First Eagle Investments

APRIL 2025
Insights

The Brave New World of Insurance Asset Management

Shifting macroeconomic, geopolitical and regulatory forces have placed insurers at the intersection of risk and opportunity in 2025.

Persistently low interest rates in the years following the global financial crisis, particularly during the Covid-19 era, forced many insurers to pare back traditional allocations in favor of alternative asset classes that held the potential of more attractive yields in exchange for increased complexity and illiquidity. While yields on traditional fixed income investments have improved significantly following the Federal Reserve's aggressive tightening campaign in 2022–23, industry asset allocation statistics suggest that insurance companies have grown to appreciate the differentiated return profiles offered by sectors such as structured credit and private credit broadly.[1]

While elevated interest rates represent an opportunity for income-centric investors such as life insurance companies to tap into gross yields at levels not seen for some time, credit spreads in many asset classes offer limited buffer against the potential for a swift change in investor risk appetite. Meanwhile, chaotic Trump policymaking already has proven disruptive to markets, and volatility appears likely to persist.

In such an environment, a focus on diversification across more resilient sectors within the credit space may be the most prudent path forward. First Eagle offers a range of investment solutions that seek resilience, often sourced from differentiated corners of the credit markets.

KEY TAKEAWAYS

- After a 2024 marked by market complacency, the recent announcement of a new tariff framework for all US trading partners has introduced profound instability to the global order and roiled markets.
- In an uncertain environment, we believe that exposure to assets with the potential to demonstrate resilience across multiple states of the world represents a favorable investment path forward.
- Insurers have continued to demonstrate a desire for the features offered by more complex investments, fueling increased allocations to various forms of structured credit, private credit and other alternative asset classes.
- With more than 15 years of experience managing assets on behalf of insurers, First Eagle is focused on meeting the unique portfolio and servicing needs of insurers through bespoke investment solutions and a dedicated insurance coverage team.

1. Source: National Association of Insurance Commissioners; data as of May 8, 2024.

Trump Policymaking Has Roiled Previously Placid Markets

Financial market performance in 2024 highlighted the low-risk perception evident in US markets. With inflation seemingly reined in and resilient economic growth bolstering corporate fundamentals, the US benefitted from a Goldilocks economic scenario that supported high equity market multiples, particularly for growthier stocks, and pushed credit spreads toward cyclical tights.

> The escalating trade war has introduced profound instability to the global order and roiled markets.

Much has changed in only a few months. Donald Trump began his second term as US president in chaotic fashion, and the optimism that had fueled a post-election run in risk assets soon started to fade. As it became clear the new administration's policy timeline prioritized tariffs and program cuts over more economically stimulative measures like tax cuts and deregulation, the dimming of the collective mood was reflected in deteriorating readings on consumer and business confidence. Most recently, the April 2 announcement of a new tariff framework for all US trading partners has introduced profound instability to the global order and roiled markets, even as certain elements of the package were placed on pause soon after. It also prompted a selloff in Treasuries and the US dollar, perhaps suggesting wavering conviction in these assets as reliable "safe havens" during periods of unrest.

While we won't hazard a guess at where trade policy goes from here, tariffs as currently proposed—both by and against the US—likely would raise prices and slow economic activity in the US while weighing on both prices and economic growth abroad. Further, these tariffs and their indeterminate impact reflect another investment risk in a world rife with them, the aggregate impact of which suggests a greater likelihood of nonlinear market moves such as those we saw in early April.

We continue to believe that exposure to assets with the potential to demonstrate resilience across multiple states of the world represents a favorable investment path forward.

Insurers' Fixed Income Asset Allocations Have Broadened

The most recent report from the National Association of Insurance Commissioners (NAIC) showed that US insurers held about $8.5 trillion in cash and invested assets as of year-end 2023; the strong underwriting and investment environment of 2024 suggest this number is likely to be higher in NAIC's next annual update.[2]

Even as yields on traditional credit instruments have returned to more attractive levels, insurers continue to demonstrate a desire for the improved marginal rates of return, structural advantages and potential diversification benefits offered by more complex holdings.[3] As a result, fixed income allocations have continued to broaden beyond the traditional mix of corporates and Treasuries to include various forms of structured credit, private credit and other alternative asset classes. Below, we take a closer look at some areas of the credit markets in which First Eagle has expertise that may be of particular interest to insurers as a complement to their core fixed income allocation.

