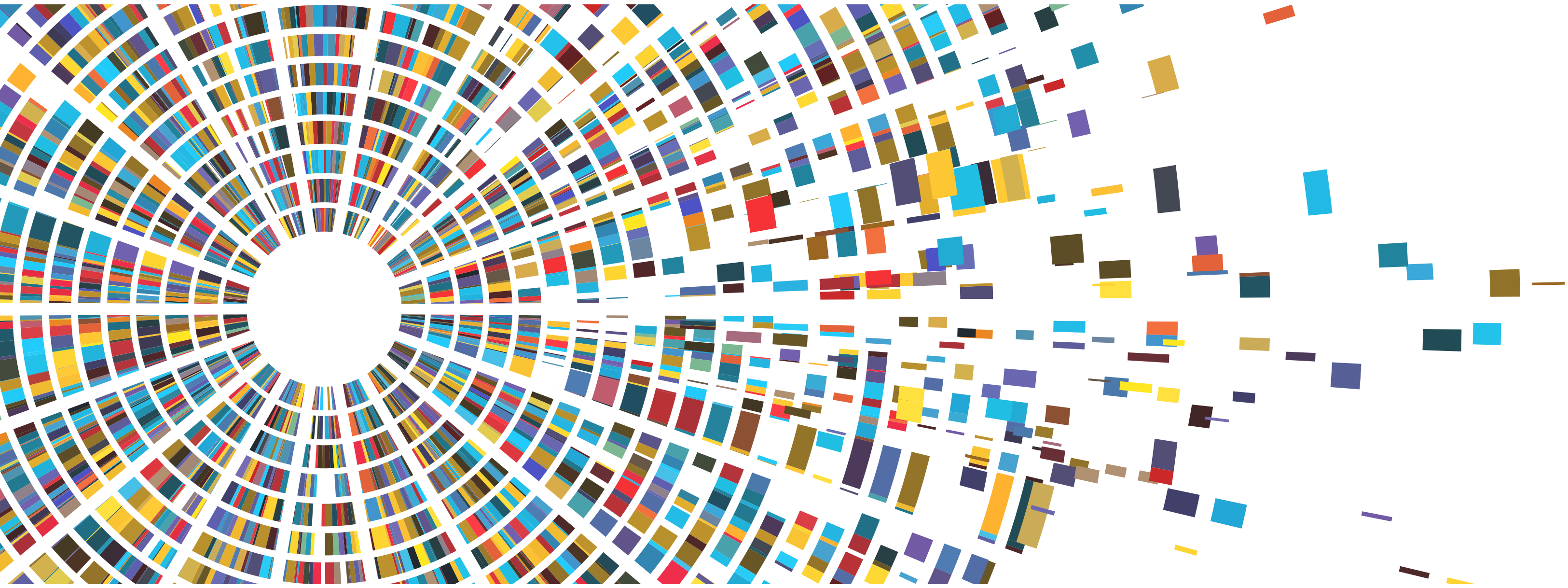
Goldman Sachs Asset Management



GSAM INSURANCE REPORT

Ready, Set, Reset

July 2020

INTRODUCTION

The first quarter of 2020 began very differently than how it ended. Last year was an exceptional year for the global economy, notably the remarkable rise in equities—one of the best since the initial recovery from the Global Financial Crisis. Fear of an overextended economic cycle and a tone of general optimism had *initially* set the backdrop for this year's GSAM Insurance Asset Management Report.

In mid-January, this began to unravel. Reports of a novel coronavirus spreading globally had unprecedented implications beyond anything that could be foreseen or understood. Deemed a global pandemic, COVID-19 shaped the remainder of the last two quarters and beyond. A vast percentage of the world was held in self-quarantine and all non-essential businesses were temporarily closed in efforts to slow the virus' spread. Governments and central banks have also been exceptionally quick to respond. These factors have created an unprecedented set of events, and the impacts continue to be uncovered and realized.

This year's report looks at market insights and trends, including continued progress in global Environmental, Social and Governance (ESG) implementation across the industry. The report also incorporates insights from various insurance industry leaders, as well as other topical findings. The title, *Ready, Set, Reset*, underscores insurers' investment strategies amidst tumultuous times, and the ways in which their approaches evolve in anticipation of other market events and continued unknowns.

The ninth annual report released by GSAM Insurance Asset Management incorporates the views of 273 Chief Investment Officers (CIOs) and Chief Financial Officers (CFOs) representing over $13 trillion in global balance sheet assets, which accounts for around half of the global insurance industry.

EXECUTIVE SUMMARY

KEY TAKEAWAYS

1. In our pre-COVID Survey, CIOs indicated a continuation of recent trends: increases in private equity, private credit and securitized assets funded with reductions in cash, governments and hedge funds. Recent conversations indicate these trends continue, if not accelerate; the Survey tilt towards commercial mortgage loans and real estate assets will pause and need to be re-underwritten.

2. CIOs described negligible long-term changes to their investment strategies as a result of market volatility and unprecedented world events. Most had already reduced their portfolio risks as a result of expensive valuations and anticipated credit cycle concerns.

3. The events of 2020 allowed CIOs to accelerate decision-making in order to be nimble and capitalize on market dislocations. For most, this involved no change to governance, but rather enhanced communication and collaboration across the entire institution.

4. Despite market events and recent volatility, CIOs believe the "public-to-private" trend will persist. CIOs cited illiquidity premiums, diversification benefits and financial repression in public markets to be among the factors sustaining this theme.

FACTS AT A GLANCE

95% of insurers believe there are hurdles to overcome as ESG continues to be implemented across investment strategies.

60% of respondents reportedly invest in insurtech, accounting for a 14% increase year-over-year, led by Asia Pacific insurers.

58% of insurers respondents use ETFs in their investment portfolios. This year-over-year increase can be attributed to continued adoption from European insurers.

CONVERSATIONS WITH INSURANCE CIOs

Eric Kirsch

Aflac

"We are staying within the parameters of our strategic asset allocation and are in a position to take advantage of good relative value opportunities that arise from this market disruption."

