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# Investment Opportunities: “The Remaking of Financial Services”

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PINE BROOK

## What to Listen for Today

1.

**Investment opportunities driven by dislocations across the value chain**

2.

**Today, the entire value chain is being reinvented**

3.

**Expertise is critical to navigate complexity and change**

4.

**Business building positions us to take advantage of opportunities**

“ *Business Building and  
Growth Equity Investing  
Based on Large and Long-  
Lasting Dislocations* ”

# Dislocations Occur Across the Financial Services Value Chain

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# Fund I Investment Opportunities Driven by Capital Shortages

Origination

Underwriting

Servicing

Capital

Company	Investment Year	Thesis
 SYNDICATE HOLDING	2007	Shortage of <u>capital</u> in Lloyd's run-off market
 Narragansett Bay Insurance Company	2008	Shortage of <u>capital</u> in Northeast coastal homeowners insurance market
 ESSENT ESSENT GUARANTY, INC.	2009	Shortage of <u>capital</u> in mortgage insurance market
 GREEN BANK	2010	Shortage of <u>capital</u> in banking market

“ *In the post-crisis and technologically driven world, dislocations are occurring across the value chain, creating opportunities to remake financial services.* ”

## Fund II Investments Driven by Multiple Dislocations

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**Re-Regulation**

**Low Interest  
Rates**

**Data and  
Technology  
Innovations**

# Re-Regulation Creates Opportunity

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Re-Regulation

Low Interest Rates

Data and Technology  
Innovations

## Impact

- Increased capital requirements for certain product lines, removing capital from the system

## Opportunity

- Create lending and insurance companies that serve undercapitalized markets



# Re-Regulation Has Removed Capital from Certain Sectors

## Regulations

- Solvency II
- CARD Act
- Dodd-Frank
- Comprehensive Capital Analysis and Review (CCAR)
- Consumer Financial Protection Bureau (CFPB)
- Risk Retention
- Basel III

## Impact of Regulation

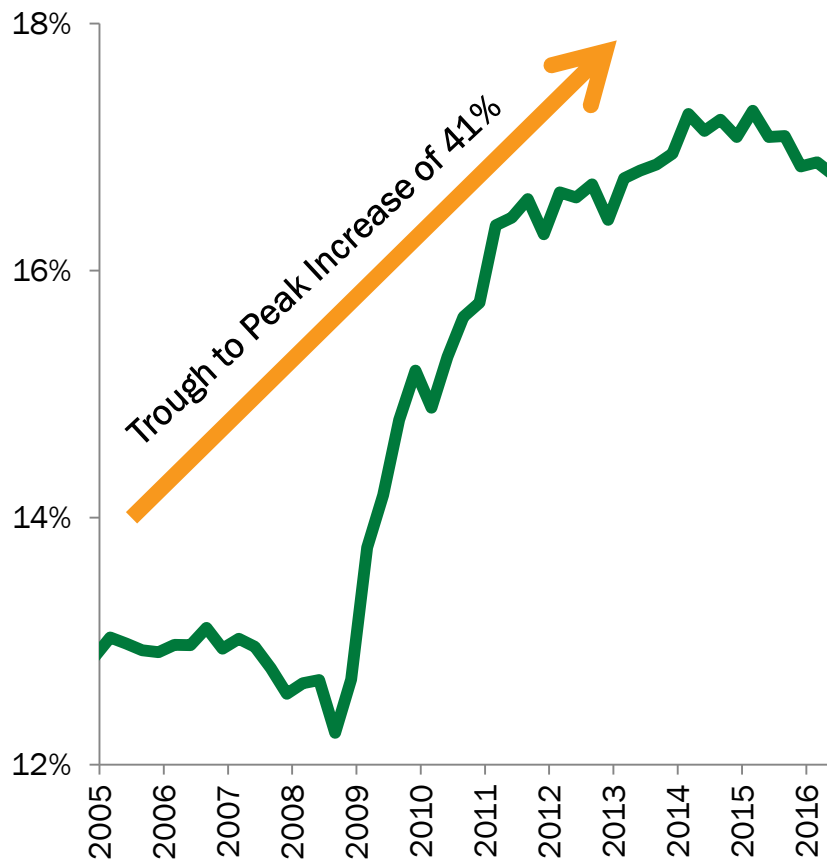
- Increased capital requirements
- +
- Increased compliance costs



