

TPG INSIGHTS

Insurance Perspectives: Alternatives In Focus



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- Jack Weingart

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“Our external partners provide meaningful diversification and access to economic areas where we have not developed direct sourcing capabilities.

- Jean-Baptiste Tricot

“Alternatives have a significant influence on our investment strategy by enabling us to optimize aggregated return per unit of risk.

- Eric R. Johnson

The long-standing partnership between insurance and alternatives asset management has reached an inflection point—with new partnership constructs and innovative avenues of growth taking hold. For many, the deeper collaboration is only natural given insurance companies’ long-dated liabilities and alternative managers’ long-term investment outlook. As this important market dynamic continues to mature, we sit down with **TPG CFO Jack Weingart** and three seasoned insurance company CIOs—**Amy Stepnowski** of the Hartford Investment Management Corporation (HIMCO), **Jean-Baptiste Tricot** of AXA, and **Eric Johnson** of CNO—to get their perspectives on the current market outlook for insurance asset management, the portfolio benefits of alternatives, and the co-evolution of the insurance and alternatives industries. Jack Weingart contends that there’s long been strong logic for bringing together the capabilities of insurance and alternatives asset managers, but that any such partnership requires an equitable arrangement to succeed—a sentiment echoed by Stepnowski, Tricot, and Johnson. With the prospect for economic deceleration ahead, Stepnowski emphasizes the need to underwrite opportunities through the full economic cycle, Tricot the importance of leaning into robust businesses, and Johnson the likelihood of a steeper yield curve. Stepnowski and Tricot also underscore the centrality of climate risk and investing in the climate transition to their roles as insurance CIOs.

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Interview with Jack Weingart



Jack Weingart is **Chief Financial Officer** of **TPG**, a role he’s held since 2021, and previously served as the **Co-Managing Partner** of **TPG Capital** from 2017 until his appointment as CFO. Between 2006 and 2017, he served as **Managing Partner** of the **Funding Group**, which comprised the firm’s fundraising and capital markets activities. Below, Weingart discusses TPG’s work with insurance asset managers, what’s driving insurance companies’ increased demand for alternative assets, the trend towards convergence between insurance and alternatives firms, and the opportunities he sees for TPG in building deeper insurance partnerships.

Q: How does TPG partner with insurance companies today?

Jack Weingart: Insurance companies have been important partners of ours for years. When I joined the firm 18 years ago, we already had a strong foundation of insurance company relationships. At that time, however, we only had \$25 billion of assets under management, all of which was focused on private equity, spread across our TPG Capital, Growth and Asia strategies. Private equity typically represents less than 5% of an insurance company’s investment portfolio, so the range of our insurance partnerships was limited.

Since then, we’ve grown to over \$200B in AUM and more importantly expanded into multiple product categories such as private credit, real estate, real estate credit, infrastructure, and secondaries. Many of these asset classes represent far larger portions of insurance companies’ investment portfolios. The result is that we can be a much more holistic partner and offer more meaningful solutions to the more than 100 insurance companies that we work with globally.

Q: What’s driving increased demand from insurance companies for private credit and other alternative assets?

Jack Weingart: Simply put, competition. A very strong competitive dynamic has evolved on the asset management side of insurance as they seek to generate sufficient returns to remain competitive, increase return on equity, and continue to grow. Insurance companies have long been well-suited to take illiquidity risk to generate incremental returns given their long-term liabilities. I was doing investment grade (IG) private placement work 30 years ago, and I remember placing most of this debt with insurance companies back then. These types of assets were one of the primary ways that they were able to accept and monetize illiquidity risk.

In the meantime, the number of products and structures enabling insurance companies to generate enhanced yield has only grown. It’s no longer just private placement debt and commercial mortgage loans, but securitized structures, CLOs,

mortgage-backed securities, private ABF and a litany of other things. Even with recent allocation shifts, insurance companies are still underweight relative to their targets for private credit assets. As an example, insurance companies are the largest single institutional owner of public US corporate bonds, accounting for approximately 40% of the market, but they comprise only about 10% of private credit ownership.

Amid rising competition in the market, insurance companies increasingly need partners to help them differentially source, manufacture, and structure all of these different ways to enhance yield in their books as they seek to grow their businesses and remain competitive.

Q: What opportunities do you see for TPG to build deeper partnerships in insurance?

Jack Weingart: Everything we’re doing as a firm, whether it’s expanding into new investment categories, financing our balance sheet, or financing our portfolio companies touches our insurance company partners in one way or another. Insurance companies are well-suited to be involved in the debt financing activity of our portfolio companies, and they’ve even taken part in financing TPG’s own balance sheet. One of the innovative things we’ve done is take some of the fund interest on our balance sheet, drop it into a securitization vehicle, have that vehicle rated with different strips of notes, and then sold those notes largely to our insurance company client base who wanted access to these investment opportunities.

During my time as the head of TPG’s Funding Group, which encompassed both our capital markets and fundraising activity, I was deeply involved in getting these structures off the ground and working with our insurance partners to finance them. We’ve continued to work with our insurance clients to develop diversified access to our platform with public CLOs, private CLOs, and rated notes and cross-platform securitizations around our private equity business. These have been designed alongside our clients leveraging our in-house structuring

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expertise. We find that insurance companies are looking for a wide range of asset solutions from their partnerships with alternatives managers. This can include supplementing existing capabilities, co-investments, custom mandates, as well as providing debt financing to our strategies. But it also extends beyond the portfolio to corporate objectives like climate transition and decarbonization. We've been able to share our knowledge and experience with insurance companies as they focus on decarbonizing their asset bases and investing in and around the climate transition.