Structured credit. While agency-guaranteed residential and commercial mortgage-backed securities make up the lion's share of the US structured finance market, non-real estate asset-backed securities (ABS) are second only to corporates as a share of insurers' portfolios.[4] Collateralized loan obligations (CLOs), backed by pools of broadly syndicated and middle market loans, are the most prominent form of corporate ABS.

In our view, ABS may represent a compelling option for insurers seeking to enhance the return potential of their fixed income portfolio without adding significant marginal risk, as shown in Exhibit 1. Not only has structured credit historically offered higher risk-adjusted yields than corporates, the credit exposures underlying these securities provide insurers a way to diversify the interest rate risk and corporate credit risk that dominates their bond portfolios. With higher interest rates and aging demographics fueling record annuity sales in recent years,

2. Source: National Association of Insurance Commissioners; data as of May 8, 2024.
3. Source: US Department of the Treasury; data as of September 30, 2024.
4. Source: National Association of Insurance Commissioners; data as of May 8, 2024.

insurers have increasingly turned to ABS and their attractive combination of yield and duration to fund the future payouts on these contracts; securitized products comprised 25% of insurers' bond allocations in 2023, up from 22% in 2017.[5]

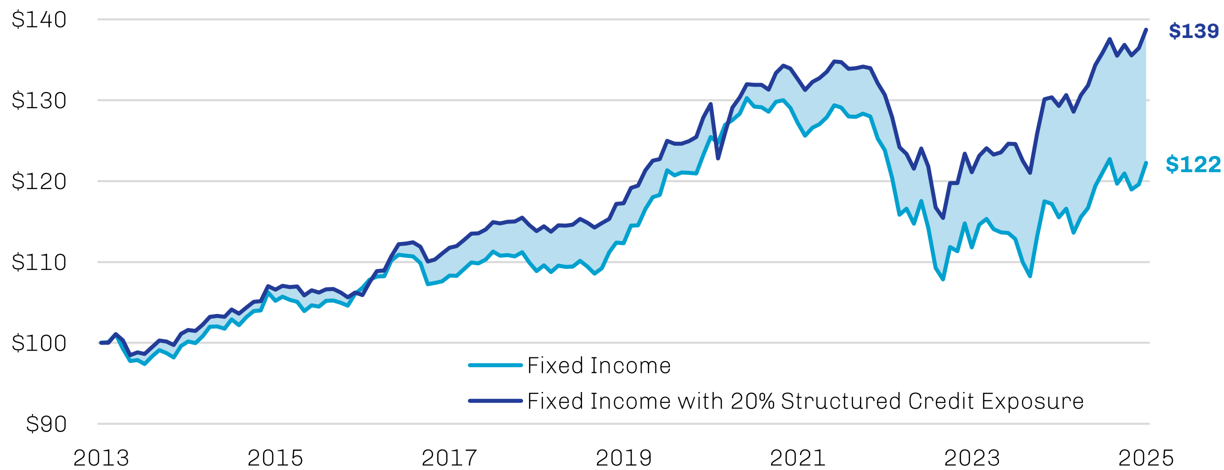
While there are a number of valid reasons why structured credit typically offers a yield premium relative to more traditional exposures—including greater complexity, reduced liquidity and pronounced price volatility—greater credit risk is not one of them. In fact, certain structured products historically have realized significantly lower defaults than their like-rated traditional counterparts—including, in many cases, none at all. This advantage is evident across the capital stack.[6]

Certain structured products historically have realized significantly lower defaults than their like-rated traditional counterparts.

First Eagle's approach to structured credit: While the complexity of the structured credit opportunity set can be daunting to some, we believe First Eagle is well positioned to generate meaningful incremental yield with manageable incremental risk while leveraging key diversification benefits. Structured credit may serve as an attractive complement to an insurer's traditional credit exposure, and portfolios with the flexibility to rotate between public and private credits across the capital stack in response to changing market conditions may provide the potential to generate return profiles above average to those available in traditional core allocations.

Exhibit 1. An Allocation to Structured Credit May Meaningfully Enhance the Performance of a Fixed Income Portfolio

Growth of $100, February 2013 through February 2025



Note: Fixed Income = Bloomberg US Aggregate Bond Index; Structured Credit = JPMorgan Collateralized Loan Obligation BBB Index.
Source: Bloomberg, JPMorgan; data as of February 28, 2025.