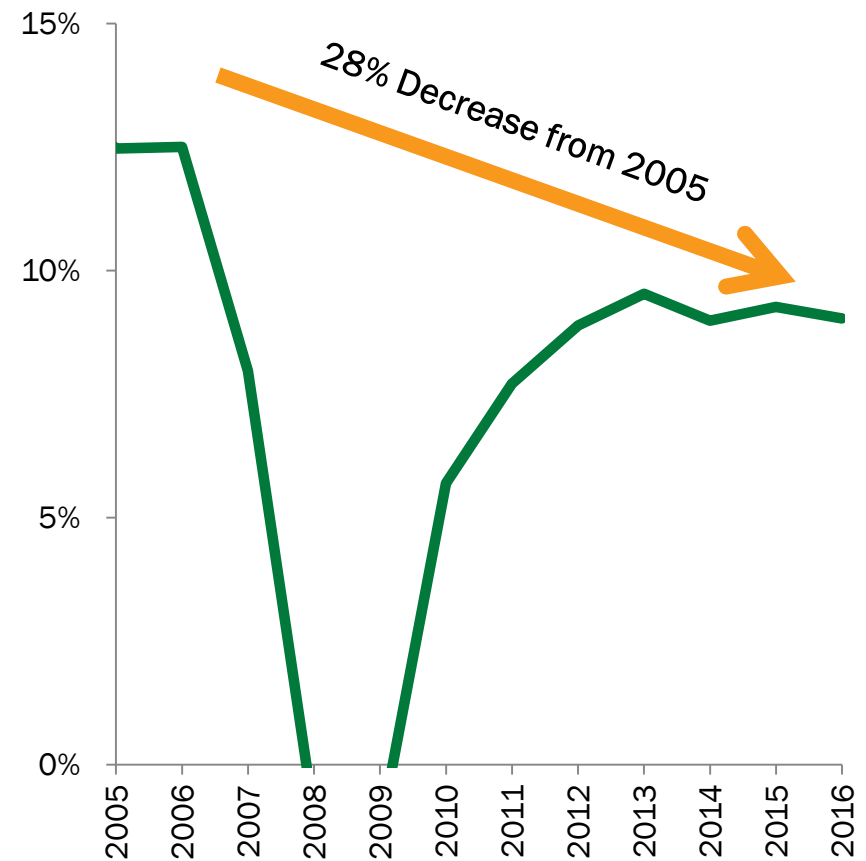
- Removed capital from certain sectors

# Bank Regulations Increased Capital, Reducing ROE

## Tier 1 Leverage Capital to Total Loans

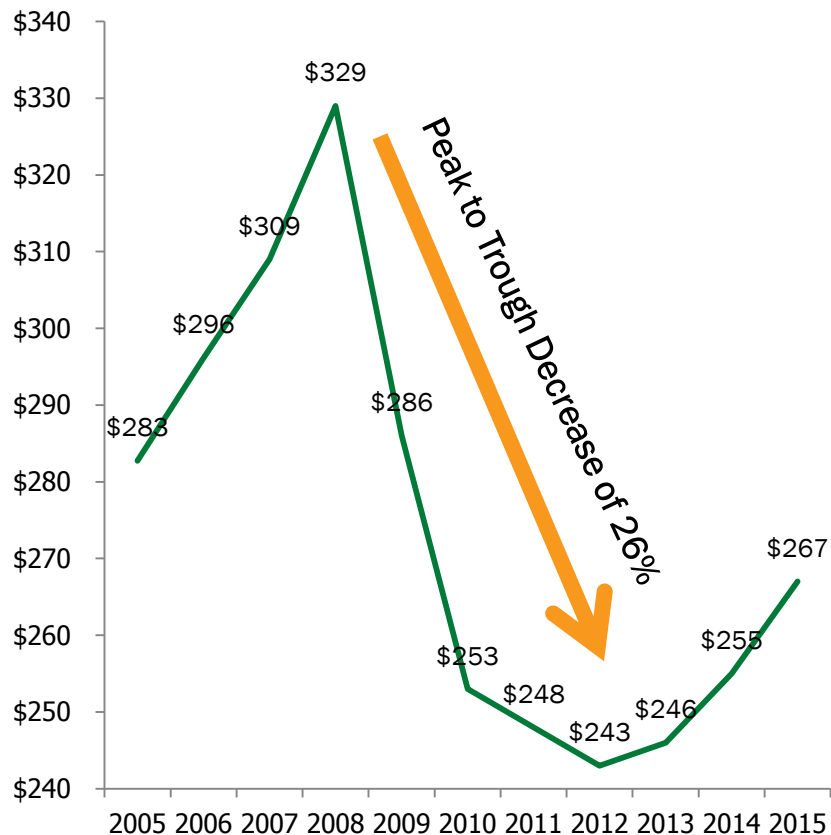


## Historical Return on Equity



# Re-Regulation Reduced Capital to Certain Sectors






**Near-Prime Credit Card  
Outstanding Balances (\$ bn)**



**U.K. Non-Conforming  
Annual Mortgage Originations (£ bn)**



# Pine Brook Created Lending and Insurance Companies Serving Undercapitalized Markets

Company	Description	Thesis
	U.K. Specialty Mortgage Originator	Lack of credit to U.K. non-prime borrowers
