

Illiquid assets and the endgame

When you can check out, but struggle to leave

FOR PROFESSIONAL INVESTORS ONLY
JANUARY 2026



Introduction: why illiquid assets matter

In the famous song Hotel California, you can check out anytime you like, but you can never leave. For many UK defined benefit schemes, that lyric feels familiar.

Illiquid assets were bought for good reasons: diversification, stability and better returns. But as funding improves and priorities shift, exits are proving harder and costlier than expected. This paper shares practical lessons from Van Lanschot Kempen:

➤ How to make illiquid assets work

➤ What questions to ask before investing

➤ What to consider when planning an exit

This matters because it can frustrate the endgame ambitions of trustees and sponsors.

Running for the door: challenges when exiting illiquid assets

When trustees think about exiting from their illiquid assets, the reasons are usually clear, but the process often isn't. The difficulty is how to do it without destroying value. Starting with the reasons for exit:

Urgent liquidity

During the LDI crisis, many schemes needed cash quickly to re-collateralise hedges, some to the extent that they turned to illiquid assets which proved either unavailable or expensive to sell. Everyone learnt from this and adjusted portfolios to reduce leverage in the LDI portfolio. Many are now targeting lower allocations to illiquid assets, although fund terms can slow progress.

Strategic liquidity

Illiquid assets were intended to deliver better risk-adjusted returns when deficits were larger. As funding has improved, time horizons and return needs have shrunk. Portfolios often need a reorganisation to remove illiquid assets ahead of settlement or to resize growth assets for the next phase.

Poor performance

Some of the funds were simply not very good and failed to deliver on targets. These are natural candidates for the chopping block regardless of other factors, but restrictive terms can leave trustees weighing up whether to hope and hold on or exit as best they can.

“This could be heaven or this could be hell” – understanding illiquid structures:

A useful starting point is a simple question. Do you need cash now, or can you plan an orderly exit that preserves value? If an insurance transaction is the end goal, there are a number of ways to avoid incurring unnecessary losses on the illiquid assets:

- Plan early to allow more time to disinvest from illiquids in the hope of a better exit price
- Use deferred premiums, sponsor loans or escrow funding to bridge any gap.
- Simply delay a transaction and wait for better value for money. Delaying can have wider economic benefits. Investment returns can accrue, the membership ages and actuarial prudence can unwind.

There are other end-game options beyond insurance that can help retain value for a scheme. Consolidators like Clara-Pensions have accepted illiquid assets in specie, something insurers struggle with. This can be useful when illiquid assets represent 'good investments', but disinvestment to cash is expensive or near impossible.

Beyond settlement, run-on strategies offer flexibility. The pressure to disinvest quickly recedes and the initial investment case for illiquids can be reasserted. Extra time can be used to blend current illiquid assets into a strategy for generating value, with a longer-term disinvestment approach built in from the start.

When aiming to reduce or keep illiquid assets, it's worth remembering that they are not a uniform bunch.

UK schemes typically access illiquid assets either **directly** with external managers or **indirectly** through funds-of-funds. Funds may be **open-ended**, with periodic redemption or **closed-ended** with a fixed investment period.

Structure	Upside for schemes	Challenges and risks
Direct open ended	Periodic redemption is possible. Liquidity typically reflects the underlying assets and can help balance a portfolio's overall liquidity profile.	Terms are often extended beyond the original horizon. Generally no direct exit, so secondary sales may be needed (likely at a discount). May be misaligned with shorter commitments today.
Direct closed ended	Liquidity levels are known upfront and can align with long term goals. Managers can focus on investing rather than meeting redemptions.	Terms are often extended beyond the original horizon. No direct exit, so secondary sales may be needed and can be at a discount. May be misaligned with shorter commitments today.
Funds of funds (open)	Scale and governance benefits. Can improve liquidity relative to direct funds.	Liquidity is still uncertain. Extra layers of fees and risk that overly-liquid assets are used to provide liquidity, reducing flexibility elsewhere.
Funds of funds (closed)	Diversification benefits with less day to day governance.	Hard to exit. Second layer of fees. Limited flexibility compared with bespoke mandates.

For many schemes today, open-ended structures offer useful flexibility if the terms are well understood. They are not perfect, but they can fit a range of endgame plans.

Funds of funds: questions to ask

Funds-of-funds can bring scale, fee savings and improved liquidity, but trustees should still probe.

- Is the structure genuinely for your benefit or mainly designed for the manager's convenience?
- Are the governance terms clear, including the total cost you pay?
- Are exit terms and costs clear before investment and can terms be changed post-investment?
- Can you break out of the structure if your strategy changes, or are you locked into a second layer of fees?

