CONNING®

Private Placements in Insurance: a 2025 Overview

Presented to the PPIA

February 10, 2025

About Insurance Research

For over 50 years, Conning's in-depth insurance expertise has helped management teams understand and navigate a rapidly changing insurance landscape.

Total Industry Coverage

- Property-Casualty
- Life-Annuity
- Health

Experienced Team

Backgrounds in:

- Underwriting and actuarial
- Insurance operations
- Primary & secondary market research
- Capital markets
- Rating agency perspective
- Investment functions

Serving the insurance industry for **50+ years**

19 Professionals | Average experience of **25+ years**

Unique Offerings

- Produces 100+ publications annually
- Access to a robust online library of Conning research
- Over 10,000 active users
- Direct access to expert analysis
- Custom consulting services

How We Add Value

- Efficiently support strategic planning
- Generate competitive insights
- Independent and objective, unbiased research
- Identify growth opportunities
- Benchmark financial performance

Agenda

- Private Placement Overview
- Why Insurer Interest?
- Asset Allocation
- Key Issues

PRIVATE PLACEMENTS: AN OVERVIEW

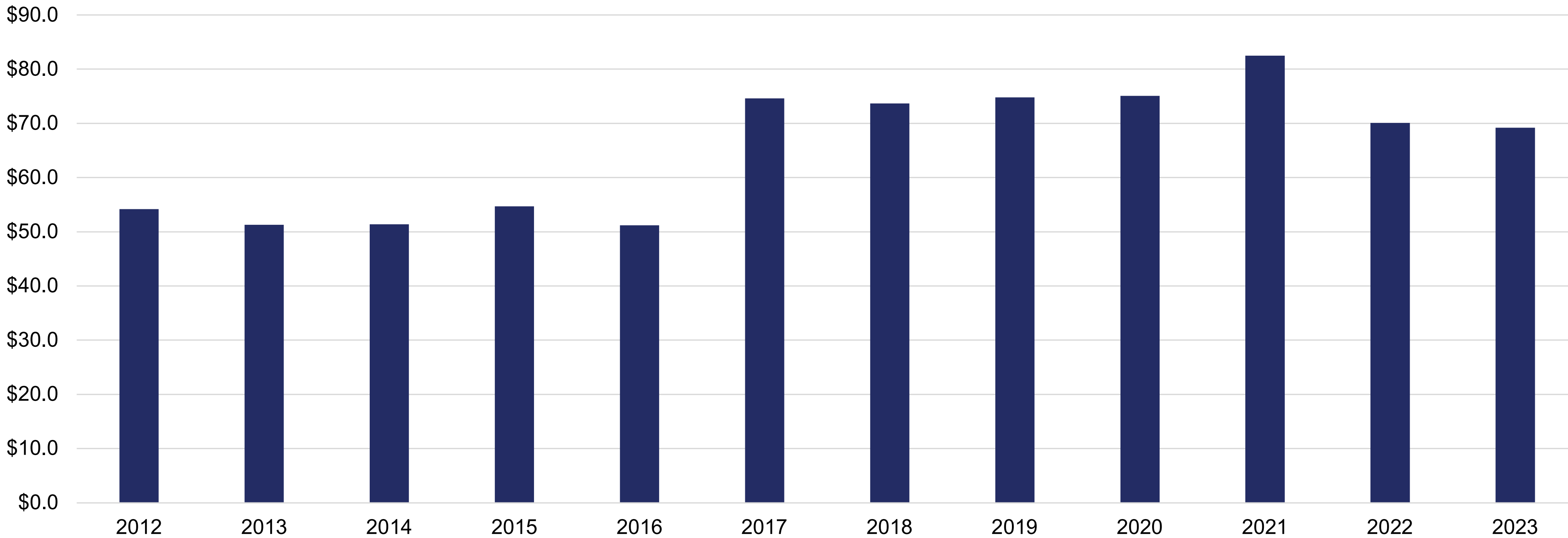
Private Placements, Private Credit, & Private Equity

Topic	Private Placements	Private Credit	Private Equity
Definition	Selling securities directly to select investors	Non-bank lending to companies or individuals	Investing in private companies or taking public companies private
Usage	Raising capital without public offering	Providing flexible financing solutions	Acquiring, restructuring, and growing companies
Risk and Return	Moderate risk and returns	Stable returns with lower risk	High potential returns with higher risk
Liquidity	Less liquid than public securities	More liquid than private equity and placements	Generally, less liquid
Investment Horizon	Medium-term	Short to medium-term	Long-term
Investors	Institutional and accredited investors	Institutional investors	Institutional investors
Example	Diversifying portfolio with higher returns	Achieving steady cash flows	Gaining exposure to high-growth companies

Private Placement Market

Private Placement Volume

$ in billions



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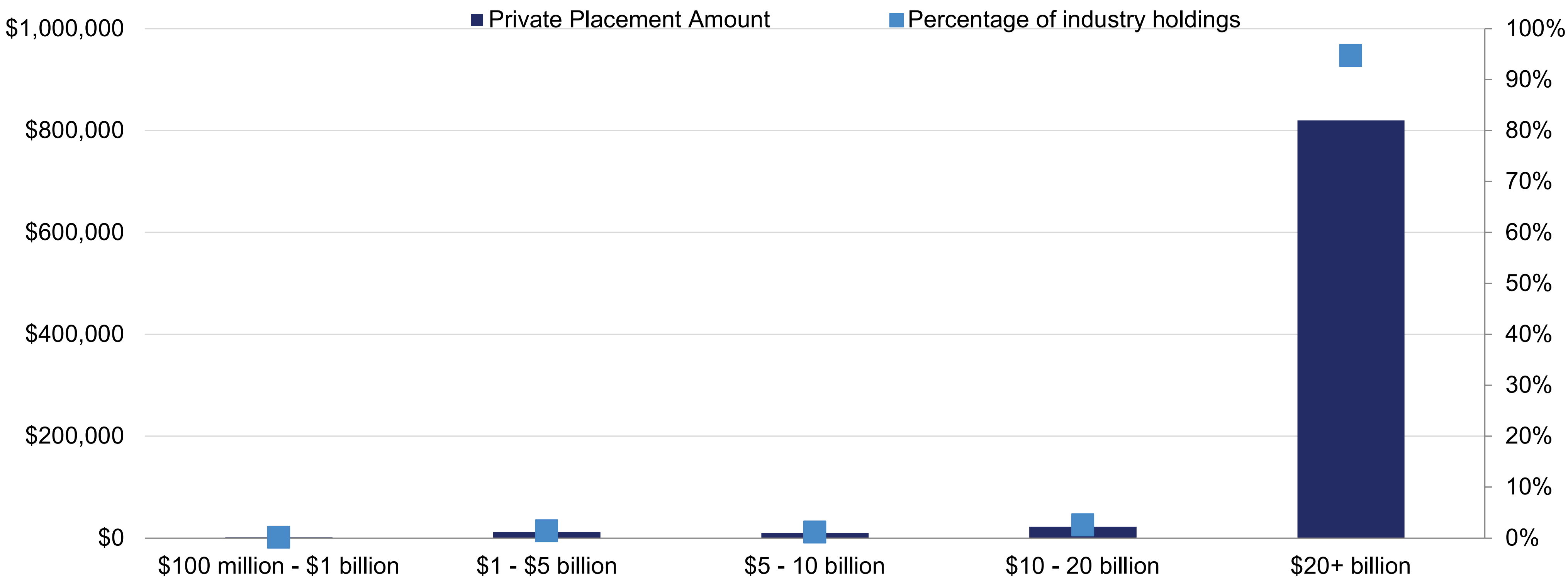
Largest L-A Insurers Dominate Private Placement Holdings

Life Insurance Private Placement Holding: 2023

$ in millions



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Large Mutuals Top 4 Holders of Private Placements

Life Insurance Private Placement Holding: 2023

$ in millions

Rank	Insurer	Private Placement Bond Holdings	Total Bond Holdings	Total Invested Assets	Privates as % of Total Bonds	Privates as % of Invested Assets
1	Mass Mutual	$83,959	$196,887	$312,444	43%	27%
2	TIAA	$65,562	$213,387	$307,993	31%	21%
3	New York Life	$64,039	$251,442	$343,872	25%	19%
4	Northwestern Mutual	$56,050	$199,258	$308,428	28%	18%
5	Metropolitan	$47,571	$157,111	$267,919	30%	18%
6	Corebridge (AIG)	$29,734	$167,952	$241,199	18%	12%
7	Apollo (Athene)	$29,135	$102,859	$171,596	28%	17%
8	Principal Financial	$29,018	$58,844	$86,206	49%	34%
9	KKR & Co. Inc. (Global Atlantic)	$26,006	$91,523	$148,229	28%	18%
10	Prudential of America	$24,423	$108,250	$181,767	23%	13%