Past performance is no guarantee of future results. Actual results may vary.

Real assets. Among the less-heralded, though perhaps no less interesting, forms of credit are investments in cash-generating, essential-use real assets. For example, owning and leasing railcars, which are integral to domestic supply chains and have limited potential for technological disintermediation, offers investors the potential to draw a continuous stream of capital from an asset with a lifespan of up to 50 years—a duration that may make them an attractive, capital-efficient component of an insurer's asset-liability matching strategy. Further, onshore taxpayers may also be able to leverage the unique tax benefits of US railcar investments. Similar investment opportunities are available with other high-cost, long-lived items that provide users with operational and balance sheet flexibility, like aircraft and equipment supporting renewable-energy projects.

5. Source: Bloomberg; data as of February 3, 2025.
6. Source: JPMorgan, Bloomberg; data as of June 24, 2024.

The prevailing higher-rate, higher-inflation environment proved to be a tailwind for real assets across 2024, as both structural features and the cost of capital have driven resilient demand for existing assets and constrained supply of new ones. We believe this trend is likely to persist in 2025.

First Eagle's approach to real assets: We focus on investments in long-lived, essential-use, servicing-intensive equipment that we believe should generate predictable income, offering a return potential that is uncorrelated to public markets and may be positioned to benefit from elevated interest rates and inflation. With a broadly diversified portfolio across hard-to-access transportation and renewable energy assets, our Real Assets team leverages its significant experience structuring investments and operational relationships in an effort to generate quality returns while mitigating downside through its asset-based focus, structuring and cash flow.

> We focus on investments in long-lived, essential-use, servicing-intensive equipment that generates predictable income.

Lower middle market direct lending. Starved for yield in the low-rate environment that dominated until recently, many insurers looked to directly originated middle market loans. Typically positioned at the top of the borrower's capital structure, these first-lien, senior-secured loans provide lenders first recourse on the borrower's assets in case of default/restructuring, and a conservative loan-to-value ratio provides a substantial equity cushion. Strong documentation and traditional financial covenants are of great importance, as is identifying a lender with both strict underwriting standards and experience with workouts across market cycles. These loans historically have exhibited low to negative correlations with traditional fixed income and only moderate correlation to equities, offering potential portfolio diversification benefits.[7]

First Eagle's approach to lower middle market direct lending: Employing a rigorous, disciplined underwriting and due diligence process, our Direct Lending team provides flexible financing solutions to private equity-sponsored middle market companies in North America, with a focus on borrowers with EBITDA of $5–$50 million.[8] These lower middle market companies represent a sweet spot, in our view, even as competitive pressures in recent years have eroded lenders' negotiating power on larger loans; they offer what we consider an attractive combination of yield, leverage and structure, and can serve as an attractive diversifying complement for insurers with existing exposure to the upper end of the market. Smaller loans may also offer greater access to management, which can be particularly important when a loan's coverage metrics weaken or it goes into default; on such occasions, our long-tenured team leverages its extensive experience partnering with borrowers and their sponsors to arrive at solutions that defend the interests of our clients.

Asset-based lending (ABL). ABL has long represented a differentiated source of return in the credit space and a strong complement to traditional cash-flow lending. Although the need for ABL is persistent, demand strength historically has been countercyclical to direct lending; borrower interest in asset-based financing tends to increase when rates rise and cash flow-based loans become less affordable or accessible.

While certain segments of leveraged credit continue to await a resurgence in mergers and acquisitions (M&A) activity to fuel a significant pickup in demand, ABL activity has accelerated. We believe the playing field for experienced, disciplined ABL providers is vast, especially as regional and midsized banks—traditional providers of ABL facilities to middle market borrowers—remain highly selective and risk-averse following the regional bank failures of 2023. ABL's combination of consistent, obtainable return targets and low principal loss provides investors with low variance risk which, in our view, may be particularly interesting to insurance companies as a complement to their other private credit exposure.

First Eagle's approach to asset-based lending: Success in the ABL space depends in large part on access—to the deals, to the appraisers, to the depth of experience—that can only be developed after many years in this business. First Eagle's ABL team members average more than 20 years of practice in the ABL space and have worked together for about 20 years, a historical track record that provides them not only with this access but also significant underwriting experience across asset classes and market cycles.

