Private Markets

May 2024

Private debt:

Asset-backed finance: Unpacking the structural shifts

BlackRock®

FOR QUALIFIED, PROFESSIONAL, INSTITUTIONAL AND WHOLESALE INVESTORS/ PROFESSIONAL CLIENTS ONLY | NOT FOR PUBLIC DISTRIBUTION

Authors

Amanda Lynam, CPA

Head of Macro Credit Research, Portfolio Management Group – Private Markets

Dominique Bly

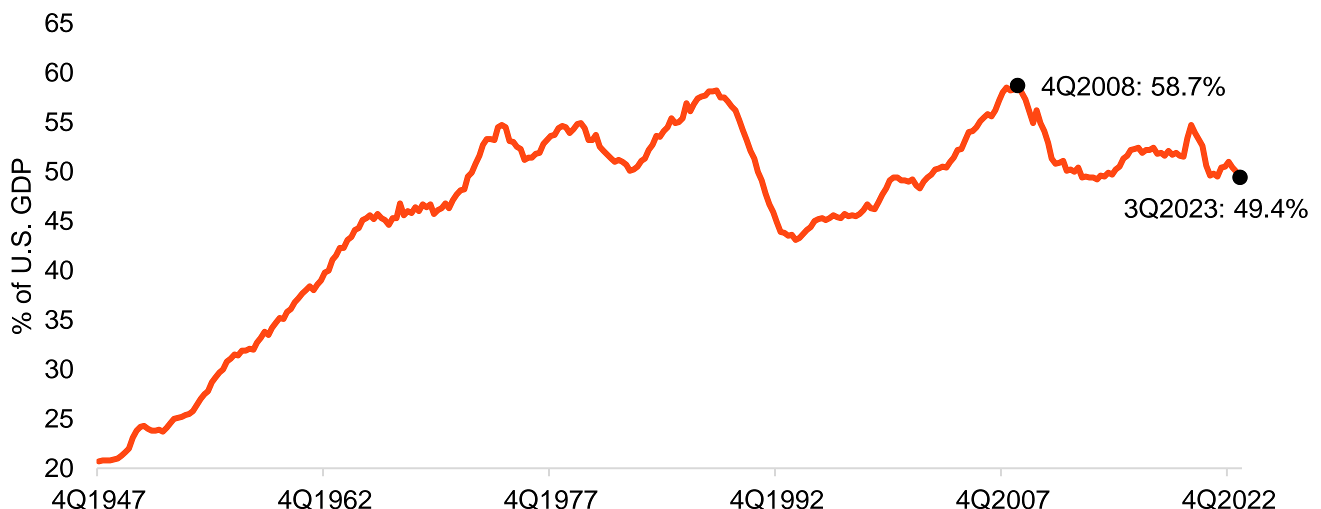
Macro Credit Research Strategist, Portfolio Management Group – Private Markets

Key Takeaways

- In our recent publication, *Private Debt: Exploring the Nuances*, we outlined the various risk and return strategies encompassed within the general term of "private debt." But as we emphasized at the time, much of that discussion was focused on a narrow avenue of lending: to middle market companies.
- Private debt, in the eyes of many market observers, can also be defined more broadly as any financing that is originated, structured, and then held directly by the lender. This definition – which encompasses lending related to consumer debt, hard assets, commercial financing and intellectual property, among other categories – is estimated to be a $5.5 trillion market in the U.S., per an April 2024 Oliver Wyman analysis. We refer to this activity as "asset-based financing," or ABF.
- Roughly 34% of this $5.5 trillion market is currently financed in the "non-bank" channel, per Oliver Wyman, with the private credit industry's current market share estimated to be $200-$300 billion. While the concept of diversification away from the bank lending channel is not new (Exhibit 1), over the past several months, market participants have focused on the potential for private credit lenders to play an increased role in ABF, potentially filling "financing gaps" from some banks' more selective appetite to lend (as they may look to optimize the capital efficiency of their balance sheets). Indeed, recent news flow over the past several months has pointed to increased participation of non-bank lenders in this area, either through some banks' sales of loan exposures, or defined origination/lending partnerships between bank and non-bank lenders.
- In this piece, we provide some context around the potential addressable market of private ABF, as well as some of the structural shifts behind its growth. This includes assessing the degree of restriction in bank lending (in the U.S. and Europe), the types of loans currently on bank balance sheets, and the variation in economies' bank lending reliance across regions. We also outline the growing appetite for such investments from one large participant in the global investing landscape: U.S. insurers, including the subset of insurers that are private equity owned.

Exhibit 1: Banks' share of lending has declined since the global financial crisis

U.S. bank lending to the domestic private non-financial sector (at market value), as a percentage of U.S. GDP



Source: BlackRock, Bank for International Settlements. As of 3Q2023 (most recent).

FOR QUALIFIED, PROFESSIONAL, INSTITUTIONAL AND WHOLESALE INVESTORS/ PROFESSIONAL CLIENTS ONLY | NOT FOR PUBLIC DISTRIBUTION

Asset-backed finance: Growth beyond middle-market lending

In our recent publication *Private debt: Exploring the Nuances*, we discussed how the term "private debt" is incredibly broad and encompasses a wide range of investing strategies – often with varying risk/return profiles. But as we noted at the time, much of that discussion was focused on a specific subset of lending: to middle-market loans to corporate borrowers.

Private debt, in the eyes of many market observers, can also be defined more broadly as any financing that is originated, structured, and then held directly by the lender. This definition – which encompasses lending related to consumer debt, hard assets, commercial financing and intellectual property – is estimated to be a $5.5 trillion market in the U.S., per an April 2024 Oliver Wyman analysis. We refer to this activity as "asset-based financing," or ABF.

As shown in Exhibit 2, roughly 54% of this activity is currently funded by bank balance sheets, another 34% is financed by non-bank lending, and 12% is publicly securitized (see Exhibit 4 for a breakdown of public ABS issuance by type). Within the non-bank lending category, Oliver Wyman estimates that $200-$300 billion is funded by the private credit universe, which leaves its overall market share currently below 5%, per the analysis.

Notably, per Oliver Wyman's definition, specialty finance includes four main categories, as illustrated in Exhibit 3. Below we outline the underlying assets included in each segment:

(1) consumer finance: auto, credit card and consumer loans

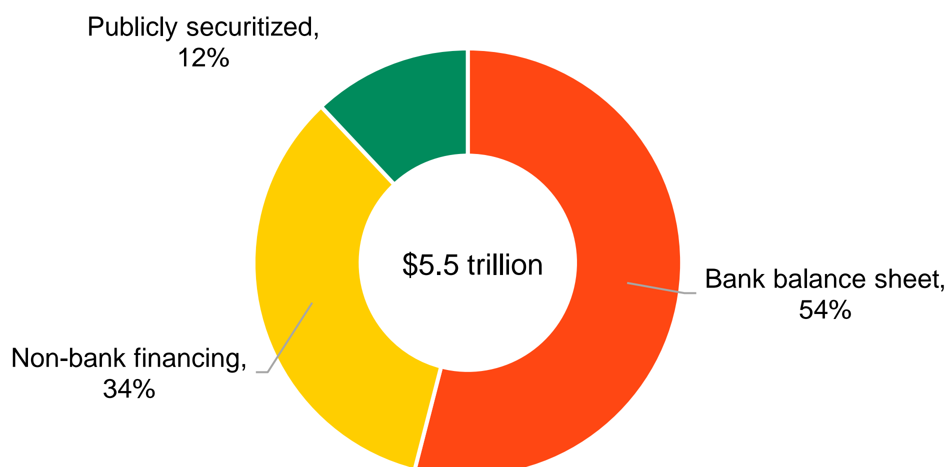
(2) hard assets: financing related to aircraft, railcars, commercial vehicles, solar, telecommunications and data centers, and other equipment/software

(3) commercial finance: includes account receivable factoring, supply chain financing, and lending backed by accounts receivable and inventories

(4) contractual cash flows: captures royalties related to pharmaceuticals, music and other intellectual property, as well as third-party litigation financing

Exhibit 2: Oliver Wyman estimates private credit represents $200-$300 billion of the $1.9 trillion U.S. specialty finance "non-bank financing" market

U.S. specialty finance market by estimated source of financing, per Oliver Wyman analysis



Source: BlackRock, "Private Credit's Next Act," April 2024 by Huw van Steenis and colleagues, Oliver Wyman. The Oliver Wyman analysis and estimates were aggregated from a range of sources including, but not limited to: Federal Reserve Board (Z1 tables, G19, G20 and H8); Federal Reserve Bank of New York; Federal Reserve Bank of Dallas; Bureau of Transportation Statistics (BTS); Dealogic; Conning, Inc., Conning Esoteric ABS Strategy Fact Sheet — used with permission; Finsight.com; Structured Finance Association; Boeing (Commercial Aircraft Finance Market Outlook); Secured Finance Network; Equipment Leasing and Finance Association; Morgan Stanley Research; CACIB Research; company reports and disclosures. Note: Non-bank financing includes fee-paying private credit AUM, captive financing (e.g. manufacturer-funded finance) and direct investments by insurers and other asset managers.

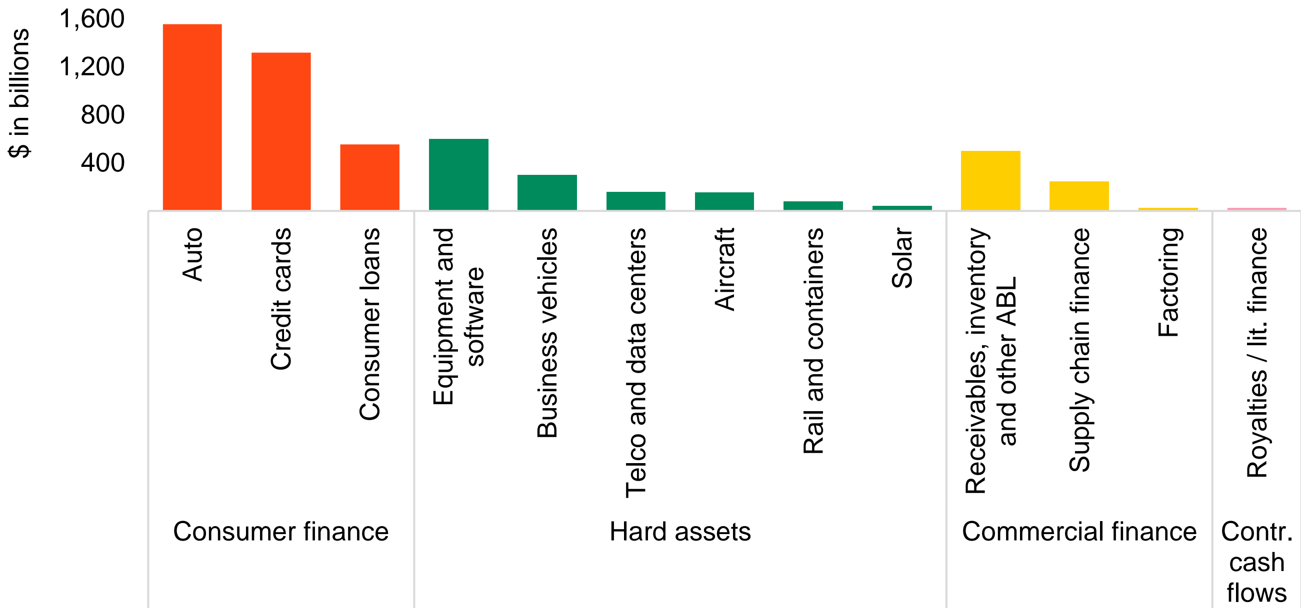
FOR QUALIFIED, PROFESSIONAL, INSTITUTIONAL AND WHOLESALE INVESTORS/ PROFESSIONAL CLIENTS ONLY | NOT FOR PUBLIC DISTRIBUTION

GPDH0524E/M-3582307-3/22

If one were to add outstanding residential mortgages and commercial real estate, this would bring the broader market for U.S. asset-based finance to $26 trillion in the U.S. That said, we do not expect private lending to disintermediate large portions of the mortgage market – especially agency-backed residential mortgages which benefit from guarantees from government-sponsored entities (GSEs) Fannie Mae and Freddie Mac).