As Global CIO of Aflac Inc., Eric Kirsch has oversight for all investment and strategic portfolio management in both the United States and Japan. Despite the inherent differences in these places and their markets, Eric finds that COVID-19 has had a similar psychological impact in both regions. As we all manage through this difficult period, Eric was most surprised by the global cohesiveness of the reaction. "From the beginning, we were all monitoring what was happening in China, with businesses closing and families staying home, and initially, we did not react here in the United States. Fast forward to March, with increased public awareness of the developing pandemic, combined with stringent stay at home policies, we naturally began to understand the devastating economic impacts resulting in the market crash."

Despite market volatility and unknowns, Eric describes Aflac's long-term investment strategy as largely unchanged. "Over the past few years, we defensively positioned our investment portfolio through a number of de-risking exercises as we expected a changing credit cycle. With the capital of Aflac in a good position, we are staying within the parameters of our strategic asset allocation (SAA) and are in a position to take advantage of good relative value opportunities that arise from this market disruption." In order to exploit disruptions, which can often be short-lived, the insurer has placed emphasis on its governance processes without compromising its diligence approach to enhance efficiency of speed to market. Thus in today's unprecedented world, if markets continue to dislocate, Aflac stands ready to act.

Capitalizing on investment opportunities traditionally less in scope is only half of the equation. The global pandemic has taught us all the different ways in which business can be successfully conducted. For Aflac, this potentially signifies opportunity and different ways to participate in, "private structured assets, public and private equity markets, and even reconsider how we lend money to companies who re-engineer their businesses accordingly."

Eric believes there is a longer road to recovery than is currently accounted for, given the novelty of a global pandemic. "Psychologically, all investment risks have not yet fully been factored in. We do not yet know the eventual impact on the economy, small and large businesses, and those impacts on markets including equities, credit spreads and defaults." In Eric's opinion, because we just do not know what this unprecedented pandemic holds in store, there is likely more volatility ahead. Base case and recovery scenarios continue to be founded on past precedent, but without this, a go-forward is indeterminate.

Pascal Christory

AXA

> Private assets will maintain their allure through illiquidity premiums that are likely even higher today than before the 'crisis period'.

Like others in a similar role to the Group Chief Investment Officer of a global insurer, Pascal Christory, with guidance from 9 local CIOs, is responsible for setting the global investment strategy and managing AXA Group's asset portfolio. Now more than ever, the role of investments, particularly in their ability to generate cash flow, is heightened in the operating function of the business.

During March, when markets fell and the economic impacts of coronavirus began to materialize globally, Pascal held daily calls with local CIOs to ensure that the investment strategies implemented across regions were agile, efficient and well-coordinated. As a means to ensure consistency, the short-term strategy involved, "reviewing entirely the credit exposure—the main bulk of AXA's assets—considering the impact of the COVID-19 on different sectors, companies and geographies." While relying on existing interest rate hedges and equity protection overlays to mitigate the impact of market shocks on the balance sheet, AXA continually looked to exploit market dislocations. Quick to react, AXA picked up high grade assets at wide spreads. In particular, Pascal noted, "it was very surprising to see AAA CLOs trading at 350bps+ of spread. It didn't last long." AXA's tactical allocations were precise and rigorous as the insurer continually refined its de-risking plan to weather the volatility. AXA's portfolios are typically managed within a global investment universe, which allowed the company to take advantage of significant dislocations between U.S. dollar credit and Euro credit in March.

Despite these shorter term opportunities and a "lower-for-longer" market sentiment, AXA still considers public fixed income to be the mainstay of the portfolio in the long term. On this same theme, Pascal believes it is "too early to say" whether the trend from public-to-private assets, highlighted year-over-year in our GSAM Insurance Reports, will persist in the medium term, "as this crisis more severely impacts small and medium enterprises which represent a big chunk of the private universe." Regardless, Pascal considers that, "private assets will maintain their allure through illiquidity premiums that are likely even higher today than before the 'crisis period'." There are new responsible investing opportunities for AXA to contribute further to society, namely senior housing and hospital financing, a health dimension which has emerged as a key theme of responsible investing post-COVID crisis.

As the world gradually re-opens, Pascal theorizes the recovery path to be akin to a "check mark", indicating a slow but steady return. Pascal is managing the entirety of the AXA portfolio in unprecedented times, adapting its investment strategies to benefit from temporary dislocation while keeping the fundamentals stable. Despite past and potential future volatility, the overall long-term investment thesis of AXA remains unchanged.

Kazuyuki Shigemoto

Dai-ichi Life

> While we continue reducing our holdings of domestic listed equities, we think it is a good opportunity to invest into private assets.

Mr. Kazuyuki Shigemoto recalls that over the last 20 years, Japanese interest rates have maintained historical lows. After thorough market analysis, he believes interest rates will continue to stay low in the long run. Prior to the market events of the first half of 2020, when developed market debt generated higher yields, Japanese insurers, including Dai-ichi Life, increased investments in the foreign/non-yen developed market debt, which generated a fair level of return on a hedged basis. "Today however, economies continue to struggle, and the opportunity is less appealing to invest in other developed country's interest rates." Shigemoto-san's greatest concern is that the "lower-for-longer" trend carries on.

Despite the concern for "lower-for-longer", Dai-ichi Life sits in a unique position compared to many other global life insurers. With large holdings of domestic equities and short duration assets, Dai-ichi Life remains committed to reducing domestic equity and increasing the duration of its assets against its liabilities. As a result, "We did not change our attitude about controlling our positions. We just need to accept the higher volatility and higher costs for hedging our positions." While "lower-for-longer" will not prompt the insurer to increase its overall allocation to equities, Dai-ichi Life plans to accelerate its allocation to private assets. "While we continue reducing our holdings of domestic listed equities, we think it is a good opportunity to invest into private assets. In particular, we increased our allocation to private equity and infrastructure assets as part of our investment strategy." Despite his confidence in private equity and infrastructure, Shigemoto-san is tentative on private debt, particularly as it relates to the current market conditions. Regarding private debt, he remains cautious about the financial condition of many smaller companies—that make up the bulk of the private debt market—as sales and net income are declining and access to capital is more difficult to source.

Going forward, Shigemoto-san closely watches reported data, in particular that of the United States and China. As China began to re-open its economy, Shigemoto-san studies the recovery of retail sales and production as other economies and countries may follow similar developments. While he considers a U-shape recovery to be the most probable case, Shigemoto-san reiterates the "trade-off between recovery and speed." He is cautious that if the world is re-opened too quickly, there is potential for a second dip, and if not quick enough, there is potential for a very stagnant, L-shaped recovery.

