average, the median trust has no exposure at all, indicating that allocations are concentrated among a subset of trusts.

Figure 21: Investment trust asset composition (2021 – 2025)

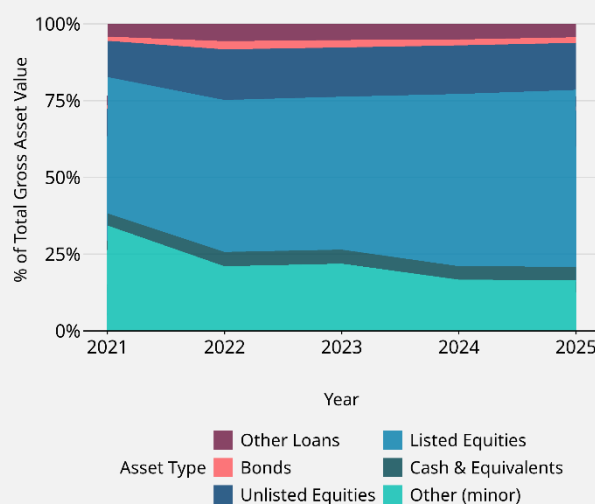
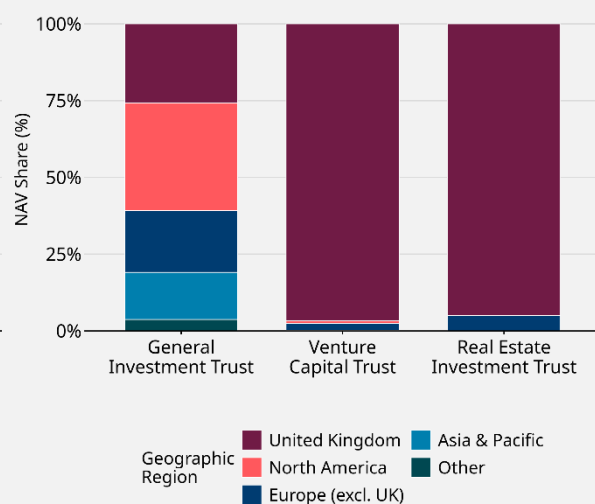


Figure 22: Geographic exposure by investment trust type (2025)



Source: AIFMD reporting. In Figure 22, "Other (minor)" includes leverage loans, CDOs/CLOs, other structured products, collective investment units, physical assets, derivatives and other assets.

While a small number of investment trusts combine both high levels of retail ownership with substantial exposure to private assets, those with more modest private asset exposures tend to have the highest levels of retail ownership.

UK-based managers manage around 80% of the sector, measured by both the number of investment trusts and NAV. The investment exposures of these vehicles illustrate the

different ways in which they allocate capital across the economy. While general investment trusts typically maintain globally diversified portfolios, Venture Capital Trusts are predominantly invested in UK companies (see Figure 22), reflecting their role in supporting early-stage and high-growth businesses.

6. Leverage and liquidity characteristics

The use of leverage and liquidity management practices vary across fund types and are an important component of the sector's risk profile. If not managed effectively, they may increase vulnerabilities during periods of market stress that can propagate through the financial sector.

6.1 Leverage

Leverage can support market liquidity and efficient market functioning in normal conditions, but it can amplify risks during periods of market stress. Leverage takes two main forms: borrowing (financial leverage) or exposure gained through the use of derivatives (synthetic leverage), both of which increase a fund's exposure to risk factors. As a result, leverage can magnify shocks and increase a fund's vulnerability to losses and liquidity pressures during periods of stress. Where leverage is high, relatively small price changes can lead to large losses relative to a fund's net asset value. This combination of losses and liquidity pressures can quickly force funds to deleverage due to internal risk limits, the withdrawal of financing or higher margin requirements. Such deleveraging can reduce the supply of market liquidity and cause rapid falls in asset prices, potentially transmitting stress across the financial system.

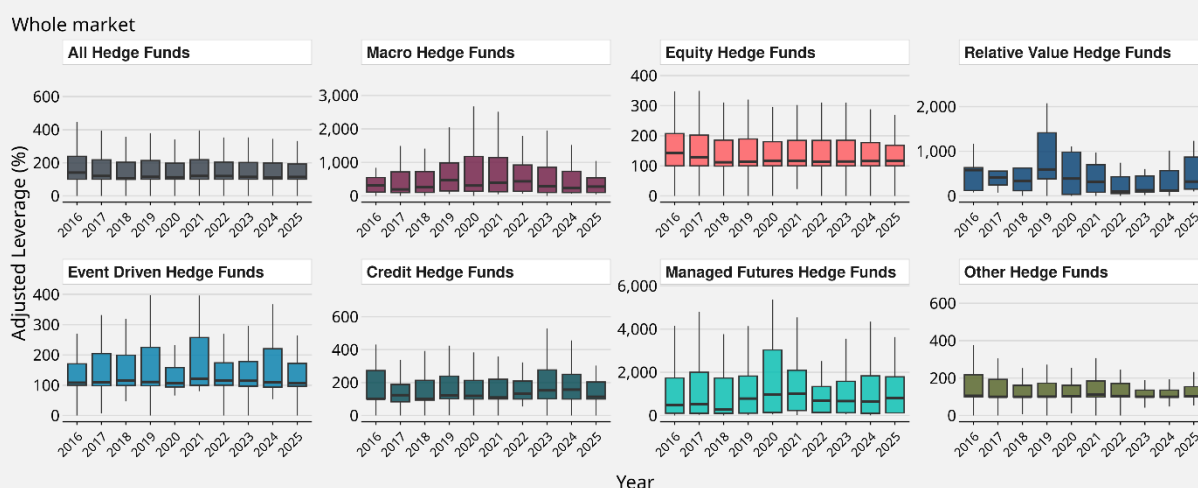
Under AIFMD, funds report two measures of leverage using the gross and commitment methods. However, there are challenges with reporting consistency. We therefore construct an adjusted leverage ratio (ALR) metric using data more widely reported across funds, allowing us to assess leverage across a broader range of UK-managed AIFs.¹³ However, it does not distinguish between financial and synthetic leverage or the underlying exposures. As a result, leverage can appear particularly high for fund strategies making extensive use of derivatives. In particular, hedge funds' large notional exposures inflate gross leverage, even where the underlying capital at risk is more limited. For interest-rate derivatives, notional exposure does not fully capture sensitivity to changes in interest rates. This may contribute to the high ALRs observed for strategies that make extensive use of these instruments, which can include managed futures, relative value and macro strategies. The median ALRs for these strategies in 2025 were 812%, 664% and 358% respectively. Box 4 examines hedge fund leverage across strategies and over time.

¹³ Adjusted gross leverage measures a fund's invested exposure (AUM) relative to its net asset value, after excluding cash, cash equivalents and FX hedging positions. Please refer to Annex 5 for further details on the ALR metric.

Box 4: Looking beyond aggregate measures of hedge fund leverage

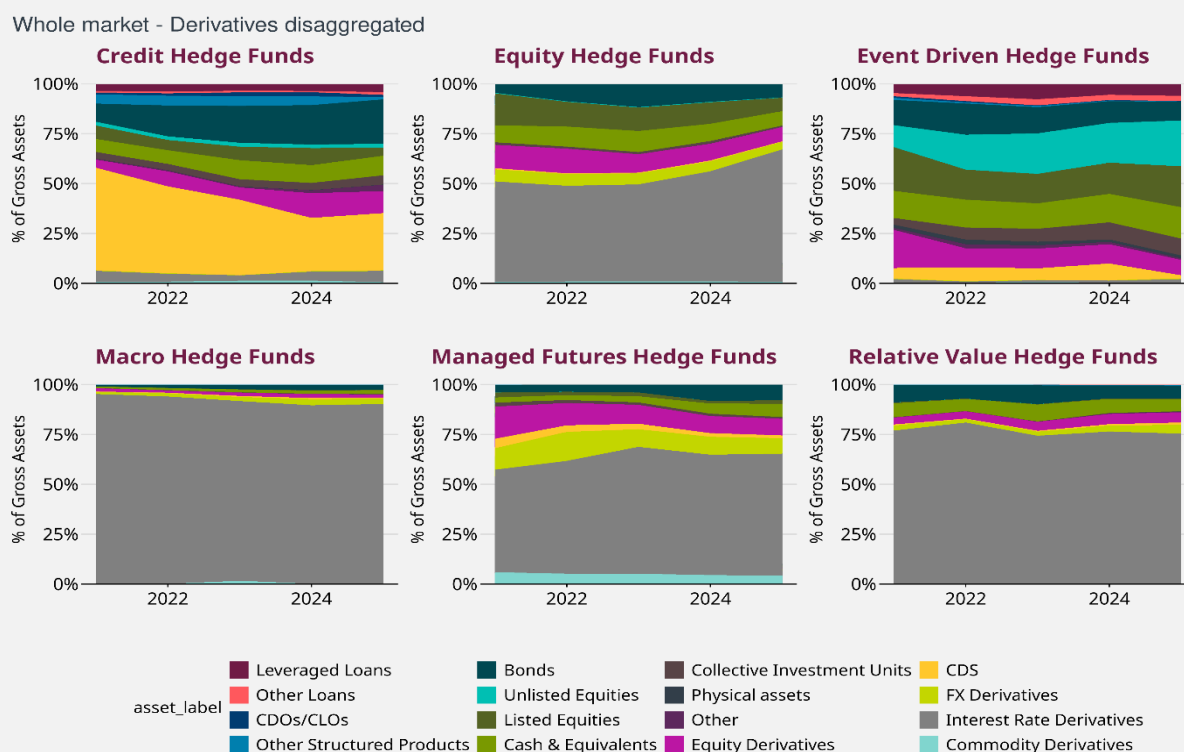
Hedge funds account for a disproportionate share of leverage reported in the whole UK AIF market. While this largely reflects the choice of leverage measure (see above), the metric still highlights substantial variation across hedge fund strategies.

Figure 23: Distribution of adjusted leverage by hedge fund strategy (2016-2025)



Source: AIFMD reporting. Note: Boxplots show the distribution of adjusted leverage across funds. Boxes represent the 25th to 75th percentiles, the line indicates the median, and whiskers show the 10th to 90th percentiles. Leverage of 100% represents no leverage (Adjusted AUM = NAV).

Figure 24: Share of gross asset exposure by hedge fund strategy (2021-2025)



Source: AIFMD reporting.

Figure 23 shows how the distribution of hedge fund leverage has evolved over time for different strategies and the sector overall. Looking at the overall sector, the distribution of leverage (measured by ALR) has been stable over time. The highest levels are concentrated among macro, managed futures and relative value strategies.