Exhibit 3: Oliver Wyman estimates the U.S. specialty finance market at $5.5 trillion, across a mix of segments

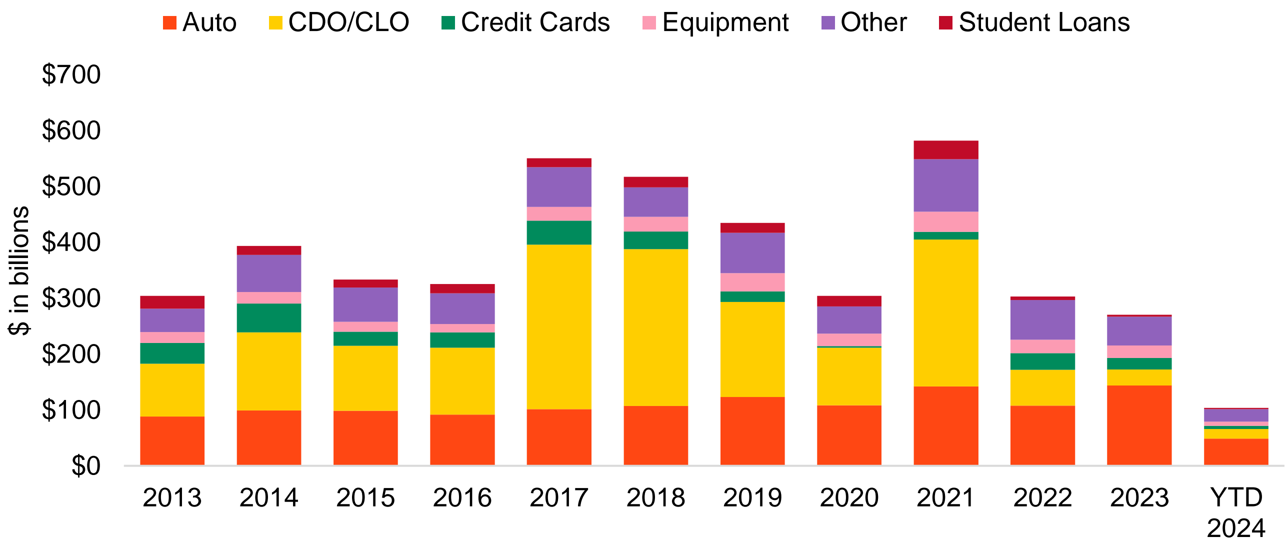
U.S. specialty finance market sizing



Source: BlackRock, "Private Credit's Next Act," April 2024 by Huw van Steenis and colleagues, Oliver Wyman. The Oliver Wyman analysis and estimates were aggregated from a range of sources including, but not limited to: Federal Reserve Board (Z1 tables, G19, G20 and H8); Federal Reserve Bank of New York; Federal Reserve Bank of Dallas; Bureau of Transportation Statistics (BTS); Dealogic; Conning, Inc., Conning Esoteric ABS Strategy Fact Sheet — used with permission; Finsight.com; Structured Finance Association; Boeing (Commercial Aircraft Finance Market Outlook); Secured Finance Network; Equipment Leasing and Finance Association; Morgan Stanley Research; CACIB Research; company reports and disclosures.

Exhibit 4: USD asset-backed issuance totaled $270 billion in 2023, across a range of categories

USD asset-backed securities issuance, by type



Source: BlackRock, SIFMA (citing Bloomberg, Dealogic, Thomson Reuters). YTD 2024 is as of March 2024. CDO/CLO = collateralized debt obligation and collateralized loan obligation.

In many instances of ABF, diversified (and usually segregated in bankruptcy-remote entities) pool(s) of assets are used as collateral and the contractual cash flows of these assets are used for debt service (which amortizes over time). These characteristics stand in contrast to corporate lending, which instead relies on an individual borrower's ability and willingness to service its debt via regular coupon payments, until a large maturity at the end of the loan.

Incorporating ABF into a borrower's capital structure may diversify funding sources by providing another avenue for lending away from the banks and public debt markets. This may be especially relevant for a business in a significant growth phase, which may need access to liquidity to fund expansion plans or acquisitions. Alternatively, a seasonal business with large and lumpy cash outlays may also benefit from a more tailored financing solution.

ABF can include collateral with a wide range of maturities, ranging from short term consumer loans and business receivables to long term financing structures.

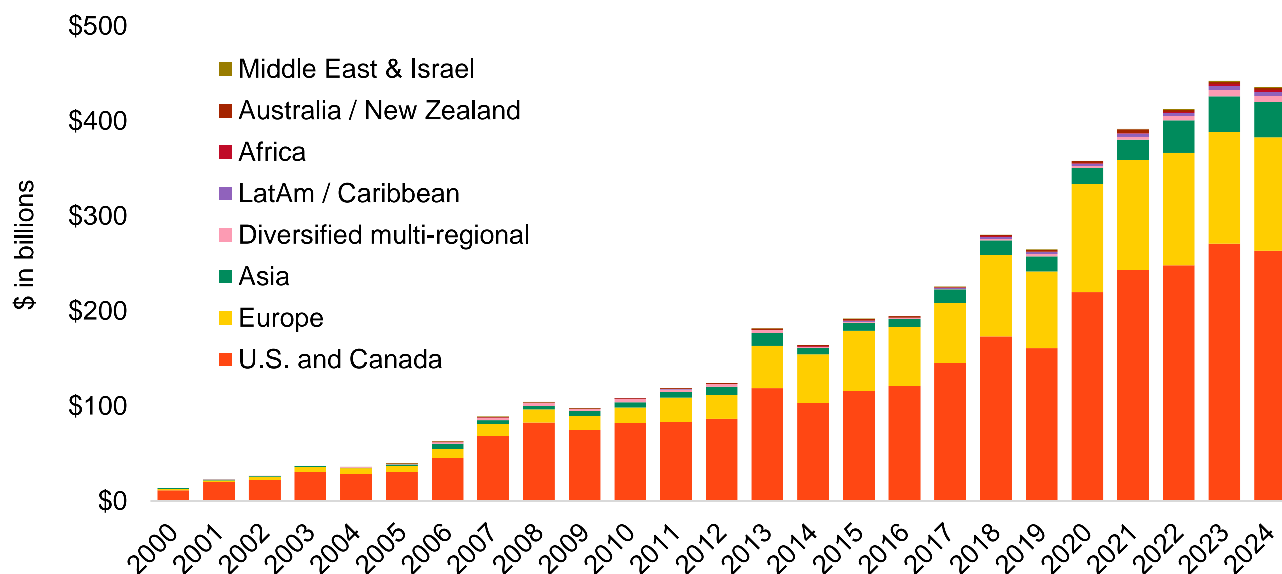
A closer look at banks' loan exposures

Banks have historically dominated such types of ABF and maintain a large market share currently (again, Exhibit 2). But with lending standards from U.S. and European banks remaining tight – especially in certain asset classes such as consumer credit and commercial real estate, as discussed later – many market participants have increasingly focused on the potential for structural shifts in the banking sector – whereby portions of this financing may migrate to the non-bank lending universe.

Recent press reports have pointed to many instances of such activity, often in the form of sales of loan books (from banks to non-bank participants), but also via origination/lending partnerships. Moreover, as private debt assets under management (including dry powder; Exhibit 5) have grown – and the asset class has become sizable and scalable on a stand-alone basis – it has shown it can increasingly provide customized lending solutions for such transactions.

In Exhibits 6 and 7 we highlight the amount and composition of loans on U.S. and Euro Area bank balance sheets, as these exposures are likely to continue to define (at least part of) the future opportunity set for private ABF. For purposes of this exercise, we focus on the U.S. and Euro Area given (1) data reporting and consistency considerations and (2) the fact that North America, and to a lesser extent, Europe, are the largest markets for "traditional" private debt of middle market lending (again, Exhibit 5).

Exhibit 5: The amount of capital available for deployment in private debt funds is sizable
Private debt dry powder by region



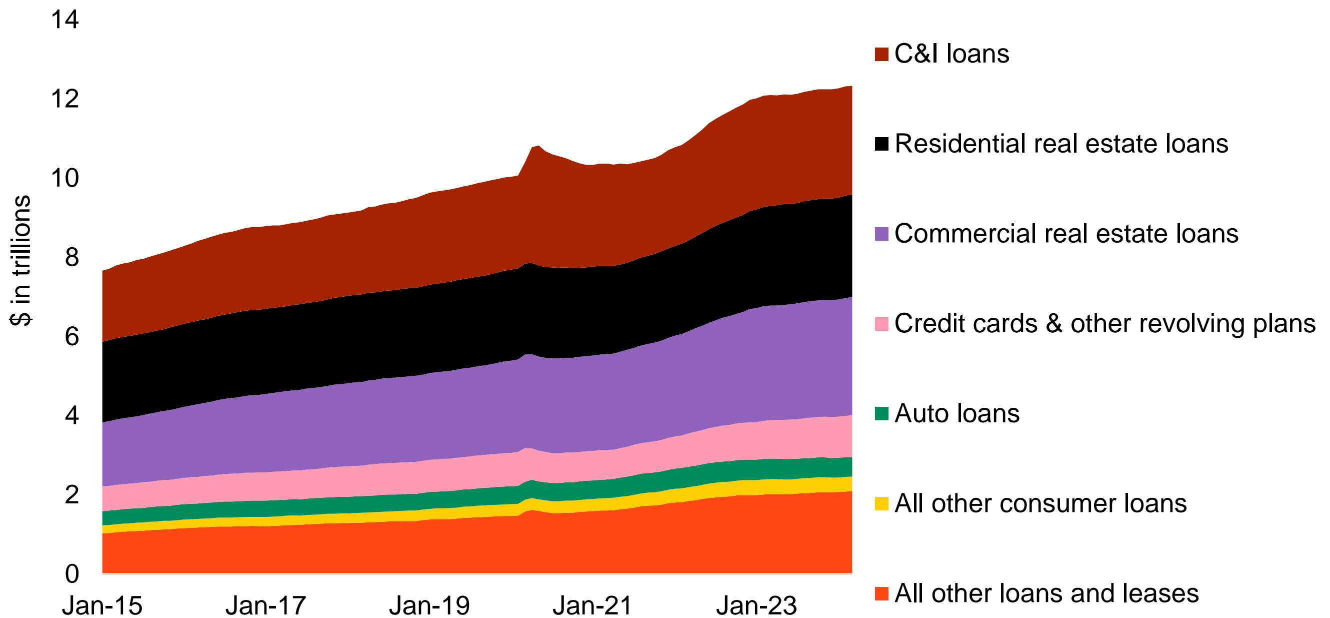
Source: BlackRock, Preqin. As of March 2024.

FOR QUALIFIED, PROFESSIONAL, INSTITUTIONAL AND WHOLESALE INVESTORS/ PROFESSIONAL CLIENTS ONLY | NOT FOR PUBLIC DISTRIBUTION

As shown below, the magnitude of bank lending across these regions is substantial: in excess of $12 trillion from U.S. banks, and more than €13 trillion from Euro Area banks. The loans are also diverse in terms of type, with a mix of consumer, real estate and small business exposures.

