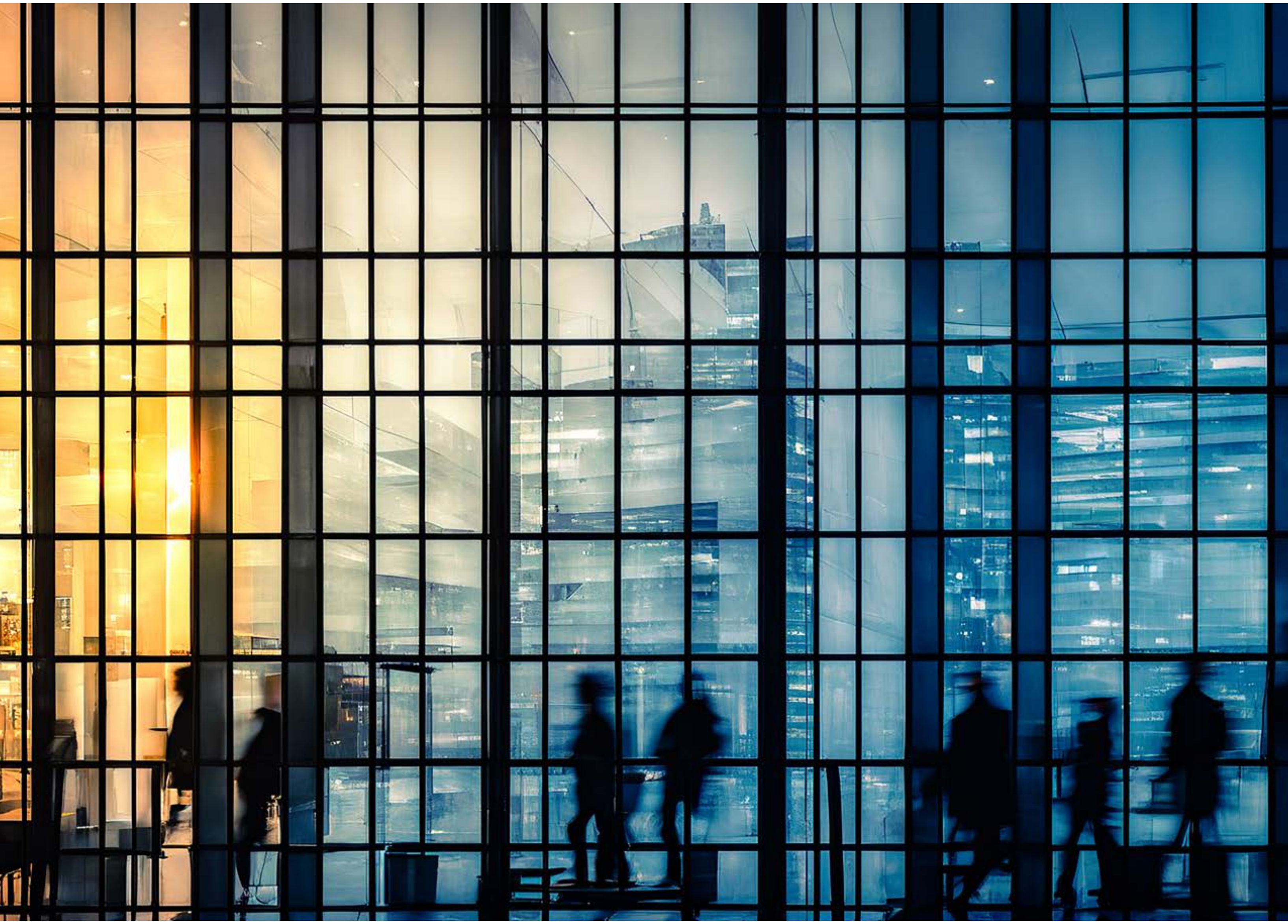
ENHANCING THE GENERAL ACCOUNT

INSURERS' SHIFT TOWARDS PRIVATE MARKETS CONTINUES

December 2025

EXECUTIVE SUMMARY

The insurance sector is in the midst of a structural transformation, fueled by a recalibrated interest rate environment, record annuity sales, and the resulting need to deploy growing pools of long-duration capital. This shift has accelerated allocations toward alternative and private assets, particularly mortgage loans and real estate fund investments, driven by the pursuit of higher yields, portfolio diversification, and more effective asset-liability matching. In today's highly competitive landscape, every