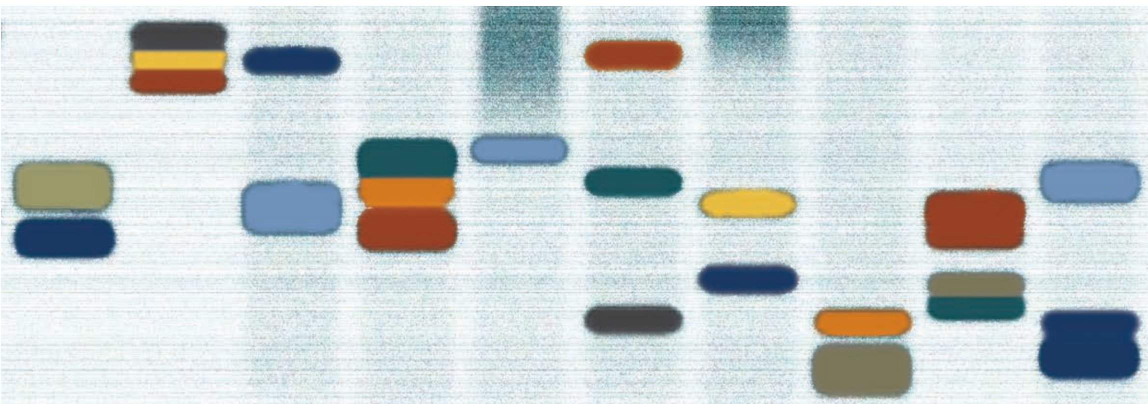
Goldman Sachs Asset Management

Too Much Capital, Too Little Return



GSAM Insurance Survey

GSAM INSURANCE ASSET MANAGEMENT

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The authors would like to thank Nina Onsager for her significant contributions.

I. Executive Summary

Finding attractive investment opportunities has become a familiar challenge in a world of low to negative yields, tight spreads, and high equity prices. This year insurers demonstrated the greatest pessimism since we first began conducting the survey four years ago. Insurers believe the industry is adequately or over-capitalized ("too much capital"), but that investment opportunities are deteriorating ("too little return"). Our 2015 GSAM Insurance Asset Management Survey received participation from 267 Chief Investment Officers (CIOs) and Chief Financial Officers (CFOs), representing over $6 trillion in global balance sheet assets.

Despite the bearish sentiment on the investment environment, approximately one-third of insurers globally are looking to increase overall portfolio risk. EMEA and Pan Asian insurers demonstrated strong risk appetite this year. EMEA insurers have increased their risk appetite over the years and this year they intend to take more liquidity risk, while Pan Asian insurers are looking to increase credit and equity risk. The majority of Americas-based insurers intend to maintain their overall risk level.

Insurers are concerned about the pace of US economic growth and consider it to be the greatest macroeconomic risk. CIOs and CFOs believe the US dollar will continue to strengthen due to a relatively stronger economy and relatively higher interest rates. Higher rates are critical for insurers to improve returns, but after yields moved lower in 2014, contrary to expectations, and central banks expanded "QE" programs, insurers are not anticipating a meaningful increase in rates this year. One-third of insurers now believe we have moved into the late stages of the credit cycle with deteriorating credit quality conditions.

Despite years of unprecedented global monetary easing, insurers have become more concerned about deflation due to slow global growth and lower commodity prices. Insurers are not expecting a meaningful increase in oil prices this year, and they anticipate commodities will be amongst the lowest returning asset classes. The last time insurers indicated this level of concern around deflation was in 2012 when they were anxious about the European debt crisis. Similar to previous years, insurers have pushed out concerns about rising inflation to the medium term.

Equity assets are anticipated to outperform credit assets this year, but insurers have more modest expectations for US public equities relative to last year's returns. Insurers are looking to less liquid, private asset classes to bolster returns, and intend to increase allocations to commercial mortgage loans, infrastructure debt, private equity, middle market loans and real estate equity. Negative sovereign yields are leading EMEA and Pan Asian companies to diversify into US investment grade corporates, an asset class insurers have not demonstrated strong incremental demand for since 2012.

II. GSAM Insurance Survey Background

MARKET ENVIRONMENT

Global financial markets were relatively benign last year with low volatility as equities and bonds delivered strong returns. This year started with higher volatility as headlines were dominated by falling oil prices and unanticipated aggressive central bank actions. Asset correlations increased as risk assets sold off broadly. The global oil market is currently facing an oversupply as the US is producing higher levels of oil, and OPEC, concerned about losing market share, has not cut production. Demand growth has slowed due to weak economic growth in Europe, Japan and China. The overall economic impact of lower oil prices is positive for the largest global economies given the US, China, Japan and Eurozone are net oil importers.

Developed market central banks are pursuing divergent monetary policies as developed economies demonstrate differing growth trajectories. The US economy is on an upswing with a strong labor market supporting a housing recovery. Many investors anticipate the Fed will tighten in the second half of 2015, though weaker commodity prices have contributed to low inflation. The US dollar continues to strengthen, and rising wealth and falling oil prices are supportive of higher consumer spending which accounts for approximately 70% of US GDP.[1]

Euro area GDP growth has picked up, particularly in Germany and Spain, and business confidence is improving. The ECB is committed to quantitative easing with its €60 billion monthly purchases from March 2015 to September 2016. The program is focused on supporting growth in the region but an easy monetary policy will likely further weaken the euro. Greece reached an agreement with European leaders to extend the bailout, leading to a temporary reprieve to the question of a Greek exit. In January, the Swiss National Bank surprised the market with the removal of the exchange rate floor leading to a substantial appreciation of the Swiss Franc.

Japan's economy is benefiting from lower oil prices and is experiencing a recovery in consumer confidence. The impact of Abenomics remains to be seen, but Japanese corporate profitability has improved. A weaker yen has benefited Japan's export-oriented economy.

Emerging market economies are still growing faster than developed market economies, albeit below recent trends. India made a surprise interest rate cut which has supported equities, and investors generally view Modi's leadership favorably. S&P downgraded Russia's foreign currency rating to below investment grade due to economic deterioration following sanctions that were implemented as a result of the conflict with Ukraine. In China, lower oil prices, a housing market correction and sluggish demand growth have led the central bank to cut rates.

[1] World Bank data as of 2013.

INSURANCE OPERATING AND REGULATORY ENVIRONMENT

US Life insurers began the year well-capitalized with strong balance sheets resulting from favorable equity and credit markets throughout 2014. Pan Asian insurers are experiencing strong premium growth. European Life insurers are facing a more difficult environment with low to negative interest rates in addition to preparing for implementation of Solvency II.

US P&C insurers have utilized share repurchases and dividends to redeploy growing capital levels. Although the P&C industry is faced with increasing competition and slower premium growth, the sector is expected to maintain underwriting profits. The pricing environment continues to soften in the reinsurance market due to an influx of alternative capital. As a result, M&A activity has picked up and is expected to gain momentum throughout the year.

Insurers globally are facing increased regulatory requirements as international and national frameworks continue to evolve. In Europe, Solvency II will go into effect on January 1, 2016. Given a 16 year transition period to fully implement certain components of the directive, the impact on European insurers is not expected to be severe. The European Insurance and Occupational Pensions Authority (EIOPA) stress test results indicate insurers are generally sufficiently capitalized under the Solvency II regime. Asian insurers are broadly moving towards regulatory standards similar to Solvency II or aligned with global Insurance Core Principles (ICPs). In the US, as part of the Solvency Modernization Initiative (SMI), insurers are required to file their Own Risk and Solvency Assessment (ORSA) reports beginning in 2015 to internally assess their ability to withstand financial stress. ORSA is an additional tool to the Risk Based Capital framework, and may create the need for insurers to alter product offerings and risk management policies based on their results.

III. Introduction to Survey and Key Findings

SUMMARY OF SURVEY RESPONDENTS

GSAM Insurance Asset Management continued its partnership with KRC Research, an independent research provider. The survey provides valuable insights from insurance CIOs and CFOs regarding the macroeconomic environment, return expectations, asset allocation decisions, portfolio construction and industry capitalization. We received responses from 208 CIOs, 48 CFOs and 11 individuals who serve as both the CIO and the CFO. This year our survey included insurance companies that invest over $6 trillion in global balance sheet assets. The participating companies represent a broad cross section of the global insurance industry in terms of size, line of business and geography. The table below summarizes the profile of respondents.

Respondent Profile

Type	CIO	CFO	Both	Total
Life	74	15	5	94
P&C / Non-Life	66	24	4	94
Multi-Line	40	4	1	45
Health	16	2	0	18
Reinsurance	12	3	1	16
Total	**208**	**48**	**11**	**267**

Region	CIO	CFO	Both	Total
Americas	127	25	3	155
EMEA	43	18	7	68
Pan Asia	38	5	1	44
Total	**208**	**48**	**11**	**267**

KEY FINDINGS

Investment Opportunities

This year insurers demonstrated the most pessimism regarding investment opportunities as the vast majority believes investment opportunities are getting worse. This is a significant increase in negative sentiment from previous years.

Macro Risks

Insurers are most concerned about US economic growth, credit and equity market volatility and deflation. Insurers believe China, Russia and the US have the greatest potential to unexpectedly roil global financial markets.

Market Outlook

Market expectations are tempered. After rates moved lower in 2014 contrary to expectations, most insurers do not anticipate a meaningful rise in rates in 2015. The majority of survey respondents believe the 10-Year US Treasury yield will be between 2.0-2.5% at year-end, while almost one-third believe it will be between 2.5-3.0%.