Exhibit 6: Lending from the U.S. banking system reached more than $12 trillion as of March 2024

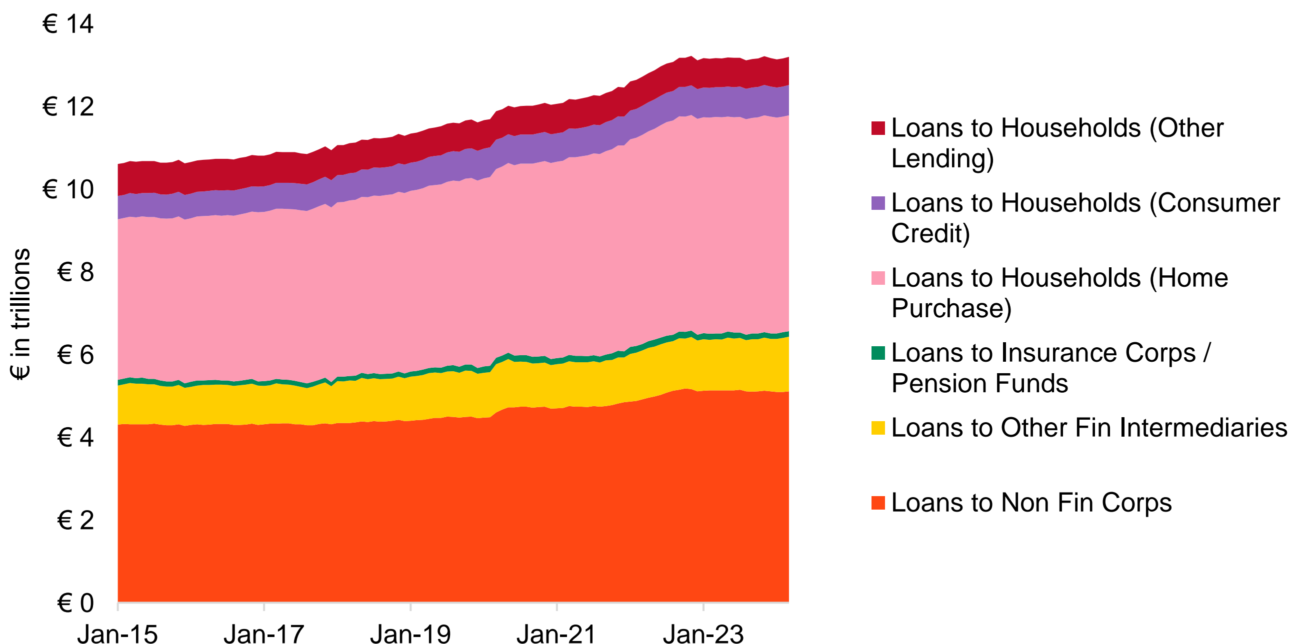
Loans from U.S. commercial banks, by type of loan



Source: BlackRock, Haver Analytics, Federal Reserve Board. As of March 2024.

Exhibit 7: The total value of loans extended from Euro Area banks to the private sector was more than €13 trillion as of March 2024

Euro Area monetary financial institution loans to the private sector (€bn, not seasonally adjusted), outstanding amounts by type of loan



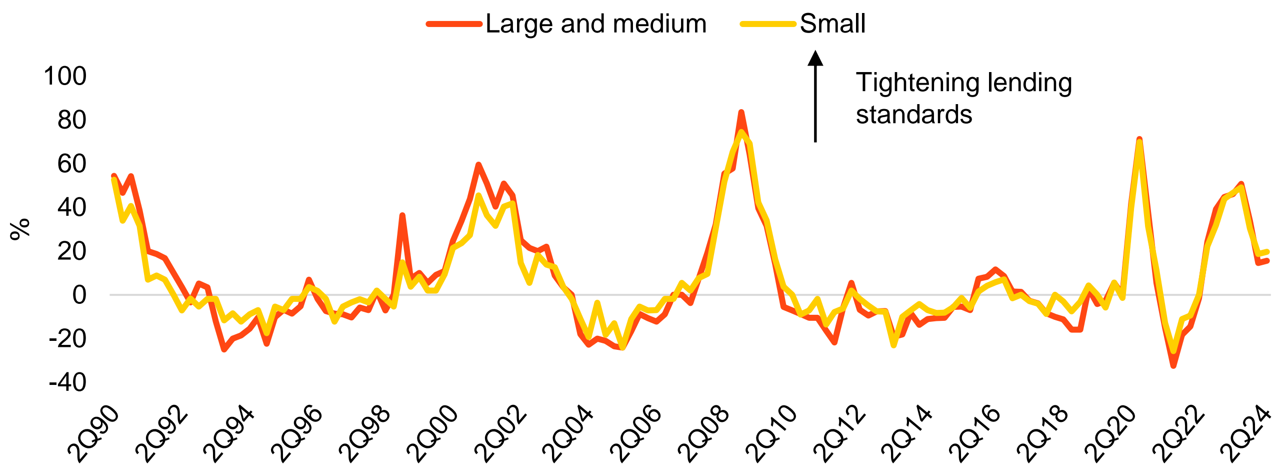
Source: BlackRock, European Central Bank, Haver Analytics. As of March 2024. Note: The presented information is based on consolidated balance sheet statistics reported by monetary financial institutions (MFIs). These include the Eurosystem, credit institutions and money market funds located in the Euro Area.

U.S. bank lending standards: moderating, but still tight

The Federal Reserve's most recent (April 2024) Senior Loan Officer Opinion Survey (SLOOS) on Bank Lending Practices illustrates that while bank lending standards have generally eased from the levels of mid-2023, they remain in "tight" territory for a range of loans, including commercial and industrial (C&I), consumer, and commercial real estate (CRE) loans (Exhibits 8, 9, 11 and 12).

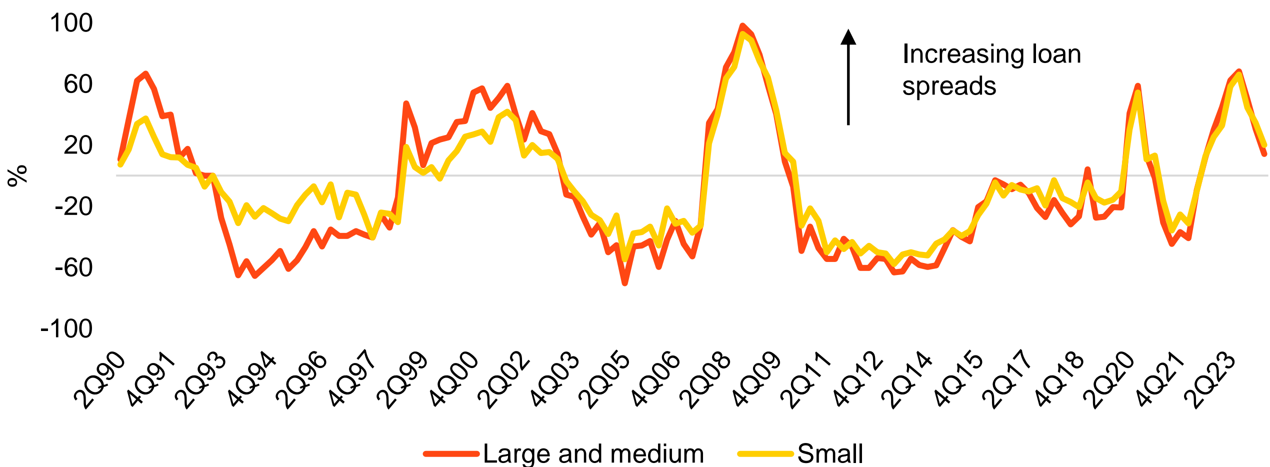
Exhibit 10 summarizes U.S. banks' reasons for tightening lending standards, per the most recent SLOOS survey. For example, of the banks that reported having tightened standards or terms on C&I loans, "major net shares" cited a less favorable or more uncertain economic outlook, a reduced tolerance for risk, and worsening of industry-specific problems as important reasons for doing so. In addition, "significant net shares" of banks cited increased concerns about the effects of legislative changes, supervisory actions, or changes in accounting standards; deterioration in the bank's current or expected liquidity position; less aggressive competition from other banks or non-bank lenders; and decreased liquidity in the secondary market for C&I loans.

Exhibit 8: U.S. bank lending standards remain tight, in aggregate
Net percentage of domestic SLOOS respondents (from large/medium and small banks) tightening standards for C&I loans



Source: BlackRock, Board of Governors of the Federal Reserve System. April 2024 SLOOS update was released on May 6, 2024, and captures activity from 1Q2024.

Exhibit 9: Pricing, in aggregate, also remains in "increasing" territory
Net percentage of domestic SLOOS respondents (from large/medium and small banks) increasing spreads of loan rates over banks' cost of funds



Source: BlackRock, Board of Governors of the Federal Reserve System. April 2024 SLOOS update was released on May 6, 2024, and captures activity from 1Q2024.

FOR QUALIFIED, PROFESSIONAL, INSTITUTIONAL AND WHOLESALE INVESTORS/ PROFESSIONAL CLIENTS ONLY | NOT FOR PUBLIC DISTRIBUTION

The factors related to legislation, liquidity, and capital are especially relevant considering the July 2023 release of the Basel III Endgame Notice for Proposed Rulemaking (NPR) by the U.S. Federal Reserve (Fed), Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC). Comments on the NPR were accepted through late November 2023.

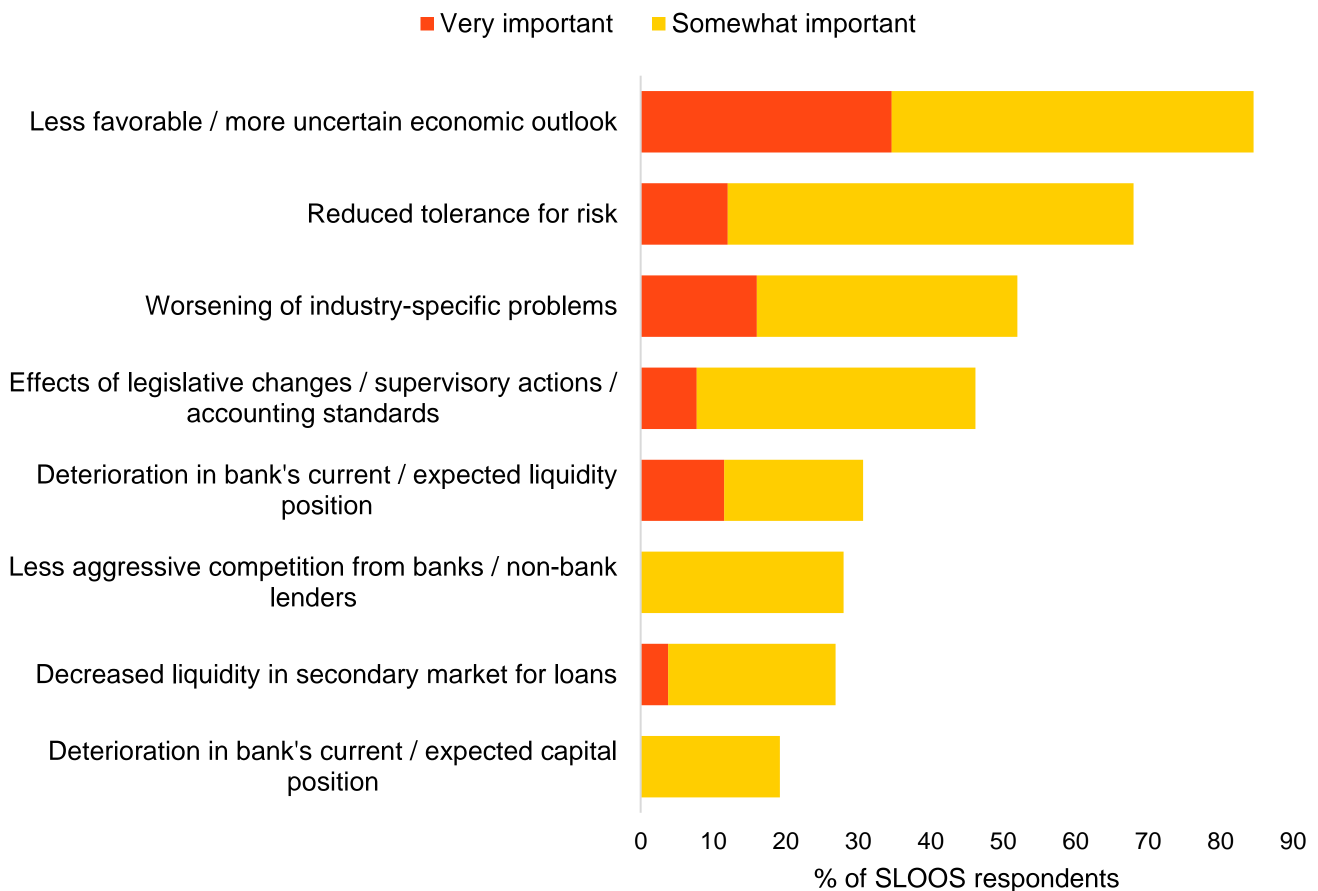
According to a joint press release (July 27, 2023) from the Fed, OCC and FDIC, the proposal would modify capital requirements for banks with $100 billion or more in assets. Broadly, it would standardize aspects of the capital framework related to credit risk, market risk, operational risk, and financial derivative risk, consistent with the final components of the Basel III agreement.

In addition to various changes to bank regulation outlined in the proposal (and per the text of the NPR), the legislation has the potential to meaningfully increase U.S. banks' risk-weighted assets (RWAs), and by extension, required capital. The text of the NPR directly acknowledged that the "increase in [RWA] requirements could lead to a modest reduction in bank lending, with possible implications for economic growth."

