

# From Nascency to Maturity:

Rising interest rates and volatile markets show that alternative capital in the life and annuity sector is here to stay

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# Third-Party Capital in the Life and Annuity Sector

Sector emerged in 2016

Explosive growth came in 2020

Economic volatility has led to environmental shifts

Investors are a bit more selective today

Regulatory updates are bringing further evolution

Opportunity exists to broaden the investor base and advance the market further

**A traditional traded market? No!**

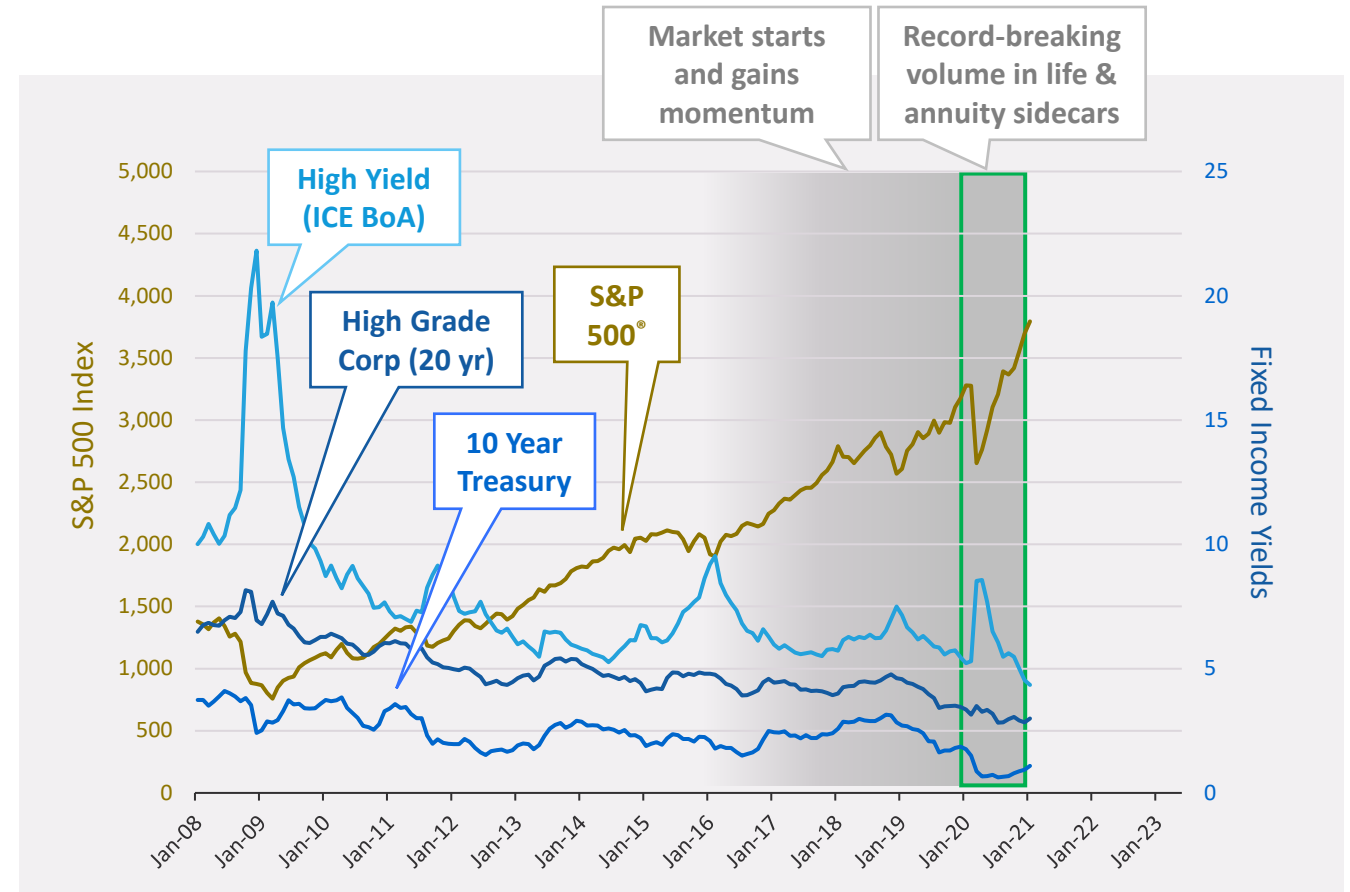
**A vibrant, traded market, nonetheless? YES!**



# Persistent low rates drove the rise of reinsurance as an asset class

Investors found reliable return potential under “lower for longer” market conditions.

