

BEST'S REVIEW® ISSUES & ANSWERS:

- ASSET MANAGEMENT
- RESILIENCE

Insurance and investment leaders discuss managing portfolios, mitigating risk and establishing resiliency in the market.

Interviewed Inside:



Dadong Yan
Barings



Tim Senechalle
AAM



Mark Berven
Nationwide Property & Casualty

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Portfolio Finance for Insurers

Dadong Yan, Head of Barings Portfolio Finance, said portfolio finance is the next extension in the evolution of private investment grade assets. “To source portfolio finance investment opportunities, you need to invest the time to build deep, meaningful relationships with asset managers,” he said. Following are excerpts from an interview.

BARINGS

Dadong Yan

Head of Portfolio Finance
Barings



“Where we have the most success is when asset managers call us—not with the deal, but rather with a problem they’re looking to solve.”

Visit the Issues & Answers section at bestsreview.ambest.com to watch an interview with Dadong Yan.

Can you help explain what portfolio finance is?

It’s simply lending against diverse portfolios of private market assets. It’s typically in the form of a senior secured loan, and the loan is cross-collateralized by the entire portfolio. The lender benefits from both significant structural subordination and having the entire portfolio as collateral. As a result, losses on individual assets are mitigated by other assets in the portfolio. The underlying collateral is what most insurance companies are already familiar with. Portfolio finance has been around for a really long time, and it’s historically been done by banks and predominantly structured for bank balance sheets.

Then how does it fit in an insurance portfolio?

It’s a great question. It’s because the defensive characteristics that have historically made this asset class so attractive for banks—including cross-collateralization, asset diversity, and structural subordination—are also attractive for an insurance portfolio. If you’re an insurance investor, it could be complementary to your existing private investment-grade allocation and give you additional diversifying sources of incremental spread. It could also give you access to several different underlying private asset classes in a diversified, low-risk exposure.

How do you source portfolio finance investment opportunities?

For us, we’re a direct origination strategy. We partner bilaterally with asset managers on their portfolio financing needs. We focus on direct origination as it allows us to provide customized solutions that are higher value add for our borrowers. In doing so, we have the potential to achieve incremental spread for our investors. However, it’s not easy to do as it takes scale and dedicated resources. That’s why, for us, we’ve intentionally built our team with over 30 dedicated professionals focused on just this asset class. That’s enabled us to originate over \$38 billion of direct investments across over 100 transactions since inception.

What does it take to win in this asset class?

To win you need three key things: You have got to have scale, you need to have the direct relationships, and you have to have the track record. In addition, you need the scale of the team to directly originate and manage a diverse portfolio. Also, you need the scale of the capital base to offer that certainty of execution for these asset managers. In addition, you need to have the direct relationships for the sourcing as this leads to unique access to deals for insurance investors. Finally, asset managers want to see your track record of providing successful customized solutions. Investors want to see your track record of capital preservation and also delivering attractive risk-adjusted returns consistently over time. When you combine all of that—scale, relationships and track record—on top of a market tailwind of increasing demand for portfolio finance, that creates an exciting opportunity for insurance companies to access this asset class.



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Continuity and Consistency

Tim Senechalle, Chief Investment Officer for AAM, said the P/C industry has a healthy balance of equity exposure. “This run of stocks over the last three or four years has put the industry’s equity balance above 50% of statutory capital yet again,” he said. Following are excerpts from an interview.



You were just recently named chief investment officer for AAM. What are your priorities?

My top priority is continuity and consistency and the maintenance of the high level of service that our clients have come to expect from our investment management team. Our team is experienced. We’ve worked together for a good number of years, and the collaboration, the idea generation and sourcing that is the foundation of building client portfolios is an integral part of our process, and it’s led to excellent performance for clients. Ultimately, maintaining that process and delivering on that objective for clients is my top priority.

How are AAM’s investment professionals working with clients to meet their needs?

Liquidity is one component, and rebalancing is a second. Whether you’re a personal lines-exposed company with weather and inflation challenges or an annuity writer with interest-sensitive liabilities that have changed due to rate volatility, there is kind of a changing perspective as it relates to asset liability management needs. Our portfolio managers are engaging in conversations with clients on ways to meet those needs. In some cases, we’ve set up short-duration liquidity sleeves to make sure we have adequate resources to meet obligations while not leaving money on the table in terms of investment income.