The proposal also included changes to bank regulations in response to the March 2023 disruption within the U.S. regional banking sector, such as 1) including unrealized gains and losses from certain securities in bank capital ratios, 2) complying with the supplementary leverage ratio requirement, and 3) complying with the countercyclical capital buffer (if activated during a time of economic expansion).

That said, during a March 2024 testimony to Congress, Federal Reserve Chair Jerome Powell suggested there could be "material and broad" changes to the proposal before it is finalized, because of the comments received.

Exhibit 10: U.S. banks have listed multiple reasons for tightening credit standards
For respondents to the Federal Reserve's Senior Loan Officer Opinion Survey, reasons for tightening credit standards or loan terms on commercial & industrial loans or credit lines, over the past three months



Source: BlackRock, Board of Governors of the Federal Reserve System. As of the April 2024 Senior Loan Officer Opinion Survey (most recent available). Excludes survey responses of "not important."

FOR QUALIFIED, PROFESSIONAL, INSTITUTIONAL AND WHOLESALE INVESTORS/ PROFESSIONAL CLIENTS ONLY | NOT FOR PUBLIC DISTRIBUTION

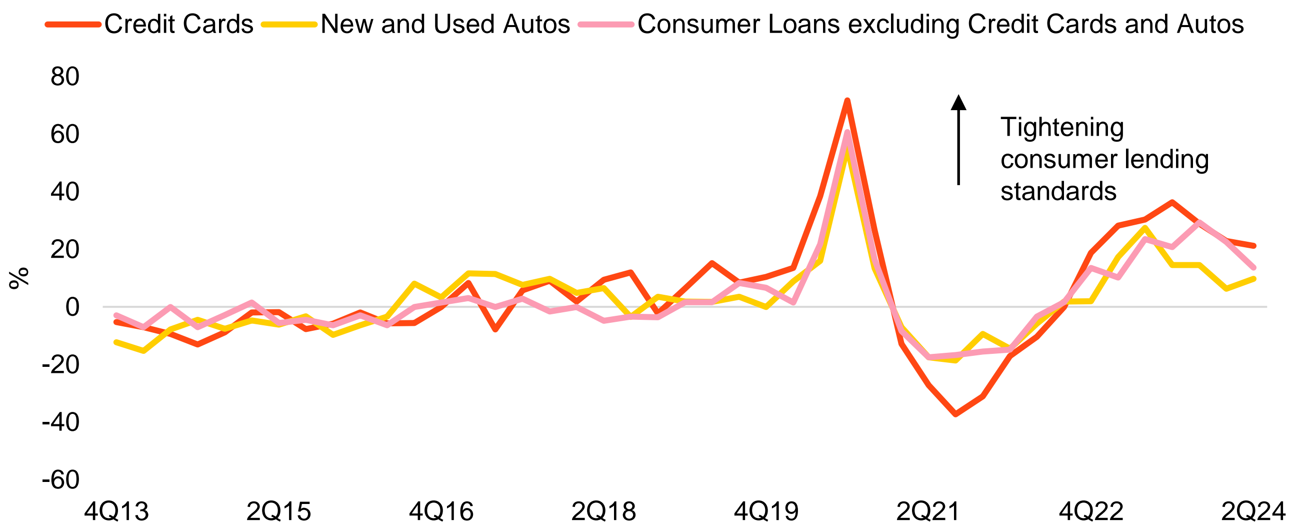
Consumer and CRE lending standards remain tight

During 1Q2024, banks reported a net tightening of lending standards and most terms, on net, across all consumer loan categories. “Significant net shares” of banks reported tightening standards for credit card loans, while “moderate and modest net shares” of banks reported tightening standards for other consumer loans and auto loans, respectively (Exhibit 11).

In 1Q2024, “significant net shares” of banks reported tightening standards for all types of CRE loans (Exhibit 12). Such tightening was more widely reported by other banks than by large banks. The most cited reasons for tightening credit policies on CRE loans over the past year, cited by almost all banks, were less favorable or more uncertain outlooks for CRE market rents, vacancy rates, and property prices.

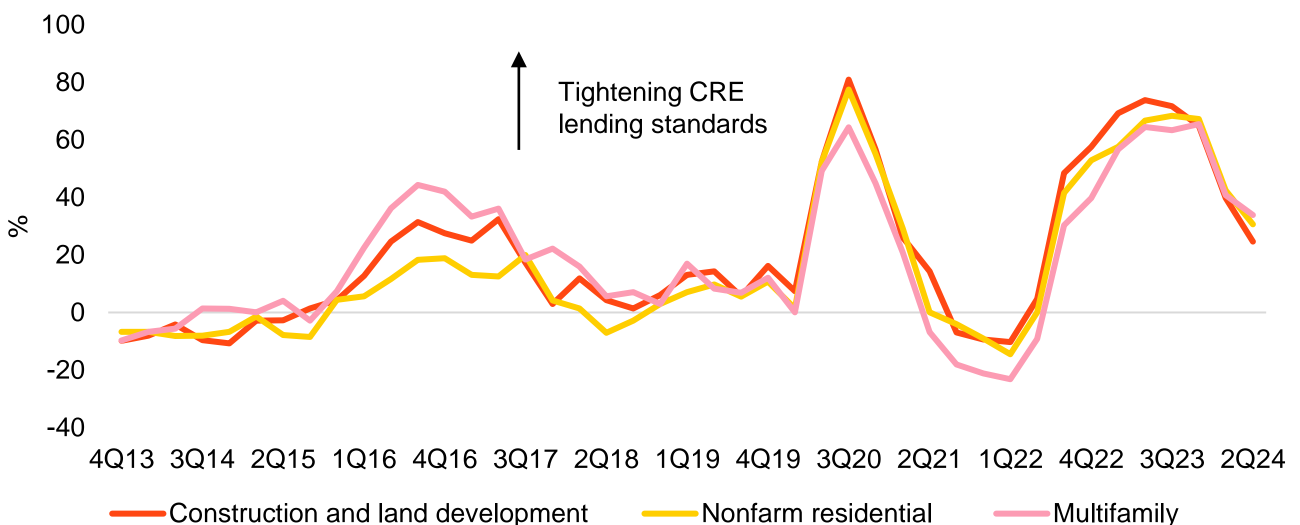
Additionally, “major net shares” of other banks cited a reduced tolerance for risk, increased concerns about the effects of regulatory changes or supervisory actions, and a less favorable or more uncertain outlook for delinquency rates on mortgages backed by CRE properties.

Exhibit 11: Consumer lending standards are bifurcated somewhat across categories
Net percentage of domestic SLOOS respondents tightening standards on consumer loans



Source: BlackRock, Board of Governors of the Federal Reserve System. April 2024 SLOOS update was released on May 6, 2024, and captures activity from 1Q2024.

Exhibit 12: Lending standards for CRE reflect the challenging backdrop for Office
Net percentage of domestic SLOOS respondents tightening standards on commercial real estate loans



Source: BlackRock, Board of Governors of the Federal Reserve System. April 2024 SLOOS update was released on May 6, 2024, and captures activity from 1Q2024.

FOR QUALIFIED, PROFESSIONAL, INSTITUTIONAL AND WHOLESALE INVESTORS/ PROFESSIONAL CLIENTS ONLY | NOT FOR PUBLIC DISTRIBUTION

GPDH0524E/M-3582307-9/22

Euro Area bank lending standards: also moderating, yet tight

A similar trend (to the U.S.) was visible in the most recent Euro Area Bank Lending Survey (BLS, conducted by the ECB). In 1Q2024, the portion of banks tightening credit standards for business loans to large and small/medium firms increased modestly, keeping the standards in "tightening" territory (Exhibit 13). Pricing followed a consistent trend, directionally (Exhibit 14).

Euro Area banks said they expected "moderate net tightening" in 2Q2024. While credit standards eased for mortgages in 1Q2024 (driven by French banks), those for consumer credit were tightened further across the four largest economies of Germany, Spain, France and Italy (driven by "risk perceptions and risk tolerance"). Indeed, banks reported a net increase in the share of rejected applications across all loan segments in 1Q2024 (3% for mortgages and loans to firms, and 6% for consumer credit).

Some Euro Area banks also noted that the reduction of the ECB's monetary policy asset portfolio as a negative impact on financing and liquidity conditions over the past six months, resulting in a moderate tightening of terms and conditions and a negative effect on lending volumes; some expect further tightening pressure in the next six months.

Exhibit 13: Lending standards from European banks have moderated, but remain tight

Net percentage of respondents increasing standards for business loans to large and small/medium firms

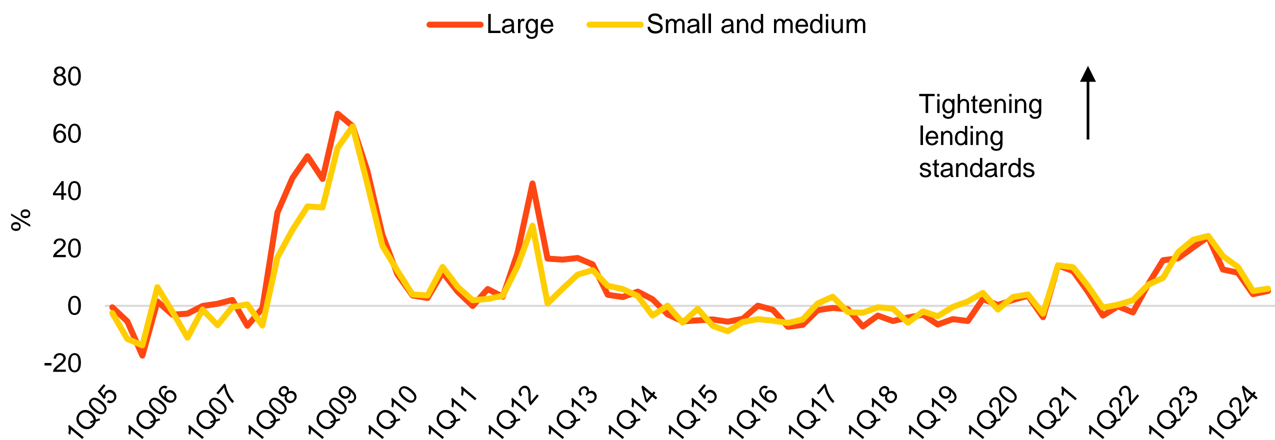
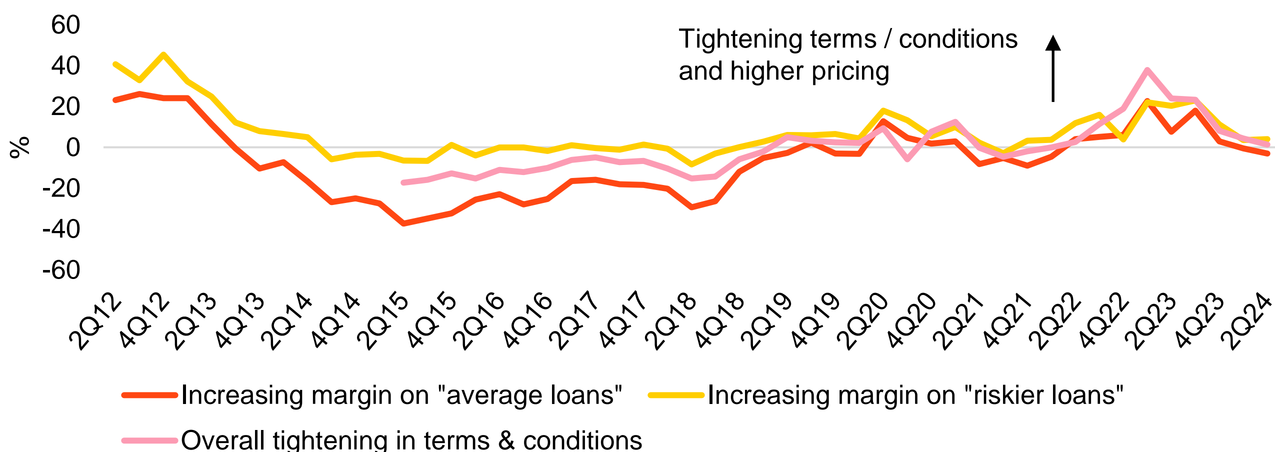


Exhibit 14: A similar directional trend can be seen for most pricing terms

Net percentage of respondents tightening overall terms and conditions (and specifically, pricing) for business loans to large and small/medium firms



Source for both charts: BlackRock, European Central Bank, Haver Analytics. As of April 2024 (most recent available). The results reported in the April 2024 BLS relate to changes observed during the first quarter of 2024 and expectations for the second quarter of 2024. The survey was conducted between 29 February and 15 March 2024. A total of 157 banks were surveyed in this round, with a response rate of 100%.