basis point matters for long-term portfolio construction. Historically, both commercial mortgage lending ("CML")[1] and commercial real estate ("CRE") equity investments have delivered compelling, risk-adjusted returns relative to traditional fixed income, reinforcing their appeal as core holdings for insurers. Against this backdrop, the industry's evolving investment strategies are reshaping its role in private markets and expanding its influence across the commercial real estate and private credit landscape.



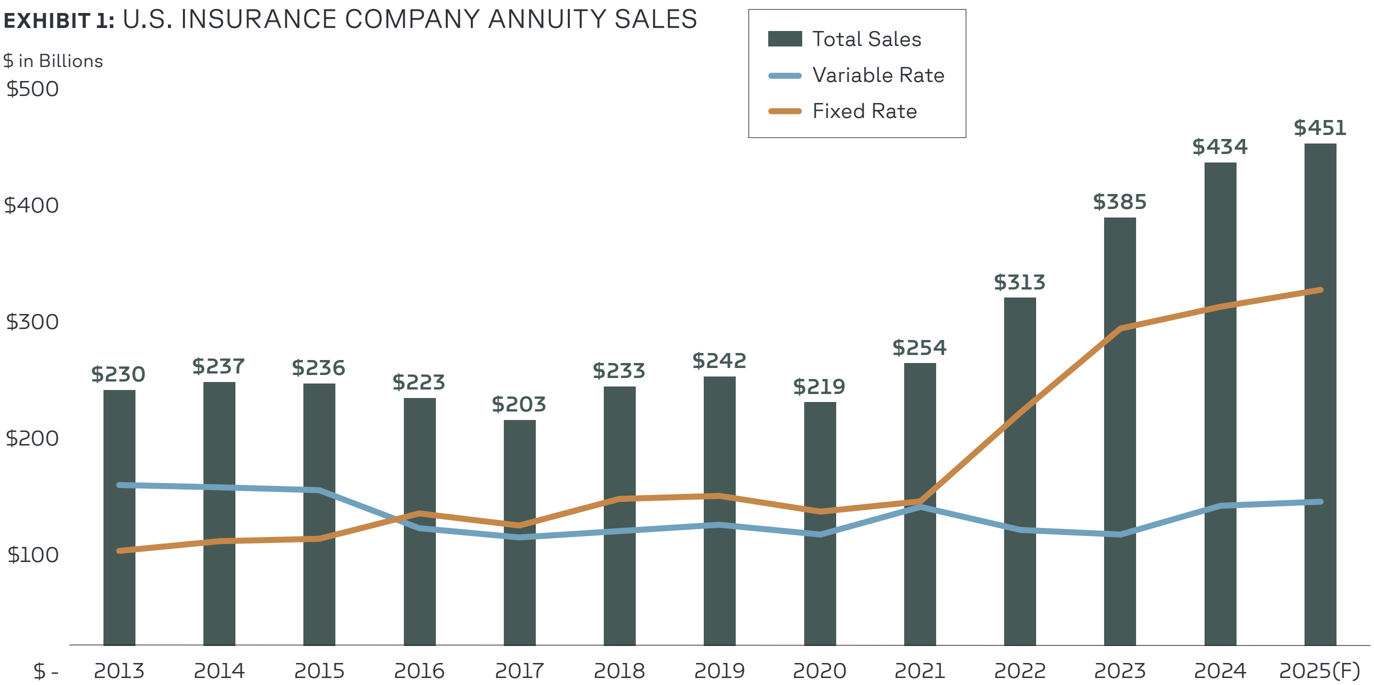
1. CMLs are classified by the National Association of Insurance Commissioners ("NAIC") as Schedule B investments.