Does elevated volatility of interest rates represent an opportunity?

It sure does. One area where we’re seeing great opportunity is with annuity writers. There’s been an incredible surge in demand from households for annuities as an alternative form of savings. Those clients that have the distribution channel and the ability to invest competitively and to earn a competitive spread against policy credits are in a position to grow their business and grow their book.

Tim Senechalle

Chief Investment Officer
AAM



“Having been in this market for almost 25 years and suffering through the last 10, higher rates are a welcome relief from that period of the Fed holding rates at zero.”

Visit the Issues & Answers section at bestsreview.ambest.com to watch an interview with Tim Senechalle.

Longer term, how do you see AAM’s investment process evolving?

We need to continue to look at asset classes that complement the core components of insurance companies’ investment portfolios. Private credit continues to be the most widely discussed asset class and is growing quickly. I expect that our portfolio management team and our clients will be continuing to talk about direct lending strategies and the ways those might fit into portfolios. The push-pull of aggressive investors and aggressive asset management firms that have their hands on insurance assets and that dynamic with regulators and rating agencies is something that we’re keeping a close eye on as well. I’m not expecting that regulatory changes are going to affect our strategy or our clients in a significant way, but it might create some opportunities. Ultimately, AAM is based on a fundamental framework that builds portfolios that generate income and grow capital for clients. We think that will continue to lead to successful outcomes in the future.

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Resilience Is Key

Mark Berven, President and Chief Operating Officer of Nationwide Property & Casualty, said that as severe weather increases, we must shift to a “predict and prevent” mindset to protect customers. “By advocating for stronger local building codes and providing risk mitigation guidance, distribution professionals can make a difference,” he said. Following are excerpts from an interview.



Nationwide®

How would you describe the state of the insurance industry?

It's really a dynamic marketplace, and I think it's different depending on the segment of our business. As we talk about the last three to five years of weather trends, we continue to see the frequency of severe events escalate. Couple that with the economic environment, inflation, and labor issues means an increase in both frequency and severity. On the other side of the ledger, we're seeing some very exciting opportunities, especially as it pertains to things like artificial intelligence and coverage solutions for our clients. Finally, we're seeing tremendous growth in excess and surplus lines, which is creating innovation and opportunity. So it's a really dynamic marketplace.

Based on the macrotrends, how should the industry respond?

By doing what we always do, which is looking to solve problems. The insurance industry is here to create solutions and solve complex problems. As an industry, we've always been great after a loss by responding and taking care of customers. And that will always be a part of what we do. But shifting the mindset, we now need to work to better predict and prevent losses. So how do we mitigate the losses? We can do that by adopting modern building codes that can create more resiliency, depending on whether it's wildfire, hail or hurricane.

How can communities make themselves more resilient?

[The Federal Emergency Management Agency] recently conducted a study revealing that 65% of counties, cities and towns across the U.S. have not adopted modern building codes. This significant gap underscores the vital role that local distribution can play in raising awareness and addressing these issues. Carriers can guide individuals, organizations and local officials toward valuable resources. These resources can help communities learn how to establish more resilient infrastructures, ultimately promoting economic stability.

Mark Berven

President and Chief Operating Officer
Nationwide Property & Casualty



“While cost remains a significant factor in insurance decisions, the most effective way to control costs in the long run is by collectively focusing on predicting, preventing and mitigating losses.”

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What role can distribution professionals play in helping customers mitigate risk and navigate the current insurance market?

In the current environment of inflation, cost naturally becomes a central topic of discussion. Quality relative to cost is a cornerstone of effective distribution, ensuring that customers receive value for their money. Agents and brokers have long focused on providing the right coverages to meet customer needs. However, there's an evolving aspect to distribution that goes beyond mere coverage—it's about advancing guidance on risk management. Distribution professionals are now offering advice on proactive measures customers can take to prevent losses or control costs. For instance, in the personal space, this could involve using telematics or installing water sensors in homes. On a commercial property level, thermal imaging can be employed to detect hotspots and prevent potential fires. The emphasis here is on bringing risk management directly to the client, informing them about strategies to better manage and mitigate risks. After all, no customer wants to experience an insurance claim.