FOR QUALIFIED, PROFESSIONAL, INSTITUTIONAL AND WHOLESALE INVESTORS/ PROFESSIONAL CLIENTS ONLY | NOT FOR PUBLIC DISTRIBUTION

GPDH0524E/M-3582307-10/22

A structural shift in European lending

Notably, the European Central Bank (ECB) has been working to diversify the funding in the European economy, away from banks. In 2015, the European Commission proposed the European Long-Term Investment Fund (ELTIF), which was a program "designed to increase the amount of non-bank finance available for companies investing in the real economy of the European Union."

And in November 2021, the European Commission adopted a package of measures "to improve the ability of companies to raise capital across the EU." The package included changes to the ELTIF regulation to make it easier for retail investors to participate (by removing the minimum €10,000 investment threshold, for example).

In a November 2023 speech at the European Banking Congress, ECB President Christine Lagarde emphasized the importance of a Capital Markets Union (CMU) for Europe. She noted that "since CMU became an EU policy goal nearly a decade ago, its stated objectives have tended to prioritize the stabilizing benefits of integrated capital markets. We have focused on increasing private sector risk-sharing to make the monetary union more resilient, or having a "spare tire" during banking crises to make the financial sector more resilient."

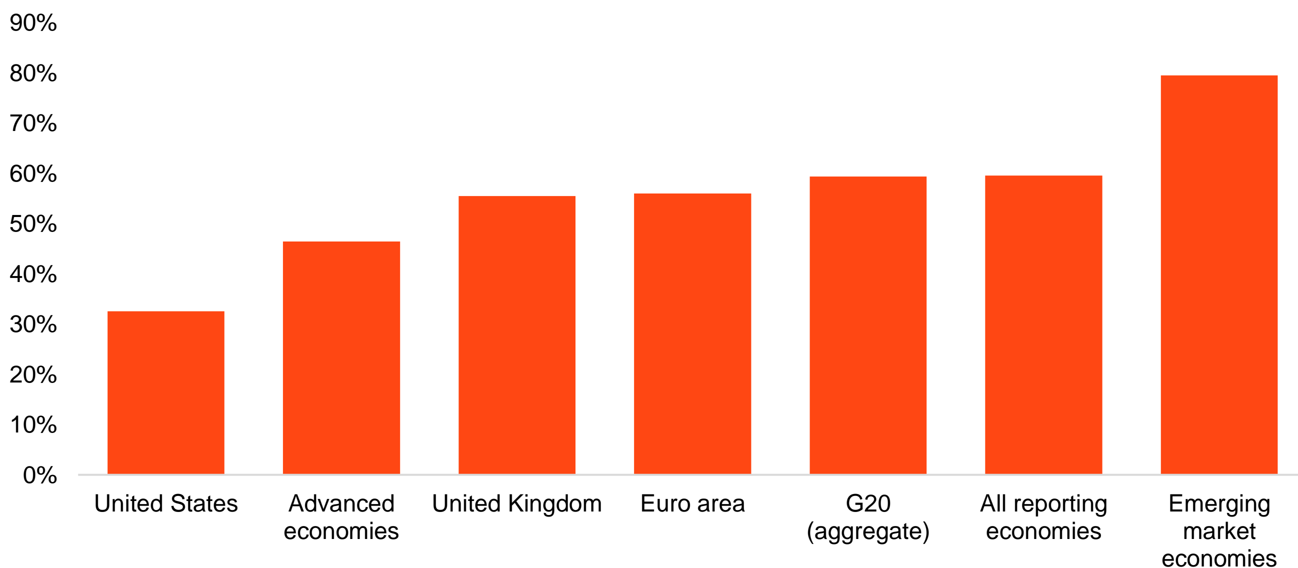
President Lagarde also noted the following, in her European Banking Congress speech:

- "The European Commission estimates that the green transition alone will require additional investment of €620 billion every year, on average, until 2030, and a further €125 billion per year will be needed for the digital transition."
- "A genuine CMU would mean building a sufficiently large securitization market, allowing banks to transfer some risk to investors, release capital and unlock additional lending. In the United States, banks have access to a securitization market that is three times the size of Europe's. This could be even more powerful in our bank-based financial system."

Banks' share of lending varies across regions

As President Lagarde alluded to in her in November 2023 remarks, banks currently capture a larger share of lending in the Euro Area, relative to the U.S. (Exhibit 15). The divergence is even more striking at the individual country level, using a broader universe (Exhibit 16).

Exhibit 15: Banks represent 33% of lending in the U.S., vs. 56% in the Euro Area
Banks' share of total credit provided to the private non-financial sector – select regions

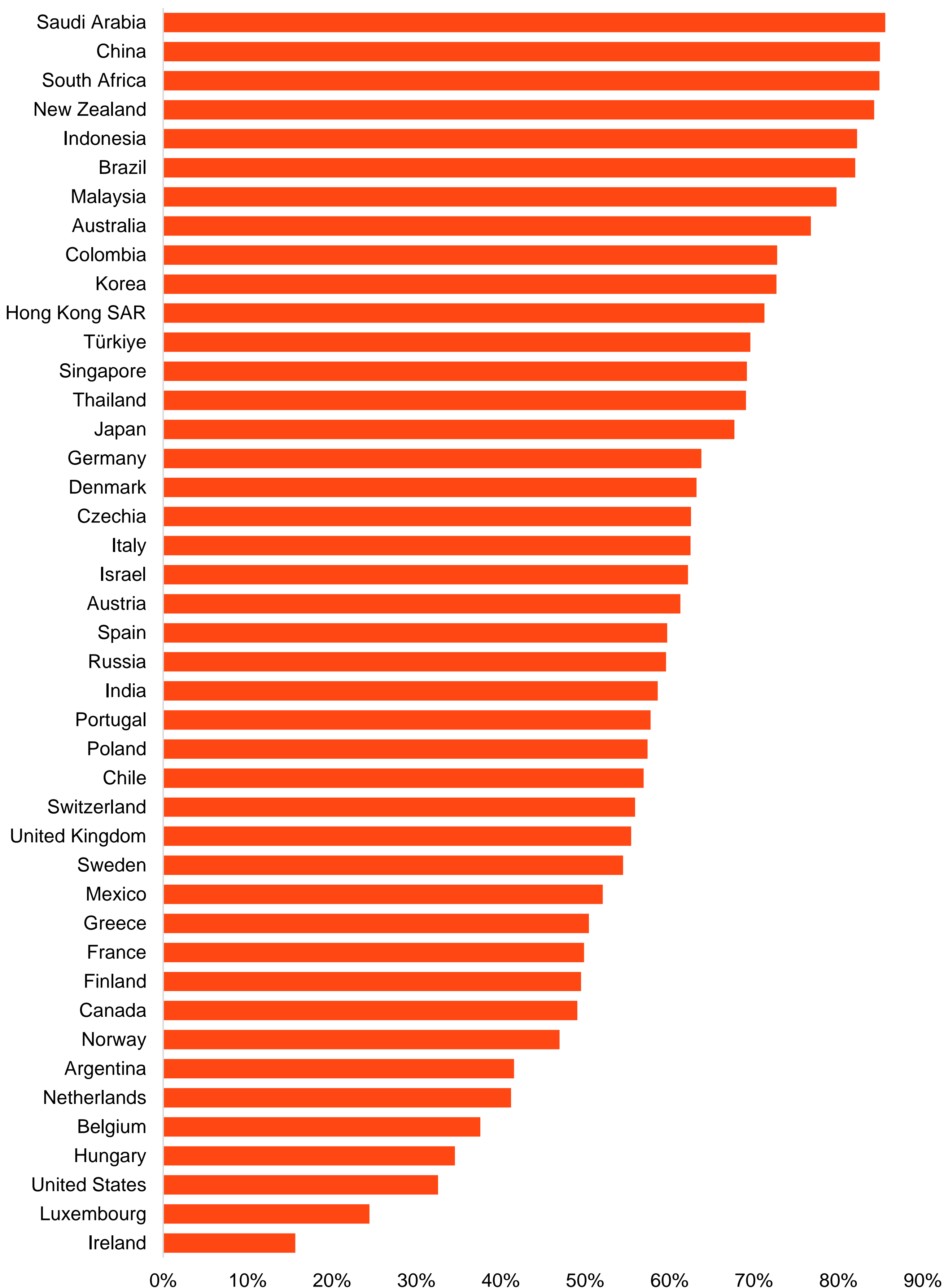


Source: BlackRock, Bank for International Settlements. As of 3Q2023 (most recent available).

FOR QUALIFIED, PROFESSIONAL, INSTITUTIONAL AND WHOLESALE INVESTORS/ PROFESSIONAL CLIENTS ONLY | NOT FOR PUBLIC DISTRIBUTION

Exhibit 16: Banks' share of overall lending varies significantly by country

Banks' share of total credit provided to the private non-financial sector – all available countries



Source: BlackRock, Bank for International Settlements. As of 3Q2023 (most recent available).

FOR QUALIFIED, PROFESSIONAL, INSTITUTIONAL AND WHOLESALE INVESTORS/ PROFESSIONAL CLIENTS ONLY | NOT FOR PUBLIC DISTRIBUTION

Insurers' growing appetite for ABF-related investments

On the demand side, the U.S. insurance industry has demonstrated an increased appetite for the types of investments included within the private ABF umbrella. Similar to other "asset-liability matching" investors such as pensions, deployed capital is not subject to "run risk" – as can be the case for deposits in the banking system (as the U.S. regional bank disruption of March 2023 highlighted).

Trends in the U.S. insurance industry are important to monitor, in our view, given the size and reach of this investor base. According to the National Association of Insurance Commissioners (NAIC) Capital Markets Bureau, U.S. insurers reported $8.5 trillion in total cash and invested assets at year-end 2023 (most recent available; Exhibit 17).

Life insurers represented 64% of this amount, as their long-term policies typically result in the management of larger investment portfolios relative to their Property & Casualty (P&C; 31% of industry investments) and Health insurance (4%) peers.

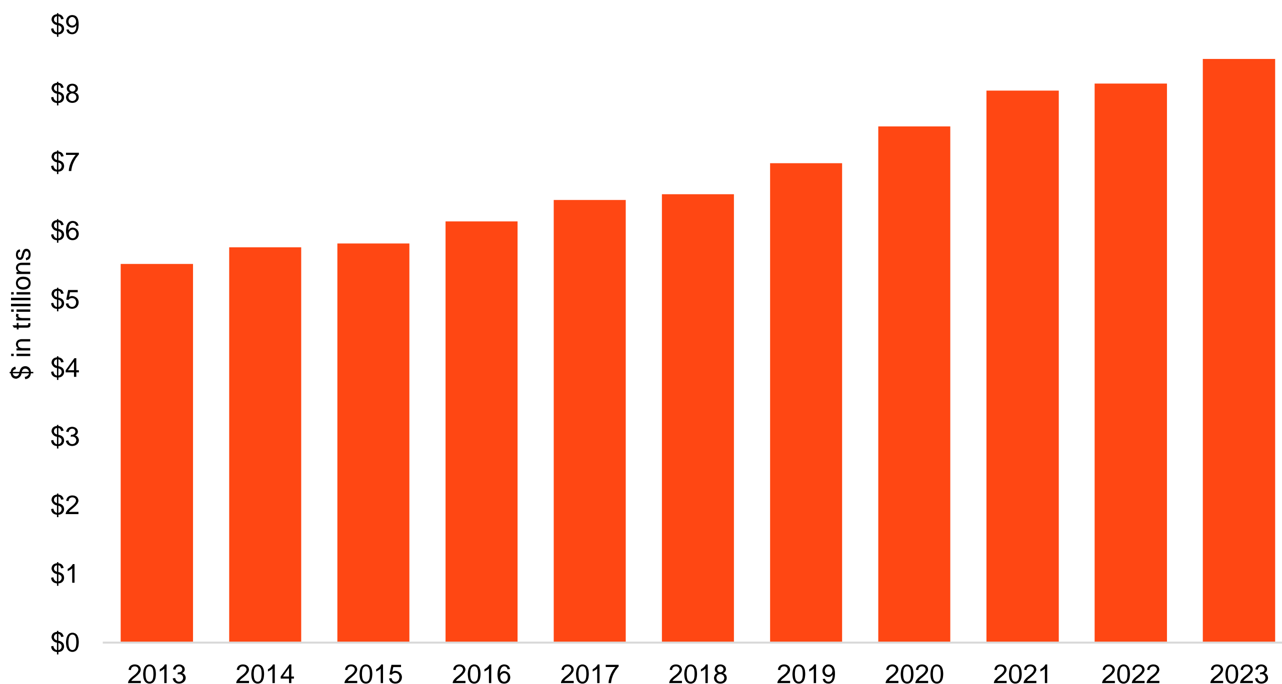
As shown in Exhibit 18, bonds represent 61% of the U.S. insurance industry's asset allocation per the NAIC, owing to the stable stream of cash flows which can be matched against policyholder obligations. Within this $5.2 trillion bond allocation, the three largest categories are (1) corporate bonds, (2) asset-backed securities (ABS) and other structured securities, and (3) municipal bonds (Exhibit 19).