	Near-Prime Credit Card	Lack of credit to near-prime consumers
	Life and Annuity Provider	High capital requirements forced divestiture of business
	Small Business Lender	Lack of credit to small businesses
	U.K. Subprime Lender	Lack of credit to U.K. subprime consumers

# Low Interest Rates Create Opportunities

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Re-Regulation

Low Interest Rates

Data and Technology  
Innovations

## Impact

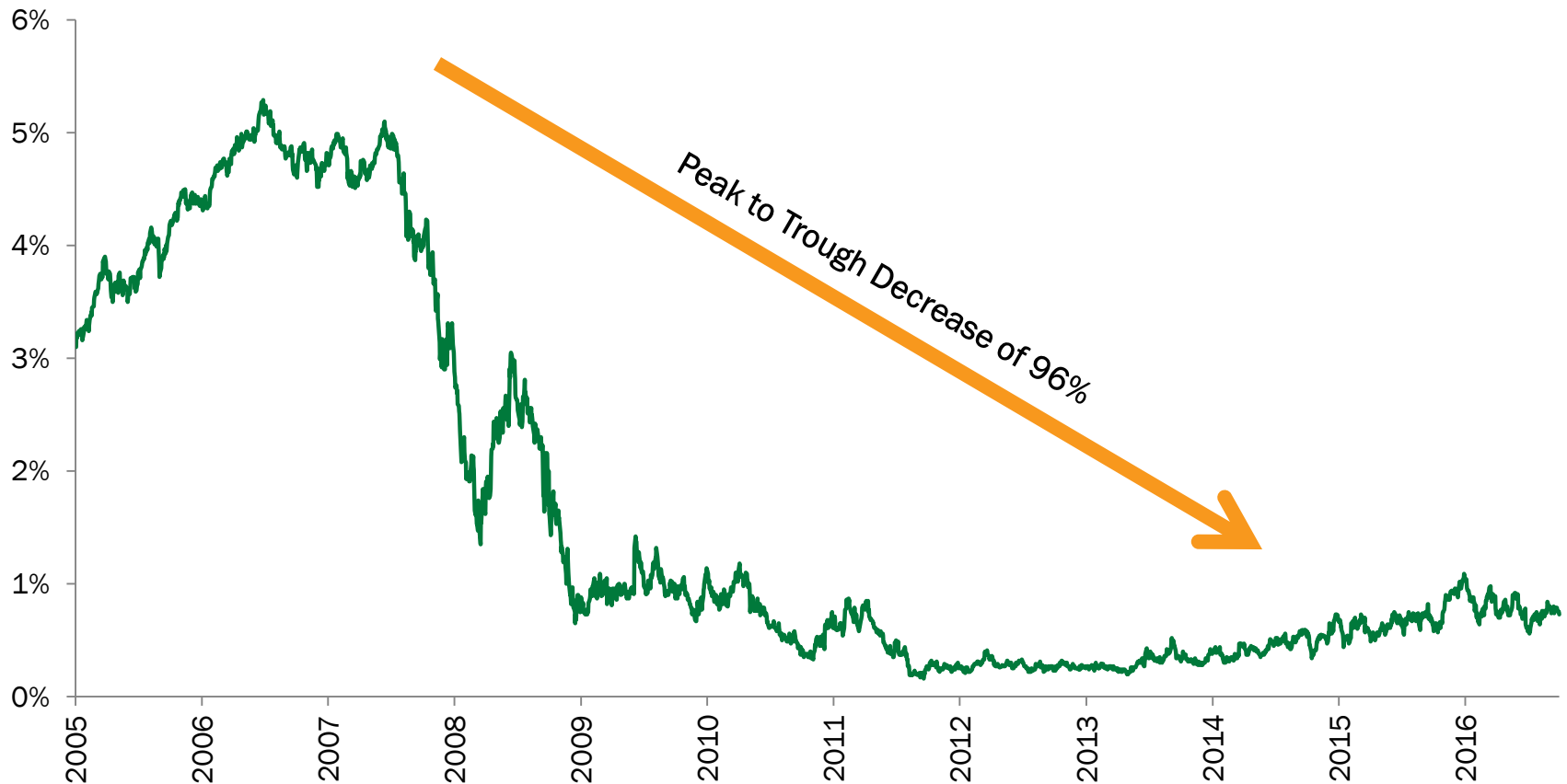
- Low interest rates have reduced profitability
- Investors searching for yield