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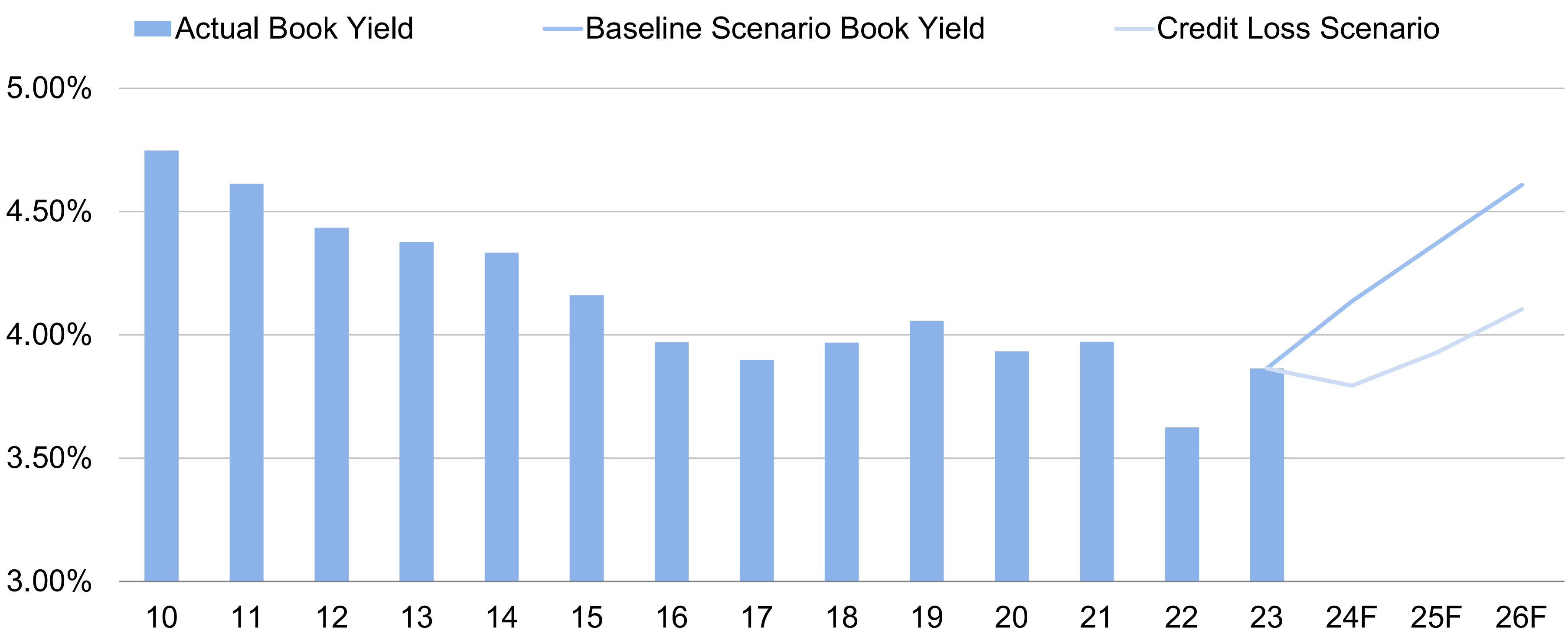
WHY THE INSURER INTEREST

Rapidly Climbing Rates Reverse the Trend

Life Industry Portfolio Book Yield—Illustrative Scenarios



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U.S. AM-Affiliated Annuity Reinsurers – Three Stages of Development

2000 - 2010	2011- 2015	2016 - 2023
Global Atlantic Financial Group	Fidelity & Life	Aureum Re
Group1001	Grey Castle	Aspida
Athene	Somerset Reinsurance	777 Re Ltd.
Canada Life Reinsurance	Knighthead Annuity & Life Assurance Company	Monument Re
	Nassau Re	Langhorne Re
	Kuvare	Fortitude Re
	Security Benefit	Venerable
		American Equity Investment Life Insurance Company
		Talcott Resolution
		Martello Re
		Constellation
		Kubera Re

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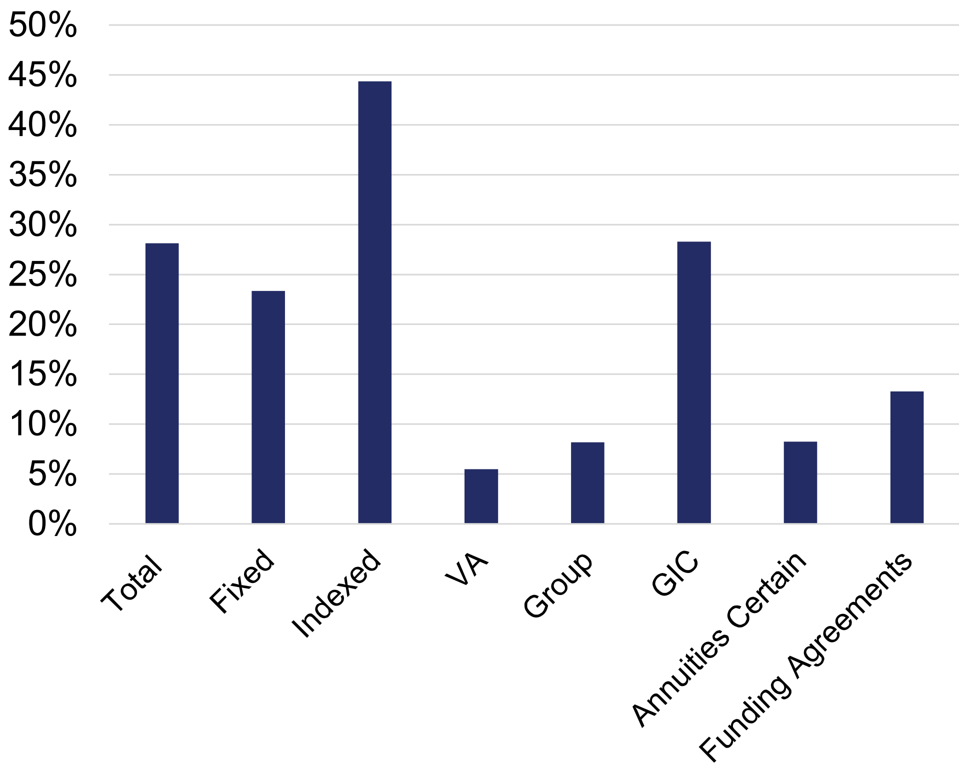
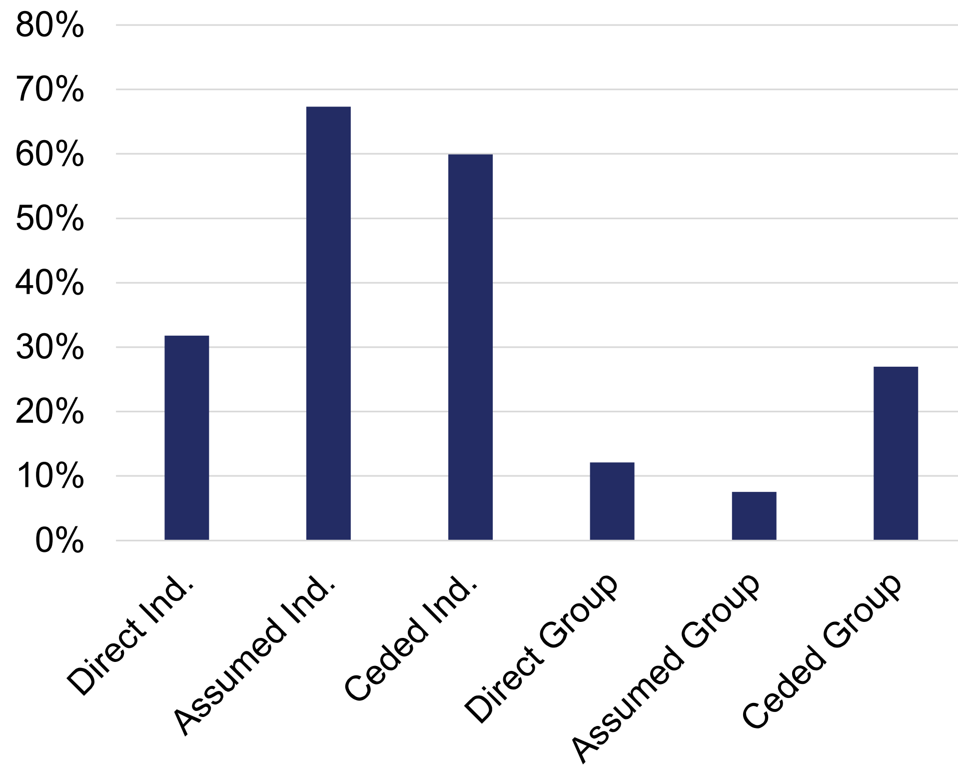
AM-PE Backed Reinsurers' Significant Role in Annuity Market

