

INSURANCE ASSET MANAGER

INSURANCE FROM THE INVESTMENT ANGLE

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AN IAM EXCLUSIVE

A STANDOUT YEAR IN 2009 FOR INSURANCE ASSET MANAGERS

BY ALEX MCCALLUM, IAM EDITOR

Initial results of Insurance Asset Manager's (IAM) first survey of 2010 show that US managers of outsourced insurance company assets enjoyed an excellent year in 2009 -- and BlackRock outpaced long-time leader Deutsche Insurance Asset Management to take first place in IAM's rankings.

BlackRock had such a superb year that its acquisition of Barclays Global Investors (BGI), which became effective Dec. 1, 2009, turned out to be a minimal factor in the company's number one positioning. Deutsche also had a stellar year.

The final results of the IAM survey, including four categories of rankings, will be published in the Insurance Asset Manager (IAM) Preliminary Survey - 2010 Edition, which will go to press at the end of April. Forty-six US-based investment firms participated in the survey.

BlackRock and Deutsche came first and second, respectively, in IAM's two major ranking categories: Category 1 (Non-Affiliated General Account Insurance Assets*) and Category 2 (Non-Affiliated General Account + Subadvised Insurance Assets**).

BlackRock's General Account assets at Dec. 31, 2009, totaled \$191.3 billion, compared with \$172.8 billion for Deutsche and \$79.5 billion for third place GR-NEAM. Adding SubAdvised assets to General Account assets gave BlackRock a combined \$268.7 billion, Deutsche \$207.1 billion while Wellington took third with \$163.3 billion.

Like BlackRock, Wellington had an exceptional year in 2009 and was the leader in SubAdvised assets with a year-end total of \$90.6 billion. BlackRock had \$77.4 billion, and PIMCO came third with \$73.2 billion.

The strong all-round year is underscored by the preliminary aggregate total of \$1.4 trillion for all non-affiliated insurance company assets managed on a third-party basis, as of Dec. 31, 2009, by the 46 survey participants, an increase of 29% compared with Dec. 31, 2008.

Evidence Of Larger Outsourced Mandates

Generating the momentum, said Kristen Dickey, head of the financial institutions group within BlackRock's Global Client Group, was "an increased focus on investments by managements and boards of insurance companies as the financial crisis took hold. The result is that we are now starting to see larger outsourced mandates."

Randy Brown, global head of Deutsche Insurance Asset Management, cited "large insurance companies seeking extensions to their internal investment infrastructures, complex markets that require specialty investment management skill-sets, asset allocation diversification, and cost benefit analysis."

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Insurance Asset Manager LLC
61 Main Street, Exeter, NH 03833

T: 603-778-8179 - F: 603-583-4119 - Web: www.InsuranceAssetManager.com - E-mail: info@insuranceassetmanager.com

David Holmes, a consultant with Eager, Davis & Holmes, Louisville, KY, who operates The Insurance Asset Outsourcing Exchange, offered this observation: "The growth posted by some of these managers is uncommonly high and reflects an uncommon occurrence: many large insurance companies are outsourcing significant portions of their fixed income assets for the first time. It's not only the alternatives asset classes for which these big insurers are looking for third-party investment partners."

And consultant Jeff Margolis of Margolis Advisory Group said the trend has spilled over into this year. "A strong upsurge in insurer outsourcing inquiries and activity took place after the first quarter of 2009 and continued right through into the first quarter of 2010," he commented, adding that "the financial crisis definitely accelerated the secular trend toward the outsourcing of insurer assets."

BlackRock Expects Synergies With BGI Purchase

With the post-crisis buoyancy in the insurance investment marketplace taking a front seat, first-place BlackRock downplayed the immediate impact of its BGI acquisition, pointing out that the December purchase accounted for less than 10% of last year's gains. In total, BlackRock's AUM gains came to \$104.7 billion when counting both General Account (\$191.3b. vs. \$120.3b.) and SubAdvised (\$77.4b. vs. \$43.7b.) assets.

Longer-term, though, BGI will be very significant because of the complementary aspects of the integration, stated Kevin D. Holt, who is head of the financial institutions group within BlackRock Fundamental Fixed Income. "For example, we never managed ETFs (exchange traded funds) in the past, and this capability is now becoming more and more important as the worldwide growth of the ETF market continues." With the BGI merger, he added, "what we have now is a much broader product menu that is going to work in the future for our existing clients as well as bring us new clients both here in the US and around the world."

Providing Deutsche's perspective on the outlook, Brown noted that while the pool of insurance assets in the United States is larger and a greater percentage of insurers already outsource, his team is now seeing an increase in assets out of European insurers as some large mandates have come into the market. He expects the US share to continue growing but Europe to catch up "in the next several years."

All-Round Capabilities Helped The Leading Managers

Looking back at the financial crisis, Brown said it reinforced Deutsche's belief in the value of an integrated approach to the management of insurance assets. "Understanding capital and liability management conditions provides the basis for integrating macro views, sector and security selection, along with other ways to diversify overall asset allocation into specialty and/or alternative asset classes," he stated.

BlackRock's Holt spoke along the same lines. "As time went on during the crisis," he commented, "I think that we were successful because we had the resources, we had the personnel to answer questions, and we had the technology to analyze all of the different nuances of different securities. We protected our client's capital through the crisis, and that in turn led to 2009 where we were bringing in new assets, and on top of that meeting up with large insurers who were starting to look at outsourcing as a viable strategy."

The upcoming Insurance Asset Manager (IAM) Preliminary Survey - 2010 Edition will contain ranking tables, in four different categories. In addition to Category 1 (Non-Affiliated General Account Insurance Assets) and Category 2 (Non-Affiliated General Account + Subadvised Insurance Assets), will be Category 3 (Non-Affiliated + Affiliated Insurance Assets) and Category 4 (Non-Affiliated General Account Non-US Insurance Assets).

The IAM Preliminary Survey will also contain separate entries for each of the 46 participants. These entries include quarterly data in addition to year-on-year data. Detailed contact information is also provided.

Publication of the IAM Preliminary Survey will be followed at midyear by the full survey, the Insurance Asset Manager Annual Survey 2010 Edition. As well as presenting the key data available in the Preliminary Survey, the full survey will contain an extensive range of additional information including asset allocation pie charts, client numbers, and mandate types and sizes.

For further information about IAM Surveys, call (603) 778-8179, send an e-mail to alex@insuranceassetmanager.com, or visit IAM at www.InsuranceAssetManager.com

Top 5 Rankings

Dec. 31, 2009

Non-Affiliated General Account Insurance Assets

BlackRock
Deutsche Insurance Asset Management
GR-NEAM
Conning
Wellington

Non-Affiliated SubAdvised Insurance Assets

Wellington
BlackRock
PIMCO
Deutsche Insurance Asset Management
Goldman Sachs

Combined N-A General Account + SubAdvised Insurance Assets

BlackRock
Deutsche Insurance Asset Management
Wellington
PIMCO
Goldman Sachs

** General Account Assets. An insurance company's overall investment account that contains the assets that back the cash value accumulations of policyholders and surplus. Excludes assets dedicated to "separate account" insurance products.*

*** Subadvised Assets. An insurance company's separate account insurance product portfolios managed by third-party asset management firms.*