Shigemoto-san will continue along the long-term investment strategy of Dai-ichi Life, committed to an increase in private assets while remaining hedged against future volatility as we continue to face many unknowns.

Mark Konyn
AIA Group

> During the course of volatility, we amended our structure of decision-making in order to properly capitalize when market opportunities presented.

Mark Konyn, Chief Investment Officer at AIA Group Limited, found the onset of COVID-19 to be a period marked by volatility and general uncertainty in both the markets and the world. While he categorized the financial response as "unprecedentedly swift, with scale and speed beyond reasonable expectations," he was most surprised by the severity of COVID-19's impact and reaction in the United States. Despite the profound uncertainty of this global event, including a potential for second wave, Mark and his team predict the recovery to resemble a "check mark", theorizing a slow but steady return to normalcy.

Mark noted that there are no remarkable changes to the short- or long-term investment strategy at AIA, despite the unprecedented nature of world events. Instead, Mark believes the biggest impact to be the insurer's newly realized ability to make tactical decisions at very short notice; "During the course of volatility, we amended our structure of decision-making in order to properly capitalize when market opportunities presented." Mark and his team did not circumvent governance, but instead, worked in supercharge to align all key decision makers across the entire organization. Going forward, he believes that this structural change will prove particularly advantageous as his team will continue to prioritize short-term, tactical opportunities on their investment agenda.

As an organization, AIA continues to remain most concerned in the long term about the continuance of low interest rates. With a "public-to-private" allocation trend marked across the industry, Mark indicated that his investment strategy is reliant on the "relativity of where we see opportunities. Due to financial repression, interest for alternative sources of return and yield will persist, particularly for growing insurers like AIA seeking to diversify risk." Mark reiterated that there is no strategic asset class re-allocation as a result of persistent low rates—it is almost entirely based on what AIA believes it can achieve at any point in time, including from alternative opportunities. The insurer believes that while markets have retraced significantly, there will be an abundance of opportunity; in fact, "if you ask about a key investment opportunity to all the different parts of the business, you will get a different response from each investment team."

In order to prioritize, AIA is developing market themes from available indicators, metrics and market data in order to further understand the past and developing structural impacts of COVID-19. Despite their efforts here, Mark understands that "it is going to take time for the pot to clear," as there is still a risk that recovery falters and volatility resumes.

Ellen Cooper

Lincoln Financial Group

> If the worst is behind us now, we will have navigated this situation extremely well, given the abundance of unforeseen circumstances.

According to Ellen Cooper, Chief Investment Officer of Lincoln Financial Group, the unprecedented and unforeseen nature of the global pandemic came with great surprises from many perspectives—public health, economic, monetary and fiscal policy, and overall market. Ellen shared, "In my wildest dreams, I could not have envisioned a scenario, in any analysis, where the economy would completely shut down, and everyone would stay home for an extended period of time." In particular, Ellen commented on the significant and swift actions as it relates to monetary and fiscal policy, noting that these active responses may fundamentally mitigate negative impacts. In retrospect, it was obvious in February that this pandemic would spread to the United States, however, she never envisioned a correlated event of a global pandemic lining up with a credit cycle.

COVID-19 did not cause any change in Lincoln's investment strategy, and this was very intentional. "We believed for some period of time that we were in the later stages of the credit cycle and had been positioning defensively. Therefore, when the cycle began to turn, we had been preparing all along and were able to play defense and offense where there were opportunities to do so." In order to effectively participate and capitalize on these market opportunities, the investment team met more frequently, and worked more rapidly to accelerate decisions following the processes and frameworks in place.

As we look forward to a return to status quo, Ellen Cooper is most concerned that "overall recovery is going to take longer," and this alone would have meaningful impacts on many sectors, particularly those Lincoln considers to be most exposed to coronavirus. On the other hand, Lincoln has found that the current market environment has yielded new money investing opportunities. As we continue to navigate these unprecedented times, Ellen predicts some combination of a "swoosh" and W-shape recovery as reports of a continued virus spread headline in the news. Regardless, she considers that "if the worst is behind us now, we will have navigated this situation extremely well, given the abundance of unforeseen circumstances."

Neeti Bhalla Johnson

Liberty Mutual

> As most insurance companies have excess liquidity, many can continue to deploy to earn an illiquidity premium.

As the world continues to piece together the social and economic impacts of this year's many unprecedented events, Neeti Bhalla Johnson has been most surprised by the speed and magnitude of both the global shutdown itself and of the resulting fiscal and monetary policy response. While we still await a return to normalcy, Neeti did not anticipate that work-from-home would be as productive and efficient as it has proven to be for many institutions. More broadly, she believes that these events have materially accelerated a number of established trends; "From the collapse of the traditional retail model to the expansion of online commerce and communication, this crisis has accelerated many previously established trends that shape how we work, live and invest."

Overall, these events have not prompted any changes to Liberty Mutual's long-term investment strategy. The insurer's investment strategy is built upon a core set of beliefs about the future that persist through this crisis. These include: a heightened focus on relative value opportunities, a "blur" between public and private assets and investing in diverse, cross-trained talent that leverages analytics and technology to enable better decision-making. "While there have been no strategy shifts, the recent volatility has sharpened our focus on our core beliefs and in some cases, even heightened their importance." In particular, recent market events allowed Liberty Mutual to "put governance around capitalizing on market dislocations and how the organization coordinates from a top-down and bottom-up perspective to do so." Neeti highlighted that in order to be successful, a culture of heightened transparency, communication and collaboration were essential across the entire Liberty Mutual enterprise.

As "lower-for-longer" remains an investment theme, Neeti believes that the "public-to-private" trend will persist. Investors will increasingly look across the traditional public and private silos to consider the relative value between the two. "As most insurance companies have excess liquidity, many can continue to deploy to earn an illiquidity premium." She considers that illiquidity and complexity premiums underlying many private investments present exciting opportunities on a relative value basis for patient capital. Conversely, Neeti remains most concerned about reinvestment risk in the portfolio given geopolitical, economic and healthcare concerns. The combination of low levels of interest rates and higher bouts of volatility will render fixed income less effective in managing insurance company balance sheet risks.