Several of our insurance clients have participated in the Rise Climate Corporate Coalition—coming together to make a shared commitment to scale innovative climate solutions and achieve their decarbonization objectives. Insurance companies are very focused on climate risk mitigation in their products, reducing their operating carbon footprint, and investing in renewable technologies, and they've turned to us for guidance and support.

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Q: You have extensive debt capital markets experience having run TPG's capital markets business for many years. What are the biggest opportunities you're seeing in markets right now?

Jack Weingart: A few important themes come to mind. The prospect of higher-for-longer interest rates, which I personally believe is more likely than not, supports the case for increased floating rate credit exposures, including via allocations to direct lending, to hedge against the risk that rates and inflation remain elevated. To this end, recent surveys suggest many insurance company CIOs expect private credit returns to match or surpass those in public equity and credit markets over the next 12 months.

Another trend is the ongoing deleveraging taking place across traditional financial institutions as they continue to step back from much of their typical lending and financing activity. This has left a void to fill in terms of helping banks delever their balance sheets, originating many forms of lending that have traditionally been handled by banks, and providing capital to non-banks or other “specialty finance” originators.

We're also very focused on the ongoing shakeout across commercial real estate, which has faced a perfect storm of higher capital costs and post-pandemic shifts in workers' behavior over the past year. In recent months, the share of office loans in CMBS portfolios that are either behind on payments or in special servicing has continued to rise, and there's a sizable maturity wall of almost \$1T of commercial mortgages that will need to be paid down, refinanced, or

modified before the end of the year, creating attractive opportunities for disciplined real estate debt investors.

Lastly, while the environment for private equity exits improved in 1H24, there's still a lot of focus on returning capital to LPs. This has led to a sharp rise in interest and fundraising for secondaries strategies, which is one of the few areas in private equity that remains under-capitalized and under-resourced in terms of investment talent while also offering shorter duration exposure and a fundamentally different risk-reward profile than other private market opportunities.

Q: There's been a lot of talk about the convergence of alternative asset managers and insurance companies. What do you make of this industry-wide trend?

Jack Weingart: There's always been strong industrial logic for bringing together the capabilities of an insurance company and those of an alternative asset manager. These partnerships can span a wide spectrum from the more traditional GP-LP relationship, on one end, to outright co-ownership, on the other.

In between, there's also an array of partial ownership structures, SMAs, and rated note structures that can enable deeper strategic partnerships while stopping short of direct co-ownership. This also includes partnering with insurance companies to differentiate their in-house investing capabilities as they increasingly seek to onboard third-party capital as another lever of growth. The convergence we're seeing today is an extreme version of a trend that's been in motion for years.

“There's always been strong industrial logic for bringing together the capabilities of an insurance company and those of an alternative asset manager.

What's clear is that there needs to be tight alignment and an equitable arrangement for these partnerships between insurance companies and alternatives firms to enhance value. They can't only be about sourcing assets and tossing them over to the insurance company.

Both sides have to work together to optimize returns in a regulatorily friendly way. When we think about the type of partnership we would want with any insurance company—or broader investment partner—we're focused on establishing healthy relationships where neither side is extracting value in a way that's unsustainable.

This aligns with our broader firm culture, which is borne out by our long-standing reputation for being a good partner to those in our ecosystem. We've been one of the most prolific private equity firms in partnering with corporations who are looking to sell assets in a mutually beneficial way. We're a chosen partner because of our deep commitment to creating partnerships that benefit both sides, and that holds for how we're approaching our insurance industry partnerships too.

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Interview with Amy Stepnowski



Amy Stepnowski is the **Chief Investment Officer** of **The Hartford** and **President** of the **Hartford Investment Management Company (HIMCO)**. In her role, Amy leads the development and execution of The Hartford’s investment strategy, which ensures the company’s investment assets are positioned to support the firm’s earnings and claims paying ability, and oversees HIMCO’s efforts to provide tailored investment solutions to each of the firm’s clients. Below, Amy discusses the market outlook for insurance asset management, the role of alternatives in insurance companies’ asset allocation, and how the climate transition is impacting The Hartford and HIMCO’s asset and liability management strategies.

The views stated herein are those of the interviewee and do not necessarily reflect those of TPG.

Q: How are you approaching the market given interest rates and inflation remain elevated?

Amy Stepnowski: The current environment presents a range of challenges and opportunities for insurance investment portfolios. On the one hand, interest rates and all-in yields remain quite high relative to recent history, which benefits insurance companies in the form of increased investment income. Today’s higher yields are welcome after more than a decade of very low rates, which was challenging for insurance companies given our need to generate sufficient income to fund liabilities and other strategic uses of capital. However, as rates have increased, a larger portion of insurance portfolios are also in an unrealized loss position, which can lead to limitations on sales and repositioning activity, in order to minimize realized losses.

At the same time, there is evidence that economic growth is slowing from what has been a strong pace over the past two years. We’re seeing elevated delinquencies on the consumer side and an increase in corporate default rates, albeit not at what we would consider to be recessionary levels. So, while higher yields are beneficial for portfolios, we’re also staying vigilant around weakening credit fundamentals.