## Opportunity

- Create lending and insurance companies with niche operating strategies
- Create companies focusing on use of third-party capital

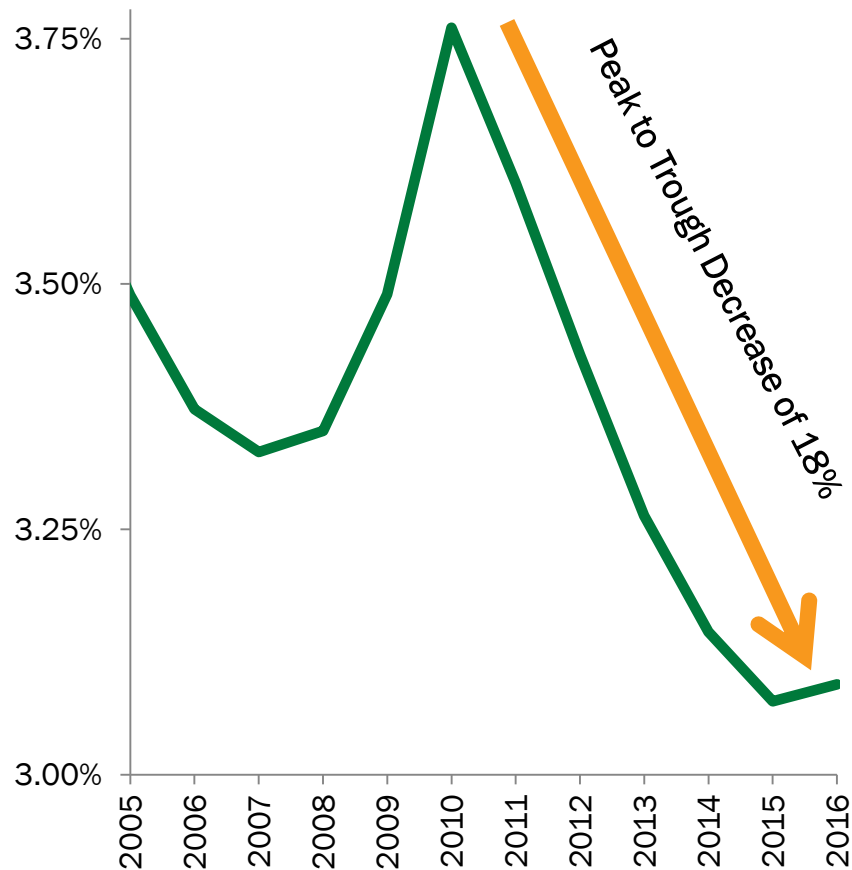
# Low Interest Rates Reduce Investor Returns