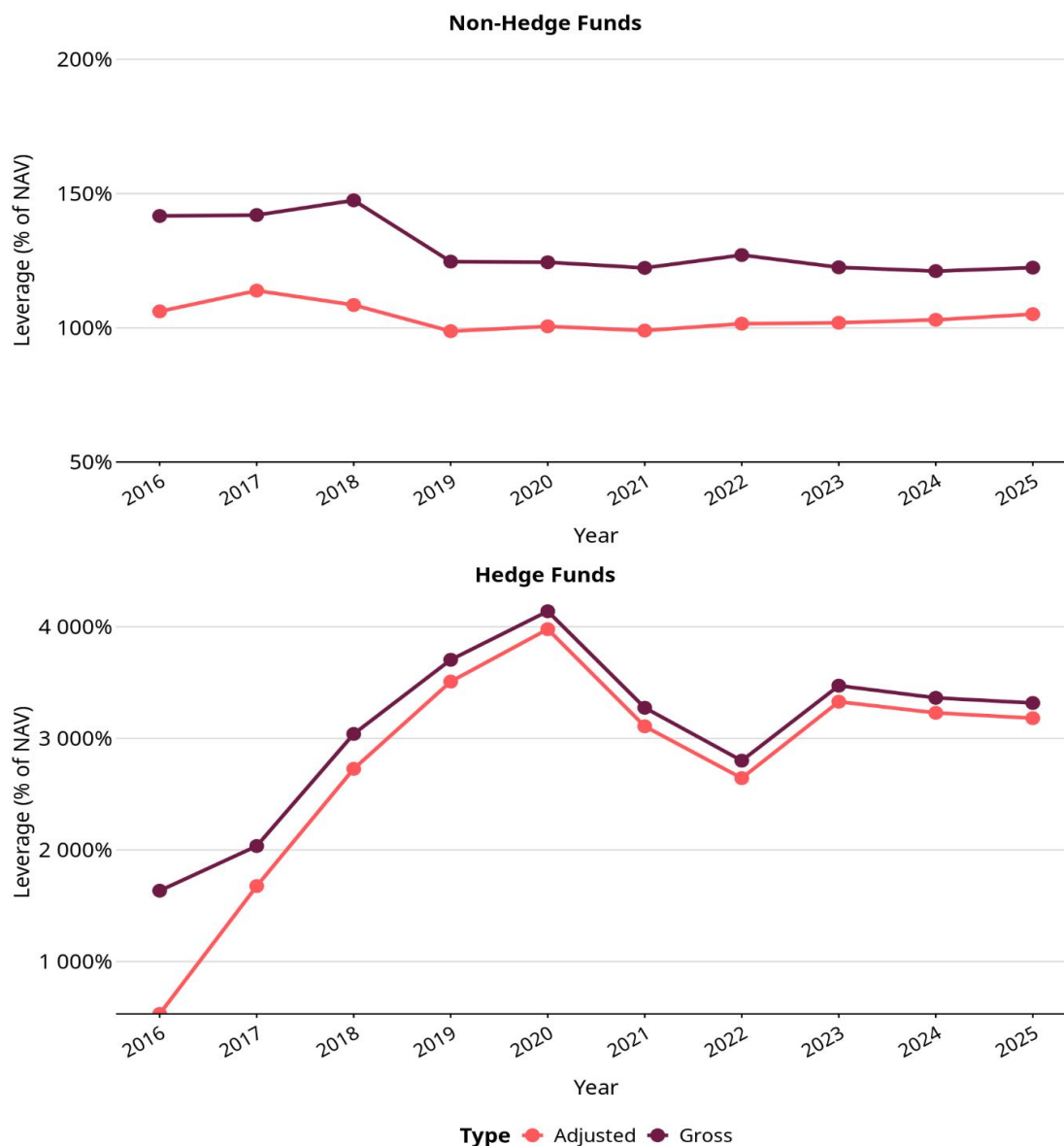
The higher measured leverage (as captured by the ALR metric) largely reflects the extensive use of derivatives, particularly interest rate derivatives.

Figure 24 shows that macro and relative value funds derive most of their exposures from derivatives, while credit hedge funds make greater use of credit instruments and credit derivatives. By contrast, equity hedge funds hold larger allocations to listed equities and cash, although derivative exposures have increased over time. These patterns suggest hedge fund leverage is generated through a variety of underlying instruments rather than a single funding model.

Excluding hedge funds, aggregate adjusted leverage¹⁴ has remained broadly stable at around 99-114% of NAV (where 100% indicates no leverage used) between 2016 and 2025 (see Figure 25).

Figure 25: Aggregate gross leverage: hedge funds and non-hedge funds (2016-2025)

UK-managed funds



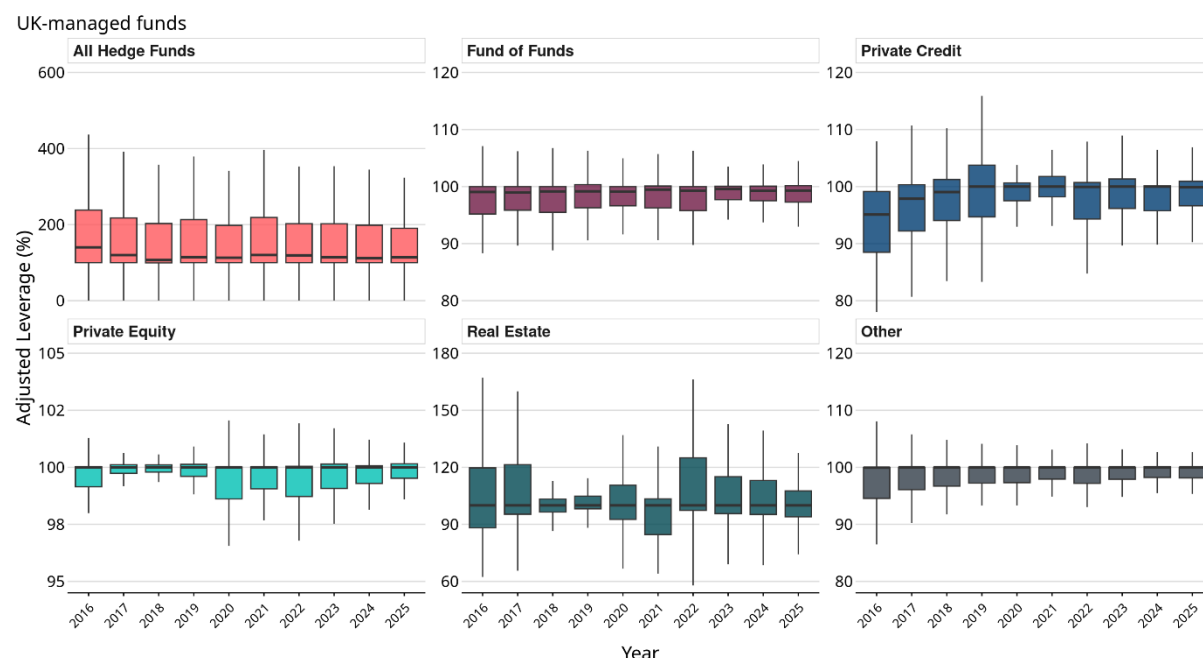
Source: AIFMD reporting. Notes: Leverage metrics comprise gross AUM (or adjusted AUM) divided by aggregated NAV. Some funds (5) were excluded due to reporting implausible gross assets.

While the aggregate metric points to relatively low leverage, this masks important differences across the distribution of funds (Figure 26). Consistent with the aggregate results, median leverage remains close to 100% across fund types throughout the sample, indicating that the typical fund uses little or no leverage. Leverage also remains close to 100% for most fund types at the upper end of the distribution. In 2025, the third quartile of the ALR was around 100% for most AIF types, but reached 364% for hedge

¹⁴ Aggregate adjusted leverage is calculated as the sum of all funds' invested exposure (AUM) relative to the sum of their net asset values, after excluding cash, cash equivalents and FX hedging positions.

funds, 125% for real estate funds and 101% for private equity funds, indicating a greater concentration of highly leveraged funds in these sectors.

Figure 26: Distribution of adjusted leverage by AIF type (2016-2025)



Source: AIFMD reporting. Note: Boxplots show the distribution of adjusted leverage across funds. Boxes represent the 25th to 75th percentiles, the line indicates the median, and whiskers show the 10th to 90th percentiles. Leverage of 100% represents no leverage (Adjusted AUM = NAV).

Figure 27 further illustrates the distribution of leverage by grouping funds into four ALR bands: up to 100% (1 in ratios), 100–150% (1 to 1.5), 150–300% (1.5 to 3) and above 300% (3 and above)¹⁵. Most funds across all AIF types fall into the first two bands, indicating relatively low levels of leverage. However, the share of funds in the higher leverage bands varies across sectors. Private equity and fund of funds have the lowest proportion of funds with leverage above 150%¹⁶, while private credit and hedge funds account for a larger share of funds with leverage above 300%. The same pattern emerges in the whole market sample.

Finally, looking at the use of leverage over time (Figure 28), private credit and real estate funds consistently exhibit the largest proportion of funds with ALRs above 3. In private credit, funds with ALRs above 3 have represented around 12% of the funds since 2020. In contrast, funds with ALRs above 3 are relatively uncommon among private equity and fund of funds.

On a NAV-weighted basis, while the share of NAV associated with significant leveraged (ALR above 3) real estate funds has remained broadly stable and contained over time, the same share for private credit funds has increased. In private credit, the share of NAV accounted for by funds with ALRs above 1.5 increased between 2019 and 2021, peaking

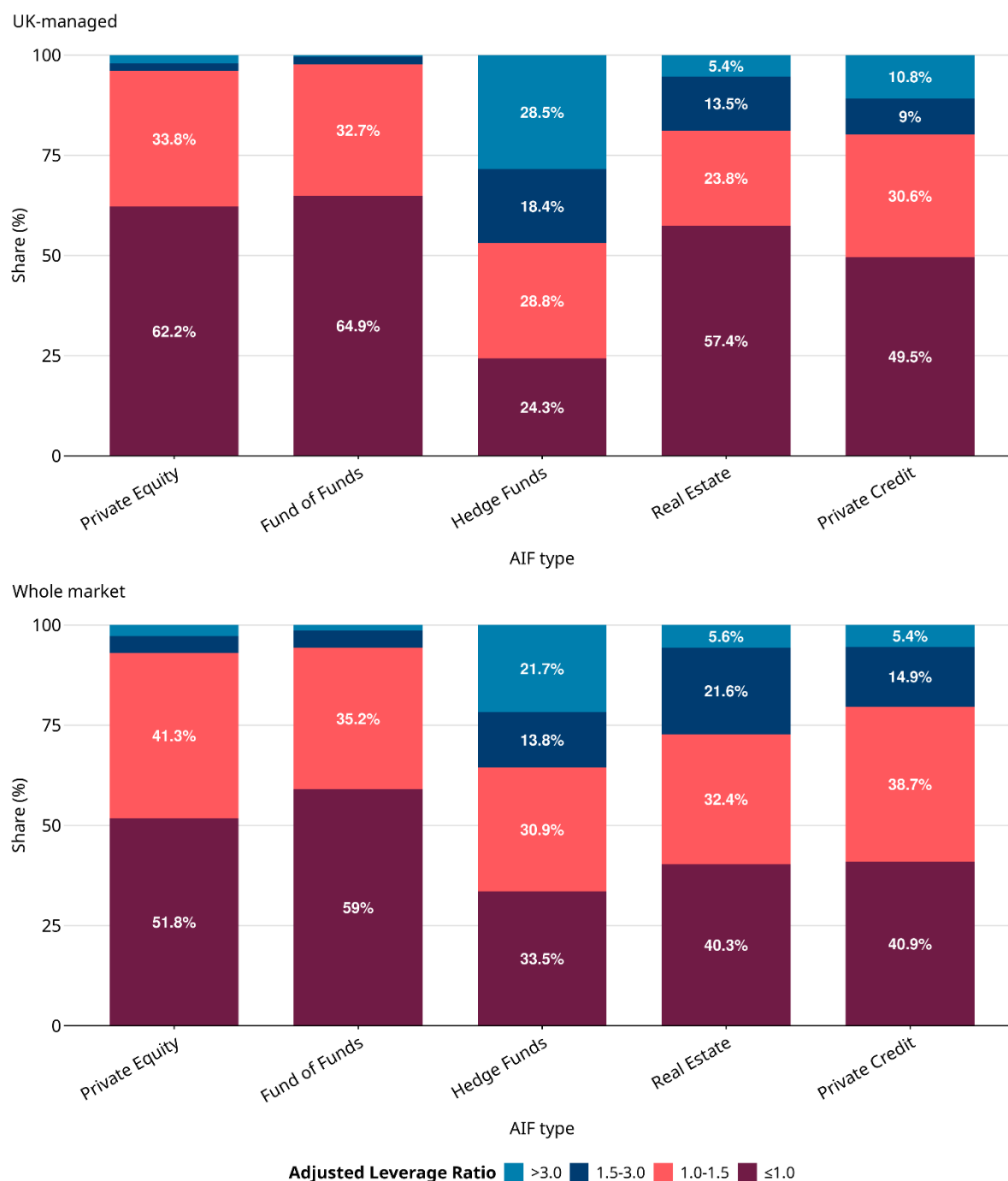
¹⁵ Funds with an Adjusted Leverage Ratio (ALR) above 1.5 are considered as making meaningful use of leverage and funds with an ALR above 3.0 are identified as highly leveraged. The latter threshold is aligned with the AIFMD framework's definition of "significant leverage".