While Liberty Mutual's base case is more similar in shape to a "check mark" than a "V" or a "U", Neeti also believes there is a reasonable probability of a W-shape recovery. Although there have been no changes in the investment strategy, given the unprecedented nature of these world events, as well as many outstanding unknowns, the team cautiously analyzes all decisions assuming a volatile return to recovery with a wide range of possible outcomes.

SURVEY FINDINGS

Introduction

The GSAM Insurance Asset Management Survey has highlighted Environmental, Social and Governance (ESG) as an investment consideration for the past four editions. Over this time period, ESG has consistently climbed in importance for global insurers. In 2017, 68% of global respondents considered ESG to not be an investment consideration or applicable to their investment processes. This stands in comparison to only 21% of global respondents in 2020.

Asia Pacific and Europe led in actual ESG implementation in the portfolio, although the Americas reported increased adoption over the past year. Across the world, insurers broadly consider portfolio risk mitigation to be among the strongest motivators for this. This points to the idea that investors believe that the credit worthiness and/or the future value of an asset is directly impacted by ESG principles. Despite a broader trend in adoption, insurers unanimously find continued hurdles impeding implementation.

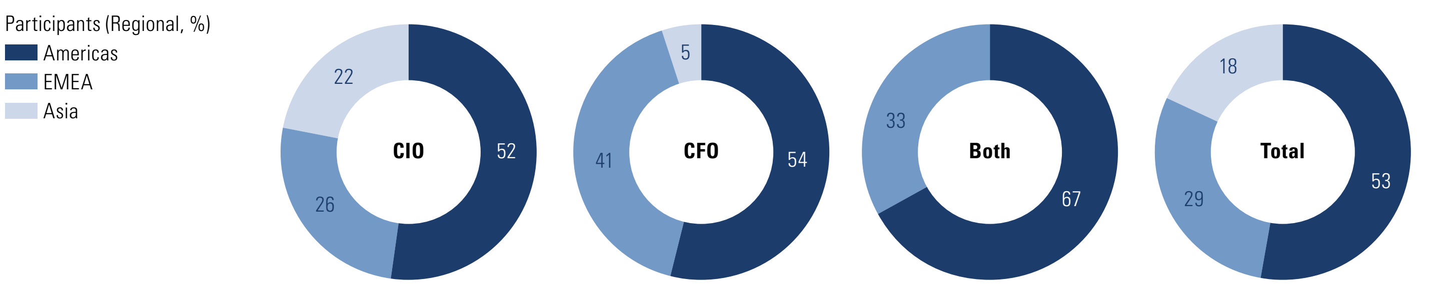
We also included insights on insurer's ETF adoption, insurtech investment and M&A activity. These questions yielded interesting trends, as globally, respondents cited increased utilization of ETFs and interest in insurtech over the course of the past year.

Summary of Survey Respondents

GSAM Insurance Asset Management continued its partnership with KRC Research, an independent research provider, to conduct its ninth annual global insurance investment survey. The survey provides valuable insights from Chief Investment Officers (CIOs) and Chief Financial Officers (CFOs) regarding key industry themes. We received responses from 220 CIOs and senior investment professionals, 41 CFOs and senior finance managers and 12 individuals who serve as both the CIO and CFO. This year, our survey included insurance companies that invest over $13 trillion in balance sheet assets, which represents around half of the balance sheet assets for the global insurance sector. The participating companies represent a broad cross section of the industry in terms of size, line of business and geography. The following table summarizes the profile of this year's respondents.

Participants of the 2020 Insurance Survey

Type	CIO	CFO	Both	Total
P&C / Non-Life	69	20	5	94
Life	87	10	4	101
Multi-Line	32	5	2	39
Health	19	5	0	24
Reinsurance	13	0	0	13
Captive	0	1	1	2
Total	**220**	**41**	**12**	**273**

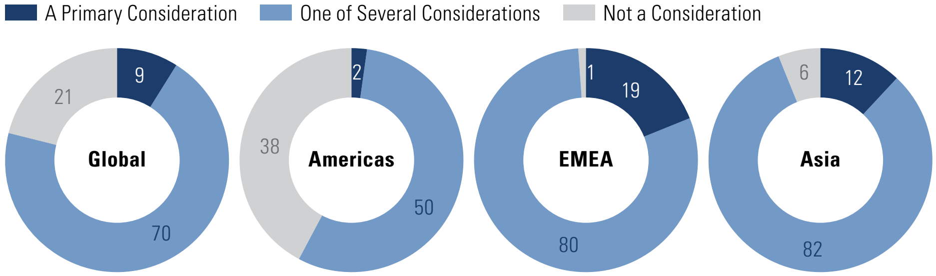


ENVIRONMENTAL SOCIAL & GOVERNANCE

ESG continues to grow as a global trend year-over-year despite reported hurdles in implementation.

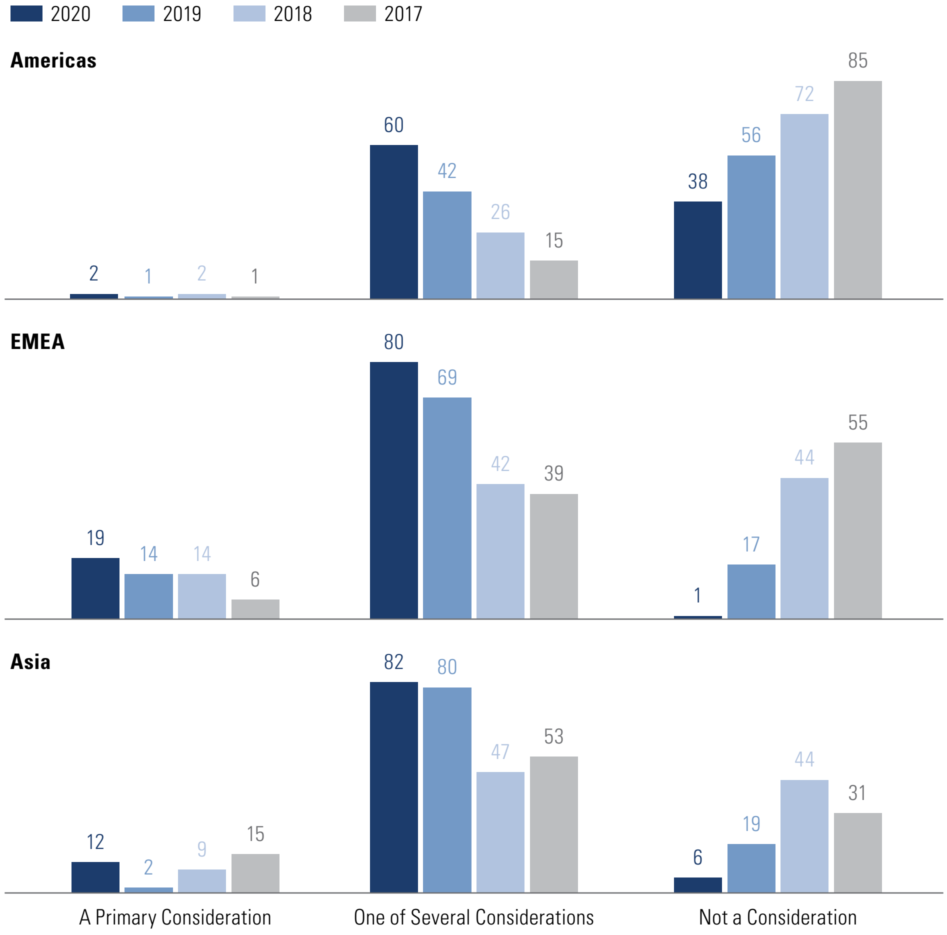
To what extent is Environmental, Social and Governance (ESG) and/or Impact Investing an investment consideration?