Over the past two years, the allocation to ABS and other structured securities – which includes consumer ABS, collateralized loan obligations (CLOs), commercial ABS, lease-backed securities, and other structured finance investments – increased to 12.1% (vs. 10.3% at year-end 2021 and 11.2% at year-end 2022). By contrast, the allocations to corporate and municipal bonds declined slightly.

Behind bonds, common stock is the second-largest holding of the U.S. insurance industry's total cash and invested assets, per NAIC data (again, Exhibit 18). Mortgages are the third largest category, at 9% of total invested assets, and Schedule BA assets were 6.3%. The majority of Schedule BA assets held by U.S. insurance companies are in private equity, hedge funds, and real estate, per NAIC data.

Exhibit 17: U.S. insurance total cash and invested assets grew 4.4% in 2023

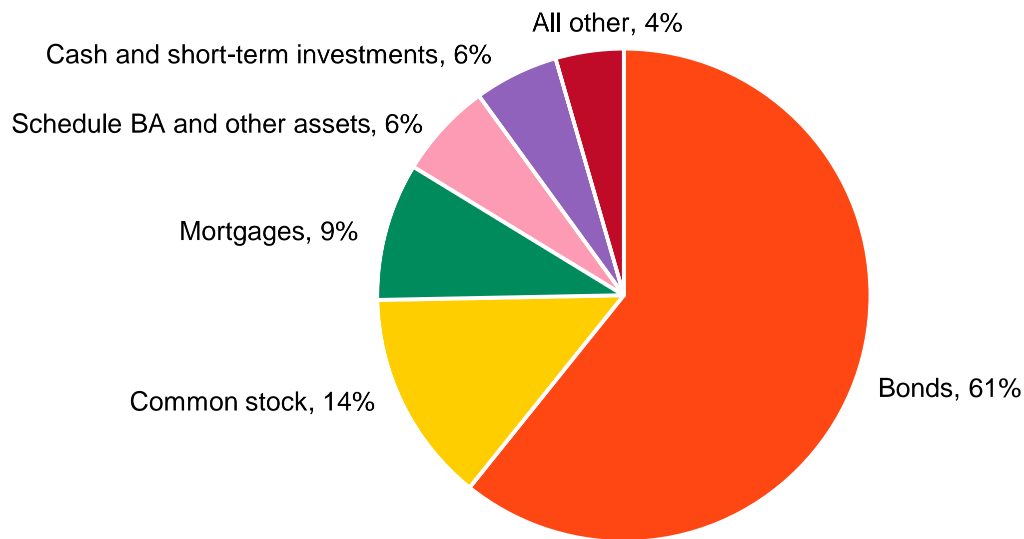
Historical U.S. insurance industry total cash and invested assets, as of each calendar year-end



Source: BlackRock, National Association of Insurance Commissioners Capital Markets Special Report. Note: includes affiliated and unaffiliated investments.

Exhibit 18: Bonds remain the largest asset allocation in U.S. insurers' $8.5 trillion investment portfolio

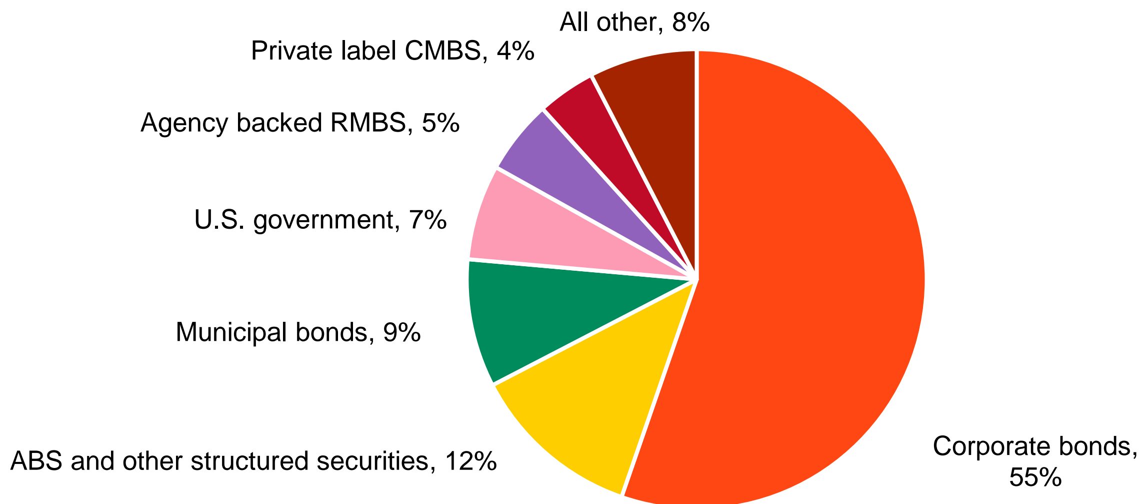
Total U.S. insurance industry invested assets by asset class, as of year-end 2023



Source: BlackRock, National Association of Insurance Commissioners Capital Markets Bureau. As of year-end 2023 (most recent available). "All other" includes contract loans, derivatives, real estate, preferred stocks, aggregate write-ins, securities lending (reinvested collateral), and receivables for securities.

Exhibit 19: ABS is a large portion of U.S. insurers' overall bond allocation

U.S. insurers' $5.2 trillion bond allocation by subtype



Source: BlackRock, National Association of Insurance Commissioners Capital Markets Bureau. As of year-end 2023 (most recent available). "All other" includes bank loans, private-label RMBS, agency-backed CMBS, foreign government, exchange-traded funds (ETFs).

Asset allocations vary by insurer type

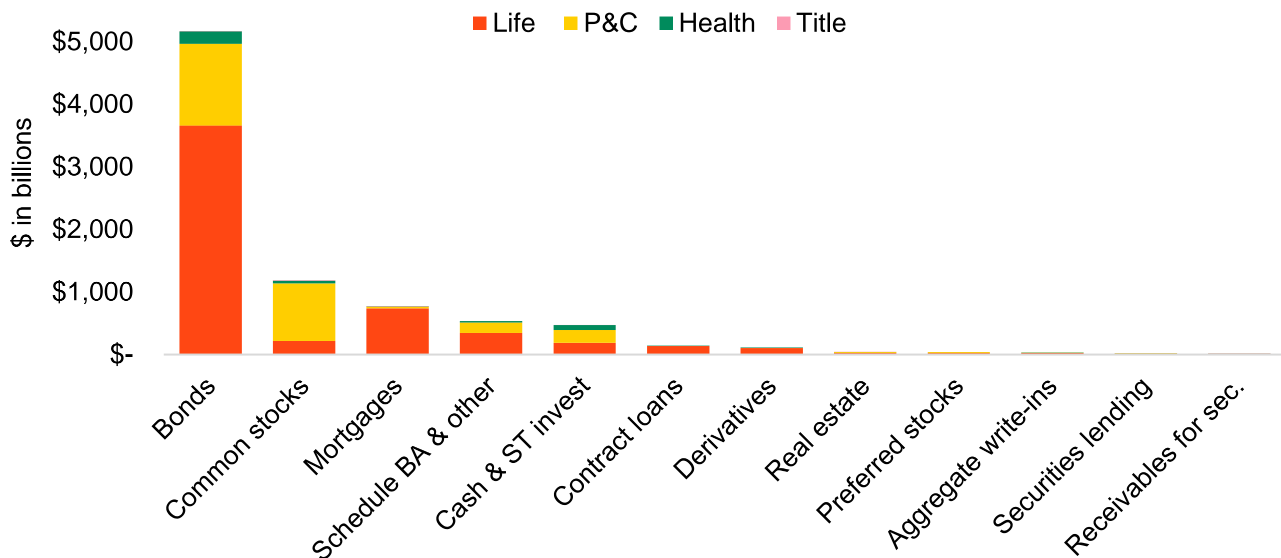
Asset class exposures vary significantly by the type of insurer however: i.e., Life vs. Property & Casualty, as well as whether the insurer is private equity owned. For example, most of the exposure to mortgage and Schedule BA assets lies within the Life industry (Exhibit 20). Indeed, Life companies represent 96% of U.S. insurance industry exposure to mortgage assets (as they typically match well with long-term liabilities of life insurance companies), and 65% of exposure to Schedule BA, respectively.

And Property & Casualty companies hold the most equity within the U.S. insurance industry, accounting for 77% of the overall common stock exposure, despite managing only 31% of the total industry's cash and invested assets (again, Exhibit 20).

Within the bond allocation, Exhibit 21 illustrates that most of the ABS and other structured securities exposure is held by the Life insurance industry (Exhibit 21). Additionally, the 137 U.S. "private equity owned" insurers tracked by the NAIC – highlights increased appetite for ABS and other structured securities, relative to the broader U.S. insurance universe.

Exhibit 20: P&C insurers hold most of the industry's common stock investments, while Life insurers own the vast majority of mortgage assets

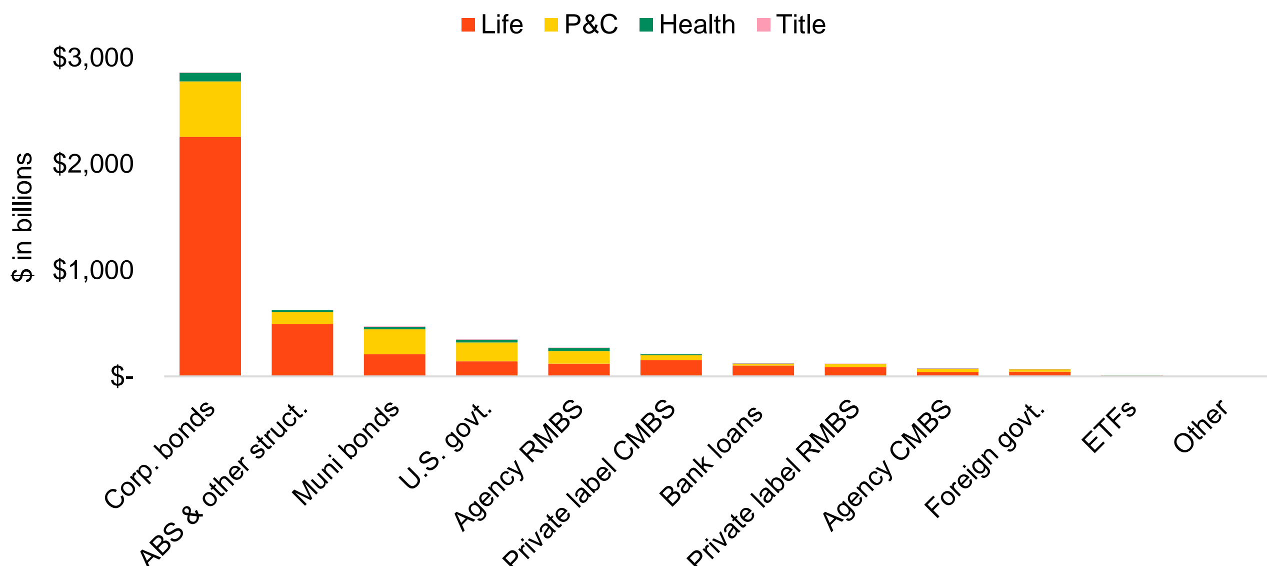
Breakdown of the total U.S. insurance industry cash and invested assets ($8.5 trillion, in total) by asset class and insurer type



Source: BlackRock, National Association of Insurance Commissioners Capital Markets Bureau. As of year-end 2023 (most recent available).