¹⁶ However, it is important to note that the adjusted leverage ratio only captures leverage reported at the fund level. Leverage may also arise within underlying portfolio companies and would not generally be reflected in the reported fund-level measure.

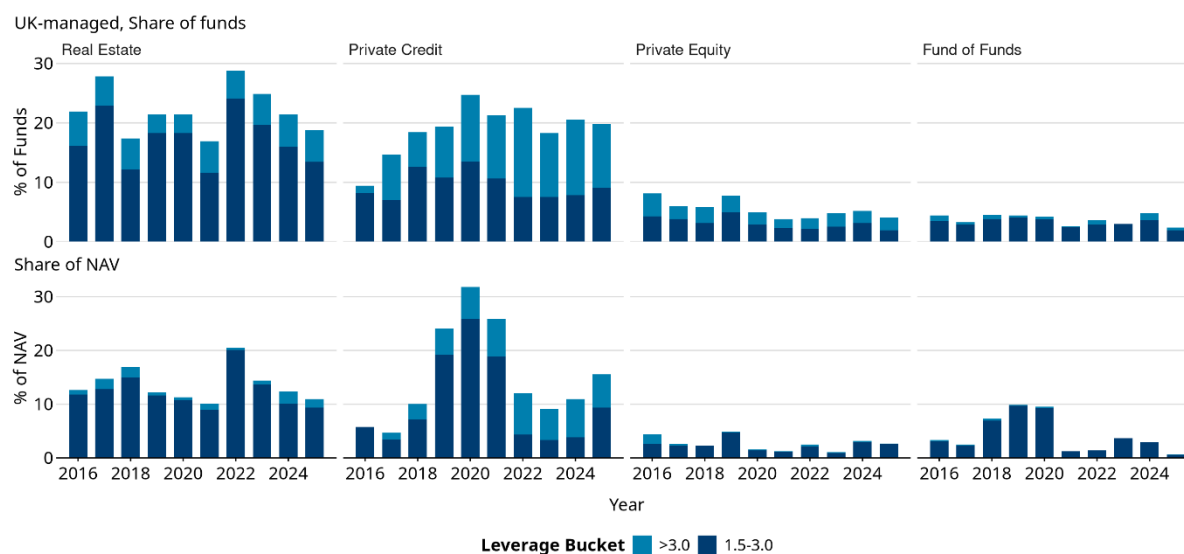
at around 32% of sector NAV in 2020, before declining to around 16% by 2025. However, over 6% was still attributed to funds with an ALR above 3.

Leverage in private credit was not only concentrated in a subset of funds, but these funds also accounted for a larger share of sector assets during the period around 2020. The decline in the share of leveraged NAV since 2020 indicates that leverage has become less concentrated in the largest funds, even though a persistent group of highly leveraged funds remains present within the sector.

Figure 27: Share of AIFs by leverage bucket and AIF type (2025)

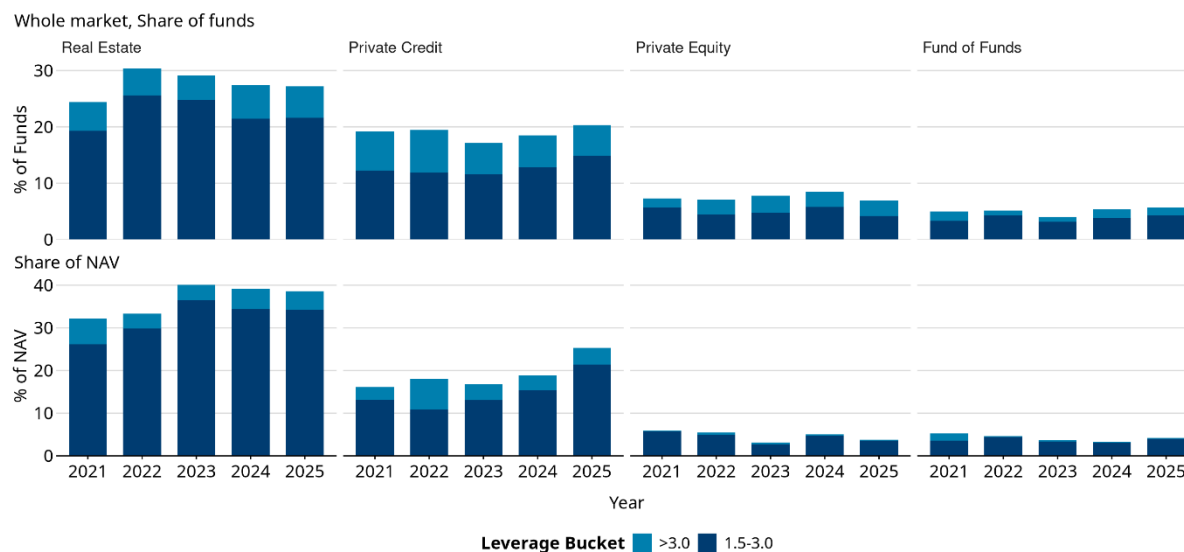


Source: AIFMD reporting. Notes: Includes all UK-managed funds for which we can calculate ALR (that is, when NAV>0 is reported). This covers over 98% of the funds. Adjusted leverage ratio = 1 is equivalent to Adjusted leverage = 100%.

Figure 28: The use of leverage over time (2016 - 2025)

Source: AIFMD reporting. Notes: Includes funds for which we can calculate ALR (that is, when NAV>0 is reported). Adjusted leverage ratio = 1 is equivalent to Adjusted leverage = 100%.

Looking at the whole market sample (Figure 29), the use of leverage appears relatively stable over time across most fund types. Private credit funds continue to exhibit a meaningful degree of leverage, with around one quarter of sector NAV attributable to funds with ALRs above 1.5 in 2025, although the share associated with highly leveraged funds (ALR above 3) has remained broadly stable at around 4-7% since 2021. By contrast, real estate funds exhibit a greater reliance on leverage, with close to 40% of sector NAV associated with funds reporting ALRs above 1.5 throughout the period. This difference suggests that leverage plays a more important role in the business model of real estate funds, particularly when incorporating funds managed outside the UK.

Figure 29: The use of leverage over time (2021 - 2025)

Source: AIFMD reporting. Notes: Includes funds for which we can calculate ALR (that is, when NAV>0 is reported). Adjusted leverage ratio = 1 is equivalent to Adjusted leverage = 100%.

Beyond specialist hedge fund strategies that use leverage to support capital provision and risk intermediation, liability-driven investment (LDI) funds use leverage to help pension schemes and insurers manage long-term liabilities. The sharp rise in gilt yields in 2022 highlighted how internal frictions within pension schemes can slow the transfer of capital to LDI funds during periods of stress, amplifying liquidity pressures when leveraged positions generate large collateral calls (Pinter, 2023). Box 5 explores LDI funds in more detail.

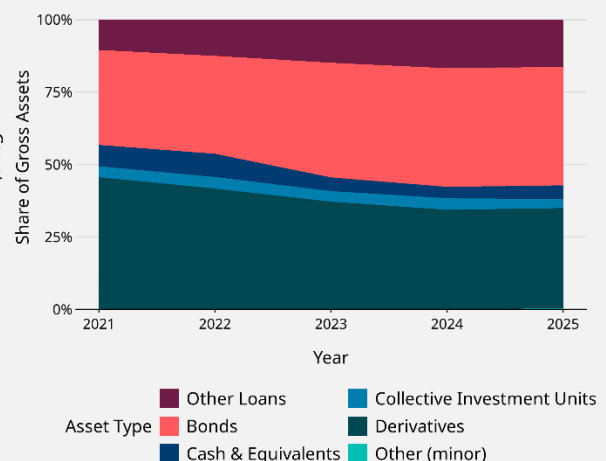
Box 5: Liability-driven investment funds

LDI funds help investors hedge interest rate risk arising from long-term liabilities. Pension funds and insurers, for example, face obligations, such as pension payments and annuities, that are highly sensitive to interest rates. To manage this, they invest in assets with similar interest rate sensitivity to reduce mismatches on their balance sheets. Rather than doing this entirely in-house, some outsource part of the process to LDI funds. These funds use investors' capital, apply leverage, and invest in long-duration instruments, such as bonds and interest rate swaps, to replicate the interest rate exposure of those liabilities. In doing so, LDI funds provide an efficient way to hedge long-term obligations that may be difficult or uneconomic for funds to implement independently.

Figure 30: NAV and market participation



Figure 31: Asset composition



Source: AIFMD reporting. Includes all LDI funds, irrespective of the location of the manager or fund.

Between 2022 and 2025, the number of LDI funds in our sample¹⁷ remained stable at just under 150 since 2022 (see Figure 30). Likewise, NAV hovered around £40bn, peaking at £49.1bn in 2023 and ending at £37.7bn in 2025.

LDI funds located outside the UK and managed by non-UK managers account for 100% of reported NAV. In terms of the investor base, pension funds accounted for the majority of investors. Most of this NAV, about £34.4bn, related to funds domiciled in Ireland, with a smaller fraction of £3.4bn in Luxembourg.

Bonds and derivatives account for the bulk of fund holdings. As shown in Figure 31, around 80% of gross assets are allocated to these instruments, as long-term gilts (often funded

¹⁷ The sample of LDI funds was inferred by an LLM and manually reviewed. We follow the same procedure used for the identification of private credit funds. See Annex 3 for details on the LLM identification of funds.

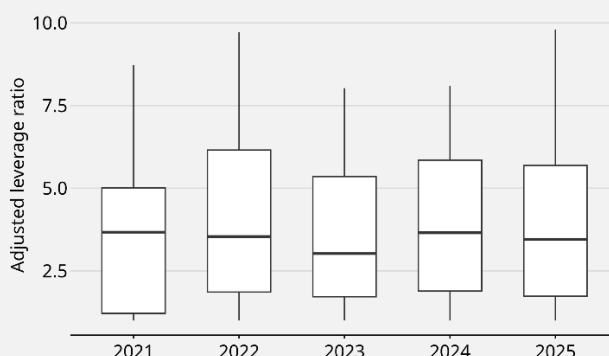
via repo) and interest rate derivatives provide the required duration exposure and are highly liquid.

Use of leverage is a persistent feature of LDI funds. Between 2022 and 2025, the median ALR remained broadly stable around 3.5x, while the mean ranged from 4.6x to 5.0x (see Figure 32). Although the distribution of leverage varies somewhat across years, a relatively small subset of funds consistently accounts for the highest levels of leverage.

Between 2022 and 2025, LDI funds consistently had sufficient liquidity to meet redemption rights under normal market conditions (Figure 33). Their underlying assets are highly liquid, so liquidity mismatch is not the primary concern. However, the fragility lies in the opposite direction—when LDI funds receive margin calls and additional collateral needs to be posted. The sharp rise in gilt yields in 2022 highlighted internal frictions within pension funds, making it difficult to transfer capital to LDI funds quickly enough to meet calls for additional collateral.