7. Source: Bloomberg, Cliffwater, Morningstar; data as of September 31, 2024.
8. EBITDA = earnings before interest, taxes, depreciation and amortization.

Residential real estate debt. The secular theme supporting the US housing market—persistent demand that is met by constrained supply due to new-home underbuilding and the "lock in" effect on existing homeowners, depicted in Exhibit 2—has remained intact amid high home prices and high mortgage rates. While this has supported the strong performance of publicly traded real estate-backed structured products like credit-risk transfer securities over the past 18 months or so, current entry points suggest limited upside for new investment.

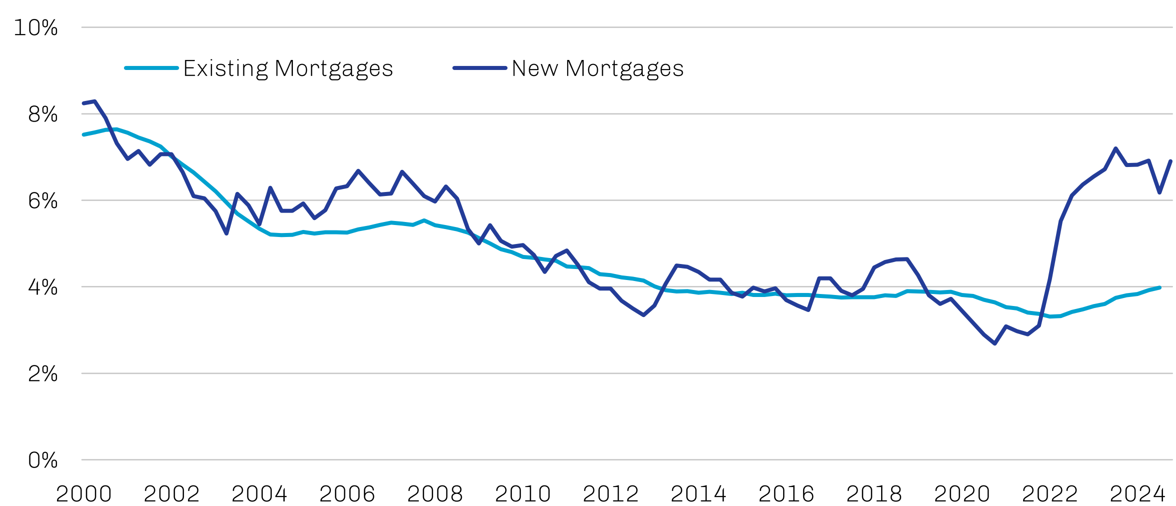
Residential transitional loans and land banking, in our view, currently offer attractive yield premia, boosted by their structural complexity and illiquidity.

At this time, we believe private real estate debt like residential transitional loans and land banking may offer attractive yield premia, boosted by their structural complexity and illiquidity. Further, the short durations and robust cash flows typical of these assets enable the frequent reinvestment of proceeds, providing investors optionality to migrate into public credit opportunities should market conditions shift.

First Eagle's approach to residential real estate debt: Fragmented specialty-lending segments like residential transitional loans and land banking have high barriers to entry, highlighting the importance of sourcing, underwriting and structuring experience for those looking to leverage the ample opportunities we believe exist. Our team brings extensive experience across the real estate debt spectrum, both private and public, and the ability to opportunistically manage exposures to each; this flexibility positions us to capture not only the discrete benefits of private and public debt exposures but also the relative-value discrepancies that periodically emerge between them.

Exhibit 2. "Locked In" Homeowners Have Contributed to the Undersupply of Housing in the US

30-Year Fixed-Rate Mortgage Average, January 2000 through December 2024



Note: Existing mortgages data through third quarter 2024.

Source: Morgan Stanley Research, National Association of Realtors, Freddie Mac, US Census Bureau, Bureau of Labor Statistics; data as of December 26, 2024.