INCREASED ANNUITY SALES AND THE NEED FOR INVESTMENT

The U.S. insurance industry's total cash and invested assets reached just under $9 trillion at the end of 2024, a 5.3% increase for the year.[2,3] Schedule BA assets[4] and mortgage investments grew at an outsized pace, at 7.8% and 5.6%, respectively.[5] This portfolio's growth has accelerated in recent years, particularly for life insurance and property and casualty ("P&C") insurers. The growth in assets for life insurer general accounts has been fueled by rising annuity demand, driven by investors seeking to lock in higher crediting rates in the elevated interest rate environment.

As shown in **Exhibit 1**, annuity sales at U.S. life insurers have nearly doubled in recent years, from an average of $230 billion annually from 2017 to 2021, to $434 billion in 2024, and 2025 is on pace to set a new record through Q3.[6] This tailwind for annuity sales has been driven by the significant jump in interest rates since 2022, further fueled by demographic shifts, such as the record number of Baby Boomers turning 65 between 2024 and 2027, and the pension risk transfer ("PRT") business[7] which, in combination, should continue to increase demand for life and annuity products.

EXHIBIT 1: U.S. INSURANCE COMPANY ANNUITY SALES



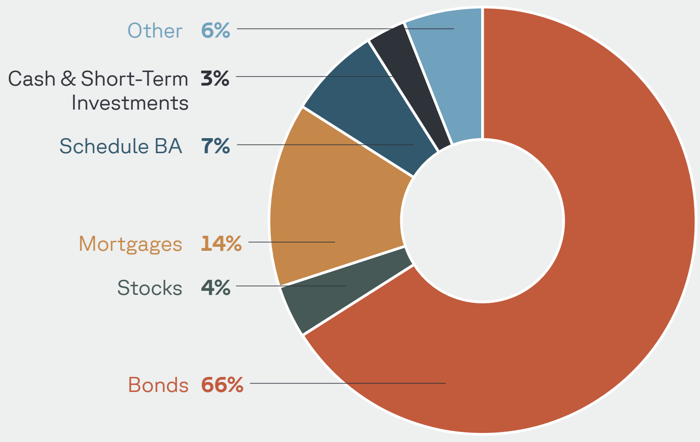
Source: LIMRA, Affinius Capital Research

This robust growth in annuity sales translates directly into a need for life insurers to invest the considerable capital generated. Historically, insurers have constructed investment portfolios dominated by fixed income securities; particularly investment-grade corporate bonds, government securities, and structured products. At the end of 2024, 66% of life insurer and 49% of P&C insurer invested assets were in bonds. This conservative allocation reflects both regulatory mandates and liability matching imperatives.[8] Life insurance products, such as annuities and whole life policies, promise predictable, long-duration cash flows. To meet those obligations reliably, insurers have sought assets with stable income streams, low default risk, and liquidity sufficient to manage policyholder needs. P&C insurers have similarly elevated fixed income exposure, but a higher concentration in stocks and liquid, shorter-duration assets overall.[9]

2. NAIC Capital Markets, https://content.naic.org/sites/default/files/capital-markets-special-reports-asset-mix-ye2024.pdf
3. U.S. insurance industries meaning property & casualty ("P&C"), health, and life general accounts.
4. NAIC Schedule BA is an asset classification for long-term assets held by insurance companies including, but not limited to, private equity, hedge funds, indirectly held commercial real estate, surplus debentures, and indirectly held mortgage loans.
5. NAIC Capital Markets, https://content.naic.org/sites/default/files/capital-markets-special-reports-asset-mix-ye2024.pdf
6. https://www.fa-mag.com/news/-annuity-sales-jumped-4---hitting-new-record-in-q3-84670.html
7. Pension risk transfer is when a company shifts some or all of its defined benefit pension obligations to an insurer in an annuitized format. The insurer assumes responsibility for paying benefits, allowing the company to reduce exposure to investment and longevity risks.
8. Common and preferred stocks comprise 4.2% of the Life general account portfolio, and cash and short-term investments an additional 3.4% as of 2024, per the NAIC.
9. Common and preferred stock comprises 32% of the P&C portfolio, and cash and short-term investments an additional 10%, as of 2024, per the NAIC.