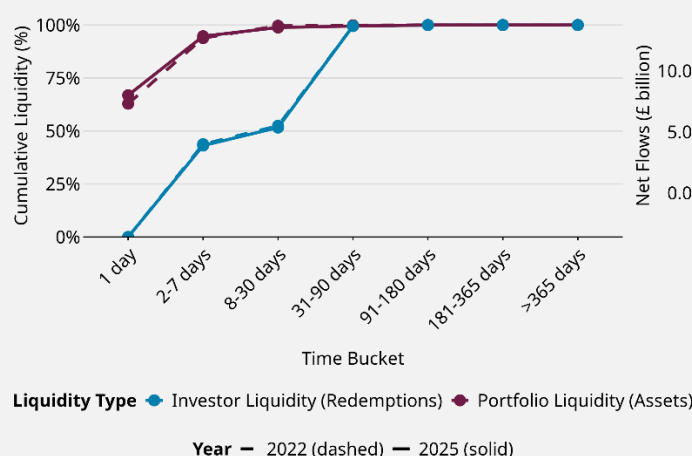
Net inflows peaked in 2022, reflecting the stresses in LDI strategies triggered by the sharp rise in UK interest rates. Pension schemes use LDI funds to hedge the interest-rate risk embedded in their liabilities: when interest rates fall, the present value of pension liabilities increases, and LDI positions are designed to offset part of that increase. However, when interest rates rise, these positions can generate margin and collateral calls. As UK gilt yields rose sharply in 2022, particularly during the mini-budget episode, LDI funds received more than £13.8bn in net inflows as pension schemes provided additional collateral (Figure 34).

Figure 32: Adjusted leverage ratio distribution



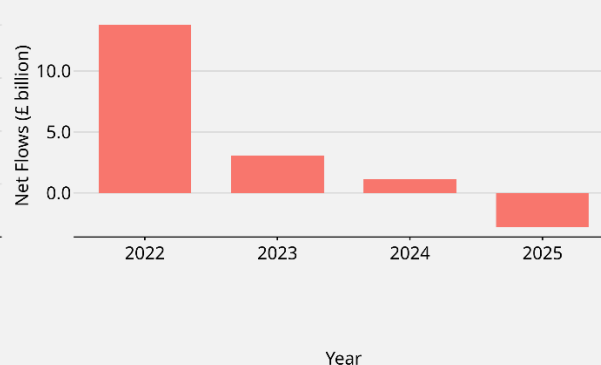
Source: AIFMD reporting.

Figure 33: Liquidity profile comparison



Source: AIFMD reporting.

Figure 34: Net flows



This behaviour was widespread across the sector. The mean net inflow in 2022 was equivalent to 24.6% of fund NAV, while the median fund received inflows of 11.1% of NAV. By contrast, net inflows were just £3bn in 2023 and £1bn in 2024, with average fund-level flows falling back to low single-digit percentages of NAV and turning slightly negative in 2025, at -2.3%.

6.2 Liquidity

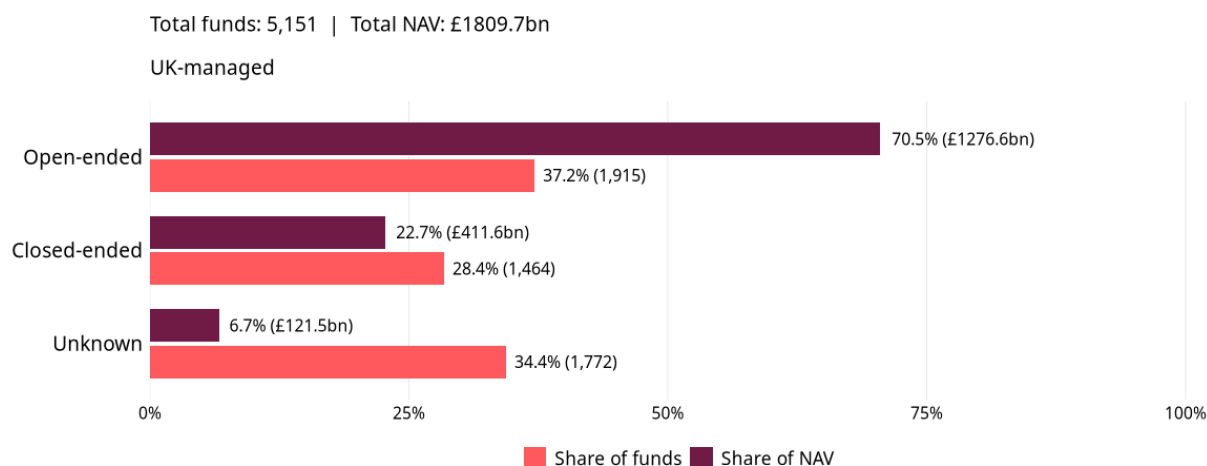
Redemption rights offered by funds provide investors with an important source of liquidity, allowing them to access their capital in line with the terms set out by the fund. However, where these redemption rights are not aligned with the liquidity of the underlying assets, funds may face difficulties meeting redemption requests, potentially resulting in investor harm. During periods of market stress, elevated redemption activity can increase pressure on funds to liquidate assets, potentially amplifying market stress and creating wider financial stability risks (Financial Stability Board, 2023).

Fund structures

AIFs can be structured as either open-ended or closed-ended. Investors in open-ended funds can generally subscribe for and redeem their interests directly with the fund at a price determined by reference to its NAV, subject to the fund's dealing frequency, notice periods and settlement arrangements. These funds must therefore ensure that their redemption arrangements are consistent with the liquidity of their underlying assets. By contrast, investors in closed-ended funds generally cannot redeem their interests during the fund's life. Instead, they realise their investment through distributions or liquidation, or, where a secondary market exists, by selling their interests to another investor.

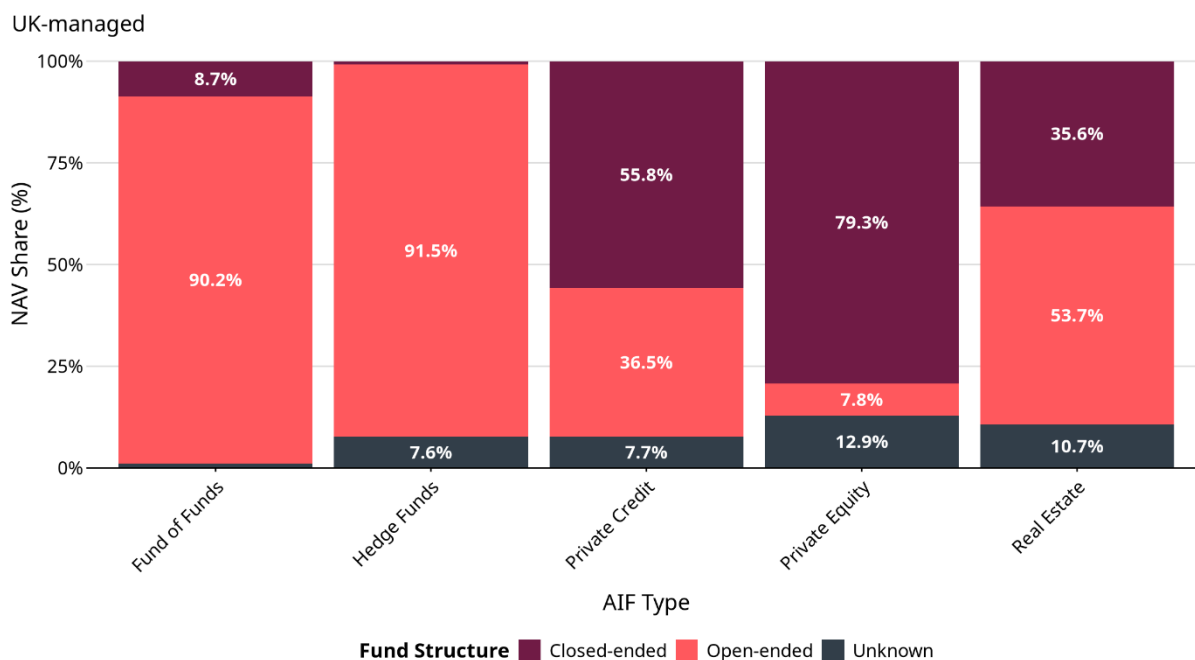
Although AIFs do not report whether they are open-ended or closed-ended in AIF002, they do report whether investors are granted withdrawal or redemption rights, along with the associated minimum notice period. We use these variables as a proxy to classify AIFs by fund structure, assuming that funds are closed-ended¹⁸ where they report no redemption rights. In addition, when funds have reported that a positive NAV share of investor equity can be redeemed within 365 days, we assume that the fund is open-ended, regardless of whether they reported offering redemption rights. However, many AIFs do not report this information, resulting in gaps in the data available to identify funds requiring monitoring for liquidity risks.

¹⁸ We classify funds as either open-ended or closed-ended using two reported characteristics: (i) whether investors have withdrawal or redemption rights in the ordinary course, and (ii) the redemption notice period. A fund is classified as closed-ended if it does not offer withdrawal or redemption rights in the ordinary course, or if redemption requires more than five years' notice.

Figure 35: Fund structure by count/NAV

Source: AIFMD reporting. Notes: when funds do not report whether they offer redemptions or withdrawals in the ordinary course, but report investor equity redeemable within 1 year, the fund is assumed to be open-ended.

Approximately 70% of NAV managed by UK AIFMs is held in open-ended funds, while around 23% is held in closed-ended funds (see Figure 35). The aggregate split has remained relatively steady over time from 2016 to 2025. However, there are important differences across AIF types. Funds of funds and hedge funds tend to be structured as open-ended vehicles, while much smaller proportions of private equity, private credit and real estate funds are open-ended (see Figure 36).

Figure 36: Share of NAV by fund structure (2025)

Source: AIFMD reporting.

Liquidity mismatch

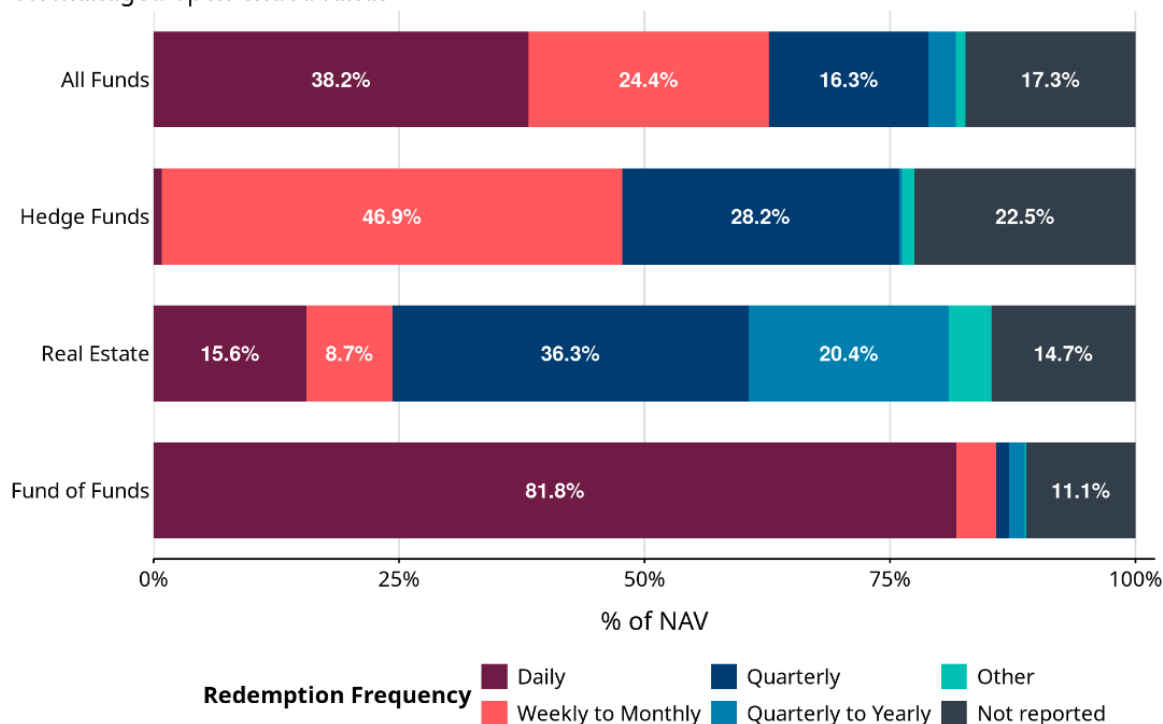
A liquidity mismatch can arise in an open-ended fund when the redemption terms offered to investors are not aligned with the liquidity of its underlying assets. In particular, a fund may allow investors to redeem more quickly than it can sell assets without materially affecting prices. This risk may be greater for funds investing in inherently less liquid asset classes, such as real estate. If appropriate liquidity terms and liquidity management tools are not in place, funds may find it difficult to meet redemption requests, particularly during periods of market stress when asset liquidity deteriorates. This can create a first-mover advantage, whereby investors who expect others to redeem are incentivised to exit early to avoid bearing the transaction costs and potential price impact associated with subsequent asset sales (Goldstein, Jiang, & Chen). If redemption pressures build, funds may be forced to sell assets rapidly and at depressed prices. This may leave remaining investors bearing the resulting losses and, if funds impose redemption gates, facing restricted access to their capital. Disorderly asset sales can also transmit stress to funds pursuing similar strategies and, in extreme cases, pose risks to financial stability and market integrity.