Most insurers hold the view that the US dollar will appreciate relative to other major currencies with the exception of the Swiss Franc.

There is strong consensus on the trajectory of public equities and oil prices among insurers. Most believe equities will return between 0-10%, and oil prices will be range-bound between $50-$75 per barrel.

The majority of insurers believe we are in the middle stage of the credit cycle with stable credit quality and do not anticipate major movements in the credit markets. One-third of insurers think we have now entered the late stage of the credit cycle with deteriorating credit quality.

Deflation/Inflation

Deflation concerns have reemerged but expectations are fairly barbelled. More than one-third of insurers believe deflation will be a concern in their domestic market over the next year, while more than 40% believe deflation will not be a risk within the next five years.

Near term concern around inflation remains muted as most believe inflation will be a risk in the next 2-5 years.

Investment Risk

Approximately one-third of insurers globally are looking to increase overall portfolio risk, while the majority intends to maintain current risk levels. EMEA and Pan Asian insurers demonstrated strong risk appetite this year. EMEA insurers intend to take more liquidity risk, while Pan Asian insurers intend to increase credit and equity risk.

Low yields continue to pose the greatest portfolio risk for the majority of insurers.

Asset Class Return Expectations

Equity asset classes are broadly expected to outperform credit asset classes. Private equity, US equities and European equities are anticipated to be the highest returning asset classes.

Insurers have the lowest return expectations for cash/short-term instruments, government and agency debt and commodities.

Asset Allocation Decisions

Insurers globally intend to increase allocations to less liquid assets. The top four asset classes are all private: commercial mortgage loans, infrastructure debt, middle market corporate loans and private equity.

Consistent with their return expectations, insurers intend to decrease allocations to cash/short-term instruments and government and agency debt.

Impact of Regulatory Capital on Asset Allocation

Most insurers believe their industry is either adequately or over-capitalized.

A significant percentage of EMEA and Pan Asian insurers stated they are more likely to allocate to long duration bonds due to regulatory capital treatment. This is likely a result of insurers focusing on duration matching under Solvency II and its equivalents as duration mismatches are penalized.

Outsourcing

Insurers are looking to outsource investments in hedge funds, emerging market equities, US investment grade corporates, private equity and middle market loans.

SURPRISING FINDINGS

- This year insurers demonstrated the most pessimism regarding investment opportunities as most believe investment opportunities are getting worse.
- Insurers are not anticipating a significant move in interest rates. The vast majority believes the 10-Year US Treasury yield will not exceed 3.0% by year-end.
- Insurers believe oil prices will remain range-bound at $50-$75 per barrel.
- One-third of insurers believe we have now entered the late stage of the credit cycle with deteriorating credit quality.
- Although credit spreads continue to tighten and equity markets continue to move higher, approximately one-third of insurers globally are looking to increase overall portfolio risk.
- EMEA and Pan Asian insurers demonstrated strong risk appetite this year. EMEA insurers intend to take more liquidity risk, while Pan Asian insurers intend to increase credit and equity risk. Both EMEA and Pan Asian insurers expressed demand for European equities.
- As EMEA and Pan Asian companies face low to negative sovereign yields, they plan to diversify into US investment grade corporates, an asset class insurers have not demonstrated strong incremental demand for since 2012.

IV. Investment Environment

The ultra-low yield environment continues to be a challenge, and insurers demonstrated more pessimism than in previous years regarding investment opportunities. Insurers are worried about the potential impact of slower growth in the US, market volatility and deflation. They are also concerned about the unanticipated impact China and Russia can have on global financial markets. Deflation has returned as a concern due to the impact of lower oil prices and slower global growth. Despite years of global monetary easing, most insurers have pushed out their inflation concerns to the medium term, a theme we have seen over the last few years.

Insurers are optimistic about the strength of the US dollar relative to other currencies with the exception of the Swiss Franc, but have softened their expectations for the 10-Year US Treasury yield relative to last year. The vast majority of insurers do not expect the 10-Year yield to move higher than 3.0% this year. Most insurers are not anticipating a significant move in credit spreads, which highlights the difficulty of finding attractive investment opportunities. While most insurers believe we are in the middle of the credit cycle, approximately one-third believe we have entered the late stage of the credit cycle with deteriorating credit quality conditions.

Insurers are more optimistic about public equities and anticipate moderate returns. With the current oversupply in oil markets, most insurers expect oil prices to remain range-bound at $50-$75 per barrel. Oil price volatility may create attractive investment opportunities, and insurers view private equity/distressed strategies and high yield debt as the best strategies to exploit the market dislocation.

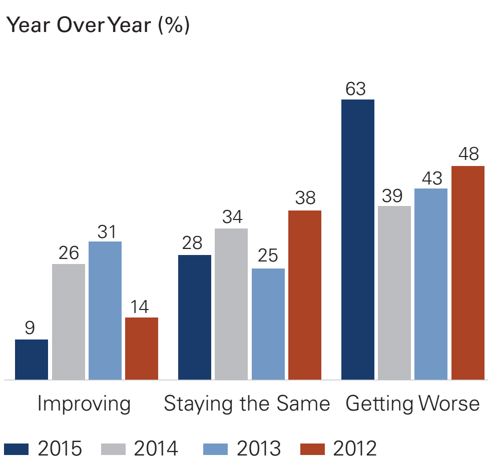
Regulatory changes including Basel III and Dodd Frank have impacted market liquidity conditions. Approximately one-third of insurers are concerned about the impact that deteriorating liquidity conditions will have on their investment portfolios, a concern that is particularly concentrated in Asia.

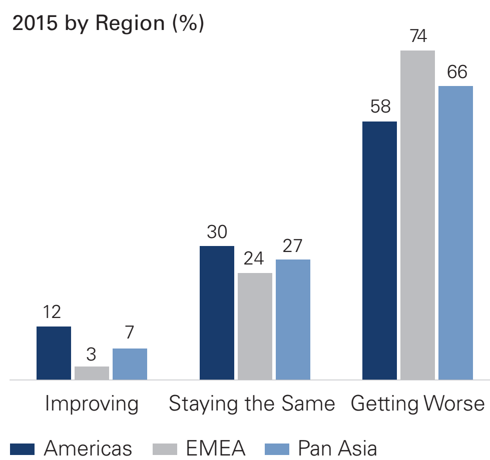
INVESTMENT OPPORTUNITIES

This year insurers demonstrated the greatest amount of pessimism regarding investment opportunities since we first began conducting the survey

- The majority of insurers believes investment opportunities are getting worse (63%), while only 9% believe opportunities are improving.
- EMEA-based insurers are particularly bearish as 74% believe investment opportunities are getting worse. This is understandable given sovereign yields in Europe are moving further into negative territory.

Overall, do you feel that investment opportunities compared to a year ago are improving, getting worse or staying the same?

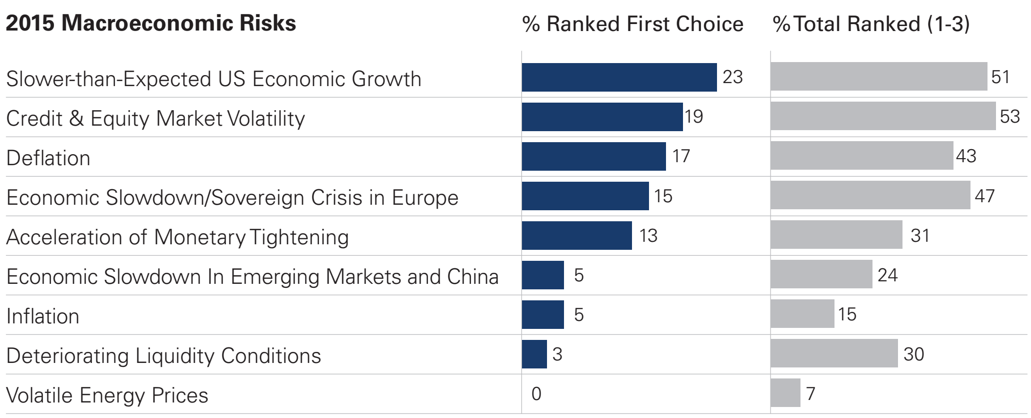




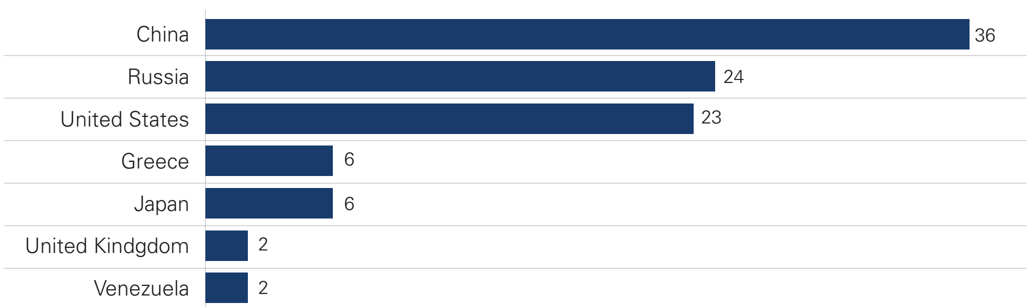
MACRO RISKS

- Insurers identified slower US economic growth (23%), credit and equity market volatility (19%) and deflation (17%) as the greatest macroeconomic risks.
- Nearly half of insurers globally (47%) identified an economic slowdown or a sovereign crisis in Europe as a top three macroeconomic risk.
- Insurers demonstrated a regional bias. Nearly 60% of Americas-based insurers selected slower US economic growth as a top three macroeconomic risk; 75% of EMEA-based insurers selected an economic slowdown/sovereign crisis in Europe as a top three macro concern.
- Insurers believe the economies with the greatest potential to unexpectedly roil the markets are China (36%), Russia (24%) and the US (23%).

