UNITEHERE!
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On May 25, 2022, Brookfield Reinsurance, the Bermuda-incorporated insurance affiliate of Canadian private equity giant Brookfield Corporation, finalized its takeover of American National Insurance Group. In the year after the Brookfield takeover, state and federal regulators, including the U.S. Senate Banking Committee,[i] the National Association of Insurance Commissioners (NAIC),[ii] and the U.S. Department of the Treasury,[iii] have continued their focus on the risks inherent in private equity-backed insurers. Given this regulatory focus, you may wish to familiarize yourself with the changes Brookfield has made to the investments backing the American National policies that you sell.

Brookfield's takeover of American National is chasing a trend previously established by Brookfield's private equity peers. S&P Global has reported, "Recently, we've seen further pairings between alternative asset managers and insurers, where the insurance company can provide a source of perpetual capital"[iv] for a private equity company. The private equity companies can then stuff their complex, harder to sell assets "in the buy-and-hold portfolios of insurers."[v]

Since the Brookfield Reinsurance takeover, American National has placed its entire bond portfolio up for sale, has sold billions of dollars worth of safer, easier-to sell securities, and has reinvested primarily into complex, harder-to-sell securities. Some of these complex investments are private credit loans. Private credit refers to loans made by unregulated lenders that stepped in after banks tightened lending standards after the 2008 financial crisis.[vi] These are often highly-leveraged loans that are more likely to default and that regulated banks are unwilling or unable to make.[vii] In the United States, these loans are most commonly sought by private equity companies to fund leveraged takeovers.[viii] *Bloomberg* recently described private credit as an "inherently risky industry" that "received little oversight" and whose institutional holders have yet to be tested by (or survive) a default wave of the sort that could accompany a prolonged recession.[ix]

Many of these private credit loans and bonds were purchased from other Brookfield affiliates. Typically, an insurers' investments in related-party loans and securities would require disclosure and might be expected to draw scrutiny from regulators. However, the majority of these related-party investments that have appeared on American National's books since Brookfield took over asset management in May of last year have been listed on the insurer's Investment Schedules as "unaffiliated."

Pursuant to the American National takeover, Brookfield filed a Disclaimer of Affiliation with the Texas Department of Insurance (TDI), asking that companies and joint ventures under Brookfield Asset Management (BAM) control be considered "unaffiliated." TDI granted that application, with certain conditions.[x] Despite a Texas Public Information Act request and an appeal to the Attorney General, TDI has refused to provide the documents containing Brookfield's rationale for filing the disclaimer.[xi]

D. Taylor, President
General Officers: Gwen Mills, Secretary-Treasurer • Rich Maroko, Recording Secretary
Nia Winston, General Vice President • Enrique L. Fernández, General Vice President for Immigration, Civil Rights and Diversity

Many of these affiliated bonds are related to Brookfield's office real estate empire. Brookfield affiliates have already defaulted on more than $1 billion of office real estate loans so far in 2023.[xii] Bonds on American National's investment schedule include over $500 million related to Brookfield Property Partners (BPY), which Brookfield took private in 2021 after it took $2 billion in losses in 2020. Also on American National's investment schedule are three bonds from "Canary Wharf Investment Holdings." London's Canary Wharf development is a joint venture between Brookfield and the government of Qatar. It is also in financial distress and the area is losing key tenants – a July 1, 2023 op ed in the *Financial Times* was titled, "HSBC departure spells doom for isolated experiment of Canary Wharf."[xiii]

Given the financial distress of certain of Brookfield's office real estate holdings, it is important to know that life insurance companies in the US are not required to mark down their assets during market declines if they can credibly claim that they intend to hold those assets until maturity and that any decline in market value is, in their judgement, only temporary.[xiv] In other words, these office real estate bonds on American National's books, which were issued by other Brookfield affiliates, need not be exposed to market valuation during what *Fortune* has dubbed the "Office Real Estate Apocalypse."[xv] Their book value can remain what one Brookfield affiliate (BPY) and another Brookfield affiliate (BAM as asset manager for American National) agreed they were worth at the time of the transaction.