An important factor in assessing the potential for a fund liquidity mismatch is the frequency with which investors can redeem their capital. Across UK-managed open-ended AIFs, 38% of total NAV can be redeemed daily, while a further 24% can be redeemed weekly to monthly (Figure 37). Redemption frequencies, however, vary considerably across the sample. Fund of funds offer the most frequent redemption terms, with 82% of NAV held in funds offering daily redemptions. Hedge funds have a more mixed profile, with 47% of NAV held in funds offering weekly to monthly redemptions and a further 28% in funds offering quarterly redemptions. Real estate generally offers less frequent redemption rights. Private equity and private credit funds are excluded from Figure 37 because most are closed-ended, resulting in small sample sizes.

While this information is useful to gain a broad, cross-sectional view of redemption terms across the sample, the reported frequency reflects just the redemption window offered by managers and does not capture investor-specific notice periods, gates, lock-ups, suspension provisions or other contractual arrangements, which may materially affect investors' practical ability to redeem.

Figure 37: Redemption frequencies (2025)

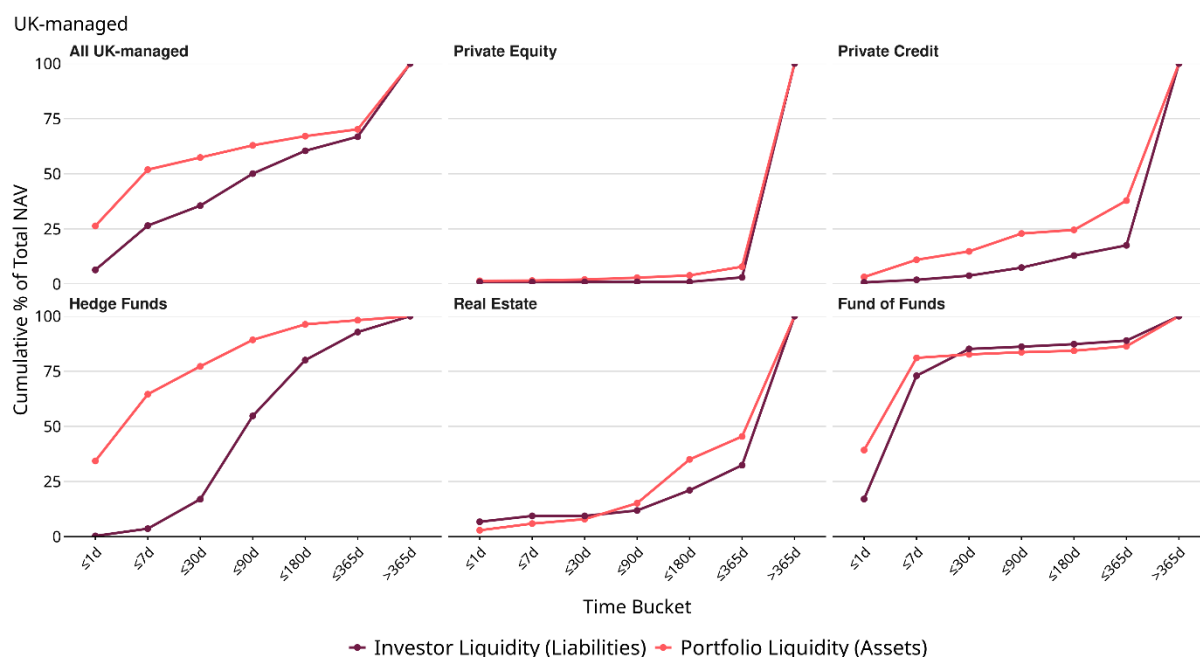
UK-managed open-ended funds



Source: AIFMD reporting. Notes: Redemptions allowed by UK-managed funds identified as open-ended, expressed as a percentage of NAV. The private equity and private credit samples are small, and these funds are only captured within 'All Funds'.

To assess potential liquidity mismatches of open-ended funds at the aggregate level, we compare funds' liquidity needs arising from investor redemptions with their reported sources of liquidity across different time horizons under normal market conditions (for example, within seven days and within 30 days). This measure may be less informative under stressed market conditions, when asset liquidity can deteriorate and leveraged funds may face additional margin and collateral calls. Although the data include separate breakdowns of borrowing by maturity and financing type, they do not provide maturity information by financing type or sufficient counterparty-level detail to assess concentrations and potential collateral pressures.

At the aggregate level, portfolio liquidity exceeds investor liquidity across all redemption horizons, suggesting no aggregate liquidity mismatch for UK-managed AIFs. However, the aggregate position masks potential mismatches within certain AIF types. For real estate funds, 10% of NAV is available for redemption within 30 days, compared with 7% of the portfolio estimated to be liquid over the same period. Funds of funds also exhibit a small aggregate mismatch at horizons between 30 days and one year (Figure 38).

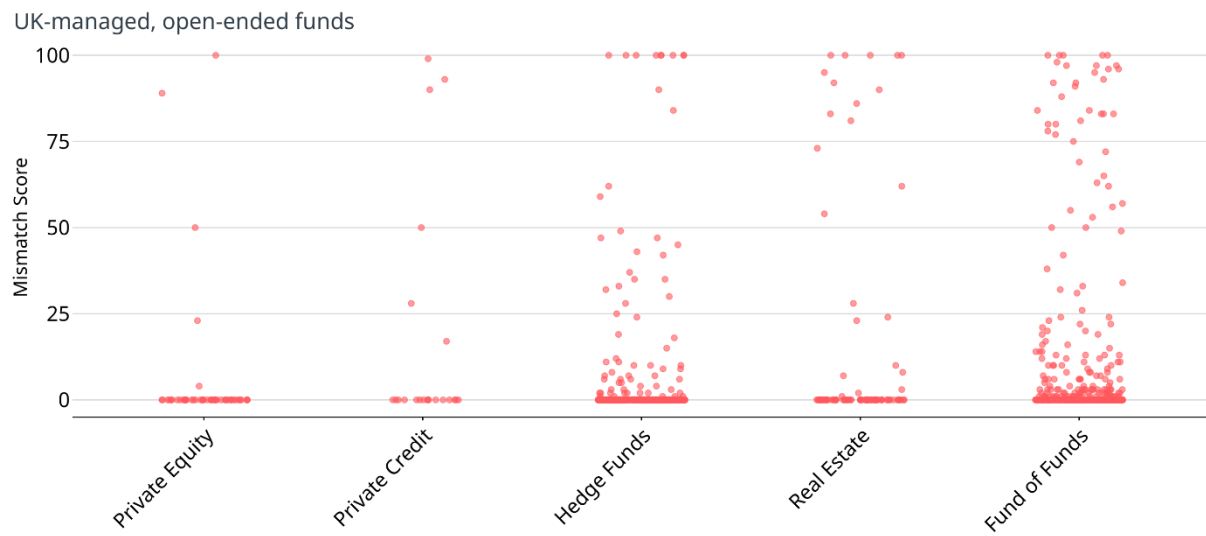
Figure 38: Aggregate liquidity mismatch by AIF type (2025)

Source: AIFMD reporting. Notes: Includes all UK-managed funds (open-ended and closed-ended). Funds reporting 'Other' are included captured within 'All UK-managed' figures.

To assess potential liquidity mismatches across funds, we calculate a liquidity score as the difference between potential liquidity sources and needs measured under normal market conditions. For each fund and reporting period, we calculate the difference between potential liquidity sources and needs at each reported time horizon. Liquidity sources capture the share of the fund's portfolio that can be liquidated within a given timeframe, while liquidity needs capture the share of investor equity (as a percentage of the AIF's NAV) that can be redeemed within that timeframe, for example, daily, weekly or monthly. For each fund, we take the maximum value of these liquidity scores and plot them in Figure 39. A maximum score above 0 indicates that the fund has reported a potential liquidity mismatch under normal market conditions for a given timeframe. For example, a score of 50 indicates that a fund reported that, for a given period, the amount investors are able to redeem exceeds the amount the fund is able to liquidate by 50% of the fund's NAV (for example, investors could redeem 75% of the fund's NAV but the fund could only sell 25% of the NAV in that same period). One important caveat is that the liquidity mismatch metric we compute relies on the fund managers' assessment of the liquidity profile of their assets which may be overoptimistic, particularly if liquidity demand spikes in periods of stress when liquidity deteriorates. The metric may not fully reflect the operation of liquidity management tools.

Real estate funds appear particularly exposed to potential liquidity mismatches. Although they account for only 8% of the UK-managed fund population and 3.5% of NAV, 14 funds (10% of the NAV of real estate funds) have a liquidity score above 50, the highest share of any fund type. This is consistent with the relatively illiquid nature of the underlying real estate assets. On the other hand, only a few private equity and private credit funds show a potential liquidity mismatch based on our measure. This is largely due to the prevalence of closed-ended fund structures, particularly for private equity funds.

Figure 39: Liquidity mismatch score by AIF type (2025)



Source: AIFMD reporting. Notes: Funds reporting 'Other' are not represented.

7. Fund management: business models and market concentration

The AIF management sector encompasses a diverse range of business models. Some firms are large asset managers operating across both AIF and non-AIF activities, while others specialise exclusively in the management of AIFs. Portfolio management may be conducted in-house or delegated to third-party investment firms, and AIFMs operate within a broader ecosystem of service providers, including depositaries and custodians, prime brokers, fund administrators and independent valuation firms.

The analysis focuses solely on AIF management activities undertaken by AIFMs, as AIFMD reporting data provides a clear and consistent basis for identifying these activities. Other relationships and activities involving market participants are less readily observable. The analysis therefore does not consider AIF-related activities, including delegated portfolio management services provided by MiFID investment firms.