Adoption of ESG and/or Impact Investing Considerations (Regional, %)



Consistent with previous years, ESG continues to be a stronger investment consideration in Europe and Asia Pacific than in the Americas.

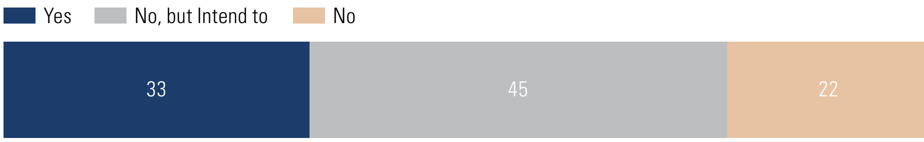
Adoption of ESG and/or Impact Investing Considerations (Regional, %)



While Europe and Asia Pacific consider ESG more strongly in their investment considerations, this trend has also been steadily increasing in the Americas.

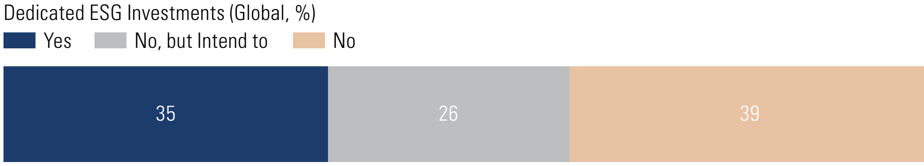
Do you apply the following ESG considerations in your investment portfolio?

Reliable Reporting of ESG Values when Evaluating Investments (Global, %)



Negative Screening and Avoidance Tools (Global, %)

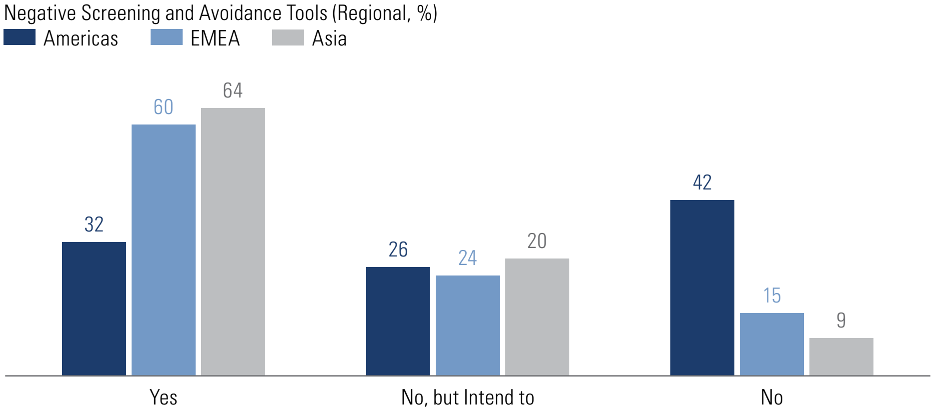
Dedicated ESG Investments (Global, %)



Negative screening and avoidance tools are most utilized in the investment process across regions. Insurers most commonly cited the intention to implement reliable reporting of ESG values in the portfolio over other ESG considerations.

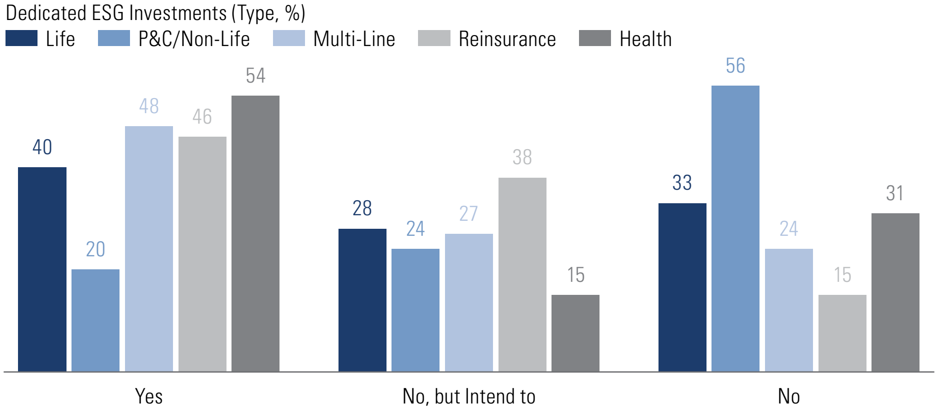
Do you apply the following ESG considerations in your investment portfolio?

Negative Screening and Avoidance Tools (Regional, %)



The use of negative screening and avoidance tools is driven by insurers in Europe and Asia Pacific. In the Americas, 42% of insurers choose not to implement negative screening and avoidance tools in their investment process, in comparison to only 15% in Europe and 9% in Asia Pacific.

