CAPITAL MARKETS
Special Report

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

The NAIC's Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Please see the Capital Markets Bureau website at INDEX.

from $156.9[1] billion at year-end 07(17(933(9)ETQq0.00000912 0 612 792 reW*nBT/F1 11.2 Tf1 0 0 1 197.85243.51 Tm0

In terms of credit quality, as of year-end 2020, 42% of total U.S. insurers' leveraged loan CLO exposure consisted of AAA-rated tranches (see Chart 1), totaling about $80 billion in BACV. This was slightly higher in percentage terms and BACV terms than 41% of total CLO exposure (see Chart 2), or $65.2 billion BACV, in 2019. This implies that U.S. insurers' CLO exposure to the highest credit quality CLO investments increased slightly year-over-year (YOY). Nevertheless, about 80% of U.S. insurer CLO investments were rated BBB or higher as of year-end 2020, which was consistent with that of year-end 2019 (Note: This excludes CLO investments rated BBB-).

Chart 1: U.S. Insurer CLO Credit Quality as of Year-End 0 1 72.1 0 g0 G -0.194 Tc[).)]TETQq3(a)-5(r)]77[(exc)-2(l)16(u)25(

which for the most part is mitigated by the high percentage of AAA-rated tranches held. In addition, risk is also dependent on the concentration of exposure within each insurer's investment portfolio, particularly as a percentage of a company's total capital and surplus.

In addition to the leveraged loan CLO investments, at year-end 2020, U.S. insurers held approximately $5.2 billion in commercial real estate (CRE) CLOs, 78% of which were held by life companies, followed by 19% with P/C companies. In comparison, at year-end 2019, U.S. insurers held $3.7 billion in CRE CLOs. The YOY growth was in part due to the attractiveness of the relatively shorter duration of CRE CLO debt tranches, which limits interest rate risk.

While similar in structure to other CLO types, the underlying collateral in CRE CLOs includes shorter-term loans on transitional real estate properties. As such, they tend to have more credit risk than leveraged loan CLOs and therefore more credit enhancement. About 6

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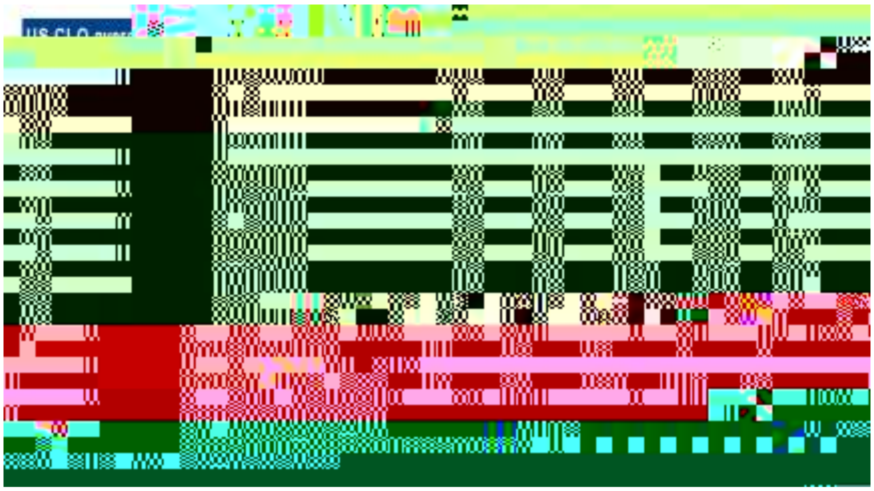
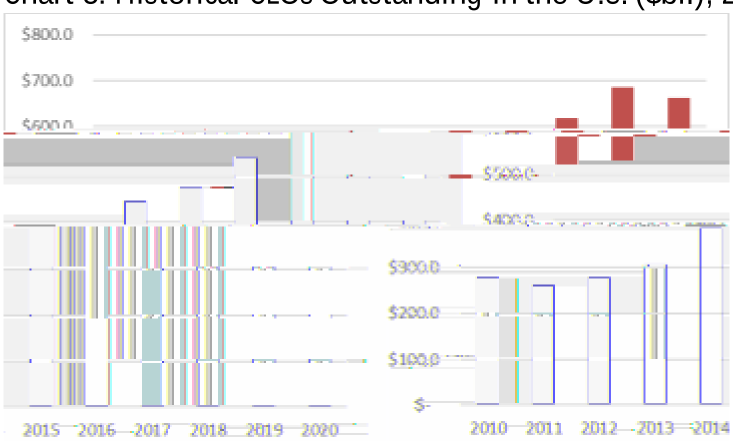
2021. Spreads tend to decrease with a presumed decrease in risk and may also move based on other factors such as supply and demand. With the increase in inflation, along with a move away from the Federal Reserve's "easy money," CLO debt has become even more attractive to investors, as there is a current demand by investors for floating-rate debt, and yields will increase with rising rates anticipated in the future.

Chart 4:



According to the Securities Industry and Financial Markets Association (SIFMA), there was about $662.3 billion in outstanding CLOs at year-end 2020 (see Chart 5), representing a 3% decrease from $686 billion as of year-end 2019. As of the end of May 2021, U.S. CLOs outstanding grew to more than $700 billion, according to Bank of America Corporation.

Chart 5: Historical CLOs Outstanding in the U.S. ($bil), 2010ς2020



Source: SIFMA

Due in part to the COVID-19 pandemic, new issuance of CLOs in 2020 was the second lowest since 2016, according to S&P Global. Equity investors were scarce at the beginning of COVID-19 pandemic due in part to unattractive excess spread, but this trend has since reversed evidenced by the increase in CLO issuance. That is, new CLO issuance is partly dependent on availability and willingness of equity investor participation. At year-end 2020, new CLO issuance totaled approximately $90 billion far this year is due in part to many properties experiencing a “cash-squeeze” that are now in need of financing. U.S. insurers were active