As an insurance company, we really don’t have the luxury of not being invested. For The Hartford, our investment portfolio contributes to growth in book value and to earnings through net investment income. Despite credit spreads currently at very rich levels, what some might consider priced to perfection, we’re focused on making investments that we can hold through an economic cycle, recognizing that there may be some market-to-market volatility along the way. Overall, as we consider the range of risk levels that we could have in a portfolio, we are still constructive on the market right now.

Q: Given the current macro backdrop, how do private credit and other alternatives fit into your portfolio?

Amy Stepnowski: Private credit is certainly having its moment in the spotlight, but it’s long been a staple of insurance company portfolios, including The Hartford’s. Most insurance companies are very familiar with 144A private placements, through which

insurance companies have traditionally gained private credit exposure. This is certainly an asset class we are involved in, but there are many other opportunities to invest in private credits.

We are active in private direct lending with a focus on middle market companies. This is an area we have been investing in for the past five years and one where we continue to lean in. Our investments are focused on lending to sponsor-owned middle market companies. We like first lien loans, which have covenants and significant sponsor equity invested, particularly where sponsors are making material operational improvements rather than focusing on financial engineering to generate returns.

Asset-backed loans (ABLs), whether they’re collateralized by consumer receivables, corporate receivables, real estate, or financial assets, are another important part of the private credit market where we’re active. We’re finding attractive opportunities in this space, with low double-digit returns and tight structures that include covenants and collateral that we’re able to underwrite and understand given our extensive experience on the public securitized side.

We have also seen significant activity in net asset value (NAV) lending, which is increasingly being viewed by the private equity industry as a valuable way to free up capital at a time when distributions are more limited. We like lending against highly diversified portfolios of assets to top-tier fund managers.

Q: How do you think about allocating to private credit?

Amy Stepnowski: The Hartford’s portfolio is ~85% fixed income and ~15% alternatives. Private credit spans both of those groupings. As we think about asset allocation, we run a strategic asset allocation model, construct a target portfolio, and then identify ranges for each asset class. Investments in private credit have always been a part of this allocation process. While private credit continues to grow, and we are actively investing in new opportunities, we are not making outsized changes in our allocation strategy.

When we decide to lean into a specific asset class, that may only entail an adjustment of one or two percent. In fact, two percent



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would be a significant adjustment for a single year. Most insurance investment portfolios don't make drastic changes in annual allocations.

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The discussion around private assets often centers on their illiquidity and associated risk premium as compared to public holdings. In thinking about that, I also believe investors may overestimate the liquidity of their public market portfolio holdings in the event of market volatility. This was certainly the case in March/April of 2023, where the most liquid sector in public credit—banks and financial institutions—suddenly became significantly less liquid overnight amid the regional banking challenges.

When assessing private credit allocations, we continue to look at these investments through multiple lenses, including relative value, liquidity needs, income generation, tax considerations, and growth in book value.

“When it comes to asset allocation, investors may overestimate the liquidity of their public market portfolio holdings in the event of market volatility.

Q: What's unique about being the CIO of a property and casualty (P&C) insurance company compared to managing life insurance liabilities?

Amy Stepnowski: Duration is somewhat different in P&C versus life insurance—with the latter generally being longer duration. The Hartford is also a group benefits provider, so we have slightly longer duration liabilities than some of our P&C peers. But every insurance company portfolio is unique. We have a somewhat greater emphasis on securitized assets than some of our peers, for example, because we've developed distinctive capabilities in that space and believe you can get paid a premium to lean into complexity relative to public corporate credit.

Q: Given your extensive experience in IG credit, what opportunities are you seeing at the higher end of the quality spectrum at the moment?

Amy Stepnowski: IG credit is far too often viewed exclusively as a source of portfolio beta, but we see significant room to generate alpha in the roughly 30% of our portfolio that is publicly traded investment grade. Key to this is not just “buying the market”. We are very discerning about the holdings in each portfolio we manage, and we are not just populating the IG portion of these portfolios with every new issue that comes to market. Our approach is all about ensuring that we like the fundamentals and relative value of a specific credit.

As the CIO of The Hartford, I am responsible for oversight of The Hartford's roughly \$55B portfolio and as the President of HIMCO the approximately \$50B of third-party institutional capital related to insurance companies and entities owned by insurance companies. The AUM we manage is in the range of what we believe is a sweet spot where we don't have to simply buy the market.

With the combination of affiliated and unaffiliated assets, HIMCO manages ~\$105B, which we find gives us the scale to obtain advantageous allocations with dealers based on deep, long-term relationships in a size that is very manageable in terms of meeting all of our accounts' needs. We're also able to participate in the secondary market, where there may be smaller offerings, but they're still very impactful given the size of the portfolios that we're managing.

“IG credit is far too often viewed exclusively as a source of portfolio beta, but we see significant room to generate alpha in the roughly 30% of our portfolio in investment grade credit.

Q: How are you thinking about the opportunities and risks posed by the climate transition?

Amy Stepnowski: As a 214-year-old P&C insurance company, climate risk is a critical issue that impacts much of what we do—from our approach to underwriting insurance risk to where we choose to invest the company's assets. About five years ago, we put in place a more formal system to assess investments in terms of risk related to the environment.