Current and future American National policyholders may not know that their insurance company has undergone such a dramatic shift in its investment strategy, or that their policies are now backed by investments in the "inherently risky" private credit industry or the "office real estate apocalypse." While Brookfield has meticulously explained its strategy to investors, it may not have explained it to American National's agents, who therefore are left poorly equipped to explain it to policyholders. Especially if you make recommendations to customers seeking to rollover their 401-Ks into annuities and thereby could be subject to DOL's newly expanded rules on fiduciaries[xvi], it would serve you well to begin familiarizing yourself with the new risks American National policyholders have assumed under Brookfield's stewardship.

A good starting place might be American National's latest statutory filings. You can contact the insurance department in your state and request American National's 2022 Annual and 2023 Quarterly Statutory investment schedules. You should also request the Schedule Y for the latest available quarterly statement.

In Schedule D, Part 3 of the Statutory Statements, you will find investments that were made during the filing period. Pay close attention to the investments made after Brookfield assumed ownership and asset management at the company (May 25, 2022). You will find dozens of securities with names that do not recognizably describe the underlying business or collateral, such as "Bach F1 2022-1", "Boccherini F2 2022-1," "TX Galileo", "TX Kepler", "Atreides Leto Holdco 2022-1", "BPY Bermuda Holdings Limited", "Bylsma 2022-1, Ltd" and many more.

Some of these entities can be found in the Schedule Y, which lists entities owned, managed or controlled by Brookfield Reinsurance. Others can be found in the Form ADV for Brookfield Asset Management Insurance Adviser that was filed with the SEC on 3/31/2023; those entities listed

on the Form ADV are denoted as “under common control” with Brookfield Asset Management Insurance Adviser. Indeed, the entities are all controlled ultimately by the Brookfield Corporation.

If Brookfield acknowledges many of these affiliations in its filings to the SEC, and American National acknowledges some of them in its Schedule Y, why are the loans and bonds associated with these entities nonetheless listed on American National’s Schedule D as “Unaffiliated”? That’s a question for Brookfield and the Texas Department of Insurance.

UNITE HERE conducted additional research to try to identify the businesses and collateral underlying the related-party investments, and discovered that some of the largest of them (by book value) are associated with Brookfield’s vast real estate holdings around the globe. But there is no way to discern that fact solely from American National’s Schedule D and other Statutory filings, which begs the question: are insurance regulators even aware of the extent of related-party real estate debt on American National’s books?

And as an agent putting your good name behind the products you sell, don’t you have a right to know whether regulators are monitoring the changes in American National’s investment portfolio, including the rise in related-party investments, and especially those classified in Schedule D as “unaffiliated”?

We encourage you to contact your state regulatory agency to seek clarification on these questions. To find your state agency’s contact and easily send them an email, go to http://www.privateequityretirementwatch.org/AmNatAgents

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[i] https://www.willkie.com/-/media/files/publications/2022/congressionalhearingconsidersprivateequitycontroll.pdf
[ii] https://content.naic.org/cipr-topics/private-equity
[iii] https://www.banking.senate.gov/imo/media/doc/fio_85.pdf
[iv] Evan Gunter, Abby Latour, and Joe Maguire , “Private Debt: A Lesser-Known Corner Of Finance Finds The Spotlight,” S&P Global, 10/12/2021.
[v] Evan Gunter, Abby Latour, and Joe Maguire , “Private Debt: A Lesser-Known Corner Of Finance Finds The Spotlight,” S&P Global, 10/12/2021.

[vi] https://am.jpmorgan.com/us/en/asset-management/liq/insights/market-insights/market-updates/on-the-minds-of-investors/what-is-going-on-with-private-credit/