Percent of Annuity Reserves: 2023



Percent of Annuity Premiums: 2023



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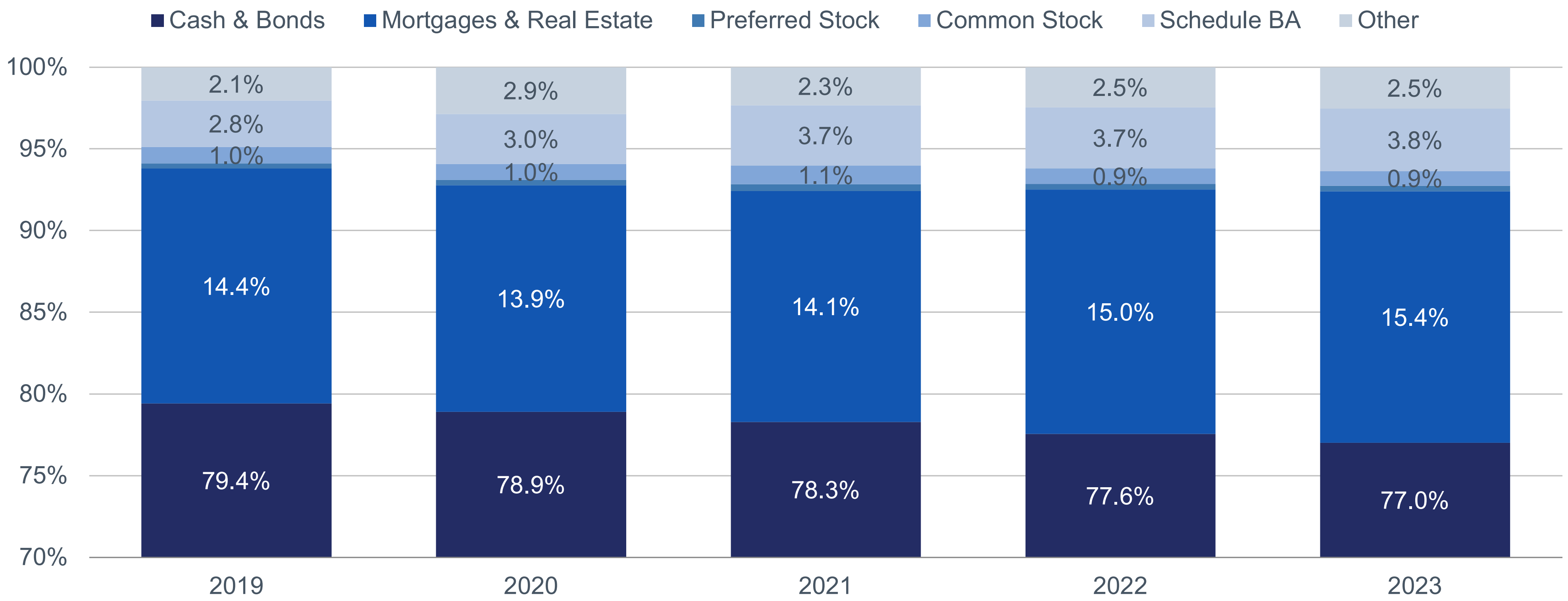
Allocations Shift Away from Bonds, Into Schedule BA and Mortgages

Allocation by Asset Class
As % of Investable Assets



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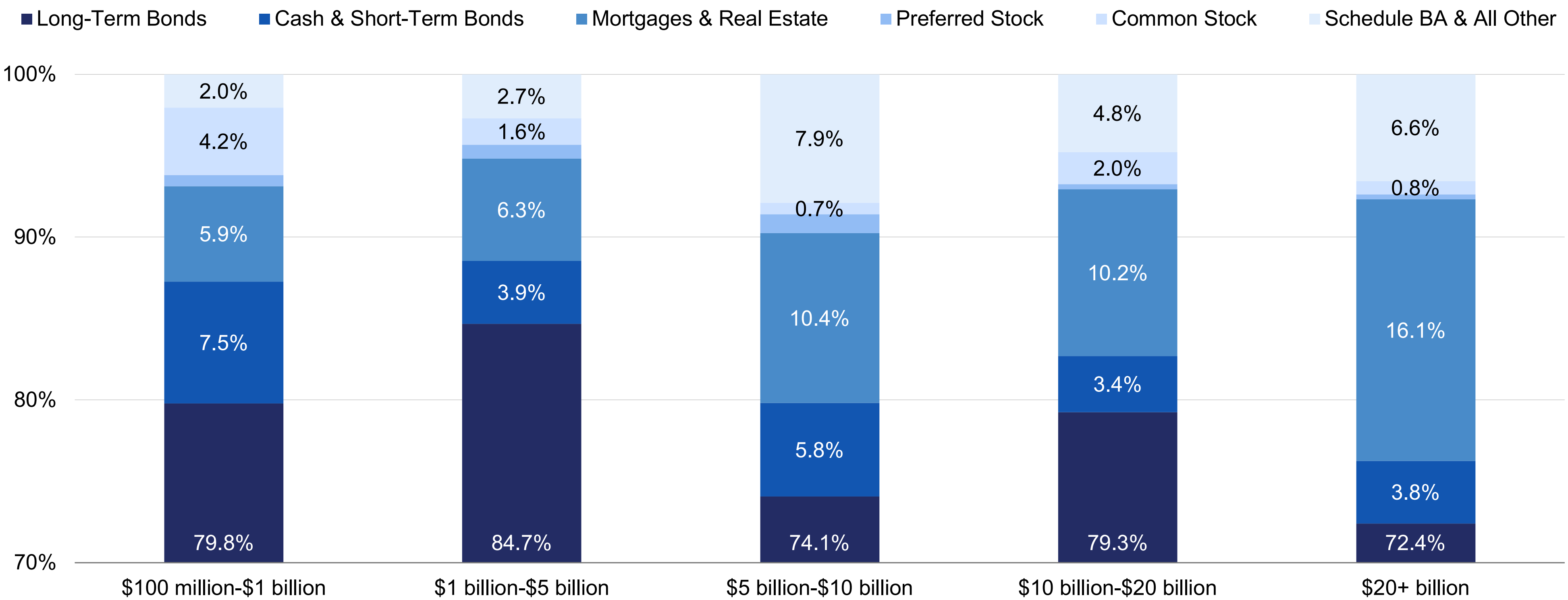
Mortgages Used More by Largest Insurers, Cash by Smallest

Allocations to Major Asset Classes in 2023 by Insurer Size
As a % of investable assets



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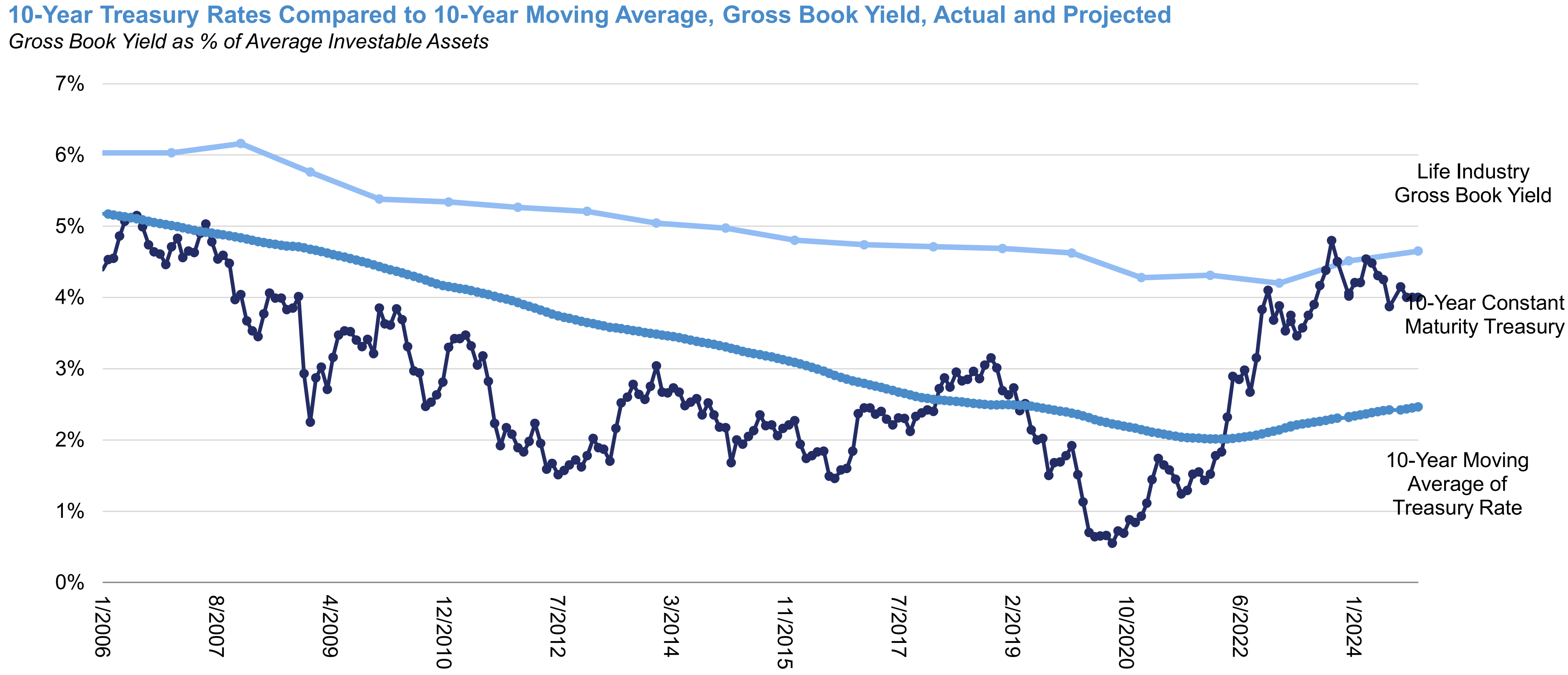
Gross Book Yield Increased in 2023; Uncertain Yields Ahead