In the context of climate, that means thinking about both the possible positive and negative climate impacts of prospective investments. I would note as well that even when we assess an investment as having “negative” environment attributes, if we believe that the negative risk factors are being addressed and turning “positive,” these may be opportunities for outsized returns, often with our investment contributing to positive climate impact.

The Hartford has also established a goal to invest \$2.5B in technologies, companies, and funds that are advancing the energy transition and addressing climate change. As we look for attractive opportunities to support that goal, we've benefited from partnering with alternatives firms to invest in the energy transition. As well, as a member of the TPG Rise Climate Corporate Coalition, we are looking forward to working with our corporate peers to participate in a valuable knowledge exchange about the latest developments and trends in climate investing. Both are great examples of how we're looking to partner with firms with deep climate knowledge and investment expertise.

The Hartford is in the business of underwriting risk and providing risk transfer products, so we also spend a lot of time focused on understanding the impact of climate risk. To this end, it's also been helpful to learn from the experience of TPG and its portfolio companies.

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Interview with Jean-Baptiste Tricot



Jean-Baptiste Tricot is the **Chief Investment Officer** of **AXA Group**, a worldwide leader in insurance with over 94 million clients globally. In his role, Jean-Baptiste oversees AXA Group’s investments in listed and private assets, including real estate, infrastructure, private equity, and debt. His responsibilities also include developing and executing an ambitious decarbonization plan for AXA’s portfolio in pursuit of the group’s Net Zero ambitions. Below, Jean-Baptiste details his views on the market outlook amid rising political and economic risk, AXA’s approach to asset allocation and climate investing, and the importance of the sourcing capabilities and diversification provided by external alternatives managers.

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Q: As the CIO of a major multi-line insurance company and the largest underwriter of commercial insurance globally, what are the biggest risks in focus for you today?

Jean-Baptiste Tricot: Political risk is certainly top of mind. The snap general election here in France and ongoing political impasse in forming a cohesive governing coalition makes for a much more challenging environment in Europe. There’s an incredibly consequential election on the horizon in the US. And that’s not to mention existing geopolitical tensions in the Middle East and between the US and China. All of these risks raise the overall level of uncertainty and with it the volatility across financial markets.

The second major risk involves the ongoing process of disinflation across the US and Europe. The fight against inflation is progressing well in most major economies, but we’re not yet out of the woods. In Europe, the ECB has started its easing cycle, though it’s still not completely comfortable with how stubborn inflation has proven. At the same time, there are signs that the US economy is starting to slow, which is probably normal and to be expected following a period of rapid growth.

Over the next 2-3 quarters, I anticipate that the US will continue to experience disinflation, the Fed will start to ease policy, and there will be a period of somewhat slower economic activity. But considering the unprecedented way in which the current economic cycle began, it’s also quite challenging to predict exactly how it will end.

Q: Given this outlook, what do you expect for interest rates across the markets where you invest?

Jean-Baptiste Tricot: Progressive disinflation should allow for the gradual normalization of central bank policy, perhaps with the exception of Japan where the BoJ has only recently begun to tighten. The Fed, ECB, and Bank of England look set to gradually lower rates over the next 6-12 months. But any rate cutting cycle will likely be cautious because central bankers see the risks around inflation as somewhat asymmetric, with more risk skewed to the upside if recent price pressures prove more

persistent. So, it’s likely going to take some time for front-end interest rates to come down.

At the long end of the curve, the other critical factor is the outlook for fiscal spending. There’s a pressing need to restore fiscal balances both in the EU and the US, where deficits remain far larger than we’ve typically seen outside of wartime. Increased spending and government support was understandably critical during the Covid crisis, and we certainly need to invest to transform our economies. Deficits eventually have come down though, and it’s hard to know when exactly that will happen, which means long-end rates could remain high for a while.

Q: How are you approaching asset allocation in this environment?

Jean-Baptiste Tricot: Our asset allocation process is driven first and foremost by the need for asset-liability management, which is always the top priority for any insurance asset manager. We also run monthly relative value exercises to determine the most attractive asset classes across our investing universe. Of course, with less liquid assets, these relative value assessments are going to be somewhat slower moving processes. But they still provide an important discipline that feeds into our allocation strategy.

In practice, fixed income comprises around 80% and total return strategies about 20% of the more than €450B in total invested assets in our general account. Our fixed income allocation includes traditional government and public corporate bonds, but also things like asset-backed securities, residential loans, and direct corporate lending. Real estate, infrastructure equity, and private equity are all meaningful segments within our total return book. Beyond asset class selection, our asset allocation process is inherently global given we operate in more than 50 countries around the world. We aim for a highly diversified asset mix across the US, Europe, Japan, and emerging markets.

It’s clear that the allocation benefits of alternatives such as private credit are also very strong. What we like about private credit is that it can provide predictable cash flows and natural liquidity compared to strategies like infrastructure and private equity. At the same time, we feel it’s important to capture the premium embedded in less liquid strategies while managing



In our partnerships, we’re looking for experienced teams with strong track records who are aligned with our view of the world It’s critical to have partners who’re looking to go on a shared journey together.

our overall liquidity position via our sizable exposure to government bonds and liquid corporate credit. Sourcing is an important consideration when it comes to alternatives, and we benefit from the ability to develop and gain access to a wide range of alternatives through our asset manager AXA IM and AXA IM Prime, which works with top GPs globally.