The insurer regulatory framework, including risk-based capital requirements, has reinforced this fixed income bias over time. Bonds not only generate consistent yields but also have historically received more favorable capital treatment than equities or alternatives, supporting solvency metrics. Over decades, this combination of liability matching, regulatory incentives, and risk management discipline has led life insurers to maintain portfolios heavily weighted toward fixed income, as shown in **Exhibit 2**.

EXHIBIT 2: U.S. LIFE INSURANCE COMPANY INVESTMENT ALLOCATIONS AS OF YE 2024



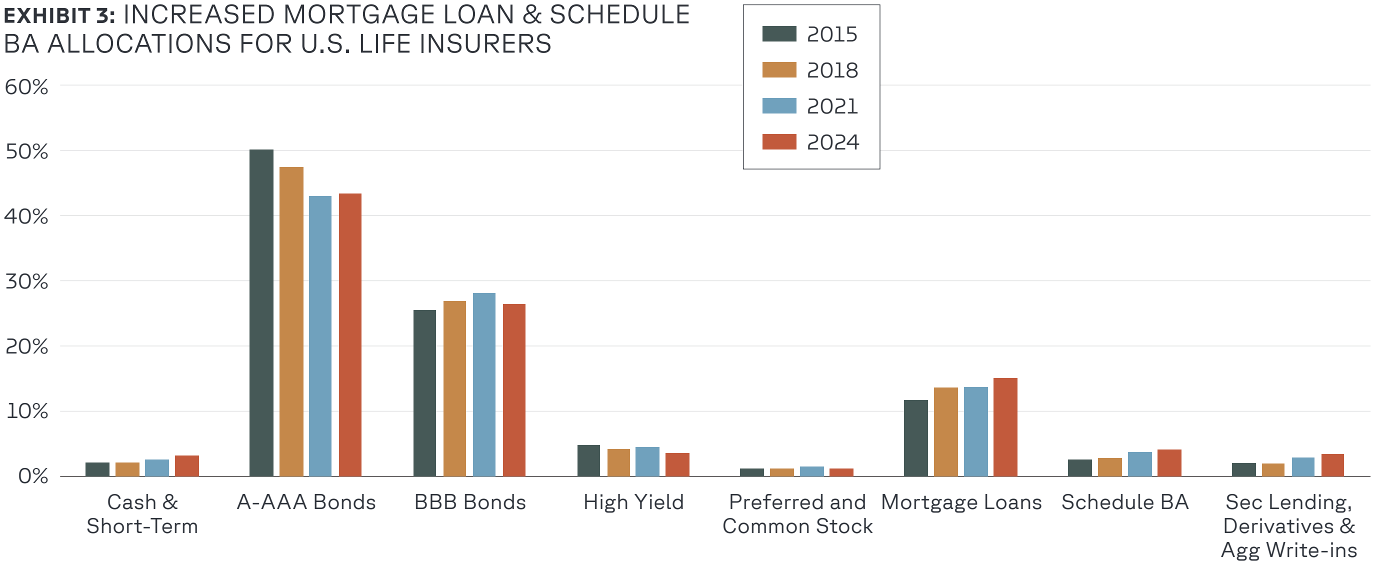
Source: NAIC, Affinius Capital Research

THE STRATEGIC TURN TO PRIVATE MARKETS

The sustained low-rate environment of the 2010s placed significant pressure on insurers' annuity sales, profitability, and investment income, forcing them to broaden their strategies beyond traditional bonds. Additionally, coming out of the GFC, default rates and recoveries for CMLs were extremely favorable when compared with other forms of public and private credit.[10] This has continued to reshape portfolio construction today: while elevated investment yields currently support higher crediting rates for policyholders, insurers are applying lessons from the last decade by allocating more capital to private markets in search of yield, diversification, and long-term growth.

This intensifying shift is visible in portfolio composition. Allocations to mortgage loans and Schedule BA assets have risen meaningfully, while exposure to the highest-rated bonds has declined, as shown in **Exhibit 3**. Health insurer allocations to mortgage loans and Schedule BA assets have increased from 5.1% to 7.1% of the portfolio since 2015, a $17 billion expansion. For life insurer general accounts, mortgage loans and Schedule BA assets have risen from 14.8% to 20.2% of the portfolio since 2015, a $600 billion expansion, and this trend has recently been even more pronounced amongst smaller life insurers who have historically had lower allocations to these sectors. Since 2019, allocations for the largest insurers to mortgage loans and Schedule BA assets have risen from 19% to 22%, while for smaller carriers, it has doubled, from 6% to 12%, over the same period. Given more rigid risk-based capital treatment for P&C historically, their holdings of mortgages and Schedule BA assets are lower, at just 7.4% of the investment portfolio as of YE 2024.