Case studies: what happens in practice?

Examples from real schemes show how different approaches to illiquid assets affect outcomes. They highlight common challenges such as exit timelines, costs and structural constraints, and practical ways trustees can preserve value.

Case studies

Complex fund of funds portfolios

A scheme with several funds of funds faced long exit timelines. The answer was a phased reorganisation, carving out underlying assets where possible to shorten timelines and reduce fees. Planning staged exits upfront and understanding who controls the levers made the difference.

Settlement constraints with closed ended exposure

Another scheme held a large closed ended fund of funds position that insurers would not accept as part of a planned transaction. A secondary sale would have required a severe discount and splitting the fund was not possible. A consolidator accepted the illiquid holding in specie, allowing settlement without unnecessary value destruction.

Large direct portfolios without immediate liquidity needs

Where there is no rush, slow unwinding tends to preserve value. Each line was assessed for redemption options and strategic fit, balancing the opportunity cost of holding against potential exit discounts. Ongoing monitoring was essential as managers sought extensions or offered fee reductions.

Small closed ended holdings at buy out

Schemes reaching buy out early often still hold modest illiquid positions. Rather than force a sale, they retained these assets and monitored emerging platforms for opportunistic disposal. In several cases, even after expected exit costs, the funds had added value versus liquid alternatives, which helped decision making.



“Up ahead in the distance, I saw a shimmering light”: Practical steps for trustees

The discussion above highlights the different types of illiquid assets trustees might hold, why they matter and how to deal with them. To wrap up, here are practical points that trustees should consider before, during, or after investing:

- **Plan with the exit in mind:** Funding plans and objectives are endgame orientated. Decide whether legacy illiquid assets would influence your path based on size, complexity and time to unwind.
- **Revisit the initial investment case:** If it still stacks up, holding to harvest value can be rational. If assumptions have changed, plan an orderly exit and accept that some costs are part of re-optimising the portfolio.
- **Check value added:** Did the asset add value versus realistic alternatives, after exit costs? This helps separate emotion from economics.
- **Do not dismiss illiquids completely:** They can still play a valuable role, particularly for schemes looking to run-on.
- **Insist on clarity before you invest:** Be clear on lock ups, dealing frequency, exit costs and how strong the liquidity promise is. Flexibility can be valuable.
- **Monitor managers and timelines:** Build expected return of capital into cash flow plans. Identify problem funds early and consider whether an earlier exit at a modest discount beats a long tail.
- **Track new exit routes:** Alternative trading venues and solutions continue to develop. They can provide price discovery and options beyond traditional secondary brokers.

And finally:

If you feel like you've checked out of illiquid assets but can't quite leave, you're not alone. Many schemes share that Hotel California moment. The key is planning ahead, because with the right strategy, you can move beyond the analogy, find the exit and move on without destroying value.



Authors:

Al Greenlees

Head of Investment Strategy - UK



Georgia Sangster

Vice President, Institutional Relations



Disclaimer This document is issued by Van Lanschot Kempenn Investment Management (UK) Ltd. (“VLK Investment Management (UK)”) for information purposes only. The information contained in this document is of a general nature. No part of this document may be reproduced or copied without prior written consent from VLK Investment Management (UK). This document is subject to revision at any time and VLK Investment Management (UK) is not obliged to inform you of any changes made to this document. VLK Investment Management (UK) is registered in England & Wales with registration number 02833264. Registered office at 20 Gracechurch Street, London EC3V 0BG Tel: 0203 636 9400. VLK Investment Management (UK) is authorised and regulated by the Financial Conduct Authority (Firm Reference No. 166063). VLK Investment Management (UK) does not accept any responsibility or liability caused by any action or omission taken in reliance upon information herein.

This document should not be considered as the giving of investment advice by VLK Investment Management (UK) or any of its members, directors, officers, agents, employees or advisers. In particular, this document does not constitute an offer, solicitation or invitation to enter into a transaction, including with respect to the purchase or sale of any security interest or other in any jurisdiction. Neither this document nor anything contained in this document shall form the basis of any contract or commitment whatsoever. This document is not intended to provide and should not be relied on for accounting, legal or tax advice, or investment recommendations. No responsibility can be accepted for errors of fact obtained from third parties, and this data may change with market conditions.

Capital at Risk. Past performance is not indicative of future results.

©2026 Van Lanschot Kempenn Investment Management



Van Lanschot Kempenn Investment Management NV
20 Gracechurch Street, London EC3V 0BG