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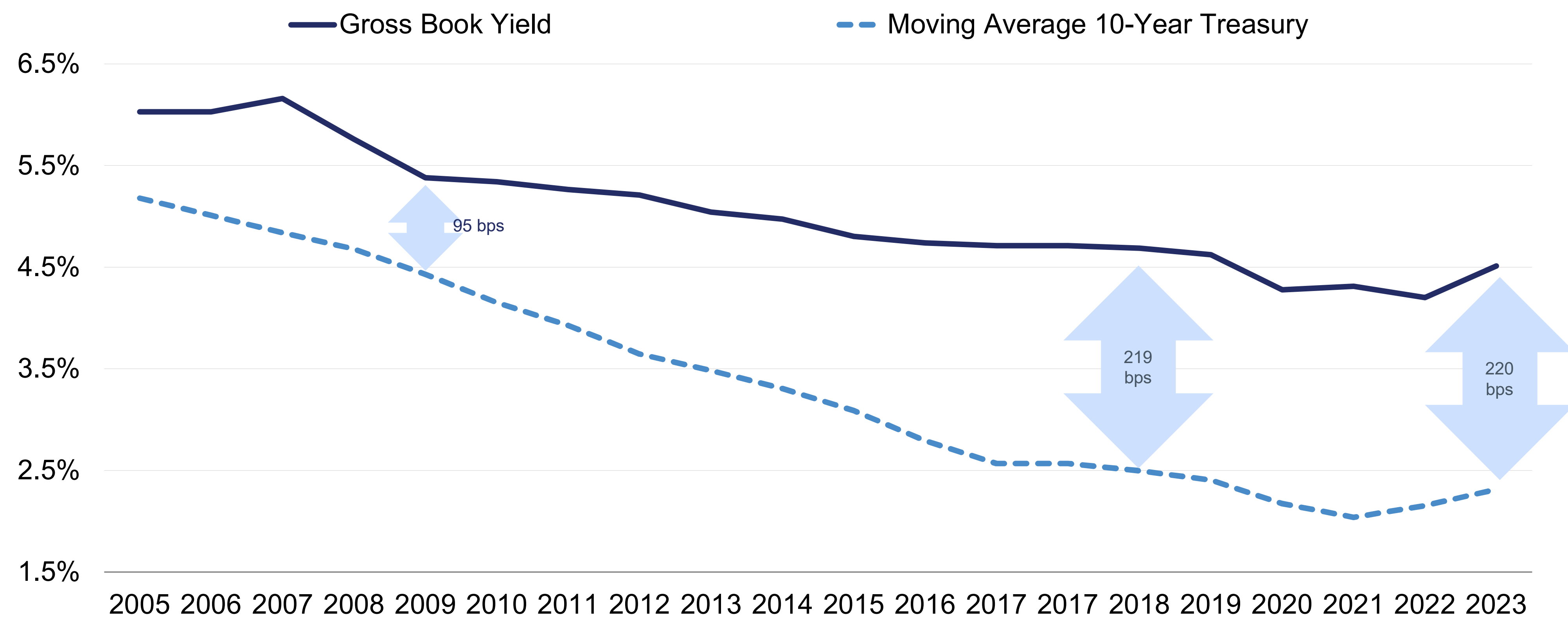
Yield Spread Over Reference Rate May Have Reached Its Limit

Industry Gross Book Yield versus 10-year Moving Average of 10-year Treasuries



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The Private Placement Attraction to Insurers

Higher Yields and Enhanced Returns

Private placements offer higher yields compared to public bonds

Incremental spread of 10 to 40 basis points

Enhanced returns make them attractive for boosting portfolio income

Diversification Benefits

Issuer diversification includes issuers not typically in public market

Geographic diversification with both U.S. and non-domestic issuers

Customizable Cash Flows

Variety of maturities to match liabilities effectively

Flexible structures for specific needs like delayed funding draws

Covenant Protections

Financial covenants provide additional protections

Diversification Benefits

Yield Premium

- Private placements offer higher yields compared to public bonds
- Incremental spread of 10 to 40 basis points
- Premiums increase for more structured transactions

Enhanced Returns

- Higher yields lead to enhanced returns for insurers
- Private placements are attractive for boosting portfolio income

Higher Yields and Enhanced Returns

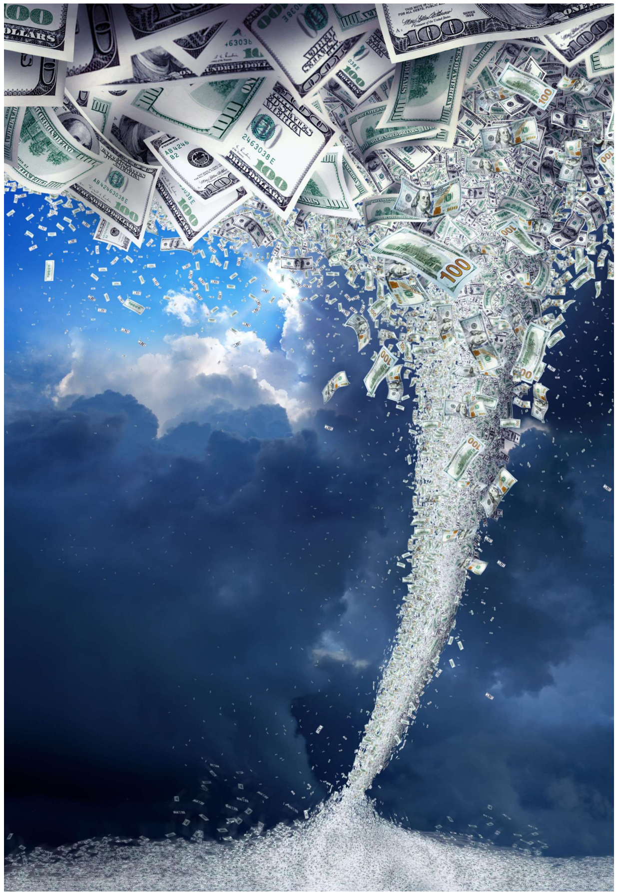
Issuer Diversification

- Private placements include issuers not typically in the public market
- Enhances portfolio's risk-adjusted returns for insurers

Geographic Diversification

- Includes both U.S. and non-domestic issuers
- Provides opportunities for geographic diversification

Higher Yields and Enhanced Returns



Customizable Cash Flows

- Maturity customization allows insurers to match liabilities effectively
- Beneficial for managing long-term liabilities

Flexible Structures

- Structured to meet specific needs
- Includes delayed funding draws or amortizing structures
- Provides additional flexibility for insurers

Higher Yields and Enhanced Returns

Financial Covenants

- Provide additional protections for investors
- Include event risk protection
- Limitations on future actions by issuers

Downside Protection

- Mitigate risks
- Better default experience
- Improved recovery performance compared to public bonds

BONDS

Bonds: Key Findings

Bonds are the most significant asset class for the life industry, but allocations have been decreasing.

- Allocations to bonds decreased from 79.4% of investable assets in 2019 to 77.0% in 2023.
- There was a 333-basis-point reduction in allocations to long-term bonds over the period, cash and short-term bonds increased 93 bps.

Insurers shift allocations to different bond types as they reach for yield.

- At over two-thirds of the bond portfolio, corporate bonds are the most significant bond type held by insurers.
- Insurers of all sizes have been increasing their allocations to BBB-rated bonds, though many have relaxed allocations from their pandemic peaks in 2021.
- The average term to maturity (not adjusting for call provisions) decreased to 10.7 years in 2023 after two years of the historic high of 11.0 years in 2021 and 2022.
- Average maturity for both public and private bonds in the industry portfolio decreased to lead to this result.

Book yield for bonds increased in 2023 by 60 bps to 4.56% of average investable bonds.

