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Fund Finance Market Update

THE CONVERGENCE OF INSURANCE CAPITAL AND FUND FINANCE

MAY 7, 2026

A MULTI-YEAR TREND OF MARKET FORCES

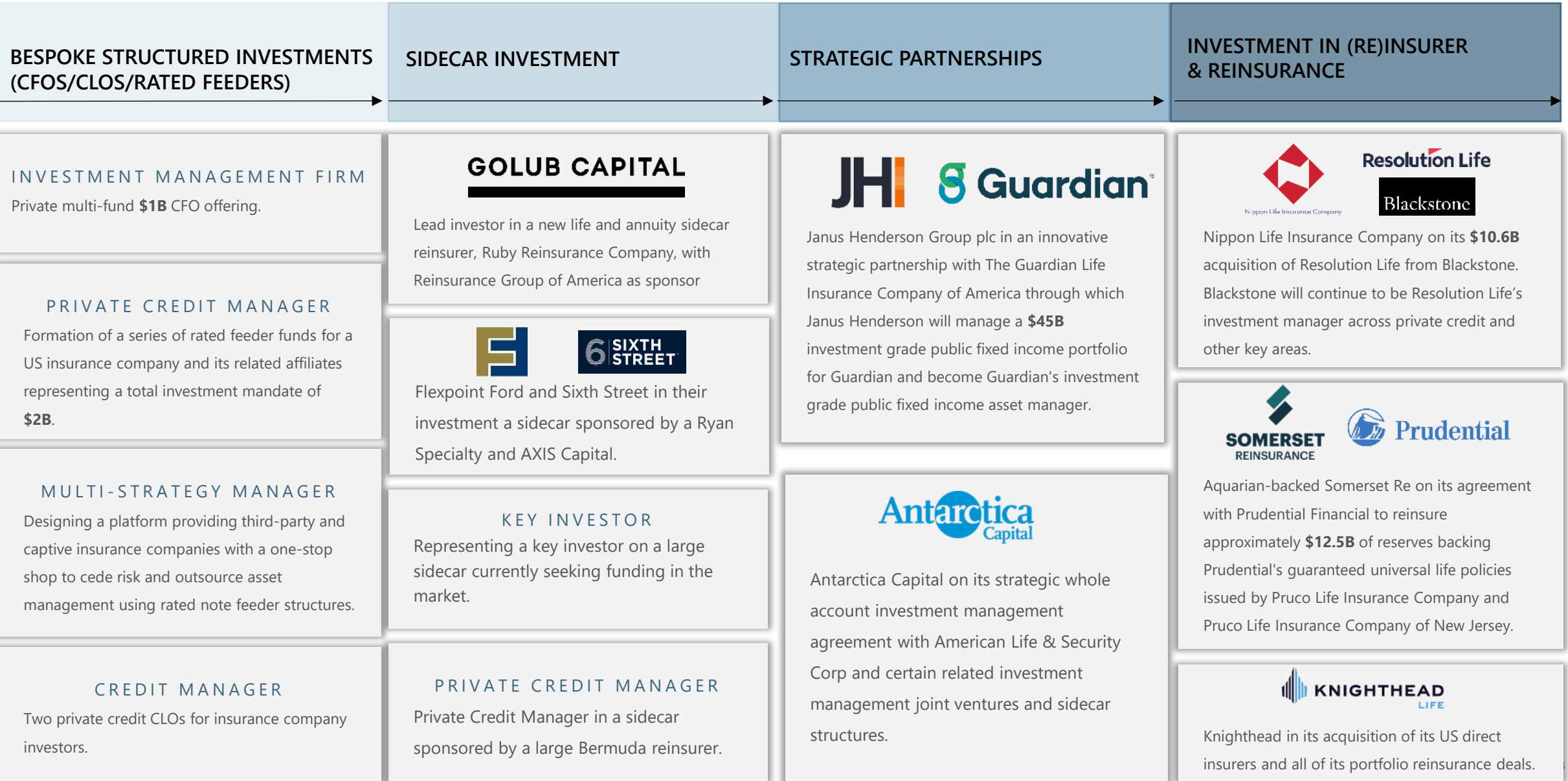
- We are in the midst of a multi-year trend of crossover between traditional asset managers and insurance companies.
- Asset managers see life insurance companies as attractive sources of long-term capital because they have similar investment time horizons.
- Life insurance companies need to manage their long-term liabilities.
- Asset managers are attracted to long-term investment mandates from insurance companies which have significant capital to deploy.
- When we say "Convergence," we are describing this integration, which is often executed through different types of transactions and partnerships.