Exhibit 21: Life insurers hold the majority of "ABS & other structured" investments

Breakdown of U.S. insurance industry bond allocation ($5.2 trillion, in total), by subcategory and insurer type



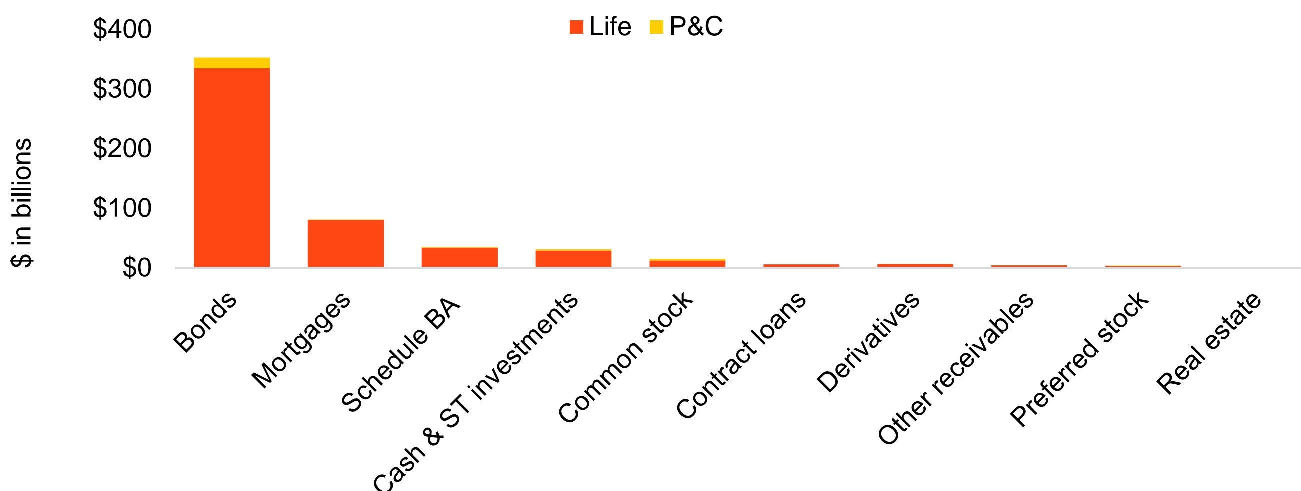
Source: BlackRock, National Association of Insurance Commissioners Capital Markets Bureau. As of year-end 2023 (most recent available).

FOR QUALIFIED, PROFESSIONAL, INSTITUTIONAL AND WHOLESALE INVESTORS/ PROFESSIONAL CLIENTS ONLY | NOT FOR PUBLIC DISTRIBUTION

Starting at a high level, the total amount of investments (across all asset classes) managed by private equity owned insurers totaled $534 billion at year-end 2022, or 6.5% of the industry's total assets (note: year-end 2022 is the most recent available for this group). As Exhibit 22 illustrates, the vast majority of these insurers are in the Life subsector – a function of long-term asset-liability matching considerations, in our view.

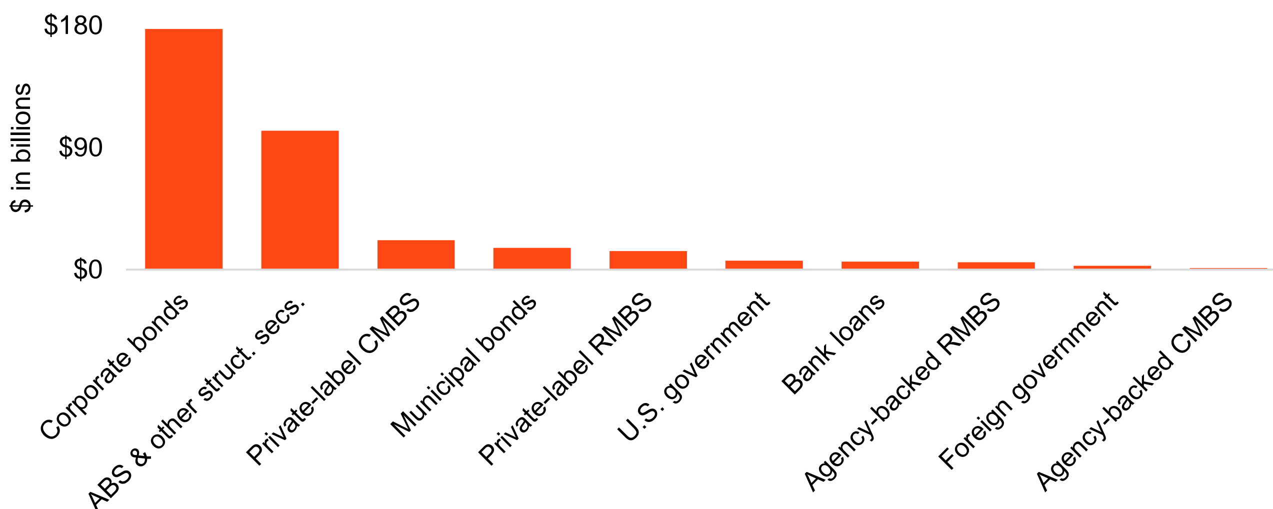
Similar to the broader universe of U.S. insurers, bonds are the largest asset allocation category, at 66% of total investments (this compares to a 62.3% allocation as of year-end 2022 for the broader insurance universe). That said, and as Exhibit 23 shows, for private equity owned insurers the "ABS and other structured securities" share within the overall bond allocation was elevated at year-end 2022, at 29% (vs. 11.2% for the broader U.S. insurance industry).

Exhibit 22: Most of the private equity owned insurance assets are in the Life sector
U.S. private equity owned insurers' $534 billion investment portfolio, by asset type and insurance sector



Source: BlackRock, National Association of Insurance Commissioners Capital Markets Bureau. As of year-end 2022 (most recent available). Note: the NAIC Capital Markets Bureau identifies PE-owned insurers as those who reported any percentage of ownership by a PE firm in Schedule Y and other means of identification, such as using third-party sources, including directly from state regulators

Exhibit 23: ABS and structured securities has an outsized weight in the investment portfolios of private equity insurers
U.S. private equity owned insurers' (all types) breakdown of the $352 billion bond portfolio, by specific asset type



Source: BlackRock, National Association of Insurance Commissioners Capital Markets Bureau. As of year-end 2022 (most recent available).

Unless otherwise stated, all reference to $ are in USD.

Risk Warnings:

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. You may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

In the U.S., this material is for institutional use only – not for public distribution.

For investors in the Caribbean, any funds mentioned or inferred in this material have not been registered under the provisions of the Investment Funds Act of 2003 of the Bahamas, nor have they been registered with the securities regulators of Bermuda, Dominica, the Cayman Islands, the British Virgin Islands, Grenada, Trinidad & Tobago or any jurisdiction in the Organization of Eastern Caribbean States, and thus, may not be publicly offered in any such jurisdiction. The shares of any fund mentioned herein may only be marketed in Bermuda by or on behalf of the fund or fund manager only in compliance with the provision of the Investment Business Act 2003 of Bermuda and the Companies Act of 1981. Engaging in marketing, offering or selling any fund from within the Cayman Islands to persons or entities in the Cayman Islands may be deemed carrying on business in the Cayman Islands. As a non-Cayman Islands person, BlackRock may not carry on or engage in any trade or business unless it properly registers and obtains a license for such activities in accordance . For Dominican Republic, any securities mentioned or inferred in this material may only be offered in a private character according to the laws of the Dominican Republic, falling beyond the scope of articles 1 numeral (31), 46 et al of Law 249-17 dated 19 December 2017, as amended and its Regulations. Since no governmental authorizations are required in such offering, any “securities” mentioned or inferred in this material have not been and will not be registered with the Stock Market Superintendency of the Dominican Republic (Superintendencia de Mercado de Valores de la República Dominicana), and these “securities” may only be circulated, offered and sold in the Dominican Republic in a private manner based on the criteria established under Dominican laws and regulations.

IMPORTANT INFORMATION:

In **Canada**, this material is intended for permitted clients as defined under Canadian securities law, is for educational purposes only, does not constitute investment advice and should not be construed as a solicitation or offering of units of any fund or other security in any jurisdiction.

In **China,** this material may not be distributed to individuals resident in the People's Republic of China ("PRC", for such purposes, not applicable to Hong Kong, Macau and Taiwan) or entities registered in the PRC unless such parties have received all the required PRC government approvals to participate in any investment or receive any investment advisory or investment management services.

In **Singapore**, this document is provided by BlackRock (Singapore) Limited (company registration number:200010143N） for use only with institutional investors as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.

In **Hong Kong**, this material is issued by BlackRock Asset Management North Asia Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong. This material is for distribution to "Professional Investors" (as defined in the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong) and any rules made under that ordinance.) and should not be relied upon by any other persons or redistributed to retail clients in Hong Kong.

In **Japan**, this is issued by BlackRock Japan. Co., Ltd. (Financial Instruments Business Operator: The Kanto Regional Financial Bureau. License No375, Association Memberships: Japan Investment Advisers Association, The Investment Trusts Association, Japan, Japan Securities Dealers Association, Type II Financial Instruments Firms Association) for Professional Investors only (Professional Investor is defined in Financial Instruments and Exchange Act).

In **South Korea**, this information is issued by BlackRock Investment (Korea) Limited. This material is for distribution to the Qualified Professional Investors (as defined in the Financial Investment Services and Capital Market Act and its sub-regulations) and for information or educational purposes only and does not constitute investment advice or an offer or solicitation to purchase or sells in any securities or any investment strategies.

In **Australia** & **New Zealand**, issued by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975, AFSL 230 523 (BIMAL) for the exclusive use of the recipient, who warrants by receipt of this material that they are a wholesale client as defined under the Australian Corporations Act 2001 (Cth) and the New Zealand Financial Advisers Act 2008 respectively.

This material provides general information only and does not take into account your individual objectives, financial situation, needs or circumstances. Before making any investment decision, you should therefore assess whether the material is appropriate for you and obtain financial advice tailored to you having regard to your individual objectives, financial situation, needs and circumstances. Refer to BIMAL's Financial Services Guide on its website for more information. This material is not a financial product recommendation or an offer or solicitation with respect to the purchase or sale of any financial product in any jurisdiction. This material is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. BIMAL is a part of the global BlackRock Group which comprises of financial product issuers and investment managers around the world. BIMAL is the issuer of financial products and acts as an investment manager in Australia. BIMAL does not offer financial products to persons in New Zealand who are retail investors (as that term is defined in the Financial Markets Conduct Act 2013 (FMCA)). This material does not constitute or relate to such an offer. To the extent that this material does constitute or relate to such an offer of financial products, the offer is only made to, and capable of acceptance by, persons in New Zealand who are wholesale investors (as that term is defined in the FMCA).

BIMAL, its officers, employees and agents believe that the information in this material and the sources on which it is based (which may be sourced from third parties) are correct as at the date of publication. While every care has been taken in the preparation of this material, no warranty of accuracy or reliability is given and no responsibility for the information is accepted by BIMAL, its officers, employees or agents. Except where contrary to law, BIMAL excludes all liability for this information.

In **Brunei**, BlackRock does not hold a Capital Markets Services License and is therefore not licensed for conducting business in any regulated activity under the Securities Market Order, 2013. This document has been issued by BlackRock and is intended for the exclusive use of the recipient. The distribution of the information contained herein may be restricted by law and persons who access it are required to comply with any such restrictions. The information provided herein information is directed solely at persons who would be regarded as "Accredited Investors", "Expert Investors" or "Institutional Investors" in accordance with the Securities Market Order 2013

This material is for distribution to Professional Clients (as defined by the Financial Conduct Authority or MiFID Rules) only and should not be relied upon by any other persons.

In the UK and Non-European Economic Area (EEA) countries: this is Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: + 44 (0)20 7743 3000. Registered in England and Wales No. 02020394. For your protection telephone calls are usually recorded. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock.