## U.S. 2-Year Treasury Rates

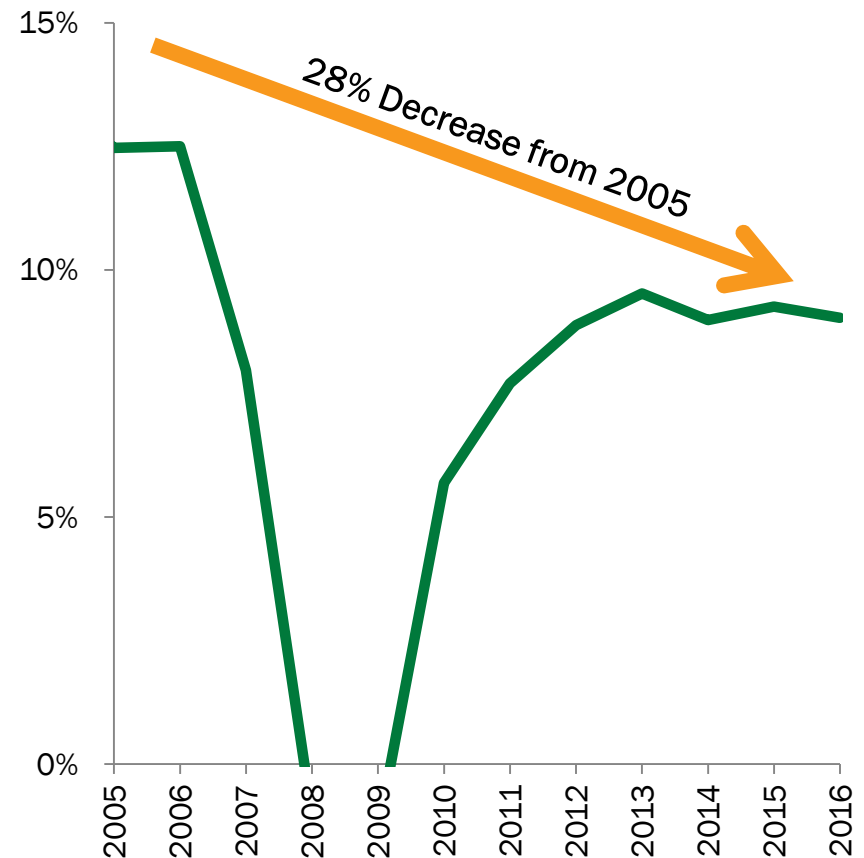


# Low Interest Rates Reduce Banking Profitability

## Net Interest Margin

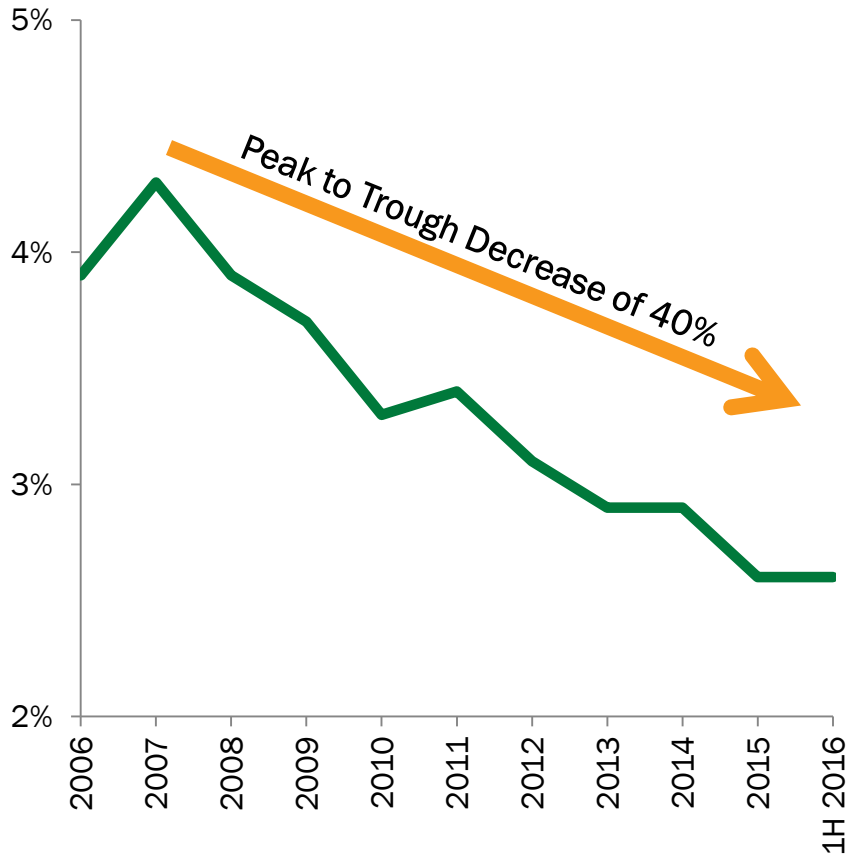


## Return on Equity

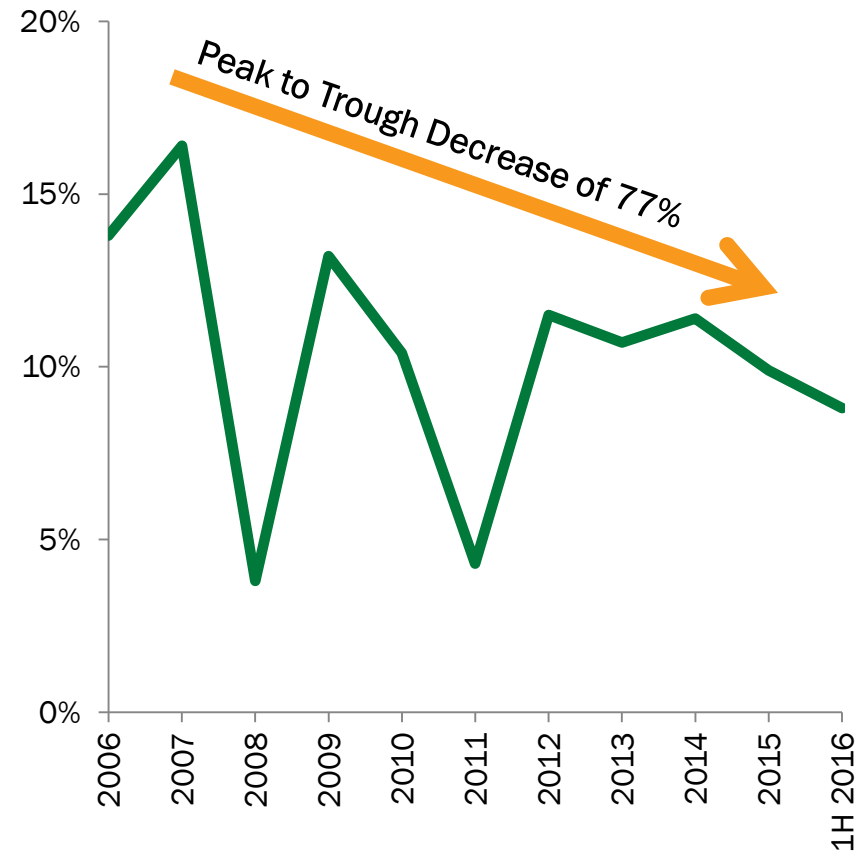


# Low Interest Rates Reduce Insurance Profitability

Investment Yield







Return on Equity





# Pine Brook Created Lending, Insurance and Asset Management Companies Optimized for a Low Interest Rate Environment

Company	Description	Thesis
	Aircraft Asset Management	Substitute lower-cost third-party capital for balance sheet capital
	Insurance Services	Niche operating strategy
	Specialty P&C	Niche operating strategy
	Asset Management	Increase flows to alternative asset managers