MARKET FORCES (CONT.)

- M&A and strategic partnerships between insurers and asset managers are accelerating, with the Apollo–Athene model still a notable reference point for platform alignment.
- Annuity blocks are attracting capital from investors seeking long-duration assets to drive yield and leverage.
- Billions in newly formed vehicles, paired with the scale of existing platforms, have created a seller’s market for in-force insurance assets.
- Demand continues for block deals, reinsurance arrangements, and structures that optimize capital efficiency and investment performance.

SPECTRUM OF CONVERGENCE OPPORTUNITIES

SELECTED MAYER BROWN MATTERS



US INSURERS REPORT EVERY INVESTMENT THEY OWN IN THEIR FINANCIAL STATEMENT SCHEDULES

- **Schedule A** – real estate directly owned or held through a single member LLC
- **Schedule B** – mortgage loans (and participations) owned by a single insurer directly or through a statutory trust; also mezzanine real estate loans
- **Schedule D** – bonds, preferred stock, common stock
- **Schedule BA** – other long-term invested assets, e.g.:
 - Joint ventures, partnerships and LLCs (including funds)
 - Non-bond debt securities
 - Residual interests or tranches
 - Collateral loans
 - Surplus notes
 - Working capital finance investments

BOND RBC FACTORS FOR LIFE INSURERS (PRE-TAX)

| NAIC Designation | NRSRO Equivalents | Life RBC Factor (%) | | NAIC Designation | NRSRO Equivalents | Life RBC Factor (%) |
|------------------|-------------------|---------------------|--|------------------|-------------------|---------------------|
| 1.A | Aaa/AAA | 0.158 | | 3.A | Ba1/BB+ | 3.151 |
| 1.B | Aa1/AA+ | 0.271 | | 3.B | Ba2/BB | 4.537 |
| 1.C | Aa2/AA | 0.419 | | 3.C | Ba3/BB- | 6.017 |
| 1.D | Aa3/AA- | 0.523 | | 4.A | B1/B+ | 7.386 |
| 1.E | A1/A+ | 0.657 | | 4.B | B2/B | 9.535 |
| 1.F | A2/A | 0.816 | | 4.C | B3/B- | 12.428 |
| 1.G | A3/A- | 1.016 | | 5.A | Caa1/CCC+ | 16.942 |
| 2.A | Baa1/BBB+ | 1.261 | | 5.B | Caa2/CCC | 23.798 |
| 2.B | Baa2/BBB | 1.523 | | 5.C | Caa3/CCC- | 30.000 |
| 2.C | Baa3/BBB- | 2.168 | | 6 | All Lower | 30.000 |

CURRENT NAIC HOT TOPICS — RBC CHANGES

- **The NAIC is in the final stages of adopting new RBC factors for collateralized loan obligations (CLOs) for 2026**
 - It is still unclear whether the new factors will apply to all CLOs or only to CLOs backed by broadly syndicated loans (BSL CLOs)
 - There may be a higher RBC charge for thinner tranches rated Baa3/BBB- and below
 - It is likely that the RBC factor for residual charges will remain 45%
- **The NAIC is also about to adopt new RBC factors for collateral loans (loans collateralized by assets that could be held by an insurer directly) for 2027**
 - Historically, all collateral loans have had a 6.8% RBC factor, except where the collateral consists of mortgage loans, which get the same RBC treatment as Schedule BA mortgage funds
 - Starting in 2027, collateral loans backed by JVs/partnerships/ LLCs or by residual interests will have an RBC factor reflecting the RBC of the underlying collateral, reduced to give effect to the overcollateralization percentage