Which of the following issues pose the greatest macroeconomic risk to your investment portfolio? Please select and rank your top 3.



In your opinion, which economy will have the greatest unanticipated impact on global financial markets in 2015? (%)

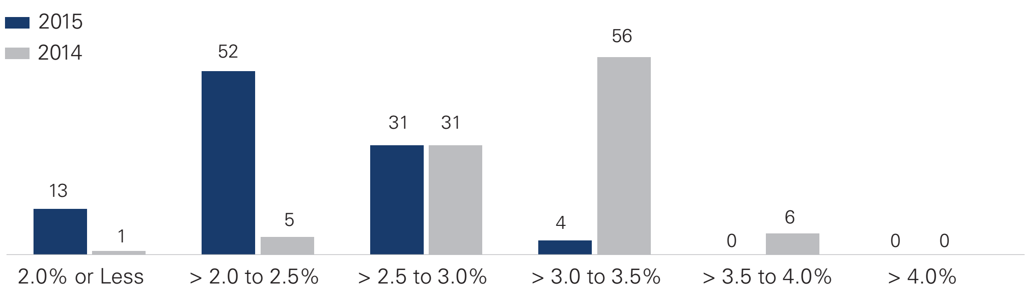


MARKET OUTLOOK

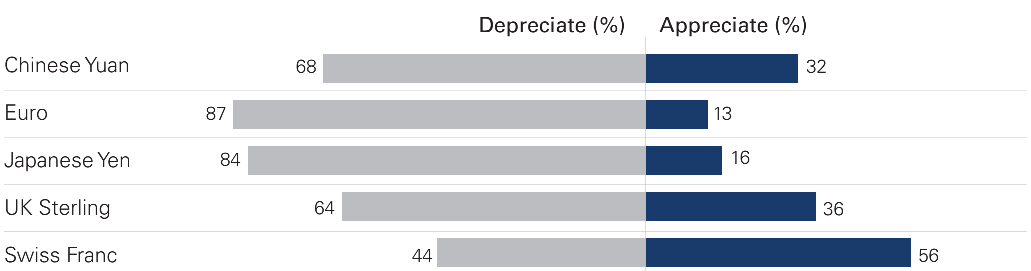
Insurers have tempered their rate expectations and approximately one-third believe we are in the late stage of the credit cycle

- **Rates:** The majority (52%) believes the 10-Year US Treasury yield will be between 2.0-2.5% at year-end, while 31% believe it will be between 2.5-3.0%.
- **Currencies:** Most insurers believe the US dollar will appreciate relative to other major currencies with the exception of the Swiss Franc, which 56% anticipate will strengthen relative to the US dollar. 87% of insurers believe the Euro will depreciate relative to the US dollar.
- **Equities**: There is significant consensus around return expectations for equities, with 76% expecting equities to return between 0-10%.
- **Oil Prices:** Insurers broadly (81%) believe Brent crude oil will remain within the range of $50-$75 per barrel.
- **Oil Market Dislocation:** Insurers view distressed debt/ private equity energy funds (37%) or energy high yield debt (29%) as the best strategies for capitalizing on the energy market dislocation. P&C insurers demonstrated a preference for energy high yield debt (39%), while Life and Multi-Line companies showed a preference for distressed debt/private equity strategies (43% and 49% respectively).
- **Credit Cycle:** Most insurers believe we are in the middle of the credit cycle with stable credit quality (62%), while approximately one-third believe we are in the late stage of the credit cycle with deteriorating credit quality (33%).
- **Credit Spreads:** Most insurers expect a modest tightening or modest widening (56%), with a large percentage expecting a moderate widening (43%).

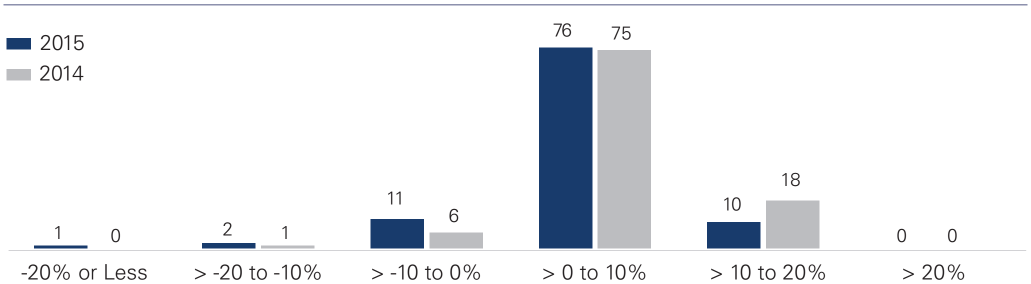
Where do you expect the 10-Year US Treasury yield will be at year-end 2015? (%)



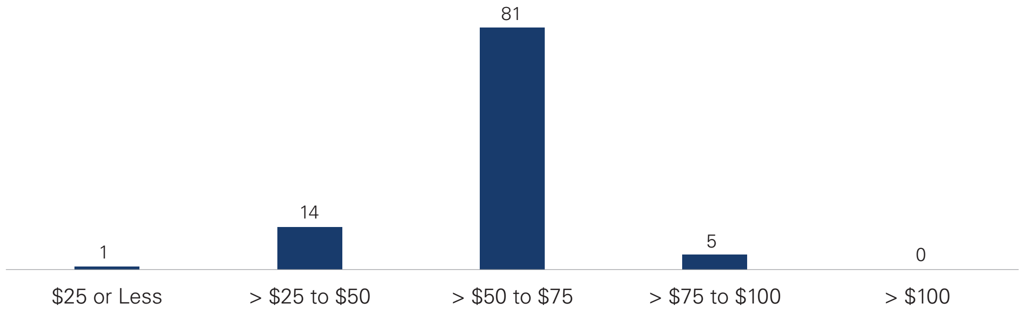
Do you believe the following currencies will appreciate or depreciate relative to the US dollar? (%)



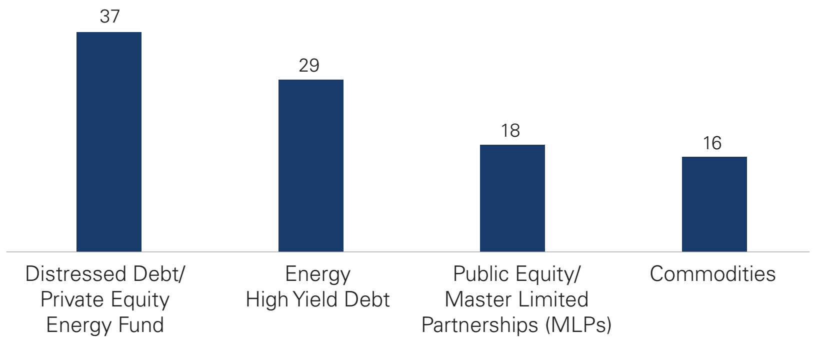
What do you expect the 2015 total return will be for the S&P 500 Index? (%)



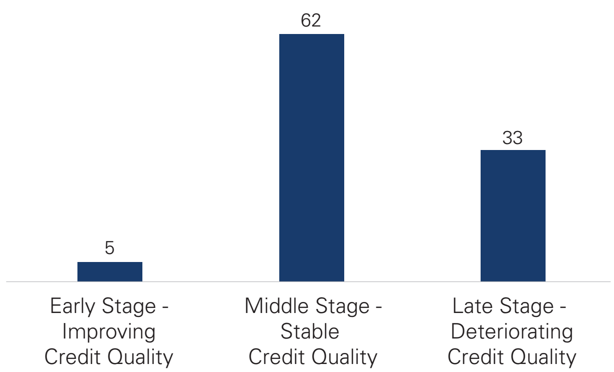
Where do you expect Brent crude oil (USD/bbl) will be at year-end 2015? (%)



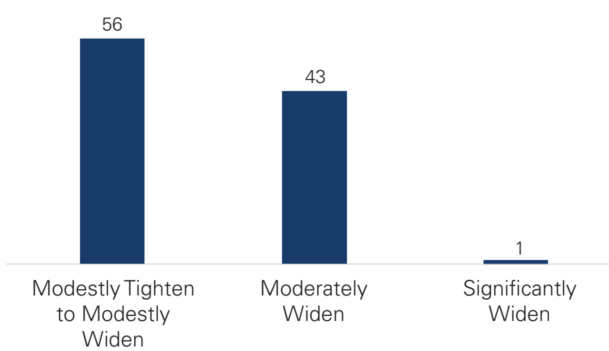
In your opinion, which asset class or strategy is the most attractive for capitalizing on the dislocation in energy markets? (%)



Where do you think we are in the credit cycle? (%)



What do you think will happen to credit spreads in 2015? (%)