Municipal bonds. Despite generally good performance, municipal bond holdings among insurers fell steadily throughout the 2010s, and ABS eclipsed them as the second-largest fixed income position by 2022. Retail investors followed suit in the face of Fed tightening, and municipal bond mutual and exchange-traded funds saw outflows of $132 billion in 2022 and 2023 combined.[9]

A nascent rebound appears to be underway, however. High levels of new-issue municipal bond supply (as illustrated in Exhibit 3) was met by ample investor demand in 2024, while continued economic strength bolstered

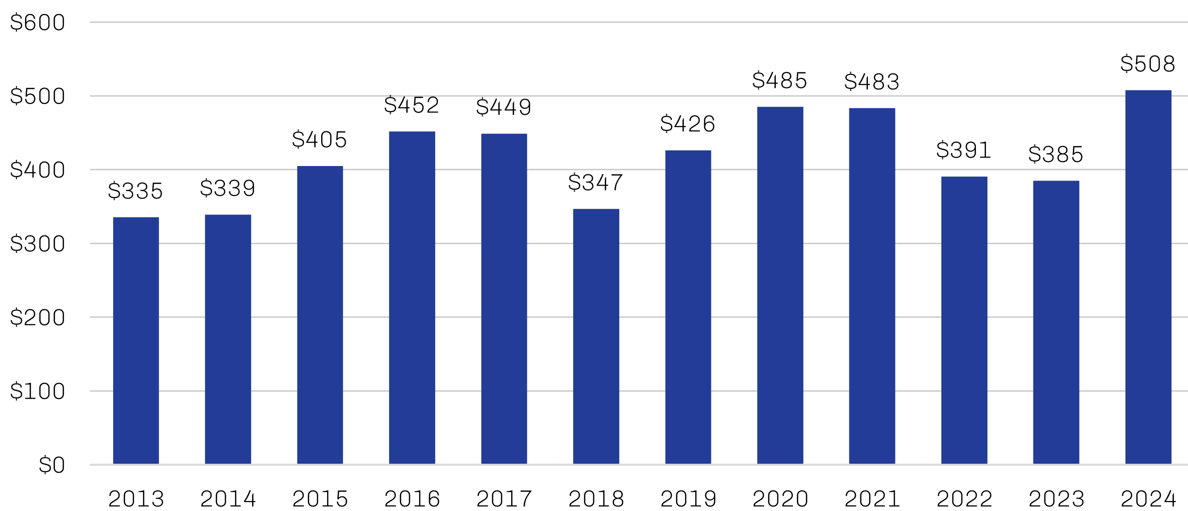
9. Source: LSEG Lipper Global Fund Flows, JPMorgan; data as of January 10, 2025.

issuer fundamentals and keep defaults very low. Tax-exempt yields were particularly attractive among high yield issuers, driving strong inflows that helped high yield munis outperform both the broader tax-exempt market and investment grade corporate bonds last year. It is possible that we are in only the early stages of municipal bond demand normalization.

First Eagle's approach to municipal bonds: Our municipal team's time-tested investment process looks to unloved, overlooked or contrarian areas of the market where they believe fundamental, research-driven investment managers may be able to uncover particularly attractive opportunities. With about $4 trillion distributed across more than one million distinct municipal bonds and 50,000 issuers, the highly fragmented municipal bond market is subject to significant yield dispersion among its constituents, particularly those without ratings.[10] We believe this dispersion offers rigorous, fundamental credit managers an opportunity to source bonds whose yields and prices more than adequately compensate for the credit risk involved.

Exhibit 3. Municipal Bond Issuance Recovered in 2024 as Interest Rates Eased

Annual Municipal Bond Issuance in Billions of Dollars, 2013 through 2024



Source: Securities Industry and Financial Markets Association; data as of December 31, 2024.

First Eagle Offers Insurers Multi-Asset Investment Expertise and Dedicated Client Service

First Eagle has been managing assets on behalf of insurance clients for more than 15 years. Our dedicated insurance team is focused on the development of 1) strategic relationships with our insurance partners, and 2) bespoke solutions that complement their portfolio asset allocation and liability profiles.

With a heritage dating back to 1864, First Eagle has served as a prudent steward of client capital across market cycles, varying macroeconomic conditions and numerous disruptive events. Distinguished by disciplined and unconventional thinking, a global perspective and the long-term alignment of interests, our actively managed strategies—which include fixed income, alternatives and equities—offer insurers a wide range of differentiated risk-return profiles backed by a shared emphasis on mitigating downside risk and preserving capital.

With regulations in flux and markets ever-changing, the insurance specialists at First Eagle stand ready to evolve alongside the needs of our insurance clients globally. We are continually evaluating our product suite, and our size promotes a bespoke approach to tailoring custom investment solutions across asset classes and structures for insurers.