- Gross total return increased over 21 percentage points.
- Rebounds in 2023 from credit losses and negative changes in unrealized capital gains/losses in 2021 and 2022 led to these large results

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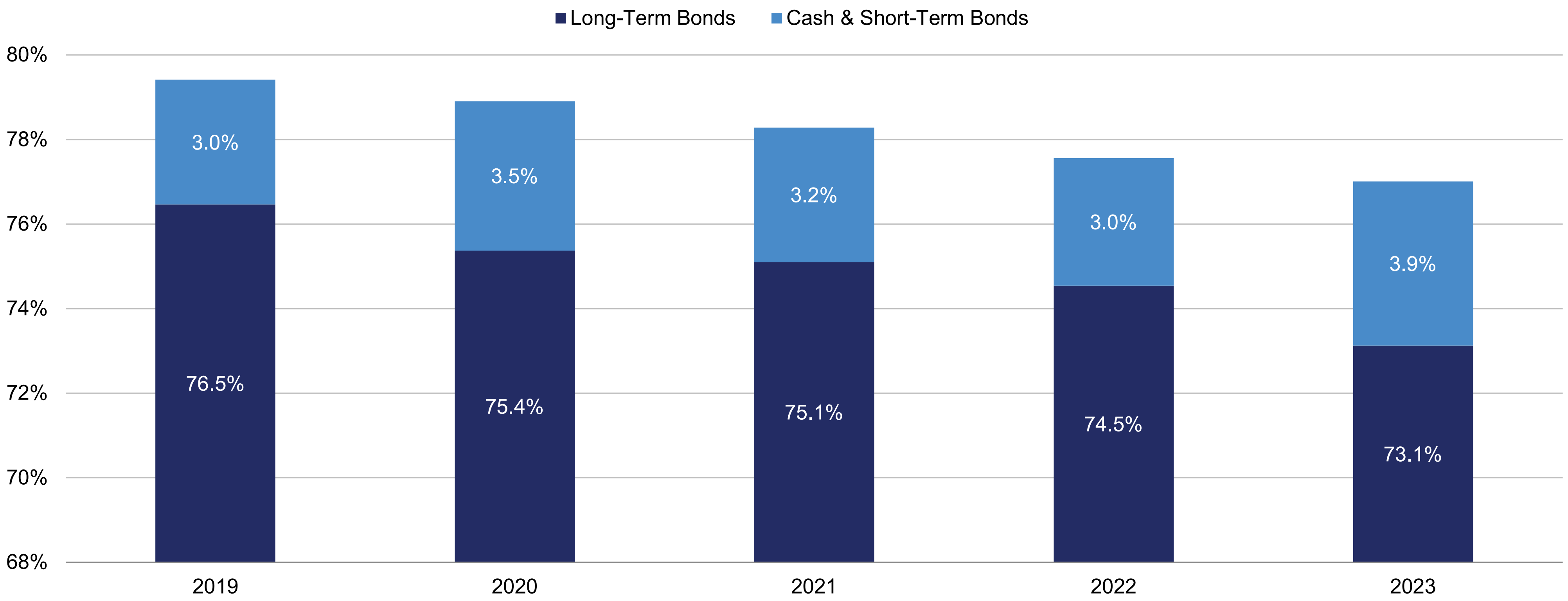
Life-Annuity Bonds Most Significant Asset Class, But Decreasing Long-Term

Industry Holdings of Cash and Bonds
As % of Investable Assets



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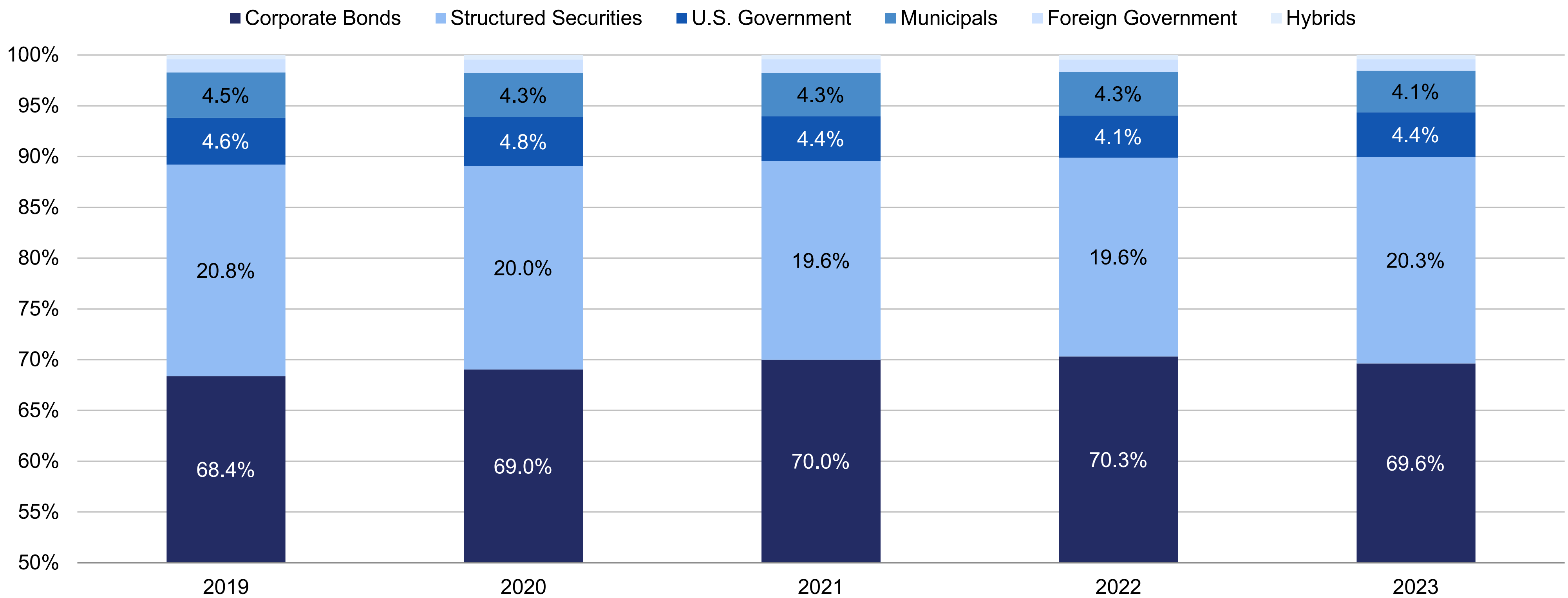
Life-Annuity Allocations to Corporate Bonds Increasing, Government Bonds Decreasing

Distribution of Bond Holdings by Type
As % of total bonds



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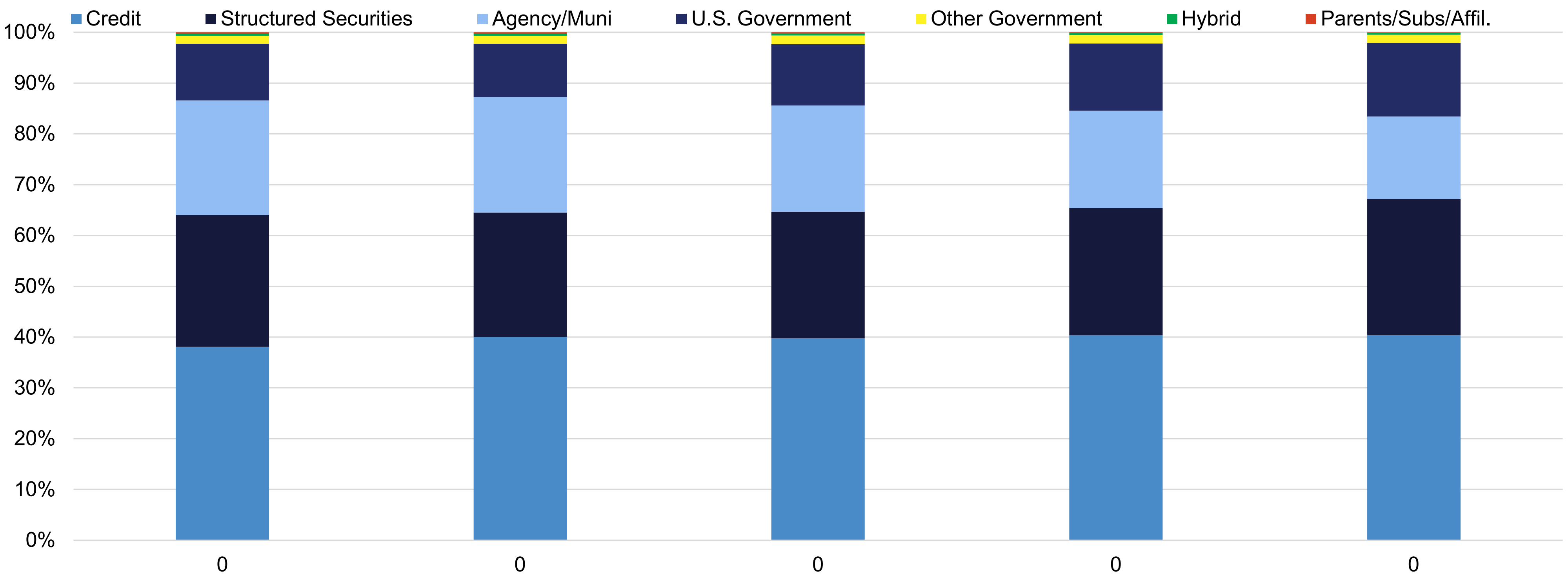
P&C Credit Gaining Larger Bond Allocation