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Q: We’ve seen rising dispersion across the ratings spectrum lately in the public corporate credit market. How worried are you about credit risk at this point in the economic cycle?

Jean-Baptiste Tricot: The slowdown we’re seeing in the economy is relatively bifurcated between more robust, less cyclical businesses and those that are fundamentally more exposed to the economic cycle. We expect that companies with strong business models will continue to perform strongly, and we’ve been steadily tilting our investment guidelines towards those types of businesses.

On that basis, we’re comfortable with our current level of credit risk, and we’ve so far had a very low default rate across our portfolio. That doesn’t immunize you completely from the risk of a credit event. But we’re satisfied at the moment with our diversification on a portfolio level, which helps to lower the risk of experiencing a negative credit cycle.

Q: AXA has been a leader on climate investing and is deeply focused on decarbonizing its operating and investing activities. How do you think about climate risk as a CIO?

Jean-Baptiste Tricot: The climate transition is critical to our business as a global P&C insurance company because we underwrite policies tied to the material effects of climate change every day. We’re seeing across our business that the impacts of climate change have clearly risen, and that will likely only continue to worsen in coming years.

“The climate transition is critical to our business as a global P&C insurance company because we underwrite policies tied to the material effects of climate change every day.

As we invest with this unfortunate reality in mind, our priority is making sure that our portfolio is immunized against the risk of stranded assets and we’re not financing companies that aren’t doing their job in terms of climate responsibility. We’ve also explicitly committed to reducing the carbon intensity of our portfolio by 50% by 2030 as a part of the UN’s Net-Zero Asset Owner Alliance (NZAOA), and we’ll probably reach that target ahead of schedule.

More broadly, we see an opportunity to invest in the companies, infrastructure, and real estate that will facilitate the climate transition because there’s a strong investment case for doing so. The necessity of climate transition only creates a stronger and stronger need for capital formation, which generates significant potential for capital appreciation.

“The necessity of climate transition only creates a stronger and stronger need for capital formation, which generates significant potential for capital appreciation.

We believe that companies that are prepared for the climate transition will perform better over the long run, and as an insurance company, it’s important for us to have conviction that when we invest it’s with a long-term horizon. Our expectation is that we will allocate around €5B a year to this area, which is a significant commitment but one in line with the scale of the opportunity.

Q: What do you look for when you partner with an alternatives manager?

Jean-Baptiste Tricot: Our external alternatives partners provide meaningful diversification and access to economic areas where we have not developed direct sourcing capabilities. As our in-house team responsible for sourcing and managing diversified portfolios across private markets, AXA Prime is an indispensable resource for navigating the private market ecosystem and making the best choices for our general account and unit-linked accounts. But third-party managers provide a meaningful complement.

“Our external partners provide meaningful diversification and access to economic areas where we have not developed direct sourcing capabilities.

In our partnerships, we’re looking for experienced teams with strong track records who are aligned with our view of the world. Of course, we never want to be investing in a way that’s contrary to our own strategy, so it’s critical to have partners who’re looking to go on a shared journey together. That can be reflected in terms of fund strategy, fund side letters, or the co-invest that we do alongside our GP partners.

Q: What do you make of the trend toward the convergence of alternatives and insurance asset management?

Jean-Baptiste Tricot: It’s a dynamic that’s more visible in the US than in Europe. I don’t think it’s a good or bad thing per se, and it’s likely only going to continue to become more common. The key consideration in any partnership between an insurance company and alternatives manager, in my view, is making sure the insurance company remains a prudent investor over time. I completely see the beauty of the model and how it can work well for both sides, but you have to ensure that the insurance company continues to deliver on its core mission of supporting its policyholders.

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Interview with Eric R. Johnson



Eric Johnson is the **Chief Investment Officer of CNO Financial Group (NYSE: CNO)**, a Carmel, Indiana-based financial services holding company which provides life and health insurance, annuities, financial services and workforce benefits solutions through its family of brands, and **President of 40|86 Advisors, Inc.**, CNO’s wholly-owned investment management firm. He joined CNO in 1997 and has served as an officer of the company since 1998. Below, Eric discusses the biggest opportunities and risks for CNO, which focuses on insuring middle-income Americans, the portfolio benefits of alternatives, and the ongoing convergence of insurance and alternatives asset management.

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Q: What do you see as the biggest opportunities and risks in the market today as an insurance company CIO?

Eric Johnson: The reality of higher-for-longer interest rates has been a strong tailwind for insurance companies over the past few years. It’s been quite some time since new money rates—or the yield on recently invested capital—have exceeded existing portfolio yields. But that’s now been the case for the past six quarters.

This new rates dynamic has driven up insurance companies’ investment income substantially over the last year and boosted earnings. At CNO, it also benefits our customers in the form of more competitively priced products. We like to say that our insurance companies keep a portion of this additional income for the house and pass on a portion to our customers—a true win-win situation.

In terms of risks, consumer credit conditions are an important watch item, particularly given CNO’s focus on providing middle-income Americans with well-priced insurance protection. We’re keeping a close eye on corporate credit spreads given they’re incredibly tight on a historical basis across the quality spectrum, which may not persist if the economy starts to slow. There’s also a range of risks surrounding the US election and potential government and fiscal policy changes that could impact interest rates and the market more broadly.