EXHIBIT 3: INCREASED MORTGAGE LOAN & SCHEDULE BA ALLOCATIONS FOR U.S. LIFE INSURERS



Source: S&P Global Market Intelligence, Conning Inc., Affinius Capital Research

10. During the GFC, the overall CMBS and bank CRE delinquency rates peaked at 9.8% and 6.9%, respectively, vs. just 0.31% for life insurer CMLs, per Bloomberg, FDIC, and ACLI.

Recent surveys suggest the trend is poised to continue. This expansion into less liquid categories, such as private placements, CMLs, and Schedule BA assets (including commercial real estate credit and equity funds) is driven by their historically higher yields and portfolio diversification benefits when compared to securities with similar ratings or capital charges. **Exhibit 4** highlights the diversification benefits of both CRE mortgage lending and investment in CRE equity fund indices over the past ten years, versus a bond portfolio. **Exhibit 5** demonstrates the increased yield provided by alternative real estate investments over the same period.

EXHIBIT 4: U.S. ASSET CLASS CORRELATION, 10 YEARS ENDING Q1 2025

	Aaa Corporate Bond	Baa Corporate Bond	HY Corporate Bond	First Mortgage CRE	High Yield CRE	CRE Core	CRE Value-Add	CRE Opportunistic
Aaa Corporate Bond	**1.00**							
Baa Corporate Bond	0.80	**1.00**						
HY Corporate Bond	0.43	0.84	**1.00**					
First Mortgage CRE	0.88	0.87	0.56	**1.00**				
High Yield CRE	0.01	0.06	0.09	(0.02)	**1.00**			
CRE Core	(0.33)	(0.43)	(0.40)	(0.35)	0.34	**1.00**		
CRE Value-Add	(0.06)	0.02	0.07	(0.02)	0.32	0.72	**1.00**	
CRE Opportunistic	(0.00)	0.19	0.32	0.08	0.33	0.56	0.88	**1.00**

Source: Giliberto-Levy, Bloomberg, NCREIF, Cambridge Associates, Affinius Capital Research

EXHIBIT 5: U.S. ASSET CLASS AVERAGE ANNUAL TOTAL RETURNS, 10 YEARS ENDING Q1 2025

Source: Giliberto-Levy, Bloomberg, NCREIF, Cambridge Associates, Affinius Capital Research

THE EXPANDING ROLE OF INSURERS IN CRE CREDIT AND EQUITY

Life insurance companies have long been cornerstone investors in private credit, with a decades-long track record in originating CMLs. Mortgage lending has historically been a natural fit for insurers, offering long-duration, call-protected cash flows aligned with life insurance portfolio liability structures. More recently, insurers are increasingly broadening their approach by supplementing traditional, Schedule B CML portfolios with higher-yielding CRE strategies accessed through fund vehicles and separately managed accounts. These provide exposure to segments such as construction and transitional lending, which often fall outside insurers' internal core competencies, while partnerships with private credit managers bring specialized sourcing, origination and asset management capabilities.

Construction lending has become one of the most active areas in recent years. Historically, insurers provided fixed-rate, construction-to-permanent financing, but the sharp rise in interest rates since 2022 has shifted borrower demand toward floating-rate structures, which are particularly well-suited for backing variable-rate annuity products. At the same time, bank retrenchment under Basel III has opened opportunities for insurers and debt funds to step more into the CRE construction lending market. These loans, typically structured with conservative loan-to-cost ratios, deliver durable yields while meeting insurers' risk discipline. Bridge loans have also gained traction, now focused less on distressed assets and more on newer-vintage, high-quality properties in temporary transition, providing strategic exposure that aligns well with insurers' yield needs.