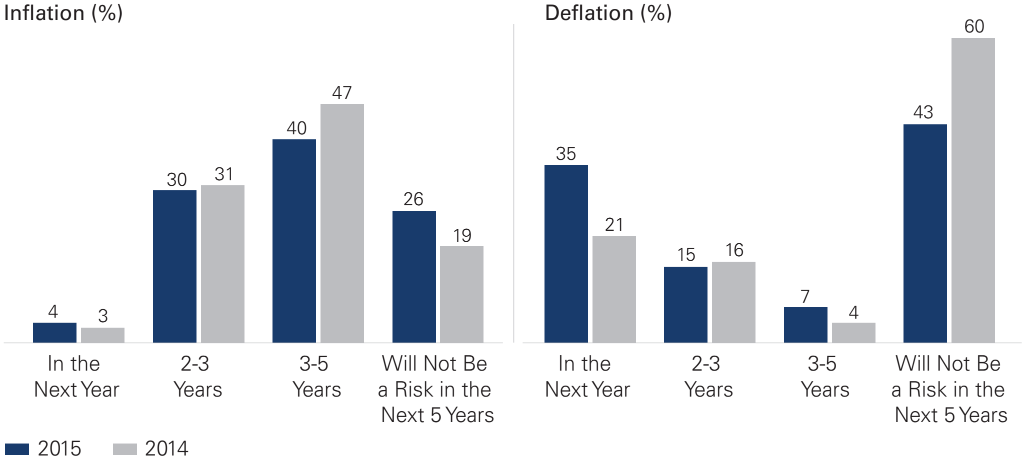
INFLATION/DEFLATION

Deflation concerns have reemerged but expectations are fairly barbelled

- 35% of insurers believe deflation will be a concern in their domestic market over the next year, while 43% do not believe deflation will be a risk within the next five years.
- Inflation concerns are muted. Similar to previous years insurers have pushed out their concerns to the medium term with 70% indicating they believe it will be a risk in their domestic market in the next 2-5 years.
- Americas-based insurers (48%) and P&C insurers (51%) are less concerned about deflation and do not view it as a risk over the next five years.

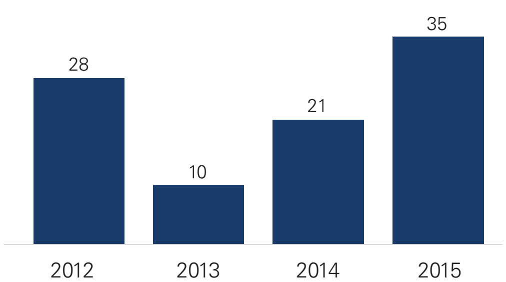
When do you expect inflation/deflation will be a concern in your domestic market?

Inflation (%) Deflation (%)



Deflation will be a concern in the next year

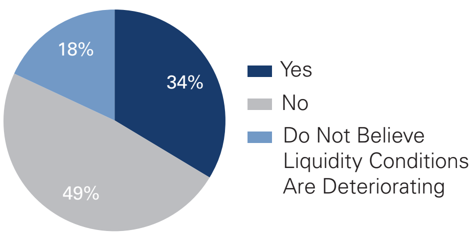
Year Over Year (%)

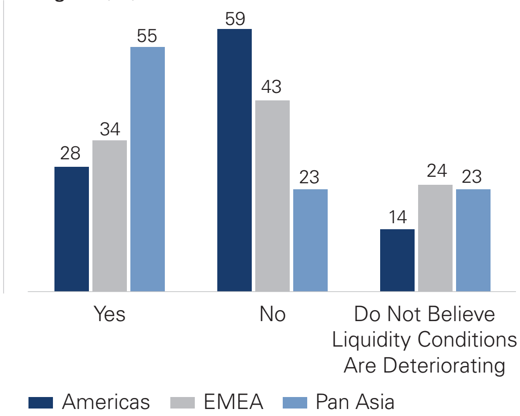


LIQUIDITY CONDITIONS

- Approximately one-third (34%) of insurers believe deteriorating liquidity conditions will impact their investment portfolio, while nearly half (49%) do not believe it will have an impact.
- More than half (55%) of Pan Asian insurers believe deteriorating liquidity conditions will impact their portfolio.

Do you think deteriorating liquidity conditions will have a significant impact on your investment portfolio?





V. Asset Returns and Allocation Decisions

Approximately one-third of insurers globally are looking to take on more investment risk, while the majority intends to maintain current risk levels. EMEA and Pan Asian insurers demonstrated strong risk appetite this year as they face low to negative sovereign yields. EMEA-based insurers have increased their risk appetite over the years and are looking to take more liquidity risk, while Pan Asian insurers are looking to increase both credit and equity risk. Most insurers believe their industry peer group is taking on the appropriate amount of investment risk.

Similar to 2014, insurers expect equity asset classes to outperform credit asset classes. Insurers have the lowest return expectations for cash/short-term instruments and government and agency debt, and intend to decrease allocations accordingly. After months of volatile and declining oil prices, insurers also expect commodities to be one of the lowest returning asset classes this year.

Insurers globally demonstrated strong demand for less liquid, private assets including commercial mortgage loans, infrastructure debt, middle market loans, private equity and real estate equity. There are notable differences by region with regards to asset allocation. Americas-based insurers demonstrated the greatest appetite for commercial mortgage loans, private equity, middle market loans, US securitized credit and infrastructure debt. EMEA insurers intend to increase allocations to infrastructure debt, European equities, middle market loans, real estate equity and US investment grade corporates. Pan Asian insurers intend to make the greatest net allocations to infrastructure debt and US investment grade corporates, followed by private equity, European equities and infrastructure equity.

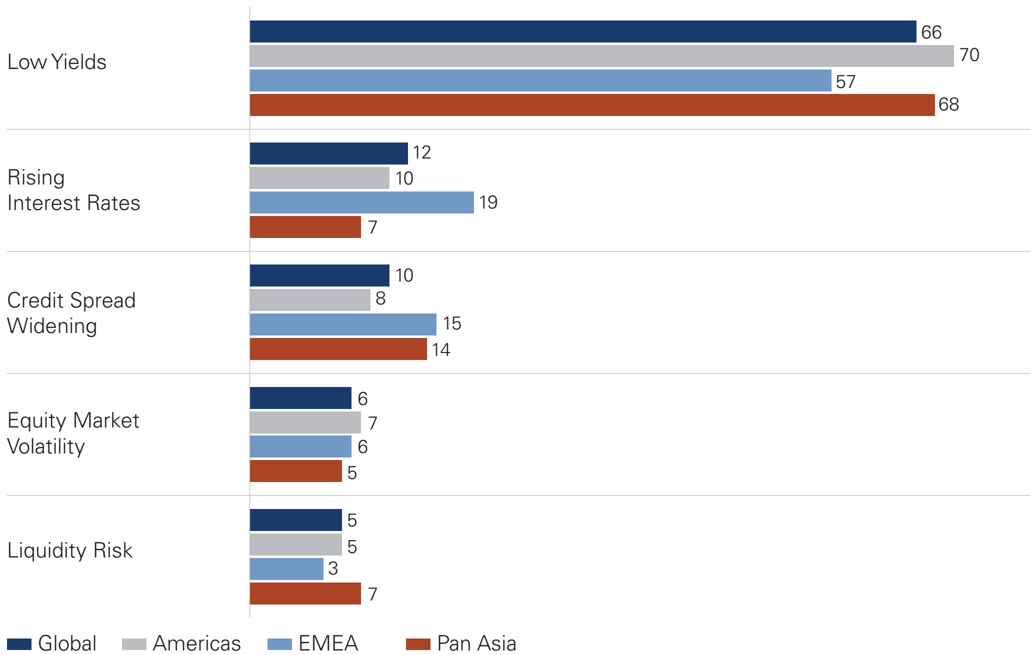
Insurers cited valuations of both commercial mortgage loans and infrastructure debt as reasons for not executing on their intended allocations from last year. The commercial mortgage loan market is facing increasing competition from the CMBS market which has recently pressured yields. Infrastructure debt, while attractive for its long duration, faces strong demand and muted supply. Insurers also noted that the lack of internal systems or personnel has deterred investments in both commercial mortgage loans and infrastructure debt.

INVESTMENT RISK

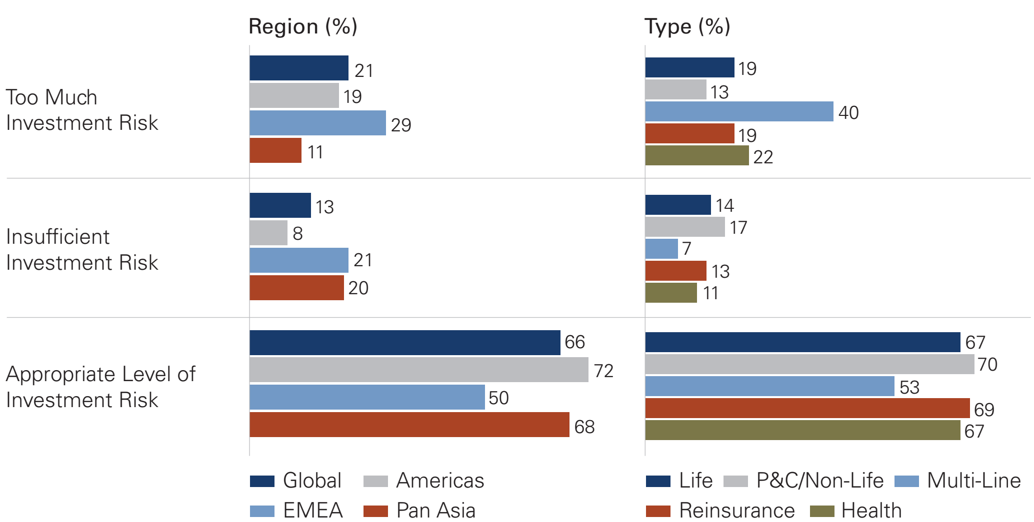
Most insurers believe their industry peer group is taking the appropriate amount of investment risk

- The majority of insurers surveyed (66%) consider low yields to be the greatest investment risk to their portfolio, followed by rising interest rates (12%).
- EMEA-based insurers and P&C insurers expressed slightly greater concern about rising interest rates (19% and 20% respectively) relative to their peer groups.
- Most insurers believe their industry peer group is taking the appropriate amount of investment risk (66%), while 21% believe the industry is taking too much risk, a sentiment that is more concentrated amongst Multi-Line insurers (40%).
- EMEA insurers hold dispersed views on investment risk; 29% believe their peer group is taking too much risk, 50% believe their risk level is appropriate and 21% believe their risk level is insufficient.
- 70% of P&C insurers believe their peer group is taking on the appropriate amount of risk.