# Data and Technology Innovations Create Opportunities

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Re-Regulation

Low Interest Rates

Data and Technology  
Innovations

## Impact

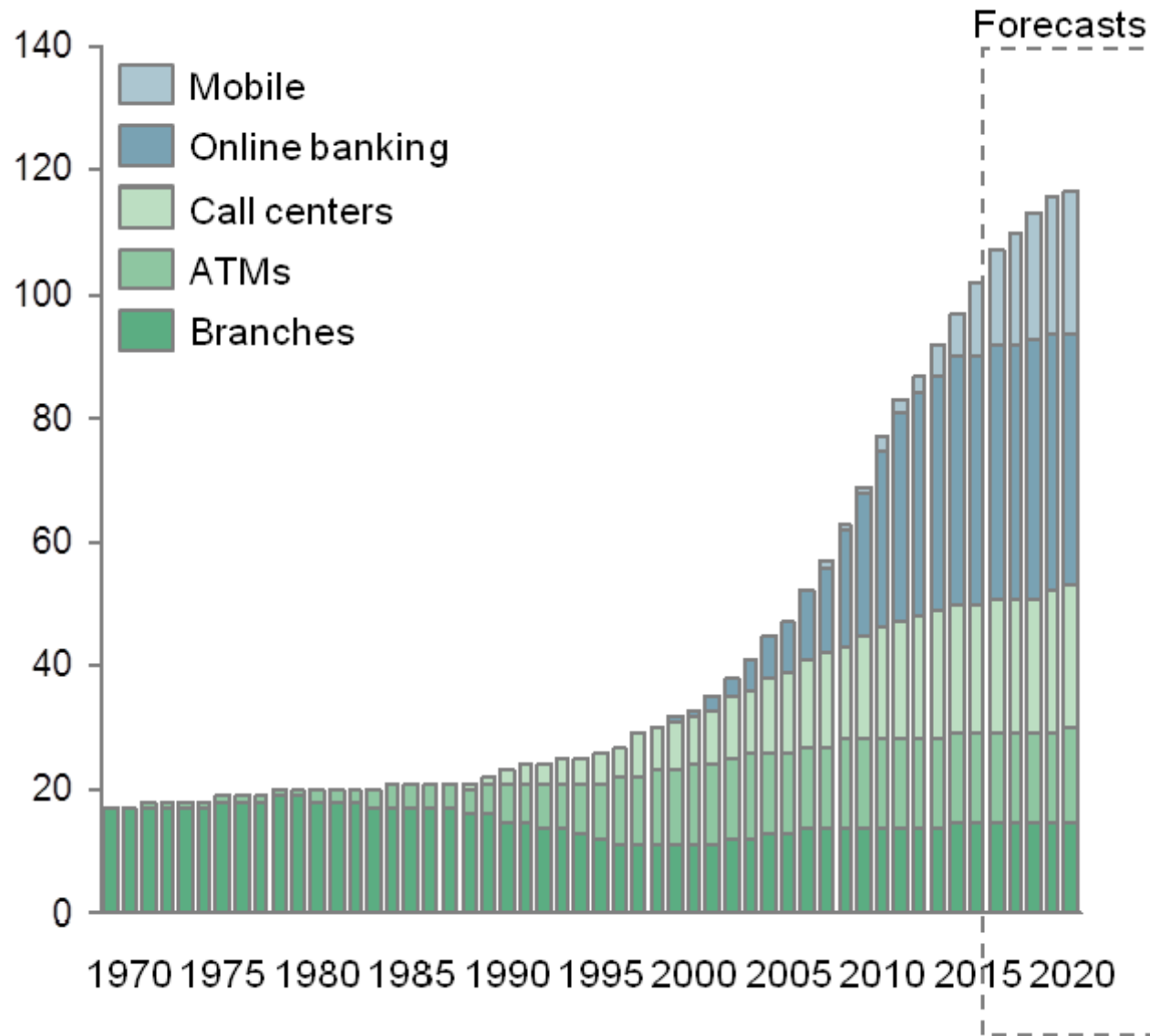
- Application of data and technology has improved efficiencies throughout the value chain
- Incumbents hampered by legacy operating systems

## Opportunity

- Create companies with lower costs of originating, underwriting, servicing and accessing capital
- Work with best-in-class incumbents that can enhance business model with new technology