P&C Industry Historical Fixed-Income Asset Allocation

Excludes Berkshire Hathaway and State Farm



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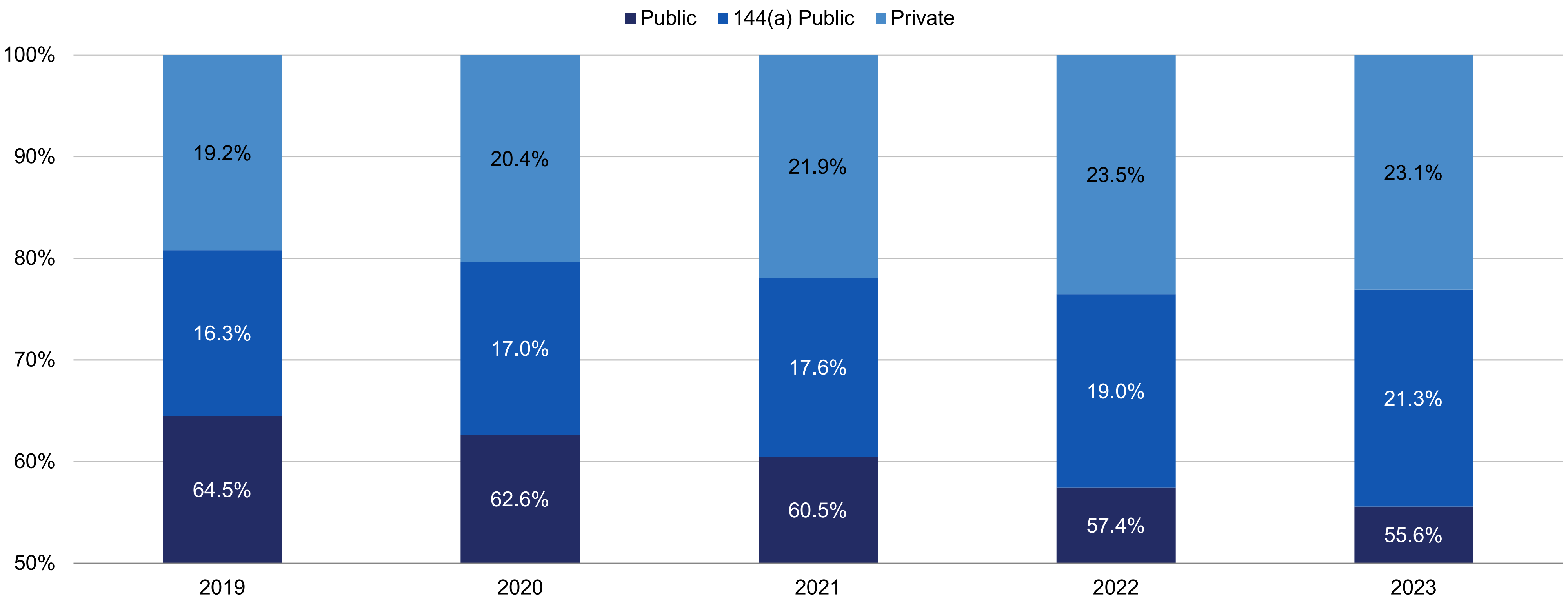
Life-Annuity Decreasing Holdings of Public Bonds, More Illiquidity in Bonds

Bond Type Distribution
As % of Total Bonds



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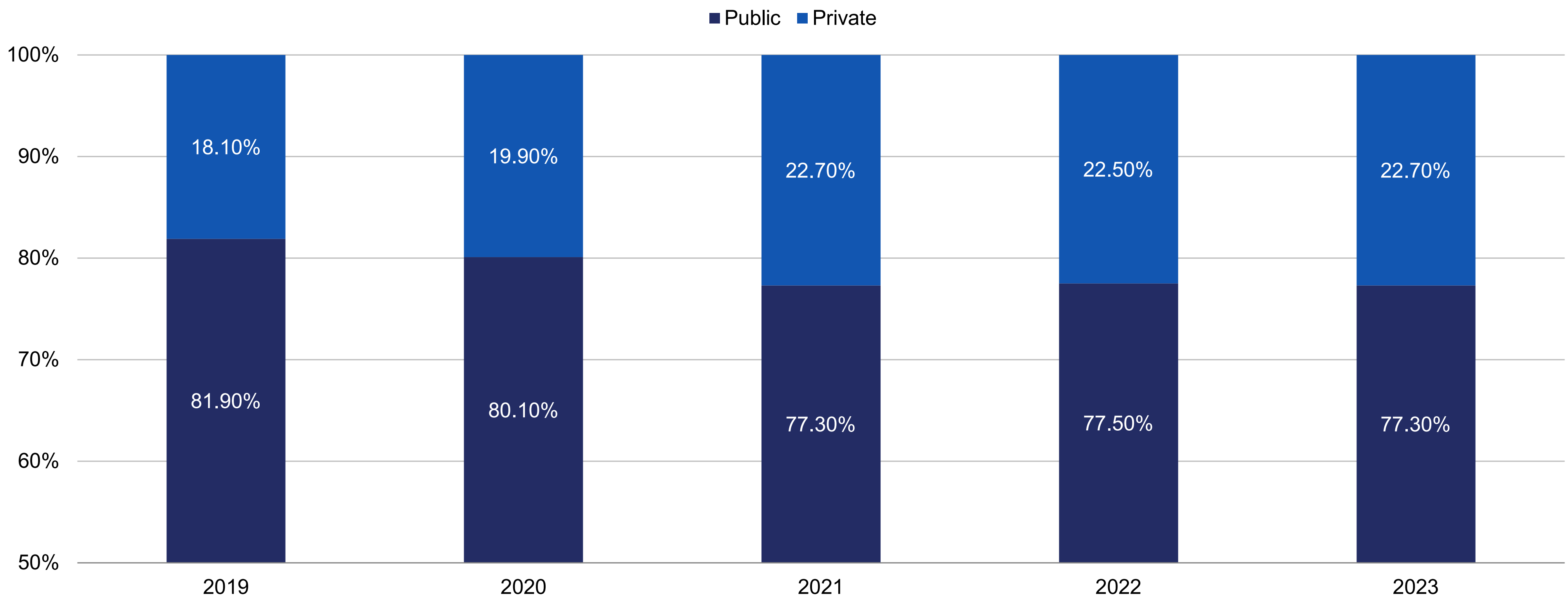
P&C Decreasing Holdings of Public Bonds, More Illiquidity in Bonds

Bond Type Distribution
As % of Total Bonds, x BRK and SF



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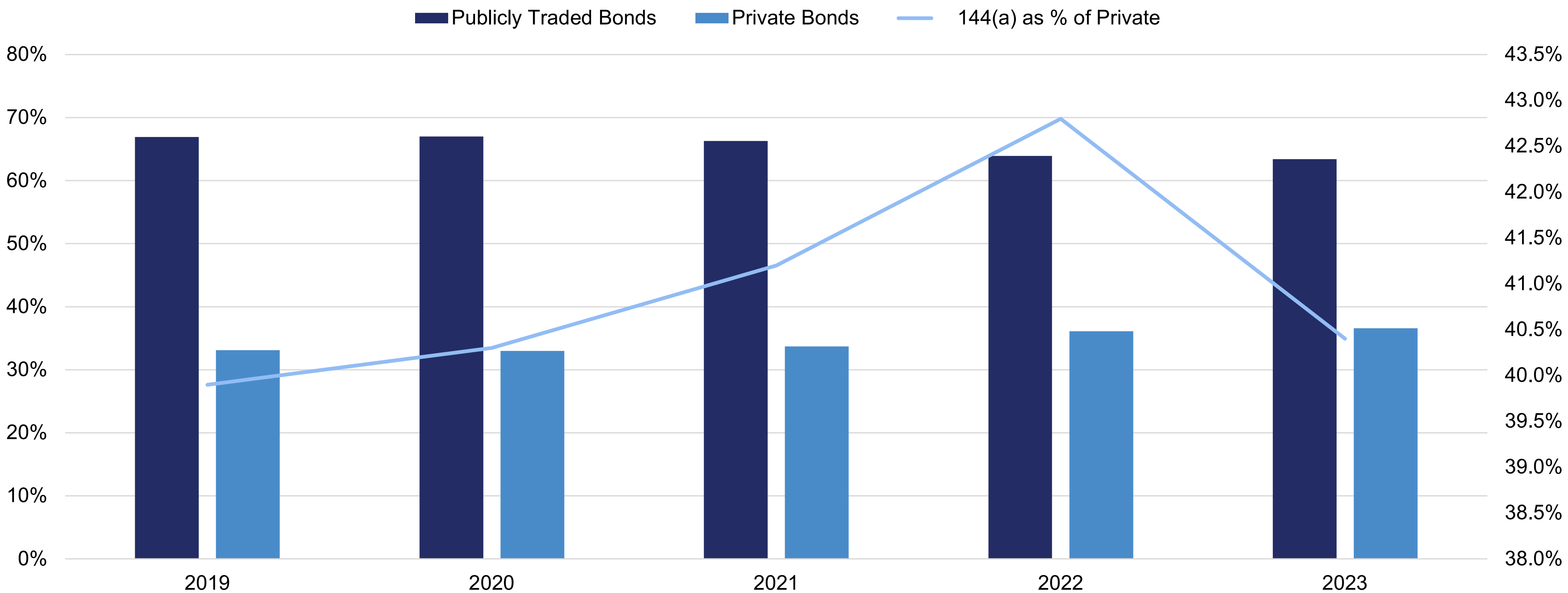
PRIVATE PLACEMENTS BY BUSINESS FOCUS

