Jake Siewert: This is Exchanges at Goldman Sachs where we discuss developments currently shaping markets, industries, and the global economy. I'm Jake Siewert, Global Head of Corporate Communications here at the firm.

My guest today is Mike Siegel, Global Head of the Insurance Asset Management and Liquidity Solutions Business within the Asset Management Division of Goldman Sachs. Mike and his team have just released their annual insurance report which looks at how the insurance companies are allocating capital, which gives us, of course, an insight into the investment universe more broadly.

On this episode we're going to talk to Mike about the findings of this year's report, now in its 10th year. Mike, thank you very much for joining us.

Mike Siegel: Jake, good to see you. Thank you for having me back.

Jake Siewert: Mike, a decade into this report. Well, last time we spoke it was in the midst of the pandemic and CIOs were dealing with sharply higher levels of market volatility and a lot of uncertainties about the trajectory of the virus and the vaccine. So, give us some background on this year's report, now that the situation is somewhat stabilized, and how insurers have weathered the past year.

Mike Siegel: Well, Jake, no doubt about it, this last year was difficult for the insurers, for their employees, for their clients, like all of the companies and individuals around the world. You know, these companies had a difficult time going to a full work-at-home environment. They had to do it quickly. And it was not easy. They experienced a lot of claims in terms of mortality, healthcare. They experienced claims in terms of worker compensation and also business interruption.

Having said all that, with all of the market volatility, they were able to take advantage of that volatility and put a lot of
capital to work. So, on the investing side of the business, while very volatile, they came out of it in really good shape.

**Jake Siewert:** So, Mike, the title of this year's survey is "Running the Risks." Explain to all of us what that means exactly.

**Mike Siegel:** Well, we had 286 respondents to the survey this year. They represent over $14 trillion in assets. It's more than half of the industry's global assets. Overwhelmingly, what we saw out of the report was risk on, adding more risk. We saw that across the life companies, the property casualty companies, the healthcare companies, the reinsurers. We saw it across regions. We saw it in the Americas, in Bermuda, in Europe, and in Asia. And then we saw it across all the risk types. Adding to more equity risk. Adding to more credit risk. Extending duration and adding to illiquidity risk. So, it was very much risk on. And that's what the title is intended to imply.

**Jake Siewert:** Mike, thanks for the run down. Give us the big picture view on where insurers are planning to invest this year.

**Mike Siegel:** Sure Jake. So, as we mentioned, the insurers are really looking to put capital to work in all the regions, in all the risk types. Once again, when we look at asset allocation, private equity is the number one asset class that they're looking to increase their allocations to. This has been true for the last several years. After that, it's a lot of private credit, including middle market loans, infrastructure debt, emerging market corporate debt. And then after that, I would say it's into floating rate asset classes. Middle market loans are one of them. Collateralized loan obligations are another.

On the flip side of that, how are they going to fund that? Well, some of it's going to come out of cash. Cash is, typically, your low risk asset. But as we said, they're very optimistic about the outlook. So, they're going to put cash to work. They're going to be reducing their holdings of government securities. And finally, they're going to slightly reduce their allocations to hedge funds as well.

**Jake Siewert:** To your point about CIOs leaning into risk, global insurers indicated in the survey that they plan to increase their allocation specifically to private assets, private equity, private credit, as they have in past years. Why do you think that trend continues to drive their decision making? And even seems to be picking up steam?
Mike Siegel: Well, Jake, you're absolutely right. The survey the last several years now has been very consistent of an increased movement into all of those private asset classes you mentioned. Really, there are two very simple reasons. The first, the returns in the private markets are above or better than the returns in the public markets. And secondly, the insurers are able to take advantage of illiquidity. They have liquidity on the balance sheet. They have very stable balance sheets. They're not subject to a run. So, they're better positioned than anybody else to put capital to work and earn that illiquidity premium that you see in the private markets.

Jake Siewert: So, with the economy recovering and the pandemic ebbing a bit, at least here in the US and some other developed nations, interest rates are picking up in anticipation of a stronger economy, and that's raised concerns about inflation. How will the insurers think about inflation and how are they responding to those concerns?

Mike Siegel: Well, we definitely picked up in the survey that there's a significant increase in the concern about inflation. For the last several years the survey was showing a concern about deflation, particularly in Europe. That has now vanished from the survey results. And it's now pointing to inflation.