Q: Looking ahead, what do you expect for the direction of interest rates?

Eric Johnson: We have a long-standing policy of maintaining an interest rate neutral balance sheet, which means we’re not exposed to significant duration risk. That said, I’m a big believer in the idea that we’re going to see a steeper yield curve. I think the Fed wants to see more inflation data that looks like recent data before taking steps to bring rates down, which will most likely be a late 2024 event, following the recent hiking cycle.

But the tone may also shift as the US election and questions around the fiscal outlook come more clearly into focus. An outcome that sees a combination of lower immigration and higher deficits would likely mean lower growth and higher

inflation, all things equal, which could push back the Fed’s hiking cycle and contribute to a steeper yield curve over time.

Q: How has the inflationary environment impacted your business and portfolio?

Eric Johnson: Our team is incredibly proud of the fact that we’re working every day to insure middle-income Americans against a wide range of risks. But we recognize that this segment of the market is also somewhat more exposed to the adverse effects of inflation, which can dampen consumer spending.

Despite the headwinds from inflation, we’ve benefited from two longer-term macro trends that have boosted demand for insurance. First, the pandemic raised general awareness about the importance of being protected with health and life insurance, and that’s still playing out in the markets where we operate. Second, there’s heightened awareness about the retirement crisis in America and the need to insure against the prospect of an income shortfall in retirement. This latter trend has driven increased demand for annuity products with guaranteed lifetime income benefits.

On net, inflation has probably been a net positive for us because of its impact in terms of driving higher nominal interest rates, which has generally translated into higher net investment income.

Q: What explains the rapid growth in the annuity market over the past few years?

Eric Johnson: Many Americans are far less prepared for retirement today than ever before. Most companies no longer offer defined benefit plans given the widespread move toward defined contribution models. At the same time, people are living longer and the medical costs associated with doing so are higher. So, there’s understandably heightened concern among many pre-retirees about outliving their savings.

Annuities are a vehicle that can enable people to fund more of their own retirement, and it’s an effective product in terms of providing guaranteed income for life post-retirement. When you add to this the fact of higher interest rates, which have led to quite appealing annuity returns on a nominal basis in recent quarters, industry demand for annuity products has understandably sky-rocketed.



Alternatives have a significant influence on our investment strategy by enabling us to optimize aggregated return per unit of risk.

“Annuities are a vehicle that can enable people to fund more of their own retirement, and it’s an effective product in terms of providing guaranteed income for life post-retirement.

We’ve been in the annuity business for a long time, and we’ve seen strong sales levels in recent years. We have a well-tested platform that provides a simple but highly competitive product with some lifetime income features. We don’t do variable annuities or exotic guarantees given there is very little demand for these complex products within our target market.

Given strong recent annuity demand, we’ve frankly had to source more external asset types that are additive to our core capabilities, including by partnering with outside alternatives managers like TPG. It’s a good opportunity to curate a diversified multi-asset portfolio. Alternative investments like residential mortgage loans have done very well for us in this context, and we’ve maintained a focus on capital efficiency to help produce strong net margins in the very competitive environment that exists for insurance carriers today.

“Given strong recent annuity demand, we’ve frankly had to source more external asset types that are additive to our core capabilities, including by partnering with outside alternatives managers.

Q: What benefits have private credit, private equity, and other alternative assets brought to your portfolio?

Eric Johnson: We are very conscious of our capacity for risk and target allocation levels consistent with that, first and foremost. Alternatives have a significant influence on our investment strategy by enabling us to optimize aggregated return per unit of risk. We generally find that alternatives have a beneficial impact in our efficient frontier modeling, particularly given positive covariance benefits in terms of our risk-based capital.

“We generally find that alternatives have a beneficial impact in our efficient frontier modeling, particularly given positive covariance benefits in terms of our risk-based capital.

Our approach to alternatives starts by making a top-down call on a particular market segment, sizing our allocation to that segment based on its overall portfolio impact, and then making an allocation alongside external partners. Within alternatives, we’re mindful of also being diversified within categories like private credit and private equity.

We prefer to be very partner-centric in our alternatives allocation—looking for managers with scale, expertise, track record, and strong operational and reporting capabilities in working with insurance companies. But the differentiator for us in partner selection is culture. With our handful of external partners, we work hard to foster close collaboration and contribute as much to them as they do to us.

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In this context, we view alternative assets holistically in terms of what they can do for our overall portfolio and what picking the right partner can provide in terms of expanding our investment capabilities and sourcing the assets needed to maintain a healthy and efficient investment ecosystem.

Q: There’s a lot of focus on the convergence of insurance companies and alternatives managers. What do you make of this industry trend?

Eric Johnson: It’s a healthy development that can act as a tailwind to the industry and provide more choice to consumers as long as the right incentives, regulations, and controls are in place. This convergence between insurance and alternatives requires greater risk management for insurance providers—who have to be attentive to liquidity, concentration, and governance risks—but it’s only natural for insurance companies to be more intentional in managing the asset side of their balance sheet as long as they’re being thoughtful managers. This is much like asset managers partnering with banks on capital relief trades that provide benefits to both sides.

“It’s only natural for insurance companies to be more intentional in managing the asset side of their balance sheet as long as they’re being thoughtful managers.