[vii] See for example: Joren Block, Young Soo Jang, Steven N. Kaplan, and Anna Schulze, "A Survey of Private Debt Funds," Working Paper No. 23-10, Becket Friedman Institute for Economics at the University of Chicago, Jan. 2023. The authors surveyed 38 US and 119 European private debt funds in August and September of 2021. Their sample of respondents accounted for a combined $300 billion in assets under management, which is approximately 35% of the global private debt market according to Preqin. (pp. 6-7). "[O]ur survey results show that private debt funds provide cash flow-based term loans through direct lending deals to fund small firms on potentially risky buyouts and add-on acquisitions." (p.15) Also, "the majority of both the U.S. and European private debt investors report … that they believe borrowers choose private debt over bank debt because private debt provides 'higher leverage than banks are willing to support,' a 'more flexible covenant structure,' and greater 'certainty and speed of execution (versus a longer and less certain bank syndication process).'" (p.16) Also, "it is not entirely clear why private debt funds appear to be able to relax the financing constraints of bank-shunned firms. There are several non-exclusive possibilities. It is possible that private debt lenders are better at evaluating and managing company risk. It also is possible that they benefit from not being subject to regulations that banks face. And it is possible, particularly for U.S. funds, that the involvement of PE sponsors both reduces information asymmetries and financial distress costs." (p. 17)

[viii] Evan Gunter, Abby Latour, and Joe Maguire, "Private Debt: A Lesser-Known Corner Of Finance Finds The Spotlight," S&P Global, 10/12/2021, https://www.spglobal.com/en/research-insights/featured/special-editorial/private-debt. "*Among private market issuers for which we have credit estimates, more than 90% are private equity sponsor-backed, and these entities tend to be highly leveraged. From 2017-2019, more than 75% of credit estimates had a score of 'b-'. By contrast, obligors rated 'B-' accounted for around 20% of broadly syndicated CLO pools in same period*." See also Joren Block, Young Soo Jang, Steven N. Kaplan, and Anna Schulze, "A Survey of Private Debt Funds," Working Paper No. 23-10, Becket Friedman Institute for Economics at the University of Chicago, Jan. 2023. The authors found that "*private debt funds rely heavily on PE sponsorship, especially in the US*" and "*U.S funds invest significantly greater fraction of capital in PE-sponsored deals, 78%, compared to European funds at 42%*." (p.9) Based on a survey of private debt funds, the authors posit that "*maintaining relationships with PE sponsors for a constant stream of deal flow, therefore, appears to be at least as important as the ability to self-originate a deal and particularly important for U.S. investors*." (pp. 9 and 22-23.)

[ix] https://www.bloomberg.com/news/articles/2023-01-13/what-is-private-credit-industry-poses-regulatory-risks

[x] https://www.privateequityretirementwatch.org/wp-content/uploads/20227321.pdf

[xi] https://www.privateequityretirementwatch.org/wp-content/uploads/R018543_Supplement.pdf

[xii] Defaults consisting of $275 million for L.A. EY Tower (https://www.commercialsearch.com/news/la-brookfield-office-tower-goes-to-receivership/); $784 million for 2 L.A. office towers (https://www.recapitalusa.com/brookfield-los-angeles-defaults-could-mark-new-phase-for-us-office-market/); $161 million for Washington DC area office portfolio (https://therealdeal.com/new-york/2023/04/18/brookfield-defaults-on-more-office-buildings/). The EY Tower and the 2 L.A. office towers were owned by Brookfield DTLA Fund Office Trust Investor, which is a subsidiary of Brookfield DTLA Holdings LLC, which is "an indirect partially-owned subsidiary of Brookfield Property Partners (BPY). See https://www.sec.gov/ix?doc=/Archives/edgar/data/1575311/000157531123000009/dtlapr-20221231.htm#i0924904499ac49d7bbd38e0f7c8a7fcb_37, p. 29.

[xiii] https://www.ft.com/content/40ff10b9-6e8e-4df6-8753-0e3af571b794

[xiv] Under US Statutory Accounting (SAS) rules used by state-regulated insurers in the United States, assets can be held at "book value" as long as the insurer intends to hold that security to maturity, and as long as market declines in the value of that asset are deemed temporary. If an insurer decides to move an asset from "held to maturity status" to "available for sale" that asset should be held at fair value until it is sold. If an insurer determines that an asset has suffered an impairment that is unlikely to reverse itself, it should classify the asset as "Other Than Temporary Impairment (OTTI)" and attempt to write it down to fair market value.

[xv] https://fortune.com/2023/05/25/office-space-crash-harder-than-expected-remote-work-economy-cre-crash/

[xvi] https://www.jdsupra.com/legalnews/best-interest-standard-of-care-for-6255416/