10. Source: Securities Industry and Financial Markets Association; data as of March 31, 2025.

This is the first in a series of papers that will explore the unique and evolving investment needs of insurance companies. Future papers will delve into the asset classes mentioned above in more detail and highlight why we believe they deserve consideration as part of an insurer's strategic asset allocation.

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Risk Disclosures

All investments involve the risk of loss of principal.

There are risks associated with investing in securities of foreign countries, such as erratic market conditions, economic and political instability and fluctuations in currency exchange rates.

Investment in gold and gold-related investments present certain risks, including political and economic risks affecting the price of gold and other precious metals like changes in US or foreign tax, currency or mining laws, increased environmental costs, international monetary and political policies, economic conditions within an individual country, trade imbalances and trade or currency restrictions between countries. The price of gold, in turn, is likely to affect the market prices of securities of companies mining or processing gold, and accordingly, the value of investments in such securities may also be affected. Gold-related investments as a group have not performed as well as the stock market in general during periods when the US dollar is strong, inflation is low and general economic conditions are stable. In addition, returns on gold-related investments have traditionally been more volatile than investments in broader equity or debt markets. Investment in gold and gold-related investments may be speculative and may be subject to greater price volatility than investments in other assets and types of companies.

Diversification does not guarantee investment returns and does not eliminate the risk of loss.

Alternative investments can be speculative and are not suitable for all investors. Investing in alternative investments is only intended for experienced and sophisticated investors who are willing and able to bear the high economic risks associated with such an investment. Investors should carefully review and consider potential risks before investing. Certain of these risks include:

- Loss of all or a substantial portion of the investment;
- Lack of liquidity in that there may be no secondary market or interest in the strategy and none is expected to develop;
- Volatility of returns;
- Interest rate risk;
- Restrictions on transferring interests in a private investment strategy;
- Potential lack of diversification and resulting higher risk due to concentration within one or more sectors, industries, countries or regions;
- Absence of information regarding valuations and pricing;
- Complex tax structures and delays in tax reporting;
- Less regulation and higher fees than mutual funds;
- Use of leverage, which magnifies the potential for gain or loss on amounts invested and is generally considered a speculative investment technique and increases the risks associated with investing in the strategy;
- Below investment grade loans, which may default and adversely affect returns.

Asset-backed securities (ABS) are debt securities whose payments of principal and interest are backed by the cash flow generated by pools of income-producing credit assets.

Asset-based lending (ABL) is corporate borrowing supported by specific assets of the borrower rather than its cash flows.

Collateralized loan obligations (CLO) are financial instruments collateralized by a pool of corporate loans.

Commercial mortgage-backed securities (CMBS) are securitizations backed by cash flows from pools of mortgages on commercial properties.

Correlation, measures the strength of a linear relationship between two variables.

Direct lending refers to a loan agreement negotiated between a borrower and a single or small group of nonbank lenders. Direct lending can also be referred to as "private credit" or "private lending."

A **Goldilocks** economic scenario refers to an economy in which the level of growth is neither strong enough to promote inflation pressures nor weak enough to suggest recession may be near.

Loan-to-value ratio (LTV) compares a loan amount to the estimated value of the asset being financed.

Private credit refers to a loan agreement between a borrower and single or small group of nonbank lenders. Private credit can also be referred to as "direct lending" or "private lending."

Senior secured loans are commercial loans that have the highest priority claim on a borrower's assets in the event of a default.

Structured credit is a financial instrument that pools together groups of similar, income-generating assets.

One cannot invest directly in an index. Indexes do not incur management fees or other operating expenses.

Consumer price index (CPI) (Price) measures inflation as experienced by consumers in their day-to-day living expenses by capturing the average change over time in the prices paid for a representative basket of consumer goods and services. A price-return index only measures price changes.

Bloomberg US Aggregate Bond Index (Gross/Total) measures the performance of the investment grade, US dollar-denominated, fixed-rate taxable bond market in the US, including Treasuries, government-related and corporate securities, fixed-rate agency MBS (agency fixed-rate and hybrid ARM passthroughs), ABS and CMBS. A total-return index tracks price changes and reinvestment of distribution income.

JPMorgan Collateralized Loan Obligation (CLO) BBB Index (Gross/Total) is a subindex of the JPMorgan CLO Index that tracks only CLOs originally rated BBB. A total-return index tracks price changes and reinvestment of distribution income.

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