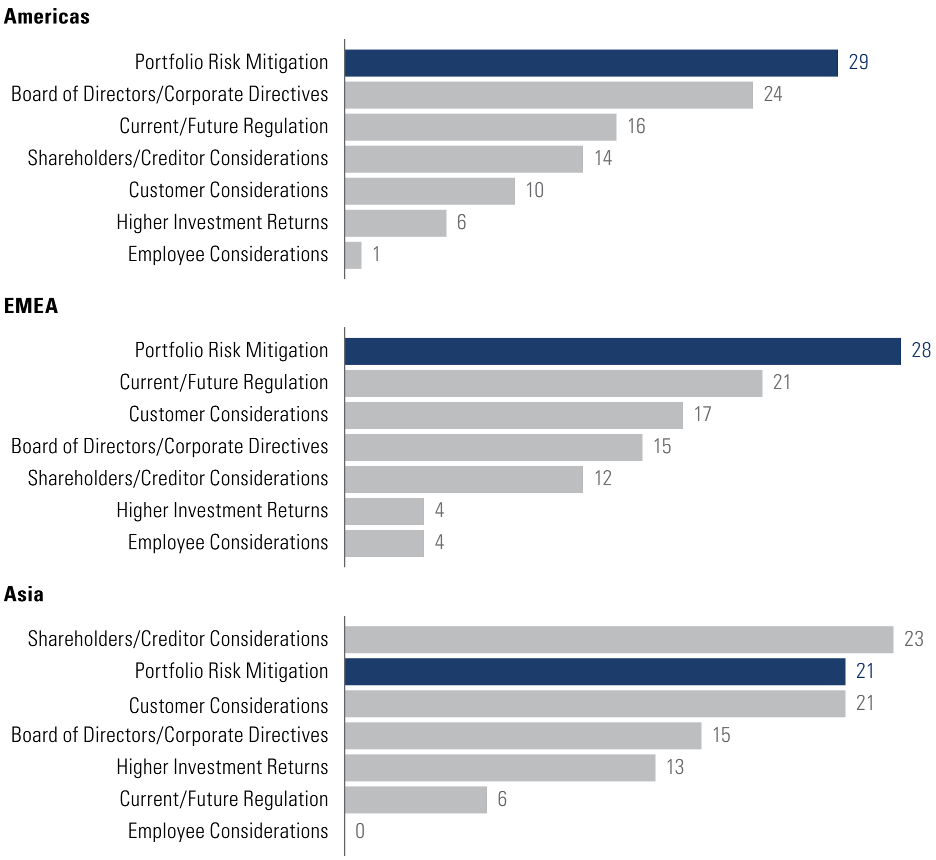
Dedicated ESG Investments (Type, %)



Life, Multi-Line, Reinsurance and Health insurers reported stronger use of dedicated ESG investments while the majority of P&C insurers do not consider this in portfolio construction.

Please rank your primary motivations for implementing (or considering implementing) ESG and/or Impact Investing strategies?

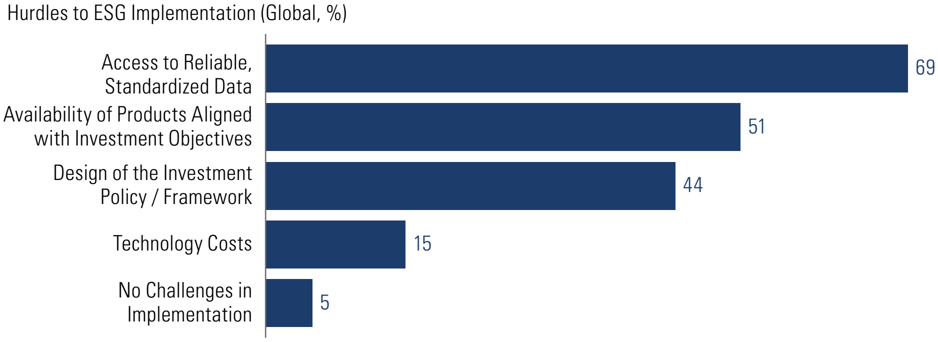
Motivations for ESG Implementation (Regional, %)



Regionally, motivations for ESG strategy implementation differed. Portfolio risk mitigation served as a common driver globally, as this was the primary motivator in the Americas and Europe and a secondary motivator in Asia Pacific. Asia Pacific insurers reported shareholder and creditor considerations as the dominant driver of implementation.

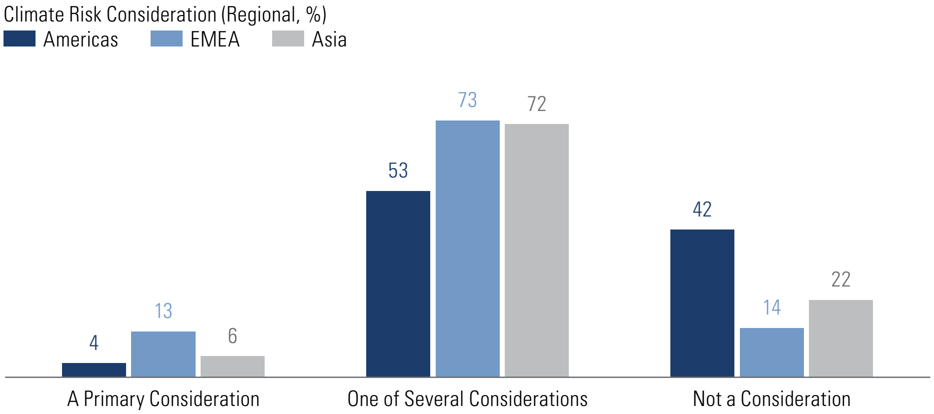
What would you consider to be the main hurdles in implementing an ESG strategy?

Hurdles to ESG Implementation (Global, %)

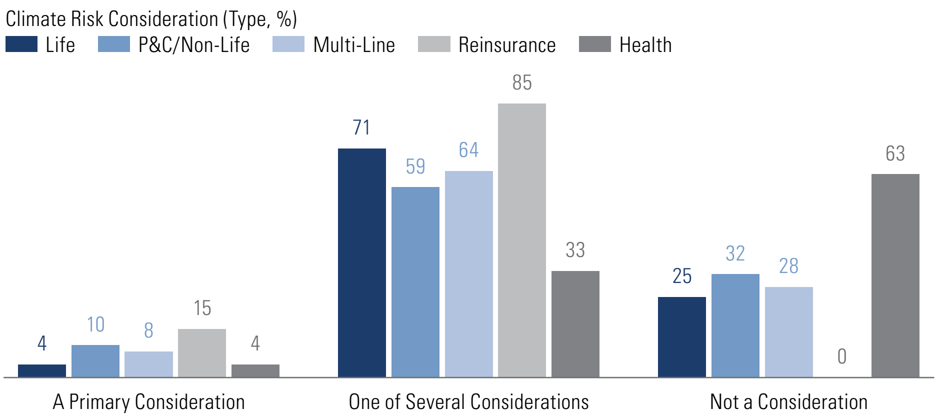


In a majority consensus, insurers globally find that access to reliable, standardized data is the primary hindrance to ESG implementation. Only 5% of insurers report no challenges to adoption.