Life-Focused Insurers

Bond Liquidity
As % of total bonds



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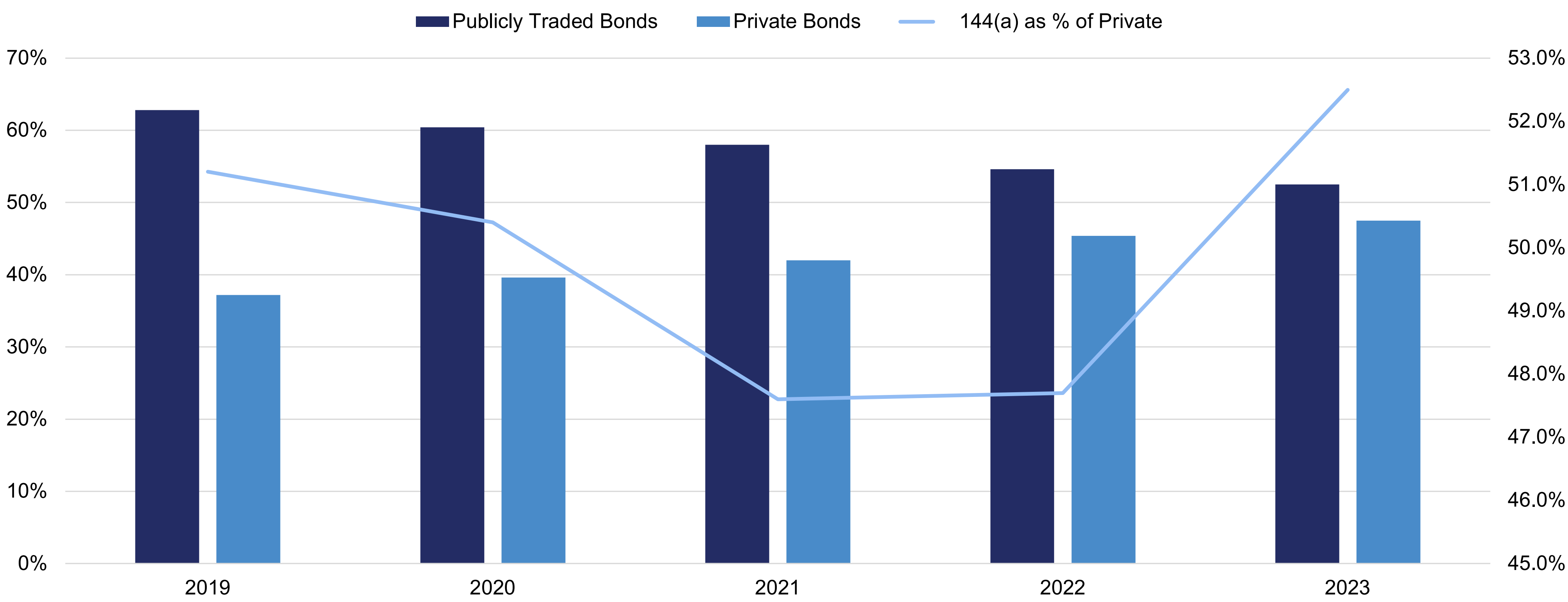
Annuity-Focused Insurers

Bond Liquidity
As % of total bonds



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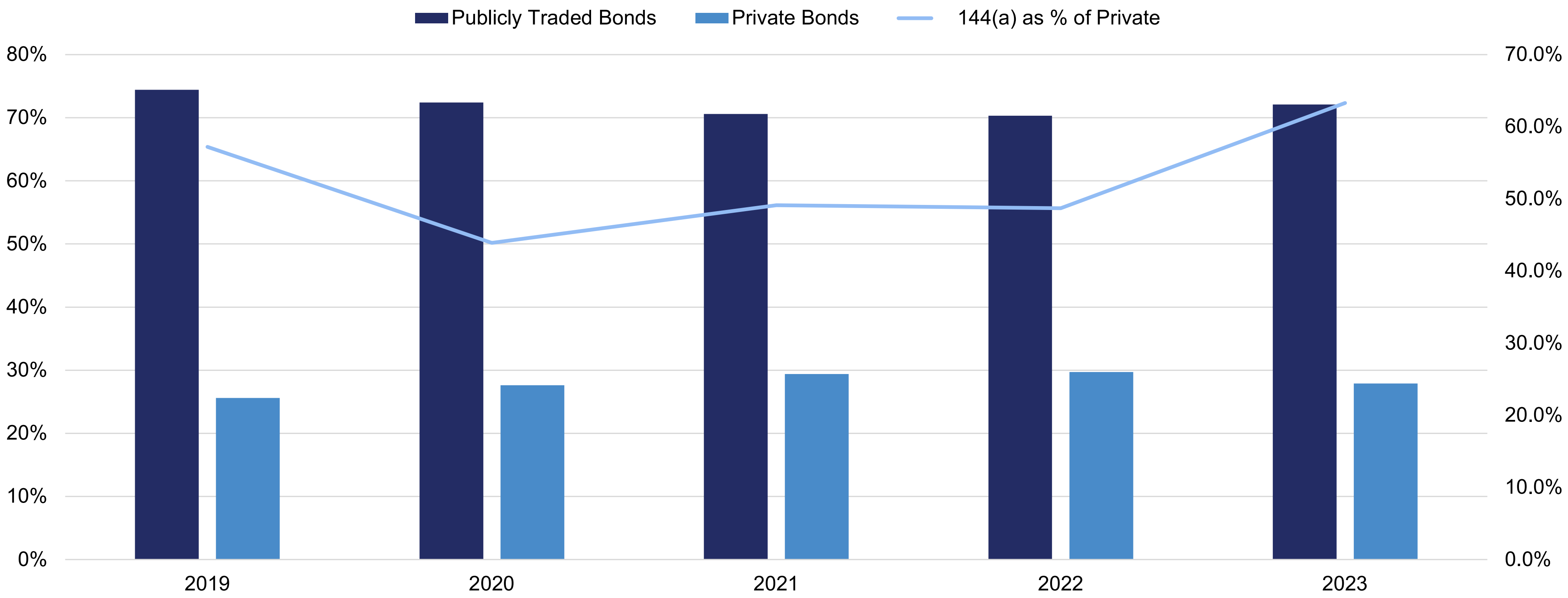
A&H-Focused Insurers

Bond Liquidity
As % of total bonds



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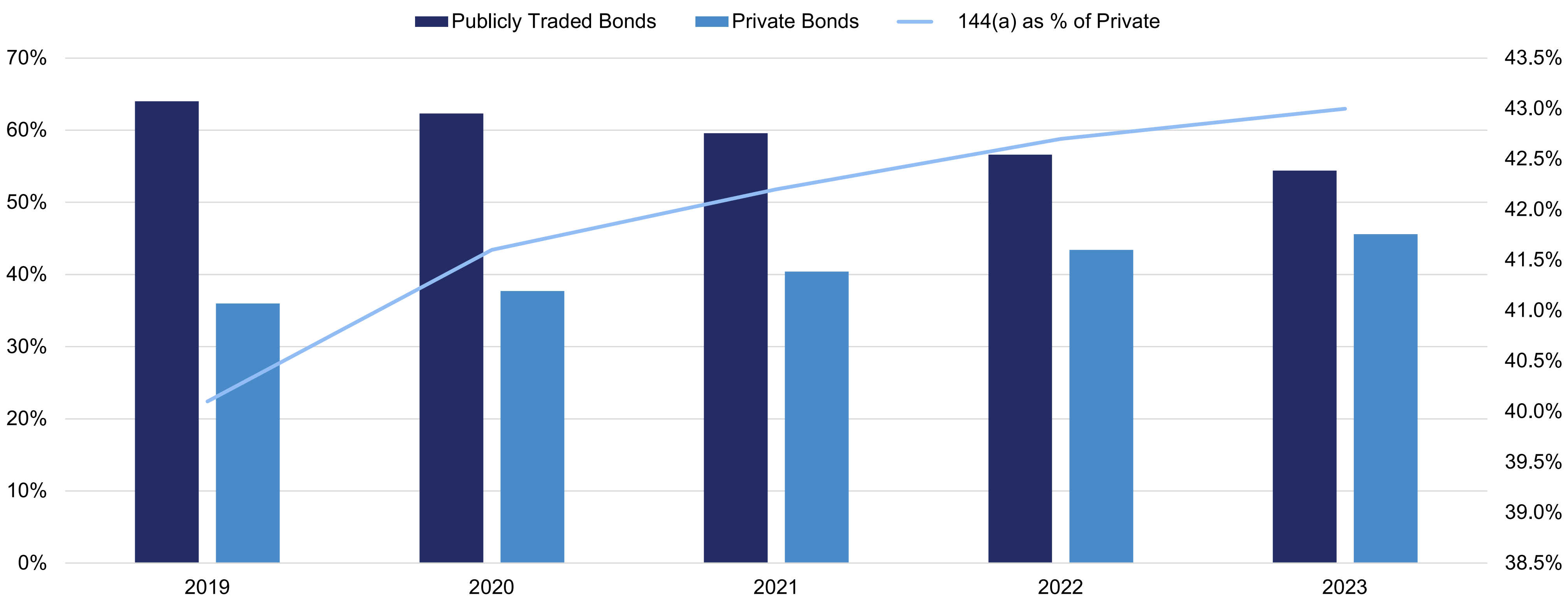
Mixed-Focused Insurers