Please select the investment risk that you are most concerned about. (%)



Do you think your industry peer group is currently taking on too much, an appropriate level of or insufficient investment risk?

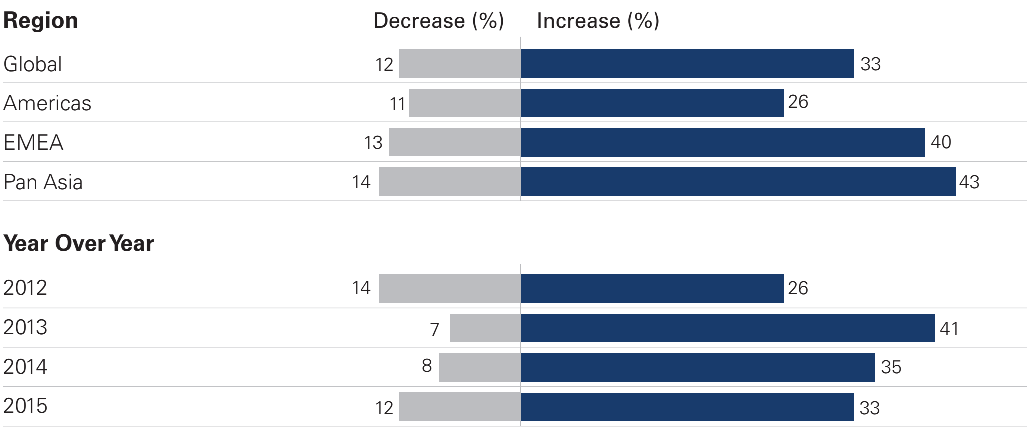


INVESTMENT PORTFOLIO RISK

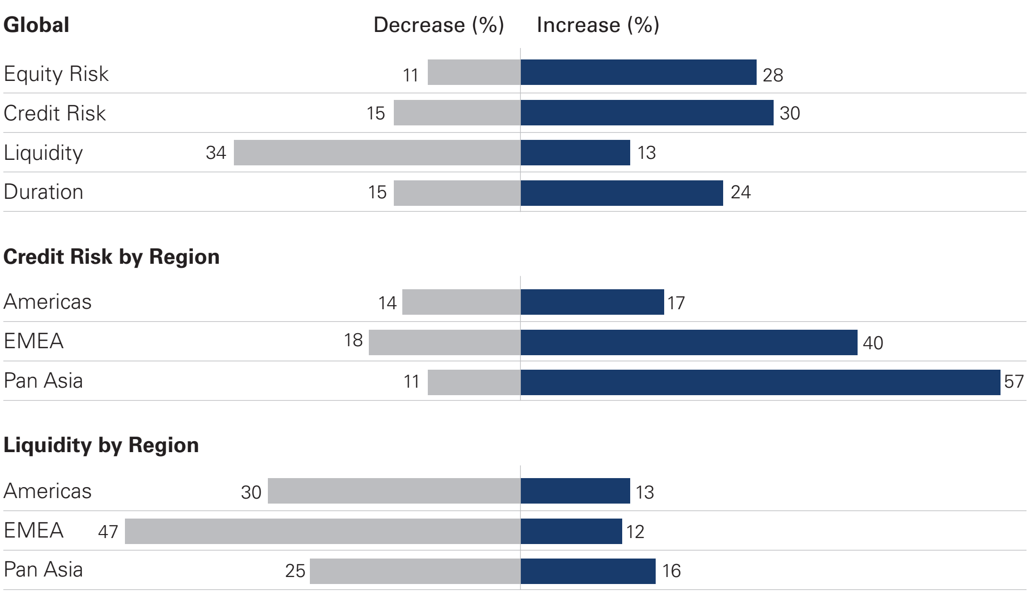
Despite the overall bearish sentiment on the investment environment, some insurers are looking to increase portfolio risk

- Globally, 33% of insurers intend to increase overall investment risk, while 55% intend to maintain risk levels.
- 40% of EMEA insurers and 43% of Pan Asian insurers plan to increase overall investment risk. EMEA insurers intend to take on more liquidity risk, while Pan Asian insurers intend to increase credit and equity risk.
- The majority (63%) of Americas-based insurers intend to maintain overall risk.
- Pan Asian (45%) and Multi-Line insurers (40%) demonstrated the strongest appetite for increasing equity risk.
- 30% of insurers intend to increase credit risk, and 34% of insurers intend to decrease liquidity in their portfolio.
- 24% intend to increase duration in their portfolio, while the majority (61%) intends to maintain duration, 35% of Life companies are looking to increase duration, which may be driven in part by liability matching needs.

Are you planning to increase, decrease or maintain the overall risk in your investment portfolio in the next 12 months?



Are you planning to increase, decrease or maintain the equity risk, credit risk, liquidity and duration in your investment portfolio in the next 12 months?

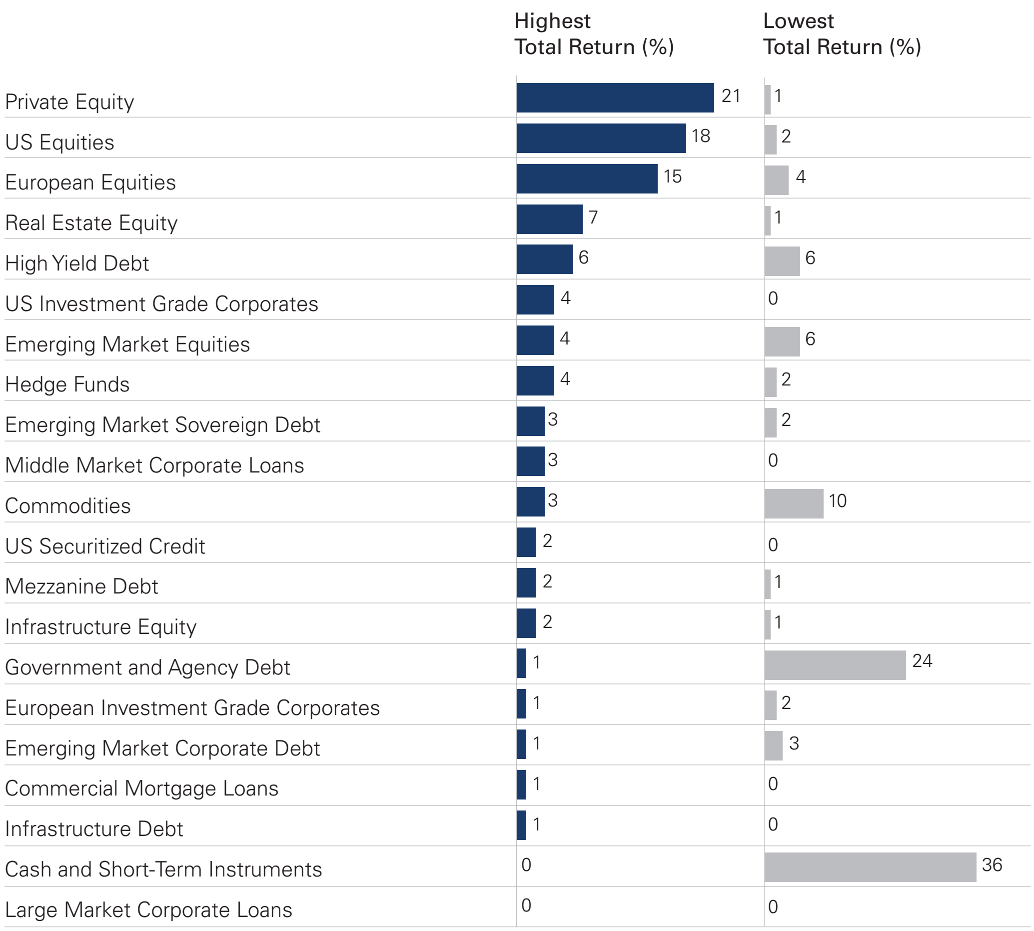


ASSET CLASS RETURN EXPECTATIONS

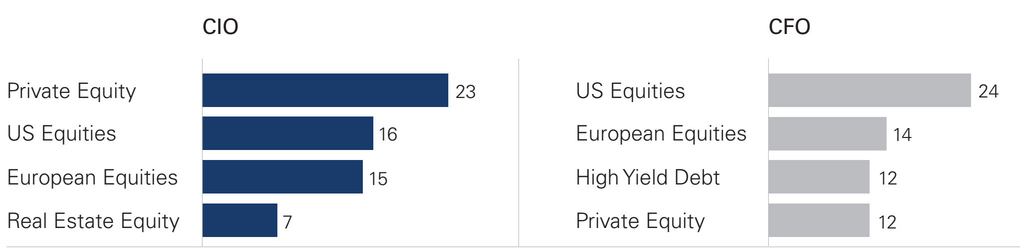
Equity asset classes are expected to outperform credit assets

- Insurers have the highest return expectations for private equity (21%), US equities (18%) and European equities (15%). European insurers are more bullish on European equities relative to other regions (31%).
- Insurers globally have the lowest return expectations for cash/short-term instruments (36%), government and agency debt (24%) and commodities (10%).
- CFOs are more bullish on public equity relative to CIOs who are more bullish on private equity.