We're also seeing movement towards floating rate assets. And we think part of that is being explained by this concern about inflation. So, if we get more inflation, ultimately the monetary authorities will raise short end rates. And that will be a benefit to floating rate assets.

Jake Siewert: So, this year's survey showed that less than half of insurers believe that we're in the later stages of a credit cycle, which is a marked departure from the last two years. Why do you think their perspective has changed on where we are in the cycle?

Mike Siegel: Well, you're absolutely right. It's a big departure. Last year, the firms thought we were in the last stage of the credit cycle where you would see credit deteriorating, ultimately leading to more bankruptcies and restructurings. This year, the report or the results step back quite a bit. We're now into the middle stage of the credit cycle, which is also supporting taking on more credit risk. Why is that? Generally, the insurers are optimistic. When we ask questions about recession, recession looks like it's more than
three years off. So, if the recession is more than three years off and we're going to have good economic growth globally, although, yes, it's going to take time to get things synchronized and it's going to take time to get this pandemic further under control in various parts of the world, but having said all that, they are optimistic about economic growth. And therefore, they're optimistic about credit.

**Jake Siewert:** Sometimes in recession, ESG considerations have taken a backseat. But contrary to, maybe, some conventional wisdom, the pandemic accelerated companies' and investors' interest in ESG. Your report and survey showed that insurers' consideration of ESG in their investment processes has continued to climb. What are the primary drivers for that? And talk a little bit about how insurers are integrating ESG into their portfolios.

**Mike Siegel:** Well, Jake, yeah, the report shows a very consistent trend for an increased adoption and concern or consideration around ESG. We picked that up several years ago in Europe. And then we started to pick that up in Asia. And finally, we're picking it up in the States as well.

Companies are taking this very seriously. You see it at the board level, at the CEO level. If you read the annual reports of most of the insurance companies, you'll see a discussion about ESG and how the companies are taking that into consideration. So, you'll see it on the business side. What policies into what industries and what risks should they be writing? A concern about climate risk. And then, finally, you see it on the investing side. What are the policies and procedures they have around ESG? How should they measure it? And then once they know how to measure it, how should they reorient their asset base to be more sensitive to environmental, social, and governance concerns?

It also, though, moves into the areas of impact investing. And our dialogue now is increasing quite significantly. Companies are looking to put capital to work to have a positive impact on the environment, on social issues, and on governance. So, all of these are a dialogue that we're now seeing globally.

**Jake Siewert:** So, Mike, aside from the survey, you and your team speak with insurers all around the globe. It's a truly global industry. Talk about some of the regional differences in investment approaches.
Mike Siegel: Sure. You know, first, when we started the conversation, we talked about risk on. We're really seeing it more pronounced in Asia than anywhere else. We think the reasons for that are the Asian economies and the Asian populations are growing more rapidly. So, the Asian companies are growing more rapidly. They're well capitalized. They need to put capital to work. So, we're seeing more of a risk appetite out of Asia than we're seeing elsewhere. In Europe we're seeing a little bit less. Slower growing economy. Slower growing populations. So, I think that's one of the big differences.

I already referenced ESG. Clear adoption in Europe. Clear adoption in Asia. Finally, coming here to the States, being adopted here. I think those are the most significant differences that we're seeing.

Jake Siewert: So, Mike, thanks for joining us today.

Mike Siegel: Jake, great to see you. Thank you as well.

Jake Siewert: That concludes this episode of Exchanges at Goldman Sachs. Thank you very much for listening. And if you enjoyed this show, we hope you subscribe on Apple Podcasts and leave a rating or a comment.

This podcast was recorded on Tuesday, April 20th, in the year 2021. Thanks for listening.

This transcript should not be copied, distributed, published or reproduced, in whole or in part, or disclosed by any recipient to any other person. The information contained in this transcript does not constitute a recommendation from any Goldman Sachs entity to the recipient. Neither Goldman Sachs nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this transcript and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. The views expressed in this transcript are not necessarily those of Goldman Sachs, and Goldman Sachs is not providing any financial, economic, legal, accounting or tax advice or recommendations in this transcript. In addition, the receipt of this transcript by any recipient is not to be taken as constituting the giving of investment advice by Goldman Sachs to that recipient, nor to constitute such person a client of any Goldman Sachs entity. This transcript is provided in conjunction with the associated