2017 Fall Educational Forum

“Pool Investment Evolution”

Moderator:
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Agenda

- Introductions
- Recent Market Conditions
- Panelist Forum
Description and Goals

Description – Pool Investment Evolution
Government Risk Pools continue to evolve to meet the needs of their constituency and a changing insurance market. As commercial carriers jump back into the market, risk pools have had to become more competitive and efficient. One area that risk pools have taken on more risk (in search of greater reward) is in their investment portfolios. After years of suffering through a historically low interest rate environment, more risk pools are seeking higher returns outside of fixed income. The panel of risk pool experts will discuss the hurdles and key factors contemplated in determining their asset allocation in a competitive insurance market. The panel will also deliberate investment best practices as the equity market continues its record run upwards.

Goals
Some pools have experienced a great deal of pressure from commercial carriers and have looked for ways to become more competitive. One goal is to provide a wide perspective from Pool managers on how they have taken advantage of the equity run up or chosen not to expose their pool to volatility associated with the equity market. Also, to show how various pools have pushed for regulatory change to allow for an equity allocation. We have seen a wide range of client experiences on this topic and thought it might be good to use a panel format to express what pools have considered.
Purpose

- Understanding the challenges of today's investment landscape
- Approaches various pools have employed to meet those challenges
- Getting buy in
- Balancing risk and reward
- Monitoring success
Panelists

Bryan J. Anderson, CPA, CGMA
Managing Director, CFO
Michigan Municipal Risk Management Authority (MMRMA)
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Kevin Crawford
Executive Director
New York Municipal Insurance Reciprocal (NYMIR)
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James L. deSpelder
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County Road Association Self Insurance Fund (CRAISF)
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Mike Mischkot
Chief Financial Officer
Citycounty Insurance Services (CIS)
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# Panelist Pool Investment Overview

<table>
<thead>
<tr>
<th>Pool:</th>
<th>CIS</th>
<th>CRASIF</th>
<th>MMRMA</th>
<th>NYMIR</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>Oregon</td>
<td>Michigan</td>
<td>Michigan</td>
<td>New York</td>
</tr>
<tr>
<td>Investments</td>
<td>$159</td>
<td>$32</td>
<td>$499</td>
<td>$149</td>
</tr>
<tr>
<td>Surplus</td>
<td>$135</td>
<td>$24</td>
<td>$319</td>
<td>$60</td>
</tr>
<tr>
<td>Investment Policy</td>
<td>TSY, AGY, MBS, Corporates (A), ABS, expanded asset classes incl. equities</td>
<td>TSY, AGY, MBS, Corporates(A), Equities (&lt;=20%)</td>
<td>TSY, AGY, MBS, Corporates, Equities (US and Int’l), Real Estate</td>
<td>TSY, AGY, MBS, Corporates (A), Equities</td>
</tr>
<tr>
<td>Equity Allocation</td>
<td>16%</td>
<td>20%</td>
<td>48%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Note: Amounts expressed in millions as of June 30, 2017
Record Low Short-Term Interest Rates

Fed Funds Target Rate

Source: Bloomberg, as of 08/31/17.
Record Low Long-Term Yields

Yield on 5-year Treasury

Source: Bloomberg, as of 06/30/17.
Annual Return Comparisons

Source: Bloomberg, as of 08/31/17.

- 1-5 Year BAML Treasury Index
- Barclays U.S. Aggregate Bond Index
- S&P 500 Index

Source: Bloomberg, as of 08/31/17.
Current Investment Market Challenges

- Moderate economic growth (U.S. & global)
- Global central bank intervention (w/U.S. Fed now raising rates)
- Low inflation, low yields, narrow spreads
- Somewhat high equity valuations
- Uncertainty:
  - Politics (especially in the U.S.)
  - Geopolitical issues (North Korea, Middle East, China, Russia, Brexit, etc.)
  - Market complacency
Panel Questions

1. Briefly describe your pool.

2. Describe the current regulatory environment for pool investments in your state. Has that been a constraint? Have you attempted to change regulations?

3. Briefly describe the history of your investment program. What drove any major changes? How has board dynamics played into those changes?

4. How do you think about the investment horizon as it relates to the pool’s expected liabilities, as well as perhaps any future business plans?

5. Do you use equity or other higher risk investments? How did you come to that decision? Was there a competitive element, or just an investment focus? How did you size the equity portion of the portfolio?

6. How does the pool’s financial condition (e.g. product lines, retention levels, underwriting results, level of surplus/net position) affect the investment strategy?

7. What do you see as the biggest risks of your current investment program?

8. What do you think are some of the biggest challenges you face in the future with regard to your investment program?
Audience Questions?
Thank You!

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