Please rank the 3 asset classes that you expect to deliver the highest and lowest total returns in the next 12 months. (% Ranked First Choice)



CIO vs. CFO Highest Total Return Expectations

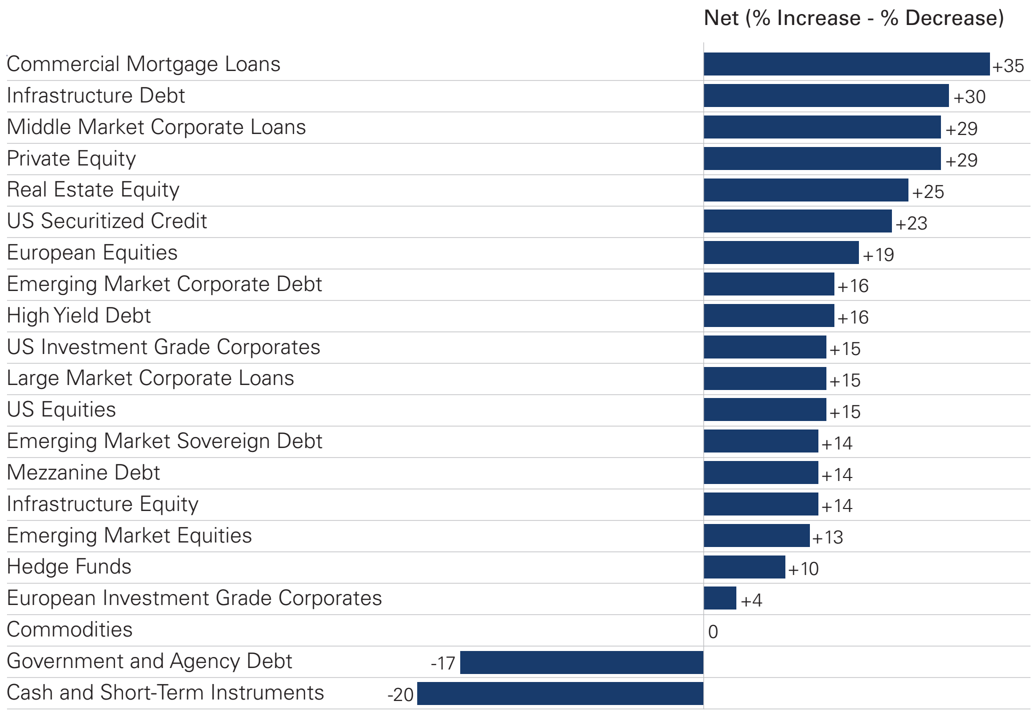


ASSET ALLOCATION DECISIONS

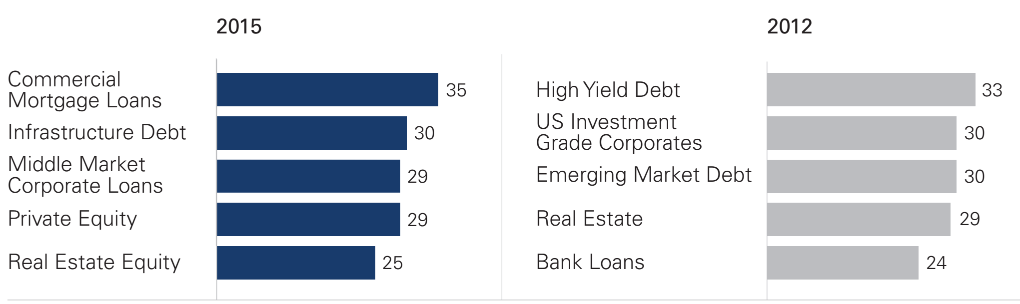
Insurers intend to allocate to less liquid, private asset classes as opposed to opportunistic, liquid credit as they indicated in previous years

- The top four asset classes that insurers intend to allocate to are all private: commercial mortgage loans (35%), infrastructure debt (30%), middle market corporate loans (29%) and private equity (29%).
- Pan Asian and EMEA-based insurers also intend to increase allocations to US investment grade corporates and European equities.
- Insurers intend to decrease allocations to cash/short-term instruments (20%) and government and agency debt (17%).

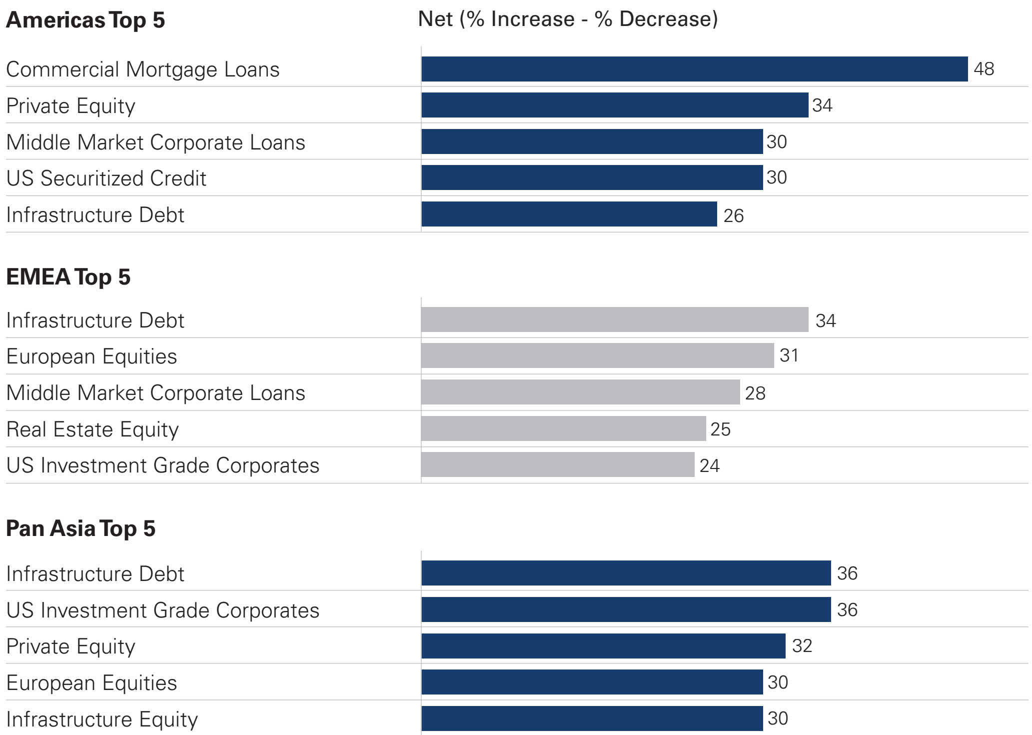
Are you planning to increase, decrease or maintain your allocation to the following asset classes in the next 12 months?



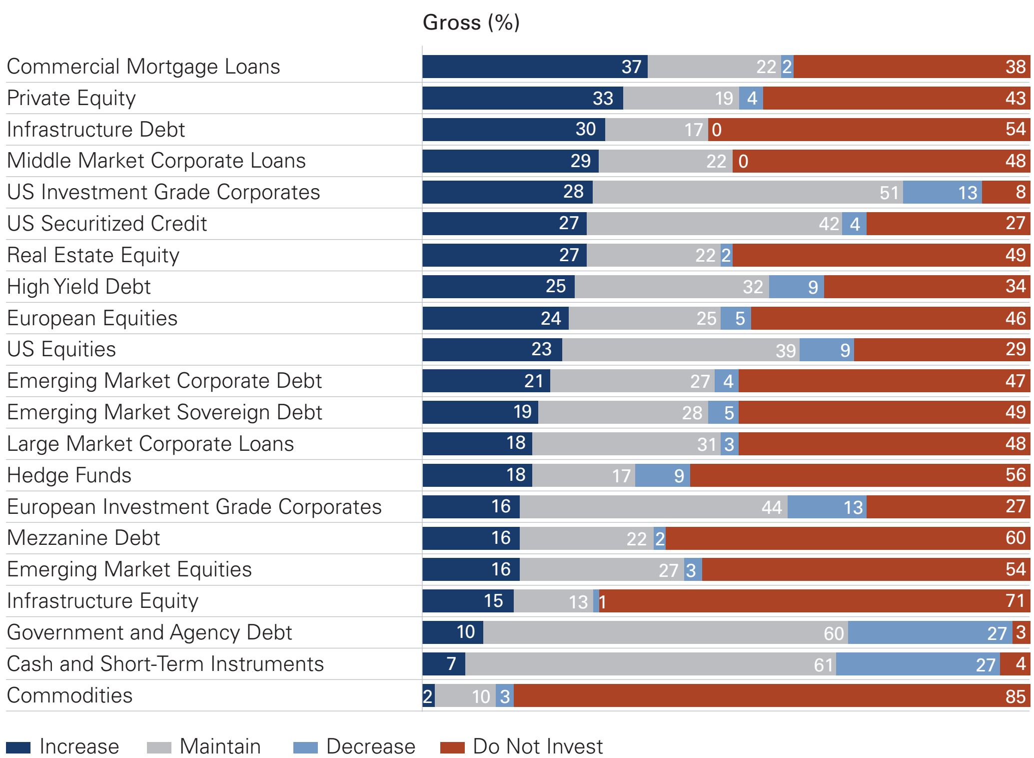
2015 vs. 2012 Highest Net Asset Allocation Changes (% Increase - % Decrease)