On our own balance sheet, bearing in mind overall risk appetite, which is intentional, we see room for a meaningful allocation to alternatives because they provide a return profile that’s fundamentally different from what’s available in the public market. That includes providing differentiated cash flow profiles relative to public corporate credit, which is valuable given the need to match some of the longer duration products we’re offering to clients.

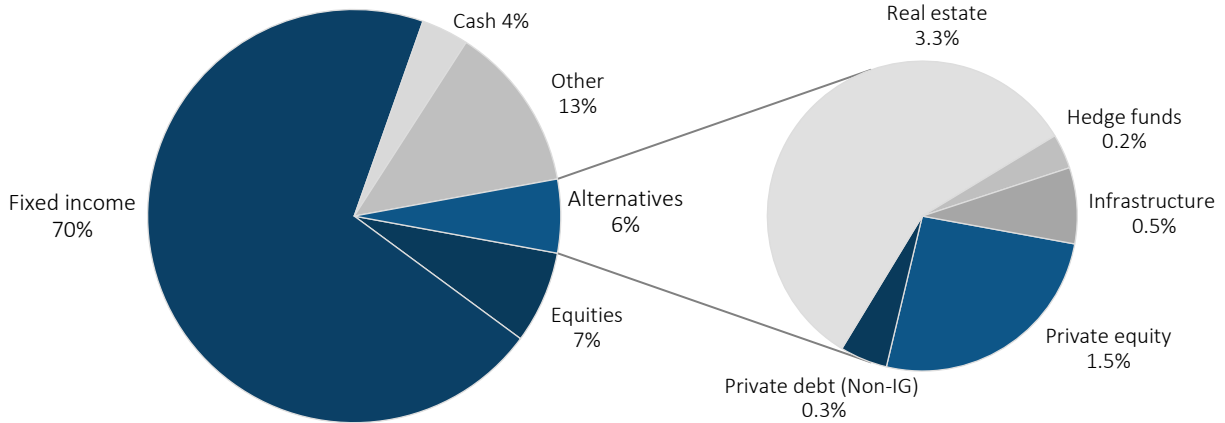
There will undoubtedly be some missteps in the industry as this dynamic continues to evolve. But overall the convergence between insurance and alternatives asset management is a positive one, in my view, if it continues to be managed intentionally and thoughtfully.

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Insurance Alts Exposure

Alternatives Are Currently A Modest Portion of Insurance Companies' Portfolios

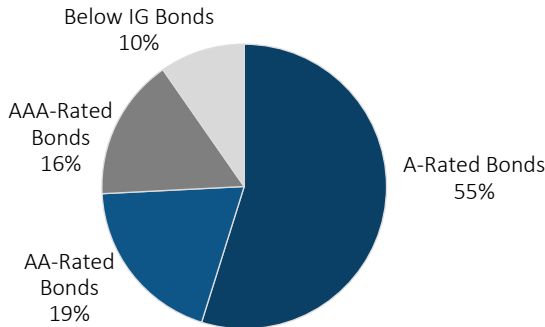
Weighted average asset allocation as of 2023, % Total



Note: Reflects 176 insurers representing \$4.7T in AUM included in Preqin database. Data as of YE23. Source: Preqin Institutional Allocation Survey 2024, TPG.

Insurance Company IG Bond Portfolio Breakdown

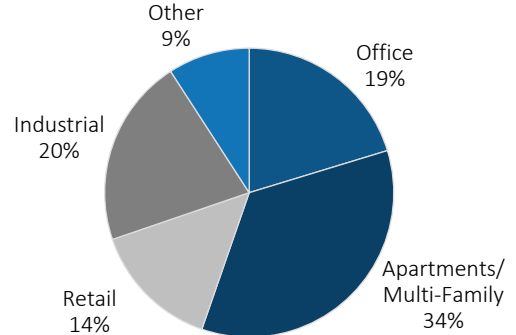
Median credit exposure, % public fixed income portfolio



Note: Based on median allocation of 19 US public life insurance companies. Data as of YE23. Source: Evercore ISI, company data, TPG.

Diversified Real Estate Is Another Insurance Portfolio Staple

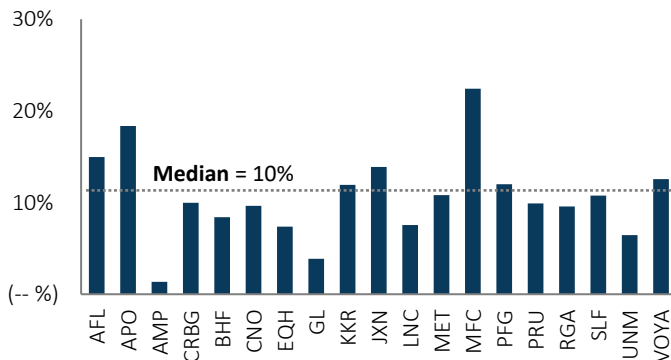
Median commercial mortgage loan exposure by type, % CML portfolio



Note: Based on median allocation of 19 US public life insurance companies. Data as of YE23. Source: Evercore ISI, company data, TPG.

