

KKR Finds Insurance Industry Embracing a 'New World Order'

New Macro Report, Which Includes Proprietary Survey, Underscores Innovative Ways in Which the Insurance Industry Is Evolving Its Model

NEW YORK--(BUSINESS WIRE)-- KKR today announced the release of a new *Insights* piece by Henry McVey, Head of Global Macro and Asset Allocation (GMAA). In *New World Order*, McVey and his team outline key investment trends in the insurance sector as industry executives prepare to navigate a challenging investment climate during the next few years.

"From almost any vantage point, the multi-year decline in interest rates since the Global Financial Crisis is having an unprecedented effect on the profitability and sustainability of the entire insurance business," Henry McVey said. "Importantly, it comes at a time when the investment part of the business is now often taking on more responsibility for driving profitability than the traditional underwriting function. Given this backdrop, getting asset allocation right has never been more important. The good news is that many CIOs in the insurance industry understand that they are operating in what we are terming a 'New World Order' for asset allocation."

To better understand how cognizant CIOs are of the risk in today's environment, McVey and his team, alongside KKR's Insurance Asset Management team, conducted a proprietary survey of approximately 50 large, well-capitalized insurance companies that are either existing clients of KKR or prospects of the firm. Collectively, participants surveyed oversee nearly three trillion dollars in investable assets, representing nearly 40% of the total U.S. insurance industry investable assets.

In his latest report, Henry McVey shares his primary conclusions from the survey, including:

1. To combat today's challenging investment environment, insurance companies have begun to branch out into a variety of new products, including Structured Products, Alternatives, and Non-Investment Grade Debt. All told, total Non-Traditional Investments and Non-Investment Grade Debt now represent 26.4% of on-balance sheet investment assets for our survey participants, compared to just 17.4% in 2014.
2. Within Structured Products, the survey reports greater demand by insurance companies for better capitalized and more transparent securitized investment vehicles, including CLOs, ABS, and CMBS, relative to the pre-Global Financial Crisis.
3. Within the Alternative Investment arena, Private Equity allocations have nearly doubled to 2.4% since 2014, though Private Credit remains the largest absolute Alternative allocation at 5.6% of total allocations versus a 4.7% allocation in 2014. On the other hand, Hedge Fund allocations fell sharply to just 50 basis points, down meaningfully from 110 basis points in 2014.
4. Not surprisingly, life and annuity companies are much more aggressive allocators toward Private Credit and Private Real Estate.
5. Within KKR's property and casualty universe, there has been a significant increase in Non-Investment Grade Debt, which recently reached 8.4% versus 2.8% in 2014.
6. Even though many survey participants believe long-term interest rates have bottomed, KKR and its survey respondents do not see insurance asset allocation returning to prior allocations any time soon.

Links to access this report as well as an archive of Henry McVey's previous publications follow:

- 1 To read the latest Insights: click [here](#).
- 1 To download a PDF version: click [here](#).
- 1 To download the KKR Insights app [for iOS click here](#), and [for Android click here](#).
- 1 For an archive of previous publications please visit www.KKRinsights.com.

About Henry McVey

Henry H. McVey joined KKR in 2011 and is Head of the Global Macro and Asset Allocation team. Mr. McVey also serves as Chief Investment Officer for the Firm's Balance Sheet and oversees Firmwide Market Risk at KKR. As part of these roles, he

sits on the Firm's Investment Management & Distribution Committee and the Risk & Operations Committee. Prior to joining KKR, Mr. McVey was a managing director, lead portfolio manager and head of global macro and asset allocation at Morgan Stanley Investment Management (MSIM). Earlier in his career he was a portfolio manager at Fortress Investment Group and chief U.S. investment strategist for Morgan Stanley. While at Morgan Stanley, Mr. McVey was also a member of the asset allocation committee and was the top-ranked asset management and brokerage analyst by Institutional Investor for four consecutive years before becoming the firm's strategist in January 2004. He earned his B.A. from the University of Virginia and an M.B.A. from the Wharton School of the University of Pennsylvania. Mr. McVey is a member of the TEAK Fellowship Board of Trustees after previously serving as co-chair of the board for five years. Henry is also a member of the Pritzker Foundation Investment Committee, a board member of the University of Virginia Investment Management Company (UVIMCO), a member of the national advisory board for the Jefferson Scholarship at the University of Virginia, and a member of the Council on Foreign Relations Corporate Leader Program.

About KKR

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The views expressed in the report and summarized herein are the personal views of Henry McVey of KKR and do not necessarily reflect the views of KKR or the strategies and products that KKR offers or invests. This release contains projections or other forward-looking statements, which are based on beliefs, assumptions and expectations that may change as a result of many possible events or factors. If a change occurs, actual results may vary materially from those expressed in the forward-looking statements. All forward-looking statements speak only as of the date such statements are made, and neither KKR nor Mr. McVey assumes any duty to update such statements except as required by law.

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