Net Asset Allocation Changes

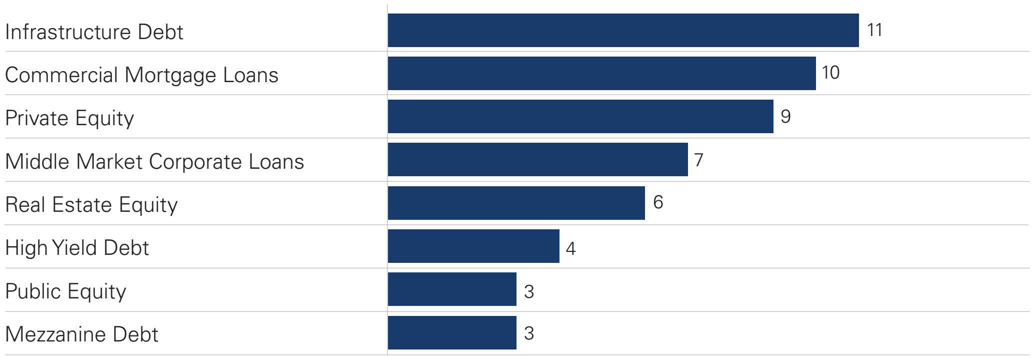


Gross Asset Allocation Changes



- Some insurers indicated that while they intended to allocate to infrastructure debt, commercial mortgage loans and private equity last year, they did not execute on these allocations primarily due to valuations (26%) and insufficient internal infrastructure or personnel (22%).

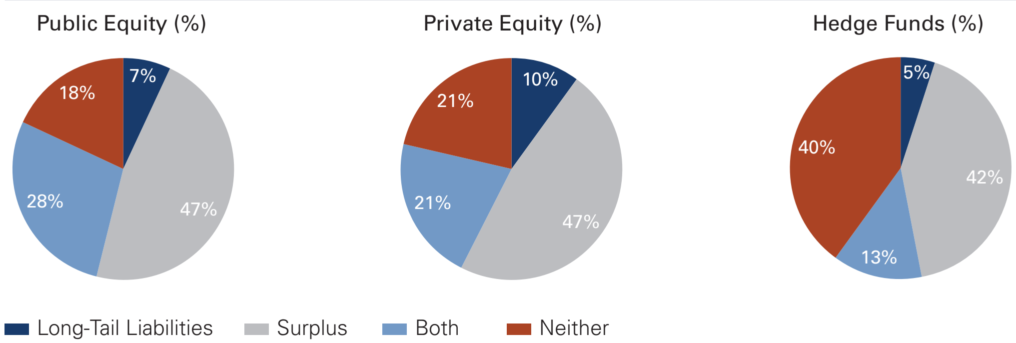
Which of the following asset classes did you intend to increase your allocation to in 2014 but did not? (%)



ALTERNATIVE AND EQUITY ASSETS

- Insurers typically make public equity (47%), private equity (47%) and hedge fund (42%) allocations with their surplus.
- Insurers are more likely to use public equity (28%) for both long-tail lines and surplus assets relative to private equity or hedge funds.
- More than half of P&C insurers (56%) allocate to private and public equity with surplus assets.

Where would you place the following asset classes?



VI. Capitalization and Regulatory Capital

Capitalization remains strong. P&C insurers generally believe their industry is adequately or over-capitalized following several years of modest catastrophe losses as well as positive earnings and investment performance. In addition to having well-capitalized balance-sheets, the significant growth in alternative capital has impacted Reinsurers, who are experiencing pricing pressure as a result of the influx in new capital. Approximately half of Reinsurers believe the industry is over-capitalized. EMEA-based insurers expressed slightly higher concerns of under-capitalization relative to other regions.

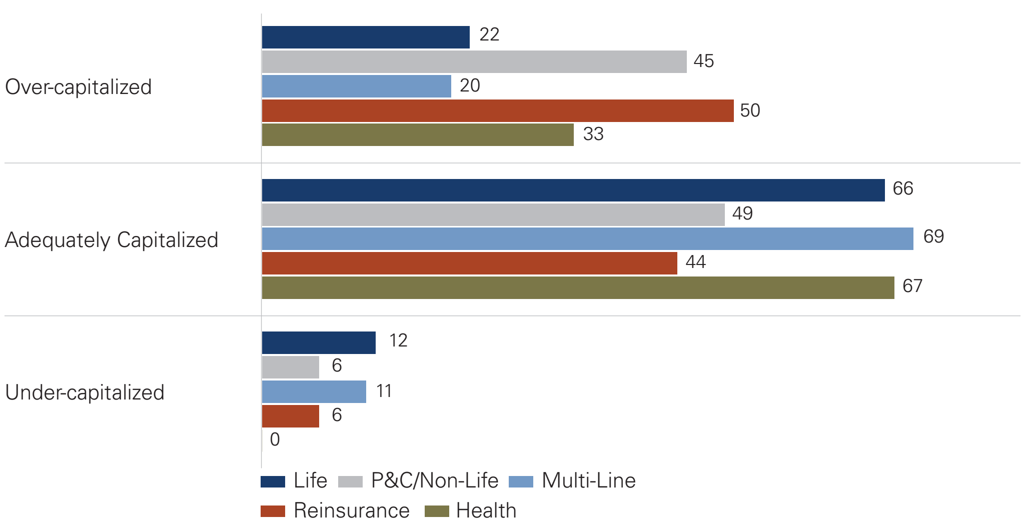
While the majority of Americas-based insurers believes regulatory capital will not impact their investment decisions this year, EMEA and Pan Asian insurers are more likely to take regulatory capital treatment into consideration when making investment decisions. A significant percentage of insurers indicated that regulatory capital charges for hedge funds and equity asset classes impact their investment decisions, as these assets face some of the highest capital charges. EMEA and Pan Asian insurers are more likely to increase their allocations to long duration bonds based on regulatory capital treatment, which may be due to duration matching needs. Insurers face significant capital charges for duration mismatches under Solvency II.

CAPITALIZATION

Most insurers believe they are either adequately or over-capitalized

- Approximately half of Reinsurers (50%) and P&C insurers (45%) believe their industry is over-capitalized.
- 66% of Life insurers and 69% of Multi-Line insurers believe their industry is adequately capitalized.
- Some EMEA-based insurers (21%) indicated their industry is under-capitalized.

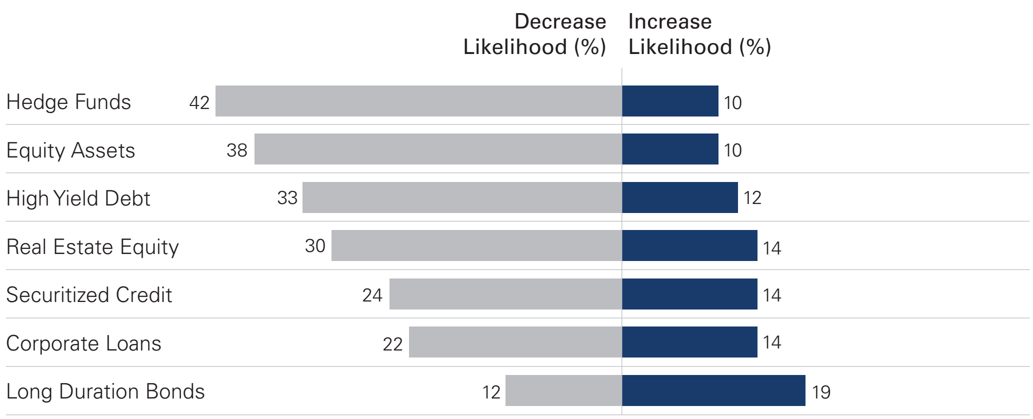
Do you believe your industry peer group is currently over-, adequately, or under-capitalized? (%)