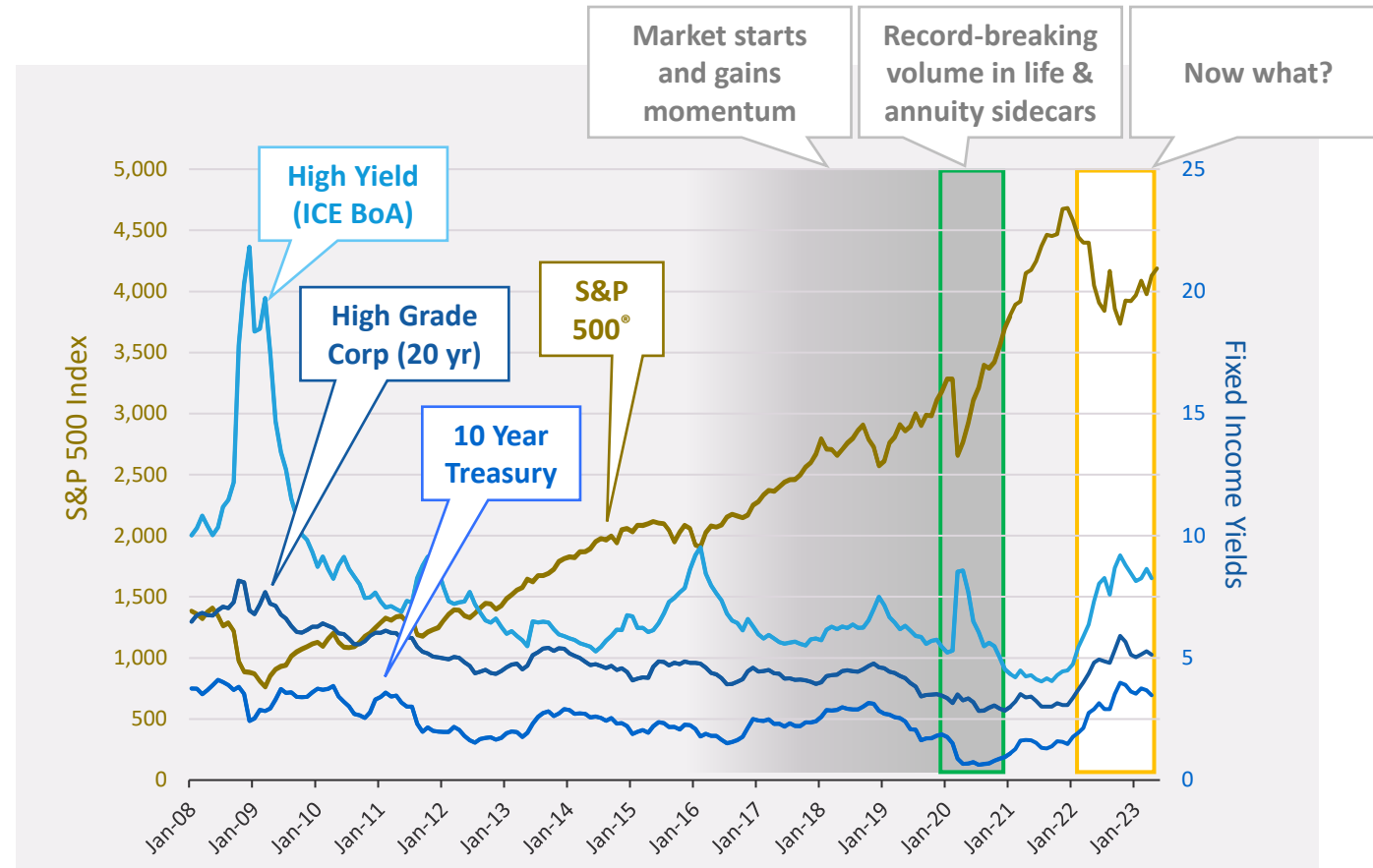
- Fiscal and monetary policy stimulus during the pandemic led to high public equity valuations, low public fixed income yields and historically tight credit spreads, suggesting low forward-looking returns.
- This drove increased investor demand for private markets and illiquid investments including life and annuity reinsurance which offers:
  - **Reliable return potential**
  - **Diversification**
  - **Low correlation to mainstream public assets**
  - **Access to illiquidity premia; and**
  - **Compelling risk adjusted returns**



# Interest rates have risen faster than they have in 40 years

## High inflation has pushed central banks worldwide to lift interest rates quickly

- Public equity valuations have decreased by 10% and credit spreads have returned to a more conventional baseline.
- Inflation remains persistent, and interest rates are unlikely to reverse course in the near future.
- Still, sophisticated investors see opportunity in reinsurance structures and capital continues to flow into the market.
- Despite headwinds, a traded market for reinsurance as an asset class appears to be durable.