To what extent is climate risk a consideration in your investment process?

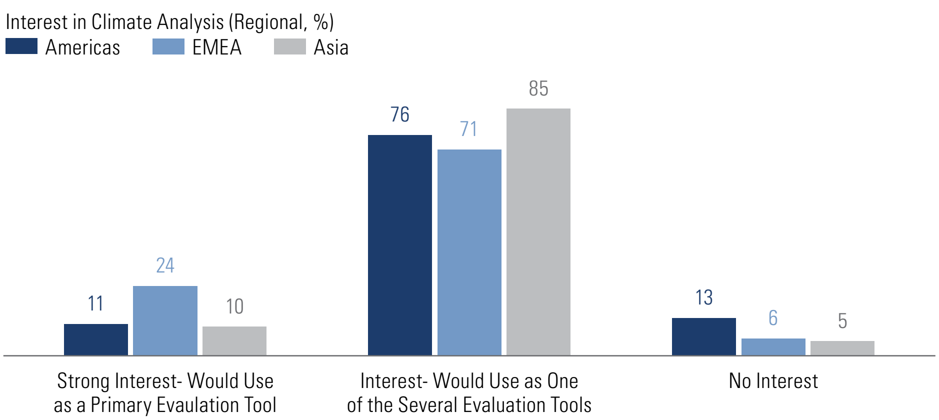


A minority of respondents deem climate risk a primary consideration. However, the vast majority of respondents in Europe and Asia Pacific do consider climate risk in the investment process.



Similar to previous years, Health companies least consider climate risk in the investment process.

To what extent are you interested in climate stress tests/scenario analyses to measure your portfolio's exposure to potential, future climate-related risks?



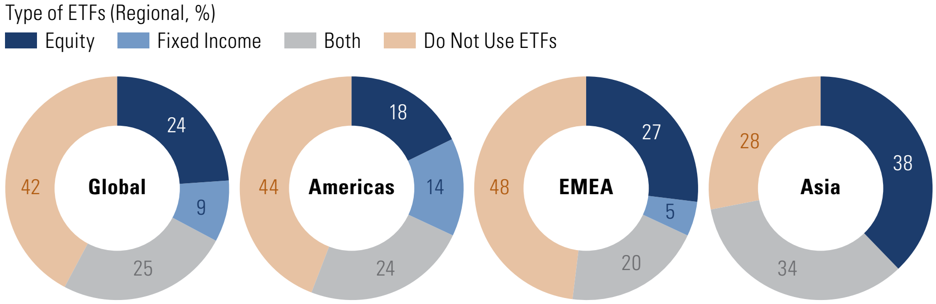
The vast majority of global respondents expressed interest in climate stress tests or scenario analyses to measure their portfolio's exposure to future climate-related risks. In Europe, about one quarter of all respondents would use this analysis as a primary evaluation tool.

EXCHANGE-TRADED FUNDS

Globally, more insurers reported utilization of ETFs driven primarily by increased interest in Europe.

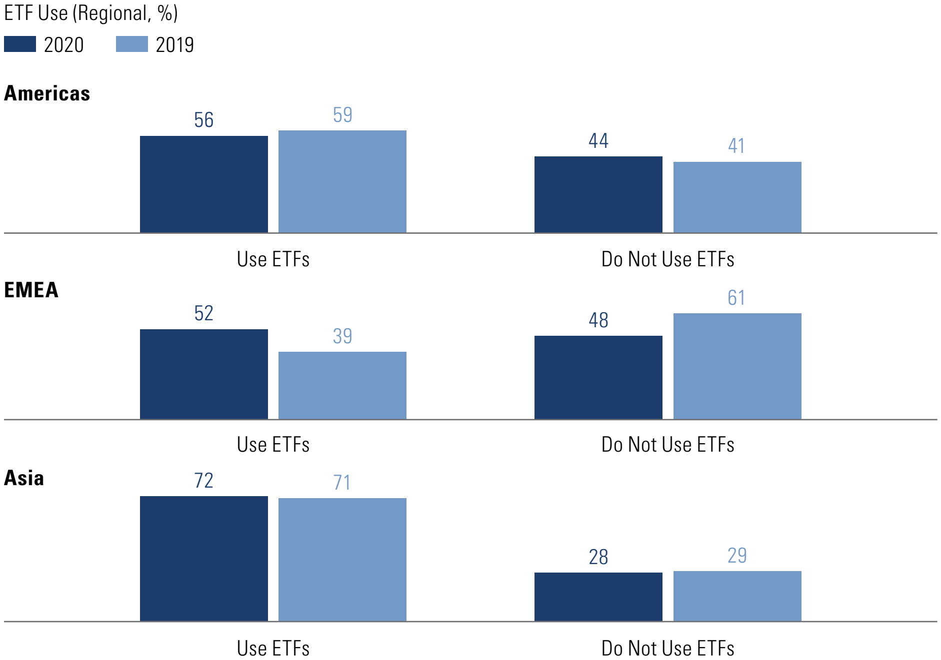
Do you use ETFs?

Type of ETFs (Regional, %)



A majority of insurers use ETFs for a portion of their equity and/or fixed income allocations. This remains particularly true in Asia Pacific, where 72% of respondents reported ETF use, marginally higher than last year.