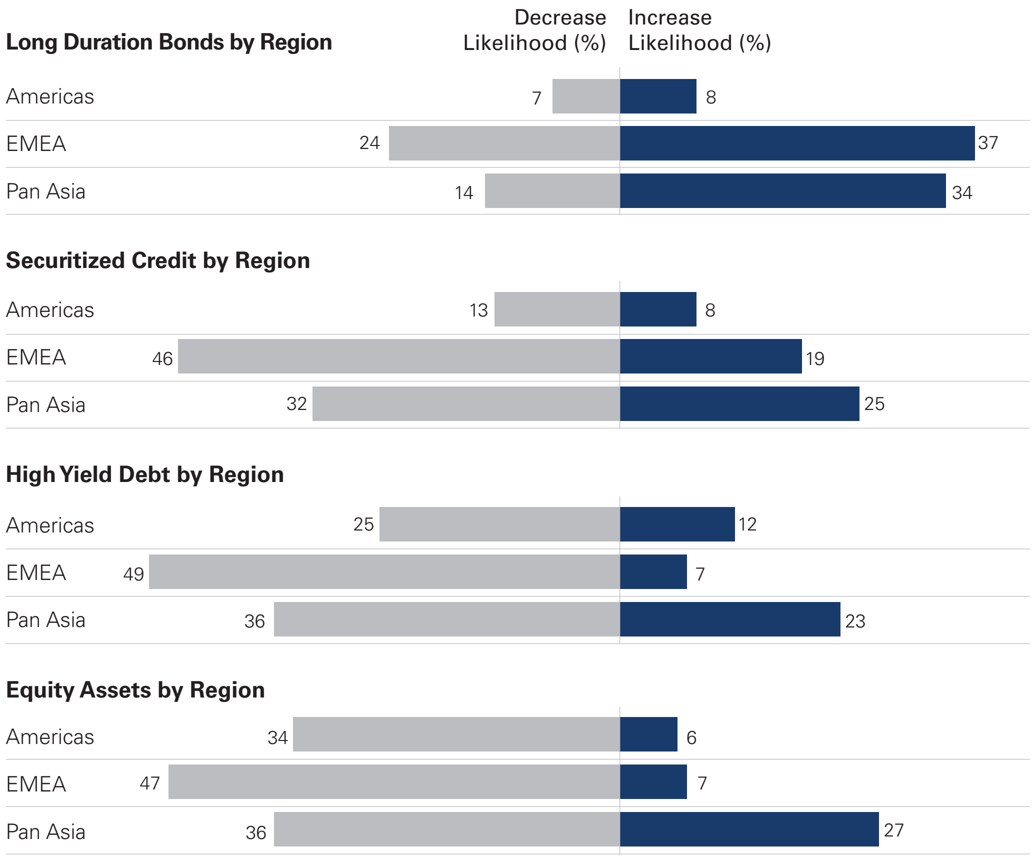


IMPACT OF REGULATORY CAPITAL ON ASSET ALLOCATION

- EMEA (37%) and Pan Asian insurers (34%) are more likely to allocate to long duration bonds due to regulatory capital treatment.
- Most Americas-based insurers do not believe regulatory capital will impact their investment decisions particularly in long duration bonds (85%), corporate credit (72%) and securitized credit (79%).
- 38% of insurers globally indicated they are less likely to allocate to equity asset classes due to regulatory capital treatment.
- 22% of Life companies stated they are more likely to invest in securitized credit due to favorable regulatory capital treatment in the US.
- In EMEA, approximately half of insurers said they are less likely to allocate to hedge funds and high yield debt.

Do regulatory capital concerns influence your likelihood of investing in the following asset classes?





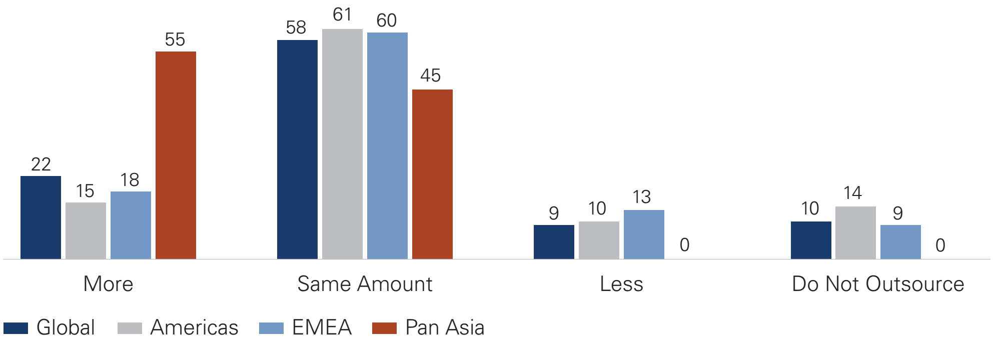
VII. Outsourcing

The demand for outsourcing to third party asset managers remains strong. Pan Asian insurers plan to outsource more of their portfolio this year. Given the need for significant infrastructure and resources, insurers intend to outsource investments in alternatives such as hedge funds and private equity and niche strategies such as emerging market equities.

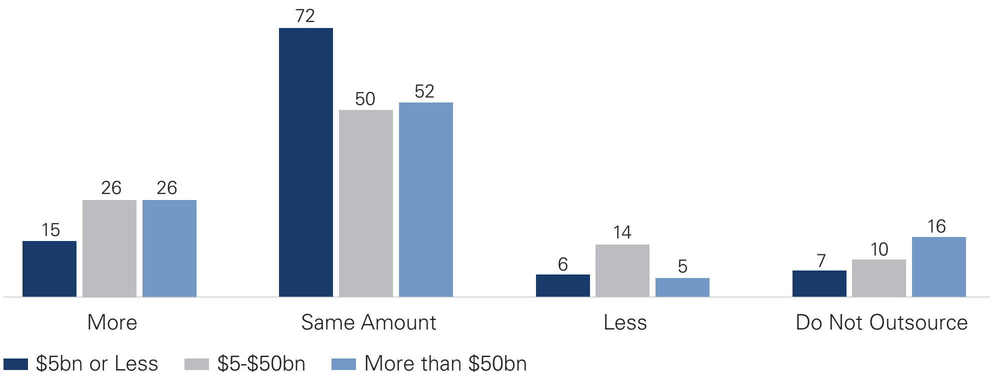
- Insurers globally intend to outsource more of their portfolio (22%) or the same amount (58%).
- 55% of Pan Asian insurers intend to outsource more of their portfolio.
- Insurers are looking to outsource hedge funds (26%), emerging market equities (23%), US investment grade corporates (23%), private equity (22%) and middle market loans (20%).

Do you anticipate outsourcing more, the same amount or less of your investment portfolio in the next 12 months?

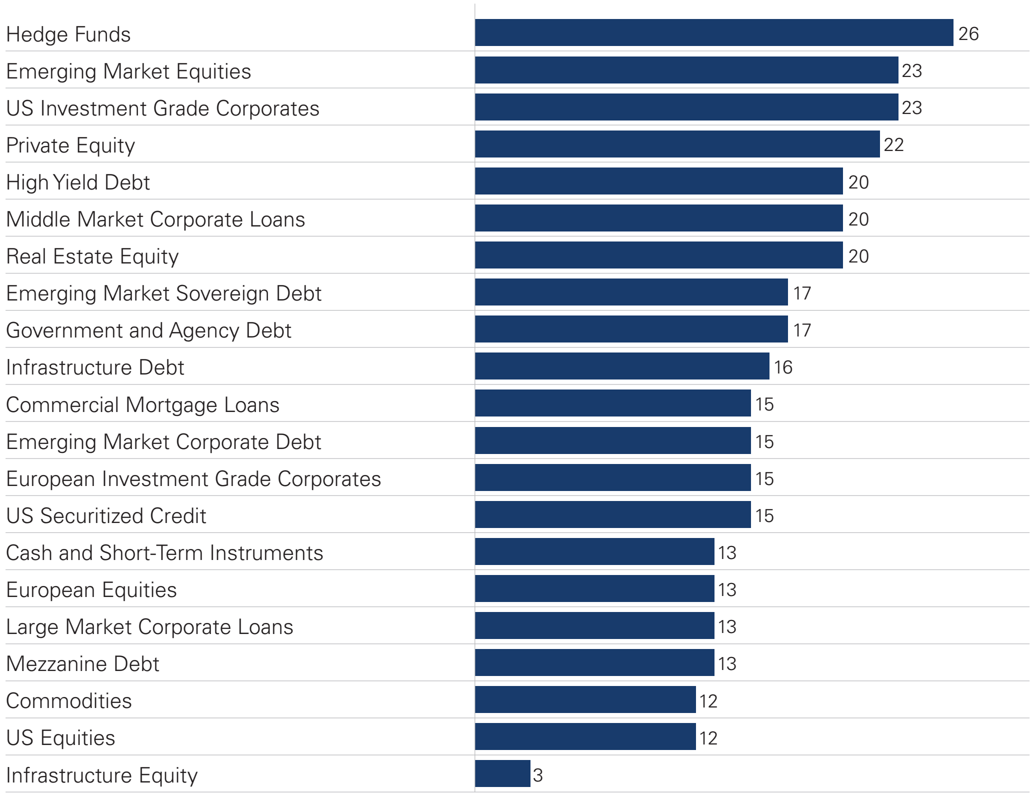
Region (%)



Total Assets (%)



Which of the following asset classes are you considering outsourcing to a third party asset manager in the next 12 months? Please select all that apply. (%)



VIII. Conclusion

As easy global monetary policies have pushed yields to ultra-low to negative levels, insurers are finding it more difficult to find attractive investment opportunities. Despite this pessimistic view, approximately one-third of insurers globally intend to increase overall portfolio risk, with the most significant risk appetite stemming from EMEA and Pan Asia. Insurers are anxious about the growth trajectory of the largest economies, particularly the US, and they are concerned about higher levels of volatility and deflation. Insurers believe equity asset classes will outperform credit assets this year and are looking to increase allocations to less liquid, private asset classes. Overall the industry is well-capitalized and insurers are generally comfortable with the level of risk their peers are taking.

General Disclosures

Survey information as of February 25, 2015.

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