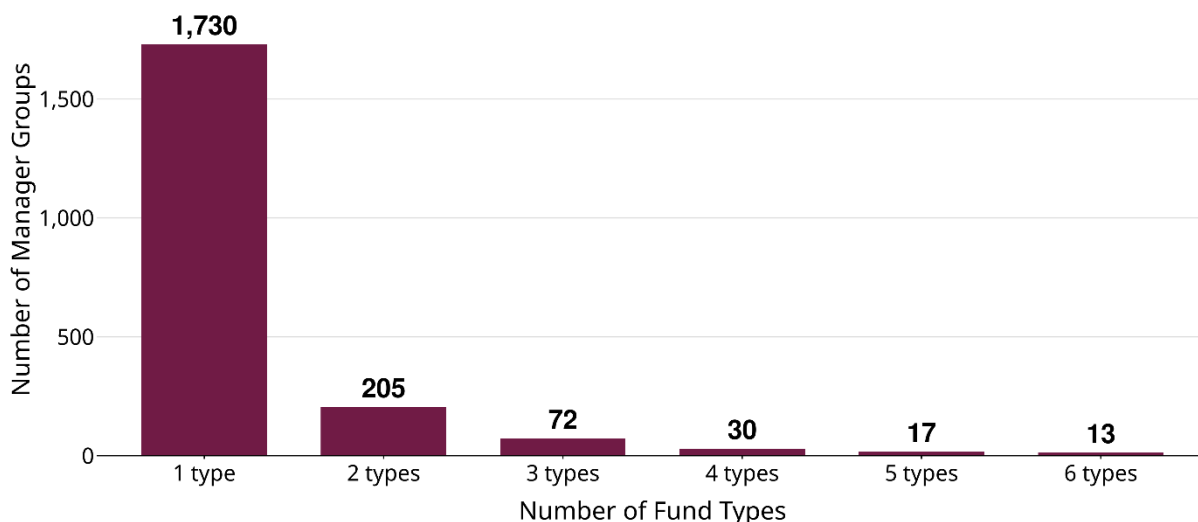
To assess the fund management sector, AIFMs are grouped according to their parent entity using data on company structures (Moody's, 2026). This approach identifies 619 AIFMs, representing 25% of the AIFM population (and 57% of the NAV), belonging to 160 parent groups. There is a risk that some AIFMs may not be linked to their ultimate parent group due to data quality. However, any such omissions are expected to relate primarily to smaller parent groups and are therefore unlikely to materially affect the conclusions of the analysis.

7.1 Business models

Most managers specialise in a narrow set of investment strategies. More than 80% of firms or groups with a leading fund type report managing only one fund type, while only a minority operate across multiple fund types (Figure 40). These shares have remained stable over time, and a similar pattern is evident among UK managers, indicating a steady preference for manager specialisation.

Figure 40: Manager diversification (2025)

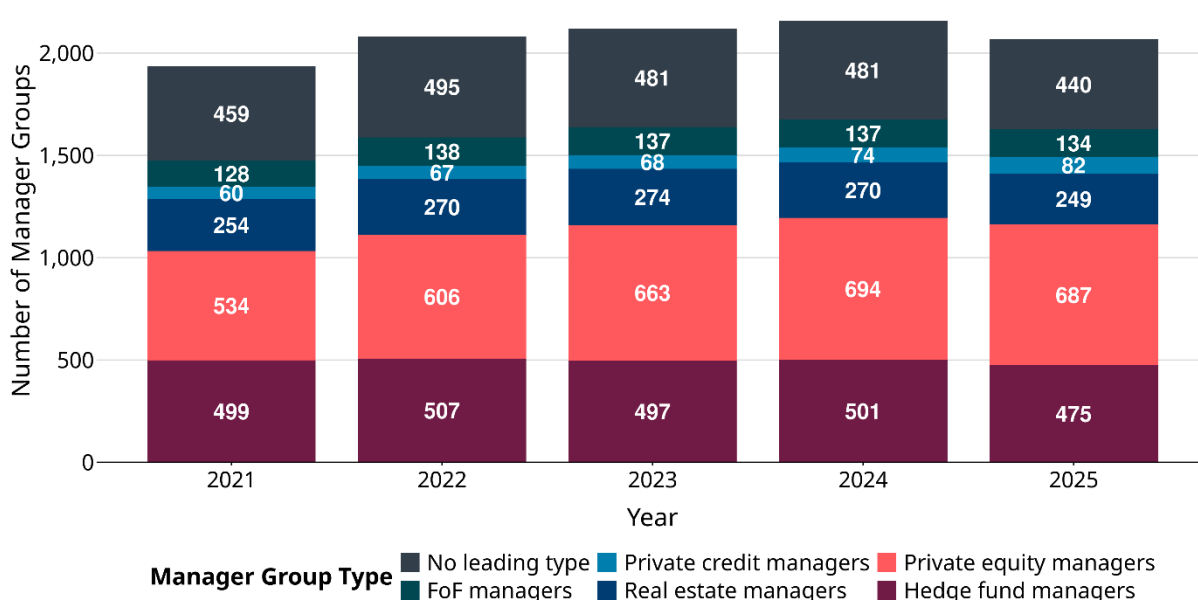
Whole market - Group level analysis

**Source: AIFMD reporting. Notes: Data is presented at the group level.**

The total number of managers has increased slightly since 2021, as shown in Figure 41. However, trends vary across fund types - the number of managers with private equity as their primary fund type has increased by almost 30% since 2021, consistent with the growth in the number of private equity funds, while the number of managers with hedge funds as their primary fund type has declined slightly.

Figure 41: Managers by leading fund type (2021-2025)

Whole market - Group level analysis

**Source: AIFMD reporting. Notes: Data is presented at the group level.**

7.2 Market concentration

The market comprises a small number of large managers alongside a substantial long tail of smaller managers. Across all fund types, the largest 25 managers account for around half of total NAV (see Figure 42). Among managers with fund of funds and private credit as their primary investment strategy, the top 25 firms account for 73% and 66% of total NAV respectively. The largest five firms alone account for 38% of fund of funds NAV and 28% of private credit NAV.

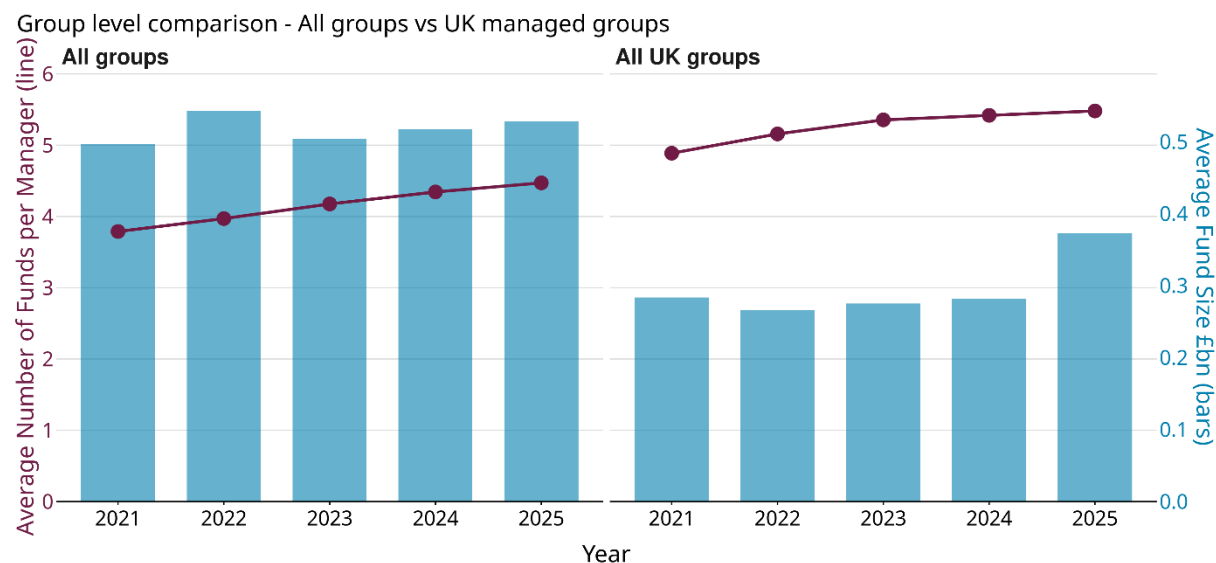
Figure 42: Market concentration by primary fund type (2025)



Source: AIFMD reporting. Notes: Data is presented at the group level.

Both the average fund size and the average number of funds per manager have increased over time, reaching over four funds and over £0.5bn in NAV per manager, respectively (see Figure 43). However, most managers continue to operate a relatively limited number of funds. Growth in average fund size has been more modest among UK managers, which remain significantly smaller on average than the market average. UK-based managers tend to manage slightly more funds on average.

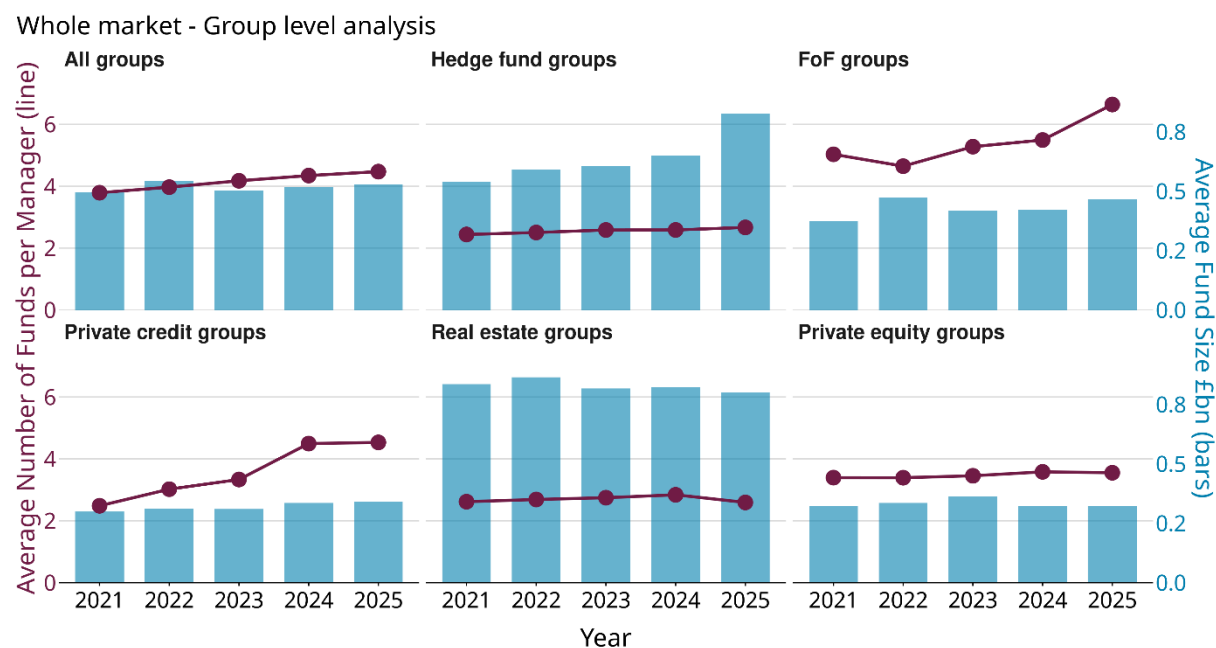
Figure 43: Average number and size of funds per manager by population (2021 – 2025)



Source: AIFMD reporting. Notes: Data is presented at the group level.

Managers and groups of managers with hedge funds or real estate funds as their primary investment activity manage the fewest funds, averaging fewer than three in 2025, although these tend to be among the largest funds (see Figure 44). By contrast, managers specialising in fund of funds and private credit manage larger fund ranges, averaging over six and four funds, respectively.

Figure 44: Average number and size of funds per manager by fund type (2021 – 2025)



Source: AIFMD reporting. Notes: Data is presented at the group level.