Schedule BA investments have emerged as a key area of growth in life insurer portfolios. These investments, encompassing limited partnership commitments to private equity, private credit funds, and certain structured exposures that qualify as investment-grade securities, provide access to higher yields and broader diversification than traditional public bonds. As insurers seek to enhance portfolio returns without disproportionately increasing capital charges, Schedule BA has become an increasingly important sleeve.

Insurers investing in real estate credit or equity through private funds generally face elevated capital charges unless they can apply "look-through" treatment, a close accounting of the fund's underlying assets. In the U.S., private equity exposures carried directly typically attract punitive RBC charges unless routed through structures like Rated Note Feeders ("RNFs"), which segregate rated debt and equity and enable a blended charge that approximates look-through treatment. Real estate debt strategies remain especially attractive from a capital efficiency standpoint, with significantly lower charges than real estate equity, highlighting why insurers favor debt or credit exposures when managing RBC constraints.

The evolution of RNFs and Collateralized Fund Obligations ("CFOs") is creating new pathways for insurers to invest in real estate private equity funds with more favorable capital treatment. By moving beyond the early "credit-to-credit" look-through structures, sponsors are now able to extend these vehicles into real estate, where core and core-plus funds exhibit similar characteristics to private credit; stable income, predictable cash flows, and an inflation-hedging component, but with the added benefit of tangible collateral.[11] Rating agencies have demonstrated growing flexibility in applying methodologies across asset classes, which suggests that real estate funds will increasingly be able to access RNF and CFO structures in the years ahead.[12]

11. Investing for Yield: Lessons from the Insurance Sector, PREA Quarterly, Summer 2025
12. https://www.mayerbrown.com/en/insights/publications/2025/04/us-naic-spring-2025-national-meeting-highlights-investment-related-highlights

These vehicles serve as a hybrid between debt and equity exposure, offering institutional investors, particularly insurers and pension funds, access to investment-grade instruments backed by alternative assets. For open-end funds, structuring RNFs and CFOs on a fixed-term basis can reduce redemption uncertainty, broaden the investor base, and allow sponsors to build repeatable "set-and-forget" platforms. For investors, the appeal lies in higher yields at equivalent ratings, improved portfolio customization, and a capital-efficient means of increasing allocations to alternatives. While challenges remain around underwriting and cross-disciplinary diligence, particularly between credit and alternatives teams, those hurdles are surmountable for sponsors with established relationships and track records.

Taken together, these developments underscore both opportunity and responsibility. Insurers can leverage Schedule BA allocations to enhance yield and support more competitive product crediting rates, but must do so within rigorous underwriting and liability-matching frameworks. While private markets introduce illiquidity and added complexity, insurers' conservative approach, anchored in senior positions, low LTVs, and disciplined asset-liability management, mitigates these risks. When managed prudently, these allocations could offer durable income and a competitive advantage, reinforcing private real estate credit as a strategic pillar of the modern general account.

CONCLUSION

The convergence of higher interest rates and favorable demographic tailwinds has directly impacted rising annuity demand and evolving regulation is reshaping how insurers deploy nearly $9 trillion of invested assets. While fixed income has long anchored insurer portfolios, recent years have underscored the limits of relying solely on traditional bonds. In response, insurers are increasingly turning to mortgage loans, private placements, and Schedule BA assets — segments that not only provide yield and diversification, but also align with the liability-matching discipline central to the business model.

> The result is a more balanced allocation, where private markets play a greater role in supporting competitive product crediting rates and long-term growth.

The evolving investment marketplace carries both opportunity and responsibility for insurance companies. Banks' pull-back has created a structural opening for insurers and private credit managers to expand their footprint and allocation in CRE lending, construction finance, and bridge loans. The insurance regulatory environment reinforces the importance of prudent underwriting and asset-liability alignment, along with careful monitoring of exposure to less liquid investments. What was once a niche allocation is quickly becoming mainstream: private and alternative assets now represent not just a search for yield, but a strategic pillar of how insurers meet their obligations to policyholders. For institutional investors, this marks a profound shift in the insurance sector's role within credit markets, and one we believe will continue to expand as insurers adapt to a more complex, yield-sensitive environment.

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