Bond Liquidity
As % of total bonds



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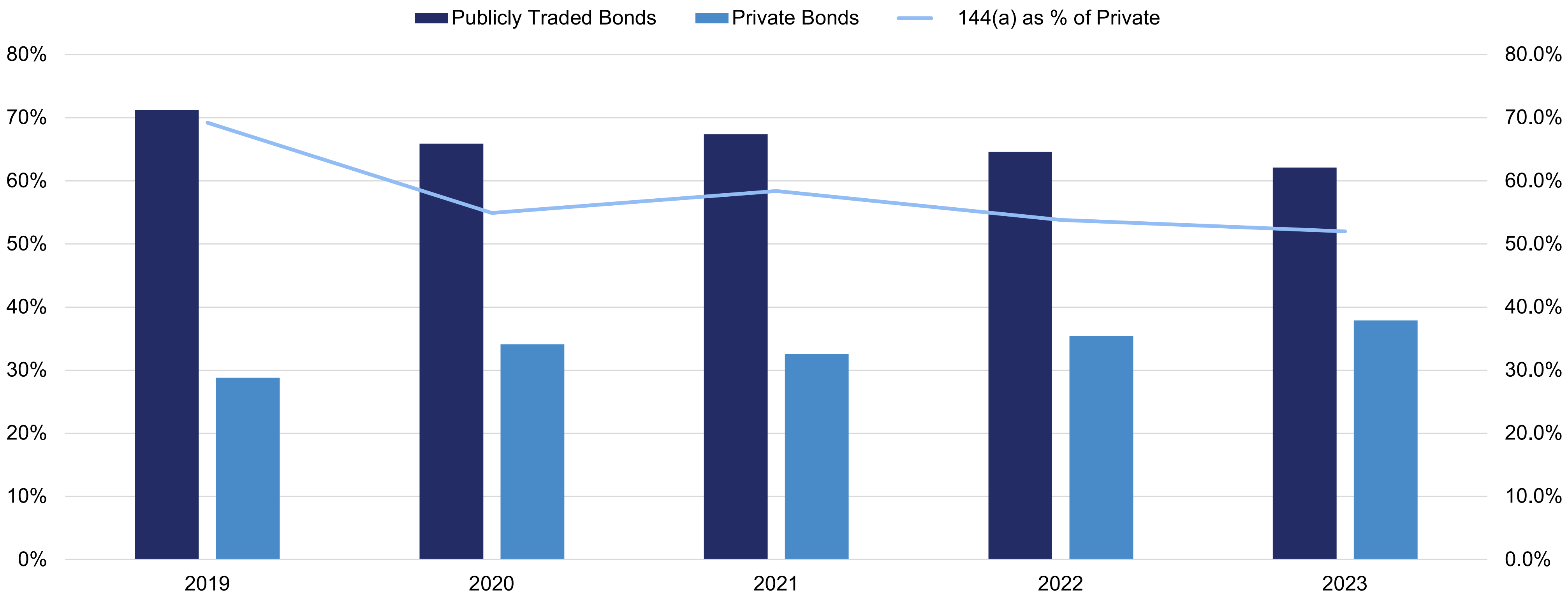
Reinsurance-Focused Insurers

Bond Liquidity
As % of total bonds



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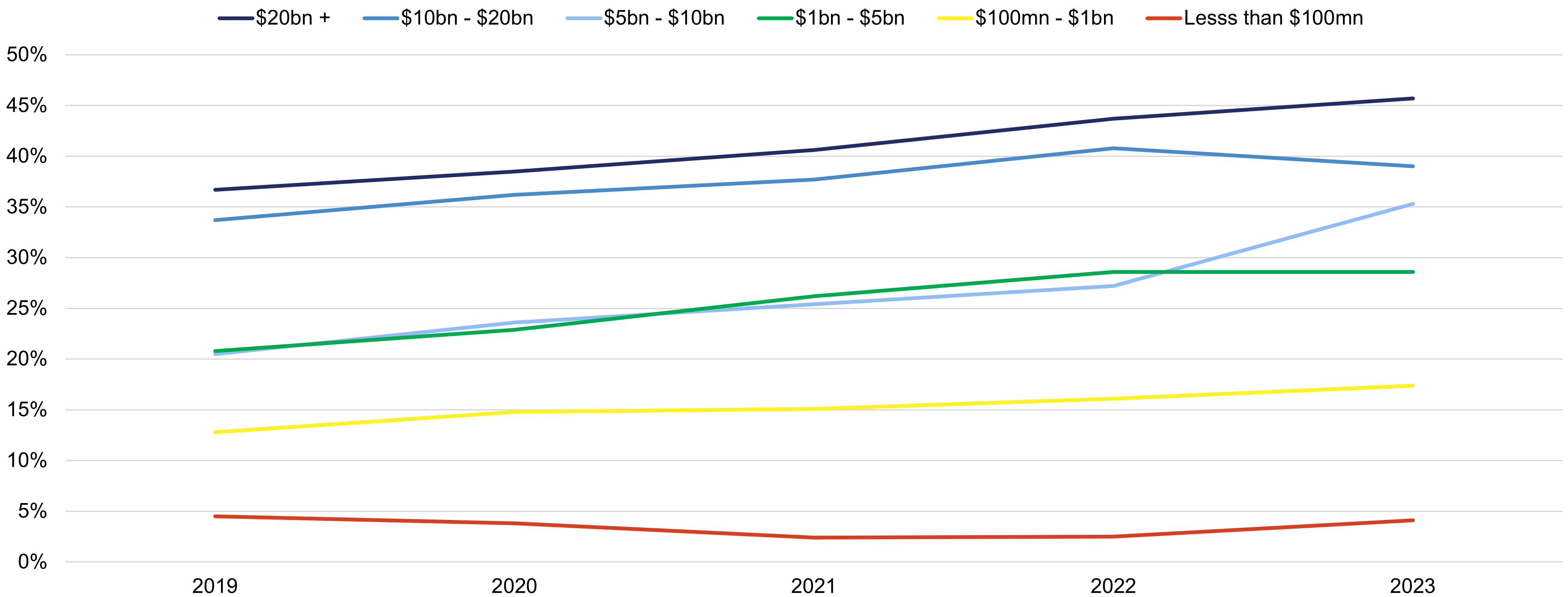
Life-Annuity Private Placement by Asset Size

Bond Liquidity
As % of total bonds



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Private Placements: Challenges

Private Placement Challenges

Market Access and Deal Flow

Relationship-driven market requiring experienced investment managers

Smaller insurers face limited access due to resource constraints

Due Diligence and Monitoring

Thorough analysis needed due to lack of standard SEC disclosures

Continuous monitoring and access to issuer management essential

Economic and Market Conditions

Performance influenced by broader economic and market conditions

Interest rate risk impacting value of private placements

Legal and Documentation Requirements

Extensive documentation requiring specialized knowledge

Standardized agreements, but each deal is privately negotiated

Private Placement Market Access and Deal Flow

Relationship-Driven Market

Access to the private placement market is heavily reliant on relationships.

Insurers need to collaborate with experienced investment managers.

Established relationships with issuers and deal sources are crucial.

Limited Access for Smaller Insurers

Smaller insurers face challenges in accessing the private placement market.

Significant resources and established relationships are required.

Due Diligence and Monitoring

Thorough Analysis Required

- Lack of standard SEC-required disclosures in private placements
- Insurers must rely on their own due diligence
- Disciplined investment process needed
- Experienced team essential

Ongoing Monitoring

- Continuous access to issuer management
- Regular review of financial documents
- Essential for effective risk management

Economic and Market Conditions

Market Dislocation

- Performance of private placements influenced by broader economic and market conditions
- Insurers must navigate periods of market dislocation
- Adjust strategies accordingly

Interest Rate Risk

- Changes in interest rates impact the value of private placements
- Particularly affects those with longer maturities

Legal and Documentation Requirements

Extensive Documentation

- Legal and documentation requirements are extensive
- Specialized knowledge is needed
- All terms, covenants, and conditions must be thoroughly evaluated and negotiated
- Protecting insurers' interests is crucial

Standardized Agreements

- Model forms are used to streamline the process
- Each deal is privately negotiated
- Process can be time-consuming and complex

Key Takeaways

- **Private placements have been part of the insurance industry's asset diversification strategy**
- **Private placements have significant differences from private credit and should not be confused**
- **Private placement investments have been most used by the largest insurers**
- **Private placement investing has a set of challenges that require a knowledgeable and robust understanding by the insurer's investment team or asset manager**

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