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Annex 1: Variable definition

Table A1: Key reported variables

The table below includes titles of the main variables used in this research note, as well as their reference in the Data Reference Guide.¹⁹

Variable	Description
Gross asset exposures	Detailed breakdown of the fund's gross exposures across asset classes at the reporting date. Derived from reported asset-level exposure categories (Fields 77 to 145)
Gross geographical exposures	Geographical distribution of gross asset exposures, reported as a percentage of aggregate asset value (Fields 47 to 54)
Investor base	Breakdown of investor holdings by investor type (retail and professional investors) (Fields 75A and 76A)
Adjusted Leverage Ratio	Author-constructed leverage metric defined as adjusted assets under management divided by net asset value (NAV). Adjusted assets under management are calculated using reported AUM (Field 28A), excluding cash and cash equivalents (Field 77A), and foreign exchange derivatives used for hedging purposes (Field 120C). NAV is reported in Field 29A . See Annex 5 for details.
Liquidity profile	Constructed from variables indicating the percentage of portfolio capable of being liquidated (Fields 206A to 206G) and the percentage of investor equity (as % of AIF's NAV) that can be redeemed (Fields 208A to 208G) at different time buckets.
Fund structure	Inferred from reported redemption rights (Field 209A), redemption notice periods (Field 211A) and investor redemption liquidity information (Fields 208A to 208F)
Frequency of redemptions	Derived from the reported frequency of investor redemptions (Field 210A)
Net inflows: subscriptions and redemptions	Measures investor flows using reported subscriptions (Fields 239A to 239L) and redemptions (Field 240A to 240L) during the reporting period.
Collateralised borrowing	Constructed as the sum of collateralised or secured borrowing reported through prime broker financing (Field 226A), Collateralised/secured cash borrowing - via (reverse) repo (Field 227A) and Collateralised/secured cash borrowing - via Other (Field 228A).

¹⁹ Data Reference Guide can be found in: <https://regdata.fca.org.uk/#/layout/resources>

Annex 2: Essential statistics

Whole market: AIFs marketed to the UK

Table A2: Whole market: AIFs marketed to the UK

Statistic	ETFs	Fund of Funds	Hedge Funds	Not reported	Other	Private Credit	Private Equity	Real Estate	Total
Fund Overview for the Whole UK AIF market									
Initial sample	230	1996	2343	1425	3567	910	3752	1199	15422
Number of funds after excluding some feeder funds	208	1828	1506	1423	3337	848	3581	1081	13812
Out of which submit nil return	2	73	99	1393	256	62	178	40	2103
Our final sample	206	1755	1407	30	3081	786	3403	1041	11709
Number of leveraged funds	7	100	496	4	365	156	231	276	1635
Total NAV (£bn)	2902.3	718.5	1023.5	3.4	1271.7	334.4	1234.1	527.1	8016
Average fund size (£bn)	14.1	0.4	0.7	0.1	0.4	0.4	0.4	0.5	0.7
Share of total market (%)	36.2	9	12.8	0	15.9	4.2	15.4	6.6	100
UK Footprint²⁰									
% funds domiciled in UK	0	36.4	0.9	60	41.1	6.7	43.6	41.1	33.3
% funds managed in UK	0	41	45.5	70	48.9	14.1	49.9	43.9	44
% NAV domiciled in UK	0	52.1	0.3	13.1	45.7	4.2	15.6	11.8	15.3
% NAV managed in UK	0	55.7	39.4	43.9	51.3	7.6	21.3	12.2	22.6
Retail Exposure									
% funds with retail participation ²¹	8.3	32.5	10.8	53.3	24.7	17.8	20.1	27.6	22.4
% NAV attributed to retail	2.8	33.7	1	22.6	12	4.9	1.9	8	7.1
Leverage									

²⁰ Out of funds that did not submit a nil return.

²¹ As previous footnote.

Research

The UK alternative investment fund market: Evidence from regulatory reporting

Statistic	ETFs	Fund of Funds	Hedge Funds	Not reported	Other	Private Credit	Private Equity	Real Estate	Total
Total gross leverage (%)	101	119.2	2776.3	237.2	149.5	164.5	113.1	158.2	453.7
Total adjusted leverage (%)	100.2	105.1	2685.2	195.2	126.92	139	106.1	144.6	434
Total borrowing (%)	0	2	108.9	0	3.5	13.5	4.9	18.9	16.9
Structure									
% funds with open-ended structure ²²	99	49	66.4	13.3	52.4	22.1	2.7	24.5	35.3
% NAV in open-ended funds	100	75.6	88.2	9.9	69.3	35.8	3.8	49.9	70.6
Liquidity									
Monthly portfolio liquidity (%)	93.1	51.7	69.8	12.9	59.6	18.4	2.7	2.8	58.1
Monthly investor liquidity (%)	100	44.6	21.9	9.9	43.6	8.3	0.2	2.2	50.4
Main Exposure									
% of main asset exposure	~100%	~90%	~90%	~80%	~70%	~70%	~90%	~90%	~51%
Main asset exposure type	Securities	CIUs	Derivatives	Physical assets	Securities	Securities	Securities	Physical assets	Securities

AIFMs of AIFs marketed to the UK

Table A3: AIFMs of AIFs marketed to the UK

AIFM category	Number of managers	Number of funds	% leveraged managers ²³	Total NAV (£bn)	% of total NAV
Full Scope UK AIFM	549	3615	39.7	1,778.5	22.2
Small Authorised UK AIFM	301	1,408	10.6	25.8	0.3
Small Registered UK AIFM	63	128	10.8	5.4	0.1
NPPR AIFM	1,618	6,558	25.1	6,206.3	77.4

²² As previous footnote.

²³ This represents the percentage of managers in each category that has at least one fund with adjusted leverage ratio above 1.5 (i.e., significant leverage).

Total	2,531²⁴	11,709	26.1	8,016.0	100
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Sample sizes

Table A4: Sample sizes for analysis of AIFs marketed in the UK (whole market, 2021 - 2025)

	Across all Years		For 2025	
Value	Total funds	% NAV	Total funds	% NAV
Sample size				
Total sample	16,945	100	11,709	100
Out of which open-ended	6,466	69	4,139	70.6
Coverage statistics				
Domicile	16,945	100	11,709	100
Gross asset exposures breakdown	13,416	96.9	9,553	98
Gross geographical exposures	16,384	96.9	11,327	99.3
Investor base: retail and professional	16,888	99.6	11,678	99.5
Adjusted Leverage Ratio	16,671	99.7	11,526	99.7
Liquidity analysis: open-ended funds only	6,203	98.1	5,894	98.3
Frequency of redemptions	5,372	64.1	3,595	66.1

Table A5: Sample sizes for analysis of UK-managed AIFs (2016-2025)

	Across All Years		For 2025	
Value	Total funds	% NAV	Total funds	% NAV
Sample size				
Total sample	11,731	100	5,151	100

²⁴ This total represents managers of funds submitting a non-nil return and after the exclusion of some feeder funds. Accounting for these managers would raise the total number of managers to 2,728 as of end of 2025.

Out of which open-ended	4,384	64.6	1,915	70.5
Coverage statistics				
Domicile	11,731	100	5,151	100
Gross asset exposures breakdown	6,836	89.2	3,302	93.7
Gross geographical exposures	11,189	93.9	4,875	98.4
Investor base: retail and professional	11,683	99.2	5,132	99.6
Adjusted Leverage Ratio	11,287	98.9	5,080	98.7
Liquidity analysis: open-ended funds only	4,100	93.3	1,717	94.3
Frequency of redemptions	3,675	52.9	1,573	56.7

Table A6: Detailed gross asset exposures breakdown by AIF type

Fund type	Sample size	Total funds covered	% NAV
ETFs	229	228	95.9
Fund of Funds	3,121	2,948	98.1
Hedge Funds	3,721	3,110	95
Not Reported	304	150	50.9
Other	7,401	4,904	91
Private Credit	1,235	1,178	97.7
Private Equity	5,339	3,755	94.9
Real Estate	2,160	1,428	93.1
Total Funds	22,547	17,037	95.9

Table A7: Private credit funds coverage of key variables (2021-2025)

	Across All Years		For 2025	
Value	Total funds covered	% NAV	Total funds covered	% NAV
Net inflows: subscriptions and redemptions	1,020	80.5	529	68.9
Collateralised borrowing	893	66.9	686	93.9
Gross geographical exposures	1,202	97	766	99.5

Table A8: LDI coverage of key variables (2021 – 2025)

LDI funds	Total Funds covered	% NAV
Sample size		
Total sample	170	100
Out of which open-ended	170	100
Coverage statistics		
Adjusted Leverage Ratio	170	100
Investor composition	55	18.4
Liquidity analysis: open-ended funds only	170	100
Net flows: subscriptions and redemptions	160	71.5

Table A9: Insurance-linked securities funds coverage of key variables (2021 – 2025)

ILS funds	Total Funds covered	% NAV
Sample size		
Total sample	139	100

Out of which open-ended	83	89.1
Coverage statistics		
Adjusted Leverage Ratio	139	100
Investor composition	122	56.5
Liquidity analysis: open-ended funds only	83	100
Net flows: subscriptions and redemptions	131	79.7

Master and feeder fund statistics

Table A10: Feeder funds excluded from our sample (2016 - 2025)

Year	Number of master funds	Number of feeder funds retained	Number of feeder funds removed	Other funds²⁵	Total funds in sample
2016	1025	728	750	5635	8138
2017	1497	561	1029	6352	9436
2018	1613	620	1141	6902	10276
2019	1563	728	1171	6785	10247
2020	1639	749	1198	6791	10377
2021	1680	658	1313	8444	12095
2022	1862	783	1434	10028	14107
2023	1947	916	1475	10722	15060
2024	2044	1006	1536	11046	15632
2025	2058	926	1610	10828	15422

Investment trust statistics

Our investment trust sample is based on a multi-stage identification process described in Annex 4. The characteristics of the sample matched to AIFMD data and used in our analysis is in Table A11.

Table A11: Descriptive statistics of our investment trust sample

Trust Type	Total Funds	Main Market	Main Market SFS	AIM	Total NAV (£bn)	Average NAV (£m)
Real Estate Investment Trust	9	9	0	0	2.7	302.7
General Investment Trust	198	182	15	1	167.6	850.8

²⁵ Includes funds reporting not being part of a feeder / master structure and funds submitting nil returns.

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Venture Capital Trust	37	37	0	0	4.6	124.5
Total	244	228	15	1	174.9	720.0

Annex 3: Identification of Private Credit Funds

This annex explains the methods used to identify Private Credit funds among AIFMD reporters.

The existing AIF002 form does not enable fund managers to select “private credit” as “Predominant AIF Type”, forcing managers to classify themselves into any of the other available categories.²⁶

For this note, we try to identify which funds are private credit. While we try to identify the maximum number of funds possible, we adopt a conservative approach to limit the number of false positives. This means that our estimated sample is likely to underestimate the size of the market.²⁷

Key words and commercial information matching

We first identify funds that appear to self-identify as private credit via the inclusion of certain key phrases in their fund names or free-text primary strategy descriptions²⁸ using a basic string search. We search for the following key phrases: private credit, private debt, direct lending, mezzanine finance/lending/credit/debt, asset backed/based finance/lending, distressed debt/credit, venture debt/credit, real estate debt/credit, infra(structure) debt/credit, senior loan. As some of these keywords could also plausibly be used to describe real estate, infrastructure, or hedge fund strategies, we exclude funds that hold over 50% of their gross assets (ex-FX hedges) in equities or physical assets, or that report a solely equity-related strategy as their primary strategy²⁹ from our private credit sample. We also exclude funds of funds and those that hold over 50% of their gross assets (ex-FX hedges) in other collective investment undertakings (CIUs).

We then identify all funds reporting under AIFMD that are identified by PitchBook as UK-managed private credit funds. As there are no common numerical fund or manager identifiers in the two datasets, this was done by using a basic string match as well as a manual check to identify additional matches and remove potentially erroneous matches. This manual check helps minimise the risk of funds with generic names in the PitchBook sample matching to multiple funds in the AIFMD sample and allows us to pick up more nuanced differences in fund names (e.g., where fund names use Roman numerals in one dataset – “Credit Fund V” – and Arabic numerals in the other

²⁶ Of the identified funds, 72% were reported as “Other”, 13% as Private Equity, 12% as Hedge Funds, 6% as Real Estate, and the rest as either Fund of Funds or with no AIF type.

