



SLC Management

Cautious optimism

SLC Management is well-positioned to ride out uncertain economic times, according to investment lead Randy Brown.

Given the amount of turmoil in world economies and financial markets, Randy Brown is a picture of calm.

In part, that's because SLC Management's insurance asset group, which Brown heads, has worked hard in the last five years to de-risk its portfolio and raise asset quality.

It may also be because Brown, who is also chief investment officer at parent company Sun Life, is an investing veteran, with previous stints at Salomon Brothers, Morgan Stanley, BlackRock and Deutsche Asset Management before joining Sun Life in 2016. As someone who has been in the industry since the mid-1980s, he has managed insurance portfolios across a wide range of asset classes in varying market conditions.

Brown is guardedly optimistic about the outlook for the US economy, saying that although SLC Management is expecting the economy

to slow down towards the end of the year, it is more likely to be a soft landing.

For Sun Life and SLC Management insurance company clients, private real estate equity and debt represent attractive investment opportunities, notably in logistics/industrial development and multi-family housing.

"Debt costs have increased substantially, while bank lending standards have tightened, leading to a decrease in free cash flow," Brown says during an interview in June. "Typically, there's a significant lag between the Fed starting to raise rates and the impact of the broader economy and that impact is starting to hit now, so housing is stabilised. But we have seen reduced access to home equity for consumption, as the stimulus effects from COVID-19 also wear off.

"We're expecting a soft landing, but there is continued risk for a harder landing."

Despite the economic challenges, Brown, who is directly responsible for more than \$119 billion in assets under management, believes SLC Management and Sun Life are well-positioned for the future.

"There is a lot of confirmation going on in the data that we're starting to enter a slowdown period. As we do that, we believe Sun Life's portfolios are in solid shape, as we have moved up in quality over the last number of years. We expect opportunities to arise, so we have money to put to work to do that.

“We extensively de-risked, in particular in our real estate portfolio, over the past five years. We know that is an area with a very significant focus for everybody these days, so I feel that we should fare quite well, relative to our competitors out there.

“But we, as an example, significantly decreased our office and retail exposures while increasing industrial and multi-family. That has played out well for us.”

Brown says that the regional banking crisis, which has seen mid-sized banks pull back commercial real estate lending, will present opportunities, although the life insurer is careful to build in safeguards.

“We see the contraction in lending to the commercial real estate space and we think this will create a very good opportunity for lenders like us. According to JP Morgan, regional banks account for 80 percent of those loans in the US, but they’ve stepped back significantly, as the bank run in the first quarter led to deposit flight.

“Real money buyers of commercial mortgage loans will be a real opportunity, and we also see an opportunity developing in alternative credit,” he says, referring to borrowers with ‘BB’ and ‘B’ credit ratings in the private markets.

While that may seem risky, Brown says lenders can reduce the risk by structuring covenants that can help companies maintain access to funds to sustain their business.



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Randy Brown, SLC Management

Moving on real estate

Two real estate areas that Brown expects to invest in are multi-family housing and industrial developments.

A structural shortage of multi-family housing means there is strong demand in the sector, which is also attractive because: “You have rents that reset either annually or every two years. So you get some inflation protection. Typically, if you have the right building in the right place, occupancy is quite robust. Rents are quite robust, so that’s a good sector.”

As a result of COVID-19 and the Biden Administration’s focus on infrastructure, Brown says industrial development “has been on fire”.

“The pandemic accelerated the recognition that we had a structural shortage of logistics near urban centres. When everything went online, it highlighted that structural shortage. Two things have happened. Demand for space has increased, and utilisation of this space has increased.”

That’s because technology has enabled warehouse operators and distribution centres to use dead space in buildings for storage of goods. That in turn means tenants can pay more per square foot since they are paying for the air space in the building and not just its footprint.

Brown says SLC Management plans to continue to build on its strong position in private fixed income and is increasingly working with third parties in this area as well.

“We’ve been in private debt for decades,” he says. “We have a large team that originates what we call private fixed income for us—privately placed investment-grade lending as an alternative to public corporate bonds.

“What we like is very similar to commercial and real estate lending. We get a spread to public corporates, which generally are senior unsecured, but we also get collateral and covenants, and therefore we’re giving up liquidity but gaining spread. If you do have a loss, it tends to be of lower frequency and lower severity.”

Overall, Brown has reason to be cautiously optimistic. There are plenty of potential threats to the economy and investors, but he believes SLC Management and Sun Life are well-positioned for whatever storms may come.

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