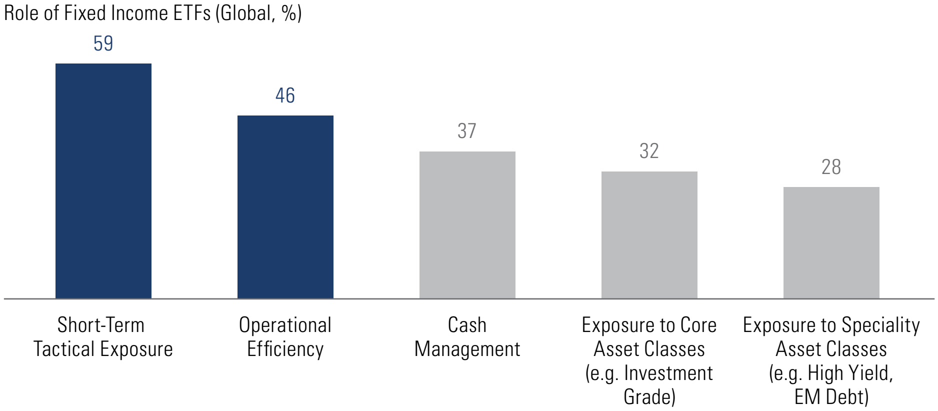
ETF Use (Regional, %)



Year-over-year, ETF usage in the Americas and Asia Pacific has remained fairly stable. In Europe, however, 52% of respondents cited using ETFs, a 13% increase since 2019.

What role do fixed income ETFs play in your investment process?

Role of Fixed Income ETFs (Global, %)

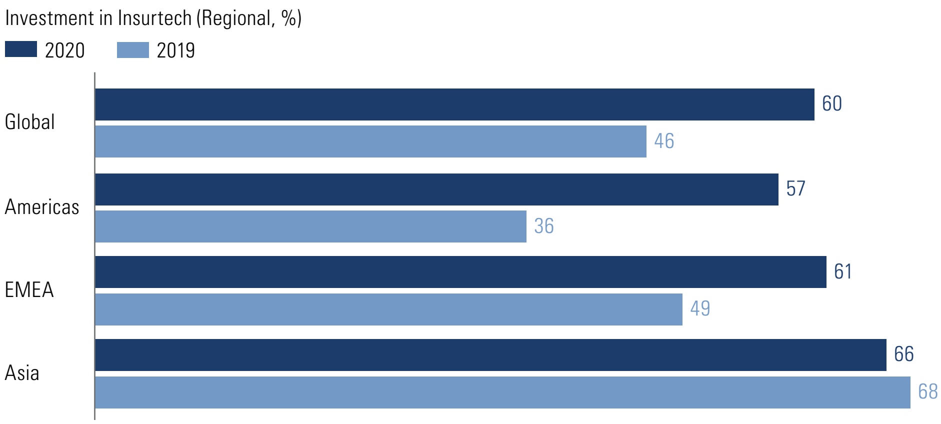


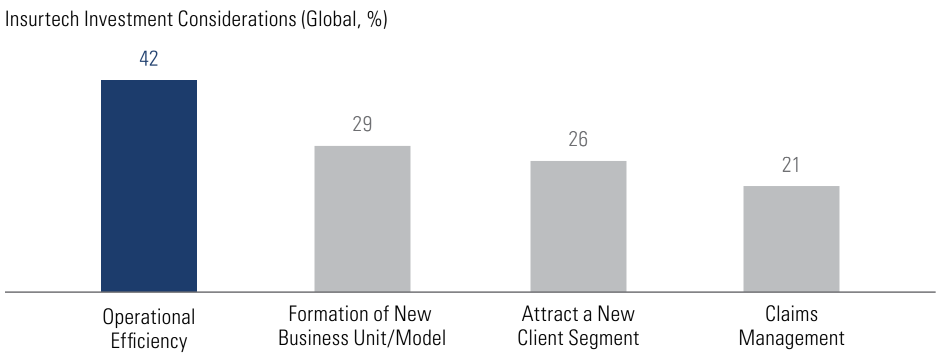
Consistent with 2019, insurers who invest in fixed income ETFs most commonly use the allocations for short-term tactical exposure and/or operational efficiency.

INDUSTRY THEMES

Insurers continue to explore investments in insurtech and M&A activity globally.

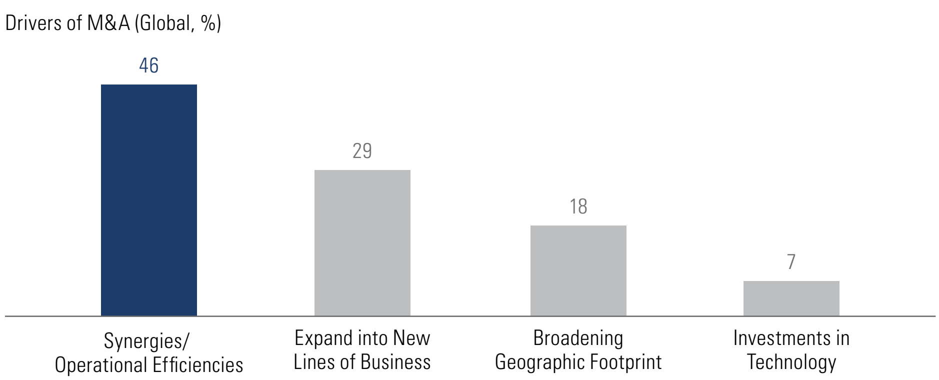
Which of the following factors do you most strongly consider when evaluating potential investments in insurtech?





More respondents cited interest in insurtech investments, led by a marked year-over-year increase in the Americas and Europe. In 2019, Asia Pacific was an outlier exploring this type of investment, but over the past year, other regions have aligned with this investment interest. Despite the global growth, operational efficiency remains the most common motivation.

What would you consider the primary driver behind an insurance company's decision to pursue M&A?



Insurance M&A has been a consistent headline and industry trend through 2019. In the Americas and Europe, insurers report synergies and operational efficiency to be the primary motivators for such activity. Asia Pacific insurers cited broadening of geographic footprints and expansion into new lines of business as factors primarily driving their M&A interests.

DISCLOSURES

Views expressed discussed are those of survey respondents, compiled by GSAM as of February 28, 2020.

2020 survey results as of February 28, 2020. 2019 survey results as of February 26, 2019. 2018 survey results as of February 28, 2018. 2017 survey results as of February 22, 2017. 2016 survey information as of February 24, 2016. 2015 survey results as of February 25, 2015. 2014 survey results as of March 6, 2014. 2013 survey results as of March 5, 2013. 2012 survey results as of May 24, 2012.

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