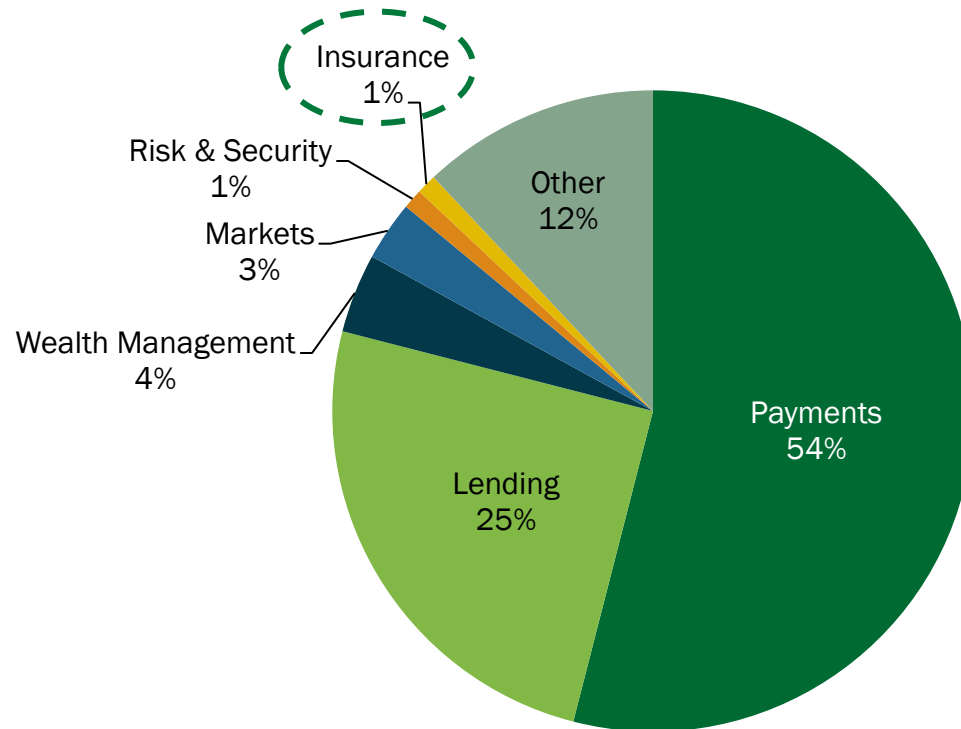
# Technology Impacting Bank Customer Behavior

## U.S. Banking Interactions per Year (\$ billions)



# Insurance Ripe for Technology Innovation


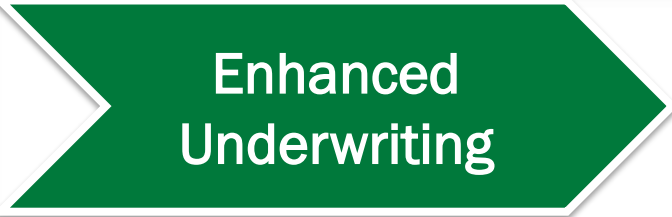


## U.S. FinTech Investments by Sector (2014)



Total 2014 U.S. FinTech Investment: \$10 billion





# Benefits of Data and Technology Innovations

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Benefit	Commentary
 Improved Origination	<ul style="list-style-type: none"><li>▪ Enables businesses to identify and reach the right customers more efficiently</li></ul>
 Enhanced Underwriting	<ul style="list-style-type: none"><li>▪ Enables improved risk selection</li></ul>
 Efficient Servicing	<ul style="list-style-type: none"><li>▪ Minimizes both loss and operating costs</li></ul>
 Broader Access to Capital	<ul style="list-style-type: none"><li>▪ Provides access to lower-cost and broader pools of capital</li></ul>

# Pine Brook Has Created Companies with Lower Costs of Originating, Underwriting, Servicing and Accessing Capital

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Company	Description	Thesis
	U.K. Specialty Mortgage Originator	Tech and data-enabled origination, underwriting and servicing
	Tech-Enabled Mortgage Originator	Tech and data-enabled origination, underwriting and servicing
	Consumer Unsecured Lender	Tech and data-enabled origination, underwriting and servicing
	Small Business Lender	Tech and data-enabled origination, underwriting and servicing

# Dislocations Have Created Investment Opportunities

Fund II Companies		Re-Regulation	Low Interest Rates	Data & Technology Innovations
Amedeo	Aircraft Asset Management		✓	
Belmont Green	U.K. Specialty Mortgage Originator	✓		✓
Better Mortgage	Prime Mortgage Originator			✓
Clear Blue	Insurance Services		✓	
Fair Square	Consumer Unsecured Lender	✓		✓
Fidelis Insurance	Specialty P&C		✓	
Global Atlantic	Life and Annuity Provider	✓		
Strategic Funding	Small Business Lender	✓		✓
The Car Finance Company	U.K. Subprime Lender	✓		
Tunbridge Partners	Asset Management		✓	
Vibe Management (Syndicate)	Lloyd's P&C Reinsurance	✓		