CURRENT NAIC HOT TOPICS — USE OF CREDIT RATINGS

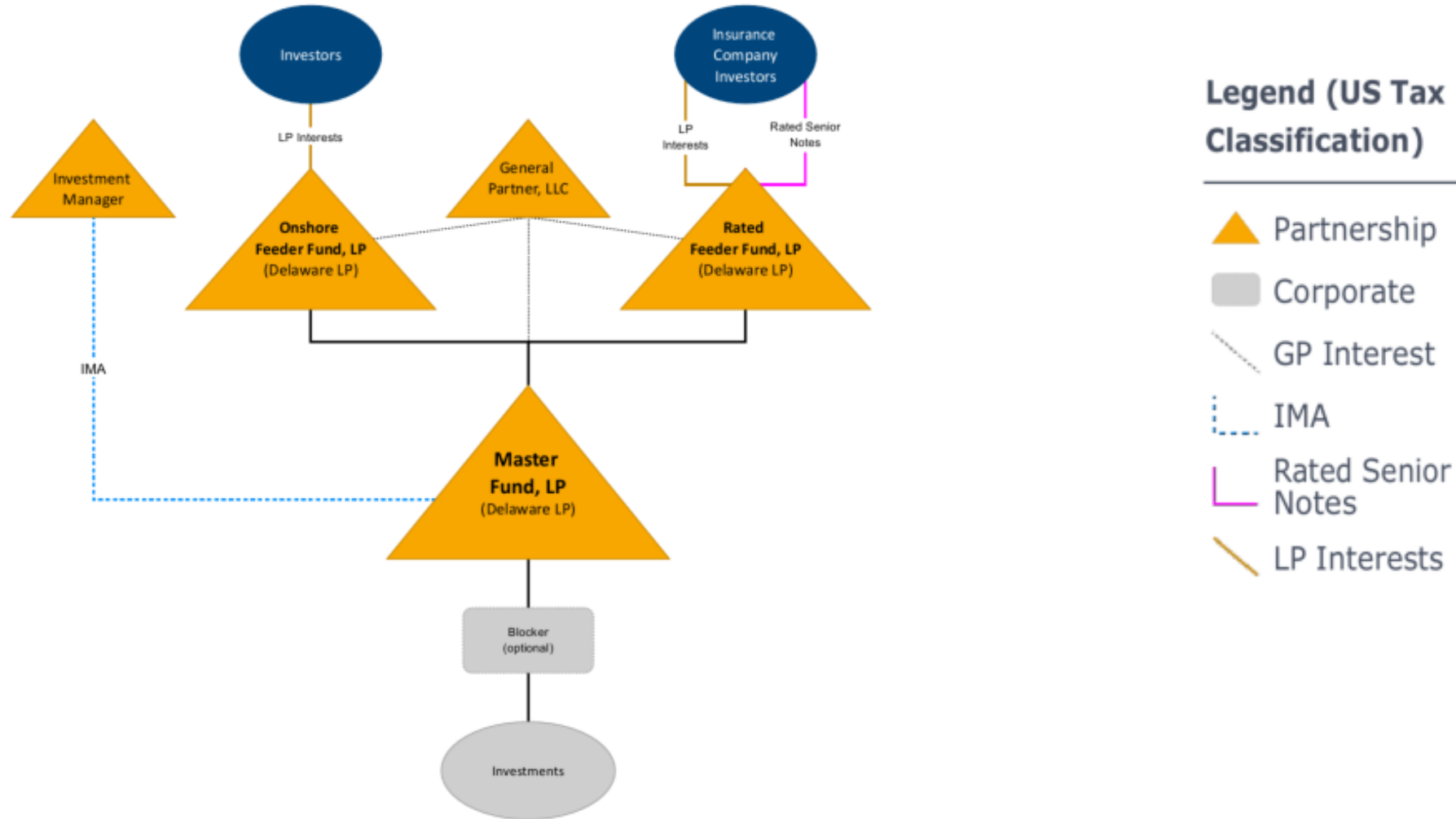
- Historically, the NAIC has **relied on credit ratings** to assign NAIC risk designations to most fixed-income investments—and treats all rating agencies alike
- The NAIC’s Securities Valuation Office will soon have the authority to **challenge and potentially override** the NAIC designations derived from rating agency ratings on a security-by-security basis
 - Implementation was scheduled to occur on January 1, 2026, but is delayed pending system changes
- The NAIC’s new **Credit Rating Provider (E) Working Group** launched on January 1, 2026 and has exposed a proposed new “[NAIC Credit Rating Provider Due Diligence Framework](#)” developed by PwC for a comment period ending July 3, 2026

CURRENT NAIC HOT TOPICS — MORTGAGE LOAN INVESTMENTS

- Schedule B residential mortgage loans receive **very low RBC charges** if in good standing (68 bps)
- New guidance adopted December 2025 allows Schedule B reporting on a “look through” basis for residential mortgages held in a statutory trust
- Since 2024, the NAIC has allowed **Schedule BA mortgage funds** to receive the 68 bps RBC charge if the fund is **affiliated** with the insurer
- On April 30, 2026, the Life Risk-Based Capital (E) Working Group voted to to expand that treatment to also include **Schedule BA mortgage funds** that are **unaffiliated** with the insurer
- The NAIC has initiated a special focus on the increased interest of insurers in resi mortgages

TYPICAL RATED NOTE FEEDER STRUCTURE

Rated Notes Private Fund Structure



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