# Continued alignment between asset managers and insurers is fundamental to attracting third-party capital

Asset managers have scaled their insurance strategies ...

...while insurers have partnered with asset managers and reinsurers to attract third-party capital and enhance their reinsurance capabilities

## Alternative Asset Managers Acquire Insurance Platforms

Purchase Control / Utilize GP Capital

APOLLO — ATHENE

KKR — Global Atlantic

Brookfield — AMERICAN EQUITY

Utilize LP Capital

SIXTH STREET — TALCOTT RESOLUTION

Equity / Stake Partnership

BlackRock — AIG

Blackstone — AIG — Allstate

## Reinsure to Third Party

Reinsurance of \$28 billion legacy universal life insurance & fixed annuities

Lincoln Financial — FORTITUDE RE

Transfer of 4 million life insurance policies.

Farmers Insurance — Resolution Life

Reinsurance of \$12 billion universal life insurance

Prudential — Somerset Re

Reinsurance of \$7 billion variable annuities

Guardian — TALCOTT RESOLUTION

## Establish Strategic Reinsurance Vehicle (SRV)

Strategic Reinsurer

ATHENE — ACRA

Global Atlantic — Ivy Re

KUVARE — Davidson Kempner — KINDLEY RE

BARINGS — Martello Re — Centerbridge



## Today, the market is maturing

## Established players continue to grow, reaping the rewards of alignment

M&A, Joint Ventures, and similar arrangements drive growth for some.

Brookfield

BlackRock

While others find continued success writing new insurance and reinsurance business.

ATHENE

FORTITUDE RE

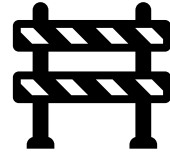
TALCOTT  
RESOLUTION

These players built momentum during the rapid growth period of 2020 and 2021, when market expansion was fueled by the search equity-like alternatives to fixed income assets.

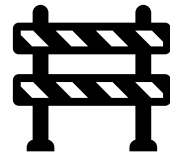


## The landscape today

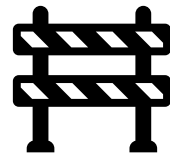
### Newer market entrants are navigating longer roads to success



Higher rates open attractive alternatives in fixed income investing



Existing investors generally seek to avoid channel conflict and may only invest in one life and annuity vehicle

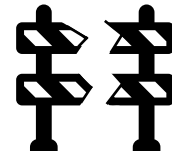


Inflation and market uncertainty have slowed some investors, while regulatory change has impacted others

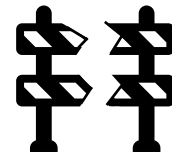


## The landscape today

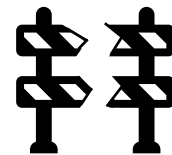
## Clearing these hurdles requires a portfolio of capabilities



Insurance Origination or Reinsurance  
Distribution



Reinsurance Capability



Asset Management





## The right capabilities open new possibilities

## Further market growth may depend on attracting new investors to these private capital opportunities

### Current Participants

Sovereign Wealth Funds

Top-tier pension funds

Private Equity and  
Hedge Funds

Asset Managers

### Opportunity

Large Pension Funds with  
Private Equity capability

Private Endowments

Family Offices

Ultra-HNWIs

Bringing more investors from different investor types will be important in sustaining market growth.



**A healthy cohort of reinsurers  
now consistently fund  
themselves with third-party  
capital**

TALCOTT  
RESOLUTION

Centerbridge

Skyridge Re

Martello Re

ATHENE  
ACRA/II

Resolution  
Life

Ivy  
Reinsurance

These reinsurers all have these key capabilities

Insurance  
Origination or  
Reinsurance  
Distribution

Reinsurance  
Capability

Asset  
Management



# Despite changing winds, we believe third-party capital is here to stay

- In 2020, factors aligned for incredible growth
- Today, activity has slowed, but not stopped
- Investors are a bit more choosy and are proceeding with caution during this period of regulatory change
- But new market entrants still have opportunity
- And there is tremendous opportunity to expand the investor base, which today is an exclusive group of the world's largest institutions



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