Risky Assets Represent Around 10% of Life Insurance Portfolios

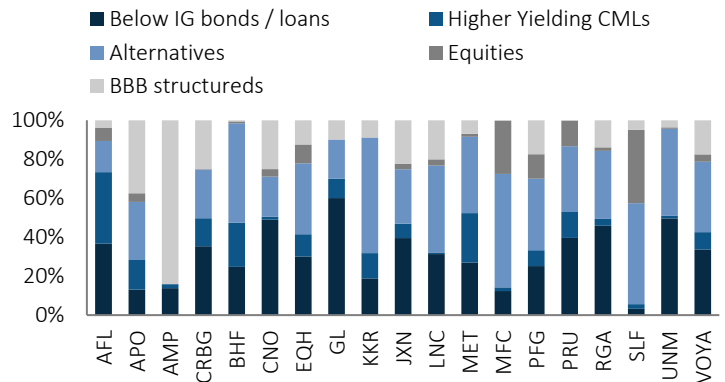
Risky Assets ex-BBB Corporates as Share of Total Invested Assets (ex-cash)



Note: Based on median allocation of 19 US public life insurance companies. Risk assets includes corporate bonds rated below IG, certain high yielding CMLs, alternatives, equities, and BBB structured products. Definition based on Evercore ISI taxonomy. Data as of YE23. Source: Evercore ISI, company data, TPG.

Insurers Overweight Different Assets To Enhance Yield

Asset Share of Insurers' Risky Assets ex-BBB Corporates, % Total



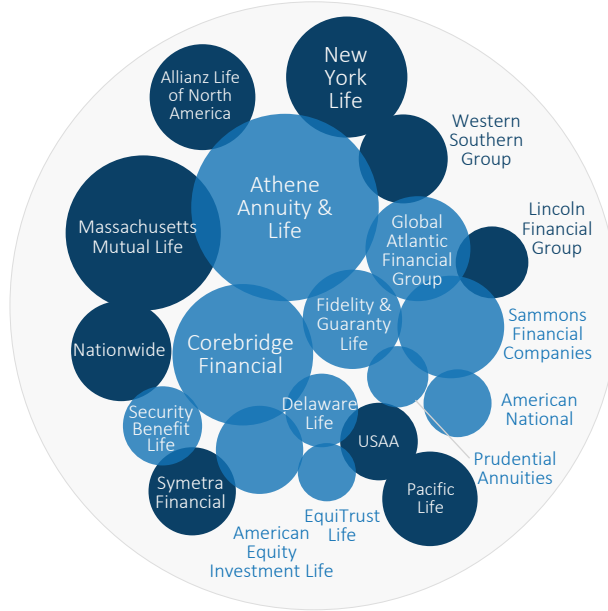
Note: Based on median allocation of 19 US public life insurance companies. Definition based on Evercore ISI taxonomy. Data as of YE23. Source: Evercore ISI, company data, TPG.

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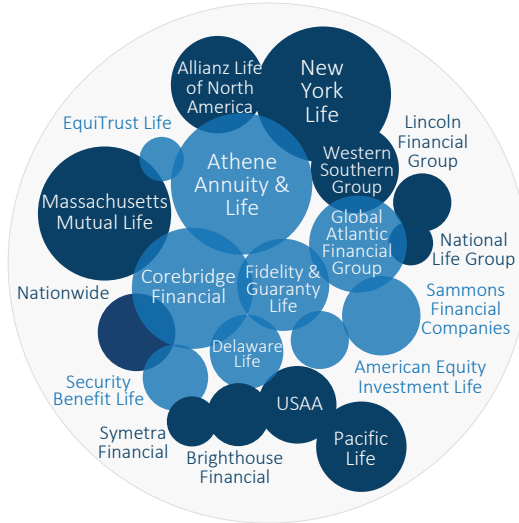
The Rise of Alts-Influenced Insurance

Top 20 US Life Insurance Companies
(By Fixed Annuity Sales)

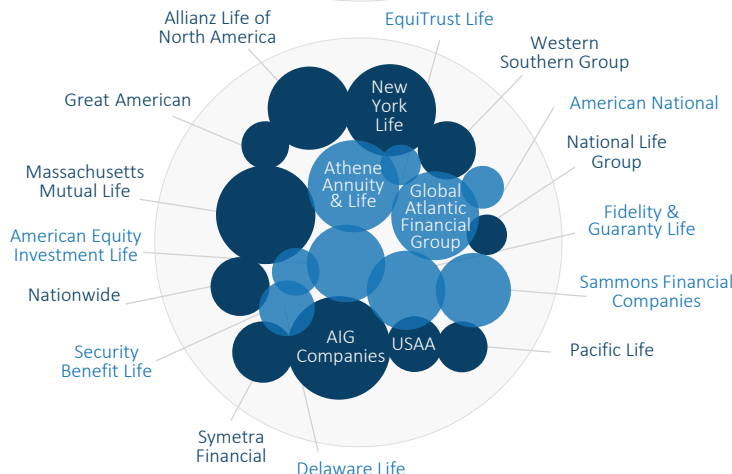
2023
US Fixed Annuities
Sales:
~\$287B



2022
US Fixed Annuities
Sales:
~\$210B



2021
US Fixed Annuities
Sales:
~\$130B



Note: Annuities sales data from LIMRA, data as of end of each year, insurance companies categorized as “alts-influenced” based on partial or full influence by an alternatives firm as of 2024, insurance companies are categorized based on Evercore ISI and IMF methodologies.
Source: LIMRA US Individual Sales Survey, IMF, Evercore ISI, TPG.

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