²⁷ <https://www.ukprivatecapital.co.uk/resource/private-debt-s-steady-rise-in-the-uk.html> The UK-managed Private Credit market was estimated to be over £250bn in gross Assets in 2023.

²⁸ Funds can designate multiple strategies as “primary”. Where multiple strategies are reported as primary, we designate the strategy representing more than 50% of NAV as the primary strategy. If none exceeds 50%, we designate the strategy representing the largest share of NAV. Note that fund managers are only able to enter a free-text strategy description if they indicate “other hedge fund”, “other private equity”, “other real estate”, “other fund of funds”, or “other fund” as their primary strategy.

²⁹ These include: equity long/short, equity long-bias, equity short-bias, equity market-neutral, and other equity. We do not exclude real estate or infrastructure funds using a similar process because it is plausible that funds e.g., providing real estate related debt could refer to themselves as e.g., “commercial real estate” or “infrastructure” funds.

– “Credit Fund 5”). This process identifies incremental funds but still leaves us with an incomplete sample.

We next leverage economic logic and machine learning approaches to identify additional funds whose characteristics suggest they are likely to be private credit funds but are not detected via the above approaches. Here, we consider three methods to identify incremental funds and include all funds that are identified as private credit by at least two of the three approaches in our final sample. This enables us to leverage both the economic logic of our manual approach and the flexibility of machine learning approaches and helps minimise false positives by ensuring incremental funds are identified by more than one approach without necessitating a focus on only the most restrictive classification methodology.

Manual imputation based on asset exposures

As we expect private credit funds to be primarily invested in illiquid loans, we can use funds’ asset and asset liquidity reporting to identify funds that are likely to be private credit funds by virtue of (i) holding over 50% of their gross assets (ex-FX hedges) in fixed income, and (ii) leveraged or other loans constituting over 50% of their fixed income assets, and (iii) expecting that less than 50% of their assets could be liquidated in less than a year. This approach is clear and intuitive, but inflexible. It may not accommodate more diverse or emerging private credit strategies and uses potentially arbitrary thresholds. The statistical and machine learning approaches we deploy next are more flexible and consider a wider range of fund characteristics.

Machine learning models

Classification Trees with Extreme Gradient Boosting (XGboost). Classification trees are a nonparametric method that models an outcome using a series of step functions. The key idea is that with a sufficiently large number of step functions (“branches” to the tree), any relationship in the data can be approximated. This flexibility means that classification trees are particularly well-suited to settings where relationships between variables may be non-linear. We use extreme gradient boosting (via the XGboost algorithm) to enhance the performance of our classification trees; put simply, this algorithm combines the predictions of many simple classification trees to produce a more accurate prediction.

To utilise this model, we divide our AIFMD data into three groups. Group 1 consists of all funds identified as private credit via our keyword search and the PitchBook list; we are confident these are private credit funds. Group 2 consists of all funds that report a primary strategy that is not reported by any of the Group 1 funds³⁰; we are confident these are not private credit funds. All other funds are placed in Group 3. We use Groups 1 and 2 (our labelled sample) to train (i.e., calibrate) our model, and then utilise this trained model to predict the probability with which each fund in Group 3 is a private credit fund. We say a model labels a fund as private credit if it indicates that the predicted probability of a fund being a private credit fund is above 50%.³¹

³⁰ These strategies include: equity long/short, equity long-bias, equity short-bias, equity market-neutral, other equity, fund of private equity (fund of funds), fund of hedge funds (fund of funds), other fund of funds, multi-strategy hedge fund, managed futures (quantitative), managed futures (fundamental), event-driven equity special situations, event driven risk arbitrage/merger arbitrage, relative value volatility arbitrage, relative value convertible bond arbitrage, relative value fixed income arbitrage, industrial real estate, and commodities.

³¹ Theory suggests that this is the decision rule that minimises overall classification error.

Least Absolute Shrinkage and Selection Operator (Lasso) Regression. Lasso regressions are an alternative machine learning technique that is particularly useful when there is a large number of variables that may affect the outcome we are trying to predict; this is particularly applicable in our case as there are many potential features of funds that may help distinguish private credit funds from other fund types. More specifically, Lasso aims to reduce the complexity of the regression model by “shrinking” the coefficients on less important variables to zero, effectively removing unimportant variables from the model and carrying out variable selection for us. We train this model using Group 1 and 2 and apply it to Group 3 as defined above and again say the model labels a fund as private credit if it indicates a predicted probability of the fund being a private credit fund that is above 50%.

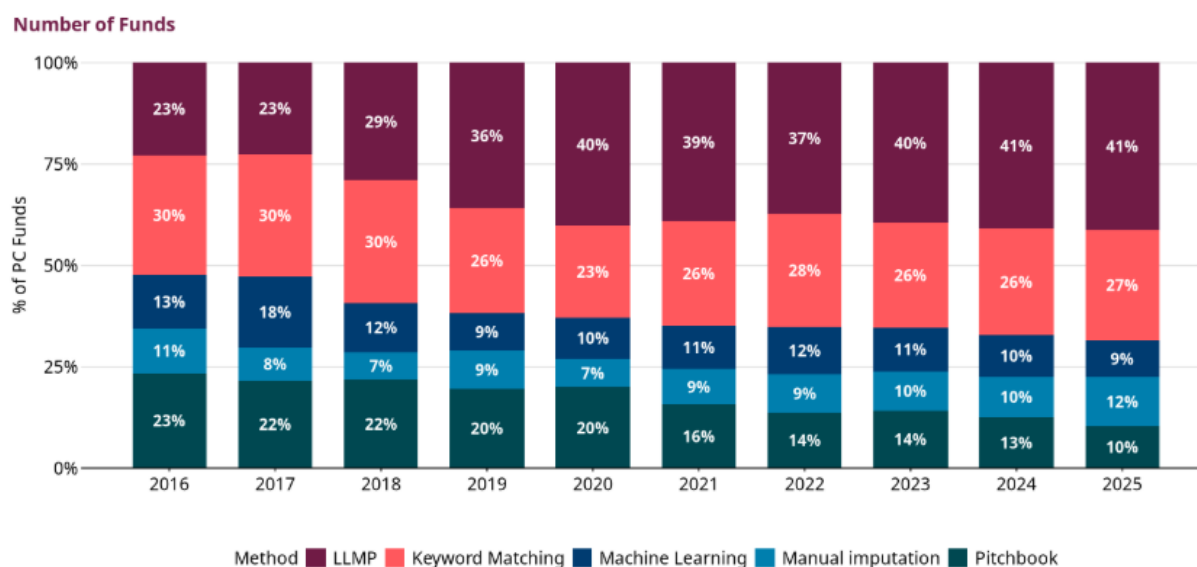
Large language model processing

We complement the approaches above by leveraging Large Language Models (LLMs) to extract additional information from unstructured fund-level disclosures and improve the consistency of reported classifications. Specifically, we apply an LLM-based classification process to free-text strategy descriptions and fund names, alongside all strategy codes. The objective is twofold: (i) to infer missing or inconsistently reported classifications, and (ii) to standardise strategy information across funds. The classification is based on each fund’s most recent AIFMD submission.

Following this process, we obtained validated classifications over 90% of the total AIFMD sample, with the remainder lacking sufficient source data for reliable classification. By selecting those identified as private credit by the LLM, we build a long list which we employ to: i) validate our findings from previous inferences described above and, ii) expand our estimated sample. Each fund added to the sample solely on the basis of the LLM classification was manually reviewed and verified with public fund documentation.

Each approach identifies a meaningful number of additional funds and associated assets to our private credit sample.

Figure A1: Private credit: Identification method breakdown by year



Annex 4: Identification of Investment Trusts

This annex explains the methods used to identify investment trusts among AIFMD reporters.

The London Stock Exchange Group provides the universe of UK investment trusts, from which we identify 280 unique investment trust funds. There may be a small number of UK investment trusts admitted to trading on other exchanges, such as the Aquis Exchange, which are excluded from our analysis.

To segment our sample further, we identify 44 Venture Capital Trusts (VCTs) based on whether the name of the investment trust includes relevant terms: "VCT", "Venture", and "Venture Capital Trust". LSEG identifies Real Estate Investment Trusts (REITs), some of which are AIFs. We identify these AIF REITs through a manual review of REITs that are not already classified as listed investment funds. We categorise the remaining trusts as 'General Investment Trusts'.

To identify investment trusts in our AIFMD reporting sample, we apply a three-step approach:

- Step 1: Match using International Securities Identification Number (ISIN), which identifies 172 investment trusts.
- Step 2: Match using Legal Entity Identifier (LEI), which identifies a further 57 investment trusts.
- Step 3: Manual checks for remaining funds, which identify a further 15 investment trusts. The most common issues in the matching process were the absence of ISIN or LEI in AIFMD reporting, and the presence of multiple share classes for many investment trusts, with some reported under AIFMD using the ISIN of a different share class.

This matching process results in a sample of 244 investment trusts for our AIFMD data analysis, covering 95% of market capitalisation of investment trusts identified (see Table A12).

Table A12: Descriptive statistics of our matched and unmatched sample

Match Status	Number of funds	Proportion of total investment trusts (%)	Total market cap of fund sample (£bn)	Proportion of total market cap (%)
Matched to AIFMD	244	87.1	165.2	94.5
Not matched to AIFMD	36	12.9	9.6	5.5
Total	280	100.0	174.7	100.0

The match rates across the three trust types are summarised in Table A13.

Table A13: Match rates

Trust Type	Total Funds	ISIN Match	LEI Match	Manual Match	Market Cap (£bn)
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Real Estate Investment Trust	9	8	1	0	2.7
General Investment Trust	198	139	49	10	167.6
Venture Capital Trust	37	25	7	5	4.6
Total	244	172	57	15	174.9

Annex 5: Leverage and Liquidity Metrics

Under AIFMD, fund managers are required to report the AIF's leverage using the Gross and Commitment methods (as a percentage of the NAV). However, inconsistent reporting makes it challenging to reliably compare leverage levels across firms.³²

In this note, we use two simple measures of leverage.

The first one is the **Gross Leverage Ratio (GLR)**. This is defined as the ratio of reported Assets Under Management (AUM) to Net Asset Value (NAV).

The second one is the **Adjusted Leverage Ratio (ALR)**. This is calculated as reported AUM, less cash holdings and FX hedges, divided by NAV. We exclude cash as it can be used to meet redemptions, margin calls, and debt repayments. We exclude instruments designated as "for hedging" because while these exposures can result in margin calls, they should decrease, rather than increase, funds' market exposures. As FX instruments are the only instruments that managers can indicate are held for hedging purposes in the current AIFMD reporting template, this is the only hedging-related adjustment made. We believe that excluding these items from our leverage ratio allows us to more accurately capture the "risky" leverage of a fund.

$$ALR = \frac{AUM - \text{cash \& cash equivalents (long)} - \text{FX for hedging purposes}}{NAV}$$

In addition, in this note we assess the level of liquidity mismatch in funds through the **Liquidity Mismatch Score (LMS)**. The score is equivalent to the largest difference between the total share of assets that can be liquidated in any given time period and the total share of investor equity that can be redeemed over the same period.³³ A score of "0" means there is no period in which investor redemptions could exceed asset liquidity, while a score of "100" means there is at least one period during which investors could redeem all of their capital, but the fund could not liquidate any of its assets to meet these redemptions.

$$LMS = \max_{t \in T} (\text{Cumulative Redeemable Investor Equity}_t - \text{Cumulative Liquidable Assets}_t)$$

³² A fund using no leverage may report leverage metric of 1, 100, or 0, which makes comparability challenging and prone to errors.

³³ Time periods reported: less than 1 day, 2-7 days, 8-30 days, 31-90 days, 91-180 days, 181-365 days, over 365 days.