In the European Economic Area (EEA): This document is marketing material. This is Issued by BlackRock (Netherlands) B.V. and is authorised and regulated by the Netherlands Authority for the Financial Markets. Registered office Amstelplein 1, 1096 HA, Amsterdam, Tel: 020 – 549 5200, Tel: 31-20-549-5200. Trade Register No. 17068311 For your protection telephone calls are usually recorded

For Investors in **Switzerland**: This document is marketing material. This document shall be exclusively made available to, and directed at, qualified investors as defined in Article 10 (3) of the CISA of 23 June 2006, as amended, at the exclusion of qualified investors with an opting-out pursuant to Art. 5 (1) of the Swiss Federal Act on Financial Services ("FinSA"). For information on art. 8 / 9 Financial Services Act (FinSA) and on your client segmentation under art. 4 FinSA, please see the following website: www.blackrock.com/finsa.

In **Italy**: For information on investor rights and how to raise complaints please go to https://www.blackrock.com/corporate/compliance/investor-right available in Italian.

For investors in **Israel**: BlackRock Investment Management (UK) Limited is not licenced under Israel's Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 5755-1995 (the “Advice Law”), nor does it carry insurance thereunder.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock. The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public. The information contained in this document, may contain statements that are not purely historical in nature but are “forward-looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These 44 forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

The information contained in this document is intended strictly for non-natural Qualified Investors as defined in the UAE Securities and Commodities Authority’s Board Decision No. 3/R.M of 2017 concerning Promoting and Introducing Regulations. The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock. The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public. The information contained in this document, may contain statements that are not purely historical in nature but are “forward-looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

The information contained in this document, may contain statements that are not purely historical in nature but are “forward-looking statements”. These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

The information contained in this document is intended strictly for Professional Clients as defined under the Dubai Financial Services Authority (“DFSA”) Conduct of Business (COB) Rules.

Blackrock Advisors (UK) Limited -Dubai Branch is a DIFC Foreign Recognised Company registered with the DIFC Registrar of Companies (DIFC Registered Number 546), with its office at Unit L15 - 01A, ICD Brookfield Place, Dubai International Financial Centre, PO Box 506661, Dubai, UAE, and is regulated by the DFSA to engage in the regulated activities of ‘Advising on Financial Products’ and ‘Arranging Deals in Investments’ in or from the DIFC, both of which are limited to units in a collective investment fund (DFSA Reference Number F000738).

In **Saudi Arabia**, the information contained in this document is intended strictly for sophisticated institutions. The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock. The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public. The information contained in this document, may contain statements that are not purely historical in nature but are "forward-looking statements". These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials. If you do not understand the contents of this document, you should consult an authorised financial adviser.

Kuwait

The information contained in this document is intended strictly for sophisticated institutions that are 'Professional Clients' as defined under the Kuwait Capital Markets Law and its Executive Bylaws.

The information contained in this document, does not constitute and should not be construed as an offer of, invitation or proposal to make an offer for, recommendation to apply for or an opinion or guidance on a financial product, service and/or strategy. Whilst great care has been taken to ensure that the information contained in this document is accurate, no responsibility can be accepted for any errors, mistakes or omissions or for any action taken in reliance thereon. You may only reproduce, circulate and use this document (or any part of it) with the consent of BlackRock.

The information contained in this document is for information purposes only. It is not intended for and should not be distributed to, or relied upon by, members of the public.

The information contained in this document, may contain statements that are not purely historical in nature but are "forward-looking statements". These include, amongst other things, projections, forecasts or estimates of income. These forward-looking statements are based upon certain assumptions, some of which are described in other relevant documents or materials.

For investors in **Central America**, these securities have not been registered before the Securities Superintendence of the Republic of Panama, nor did the offer, sale or their trading procedures. The registration exemption has made according to numeral 3 of Article 129 of the Consolidated Text containing of the Decree-Law No. 1 of July 8, 1999 (institutional investors). Consequently, the tax treatment set forth in Articles 334 to 336 of the Unified Text containing Decree-Law No. 1 of July 8, 1999, does not apply to them. These securities are not under the supervision of the Securities Superintendence of the Republic of Panama. The information contained herein does not describe any product that is supervised or regulated by the National Banking and Insurance Commission (CNBS) in Honduras. Therefore any investment described herein is done at the investor's own risk. In Costa Rica, any securities or services mentioned herein constitute an individual and private offer made through reverse solicitation upon reliance on an exemption from registration before the General Superintendence of Securities ("SUGEVAL"), pursuant to articles 7 and 8 of the Regulations on the Public Offering of Securities ("Reglamento sobre Oferta Pública de Valores"). This information is confidential, and is not to be reproduced or distributed to third parties as this is NOT a public offering of securities in Costa Rica. The product being offered is not intended for the Costa Rican public or market and neither is registered or will be registered before the SUGEVAL, nor can be traded in the secondary market. If any recipient of this documentation receives this document in El Salvador, such recipient acknowledges that the same has been delivered upon their request and instructions, and on a private placement basis. In Guatemala, this communication and any accompanying information (the "Materials") are intended solely for informational purposes and do not constitute (and should not be interpreted to constitute) the offering, selling, or conducting of business with respect to such securities, products or services in the jurisdiction of the addressee (this "Jurisdiction"), or the conducting of any brokerage, banking or other similarly regulated activities ("Financial Activities") in the Jurisdiction. Neither BlackRock, nor the securities, products and services described herein, are registered (or intended to be registered) in the Jurisdiction. Furthermore, neither BlackRock, nor the securities, products, services or activities described herein, are regulated or supervised by any governmental or similar authority in the Jurisdiction. The Materials are private, confidential and are sent by BlackRock only for the exclusive use of the addressee. The Materials must not be publicly distributed and any use of the Materials by anyone other than the addressee is not authorized. The addressee is required to comply with all applicable laws in the Jurisdiction, including, without limitation, tax laws and exchange control regulations, if any.

In **Latin America**, for institutional investors and financial intermediaries only (not for public distribution). This material is for educational purposes only and does not constitute investment advice or an offer or solicitation to sell or a solicitation of an offer to buy any shares of any fund or security and it is your responsibility to inform yourself of, and to observe, all applicable laws and regulations of your relevant jurisdiction. If any funds are mentioned or inferred in this material, such funds may not been registered with the securities regulators of Argentina, Brazil, Chile, Colombia, Mexico, Panama, Peru, Uruguay or any other securities regulator in any Latin American country and thus, may not be publicly offered in any such countries. The securities regulators of any country within Latin America have not confirmed the accuracy of any information contained herein. No information discussed herein can be provided to the general public in Latin America. The contents of this material are strictly confidential and must not be passed to any third party.

In **Colombia**, the sale of each fund discussed herein, if any, is addressed to less than one hundred specifically identified investors, and such fund may not be promoted or marketed in Colombia or to Colombian residents unless such promotion and marketing is made in compliance with Decree 2555 of 2010 and other applicable rules and regulations related to the promotion of foreign financial and/or securities related products or services in Colombia. With the receipt of these materials, and unless the Client contacts BlackRock with additional requests for information, the Client agrees to have been provided the information for due advisory required by the marketing and promotion regulatory regime applicable in Colombia.

IN MEXICO, FOR INSTITUTIONAL AND QUALIFIED INVESTORS USE ONLY. INVESTING INVOLVES RISK, INCLUDING POSSIBLE LOSS OF PRINCIPAL. THIS MATERIAL IS PROVIDED FOR EDUCATIONAL AND INFORMATIONAL PURPOSES ONLY AND DOES NOT CONSTITUTE AN OFFER OR SOLICITATION TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SHARES OF ANY FUND OR SECURITY. This information does not consider the investment objectives, risk tolerance or the financial circumstances of any specific investor. This information does not replace the obligation of financial advisor to apply his/her best judgment in making investment decisions or investment recommendations. It is your responsibility to inform yourself of, and to observe, all applicable laws and regulations of Mexico. If any funds, securities or investment strategies are mentioned or inferred in this material, such funds, securities or strategies have not been registered with the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores, the "CNBV") and thus, may not be publicly offered in Mexico. The CNBV has not confirmed the accuracy of any information contained herein. The provision of investment management and investment advisory services ("Investment Services") is a regulated activity in Mexico, subject to strict rules, and performed under the supervision of the CNBV. These materials are shared for information purposes only, do not constitute investment advice, and are being shared in the understanding that the addressee is an Institutional or Qualified investor as defined under Mexican Securities (Ley del Mercado de Valores). Each potential investor shall make its own investment decision based on their own analysis of the available information. Please note that by receiving these materials, it shall be construed as a representation by the receiver that it is an Institutional or Qualified investor as defined under Mexican law. BlackRock México Operadora, S.A. de C.V., Sociedad Operadora de Fondos de Inversión ("BlackRock México Operadora") is a Mexican subsidiary of BlackRock, Inc., authorized by the CNBV as a Mutual Fund Manager (Operadora de Fondos), and as such, authorized to manage Mexican mutual funds, ETFs and provide Investment Advisory Services. For more information on the Investment Services offered by BlackRock Mexico, please review our Investment Services Guide available in www.blackrock.com/mx. This material represents an assessment at a specific time and its information should not be relied upon by the you as research or investment advice regarding the funds, any security or investment strategy in particular. Reliance upon information in this material is at your sole discretion. BlackRock México is not authorized to receive deposits, carry out intermediation activities, or act as a broker dealer, or bank in Mexico. For more information on BlackRock México, please visit: www.blackRock.com/mx. BlackRock receives revenue in the form of advisory fees for our advisory services and management fees for our mutual funds, exchange traded funds and collective investment trusts. Any modification, change, distribution or inadequate use of information of this document is not responsibility of BlackRock or any of its affiliates. Pursuant to the Mexican Data Privacy Law (Ley Federal de Protección de Datos Personales en Posesión de Particulares), to register your personal data you must confirm that you have read and understood the Privacy Notice of BlackRock México Operadora. For the full disclosure, please visit www.blackRock.com/mx and accept that your personal information will be managed according with the terms and conditions set forth therein.

In **Chile**, The securities if any described in this document are foreign securities, therefore: i) their rights and obligations will be subject to the legal framework of the issuer's country of origin, and therefore, investors must inform themselves regarding the form and means through which they may exercise their rights; and that ii) the supervision of the Commission for the Financial Market (Comisión para el Mercado Financiero or "CMF") will be concentrated exclusively on compliance with the information obligations established in General Standard No. 352 of the CMF and that, therefore, the supervision of the security and its issuer will be mainly made by the foreign regulator;

In the case of a fund not registered with the CMF is subject to General Rule No. 336 issued by the SVS (now the CMF). The subject matter of this sale may include securities not registered with the CMF; therefore, such securities are not subject to the supervision of the CMF. Since the securities are not registered in Chile, there is no obligation of the issuer to make publicly available information about the securities in Chile. The securities shall not be subject to public offering in Chile unless registered with the relevant registry of the CMF.

In **Peru**, this private offer does not constitute a public offer, and is not registered with the Securities Market Public Registry of the Peruvian Securities Market Commission, for use only with institutional investors as such term is defined by the Superintendencia de Banca, Seguros y AFP.

Any research in this document has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

Any opinions, forecasts represent an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation.

This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

If you are an intermediary or third-party distributor, you must only disseminate this material to other Professional Investors as permitted in the above-specified jurisdictions and in accordance with applicable laws and regulations.

Certain information contained herein has been obtained from published sources and from third parties, including without limitation, market forecasts, internal and external surveys, market research, publicly available information and industry publications. In addition, certain information contained herein may have been obtained from companies in which investments have been made by entities affiliated with BlackRock. Although such information is believed to be reliable for the purposes used herein, neither the Fund nor BlackRock assumes any responsibility for the accuracy or completeness of such information. Reliance upon information in this material is at the sole discretion of the reader. Certain information contained herein represents or is based upon forward-looking statements or information. BlackRock and its affiliates believe that such statements and information are based upon reasonable estimates and assumptions. However, forward-looking statements are inherently uncertain, and factors may cause events or results to differ from those projected. Therefore, undue reliance should not be placed on such forward-looking statements and information.

© 2024 BlackRock, Inc. or its affiliates. All Rights Reserved. BLACKROCK,BLACKROCK SOLUTIONS, iSHARES, BUILD ON BLACKROCK and SO WHAT DO I DO WITH MY MONEY are trademarks of BlackRock, Inc. or its affiliates. All other trademarks are those of their respective owners.