



THE CONCORD ADVISORY GROUP, LTD.



**THE INVESTMENT
INDUSTRY HAS BECOME
INCREASINGLY COMPLEX**

**MEET THE CHALLENGES
BY IMPROVING YOUR
GOVERNANCE**

INSURANCE INVESTMENT MANAGEMENT

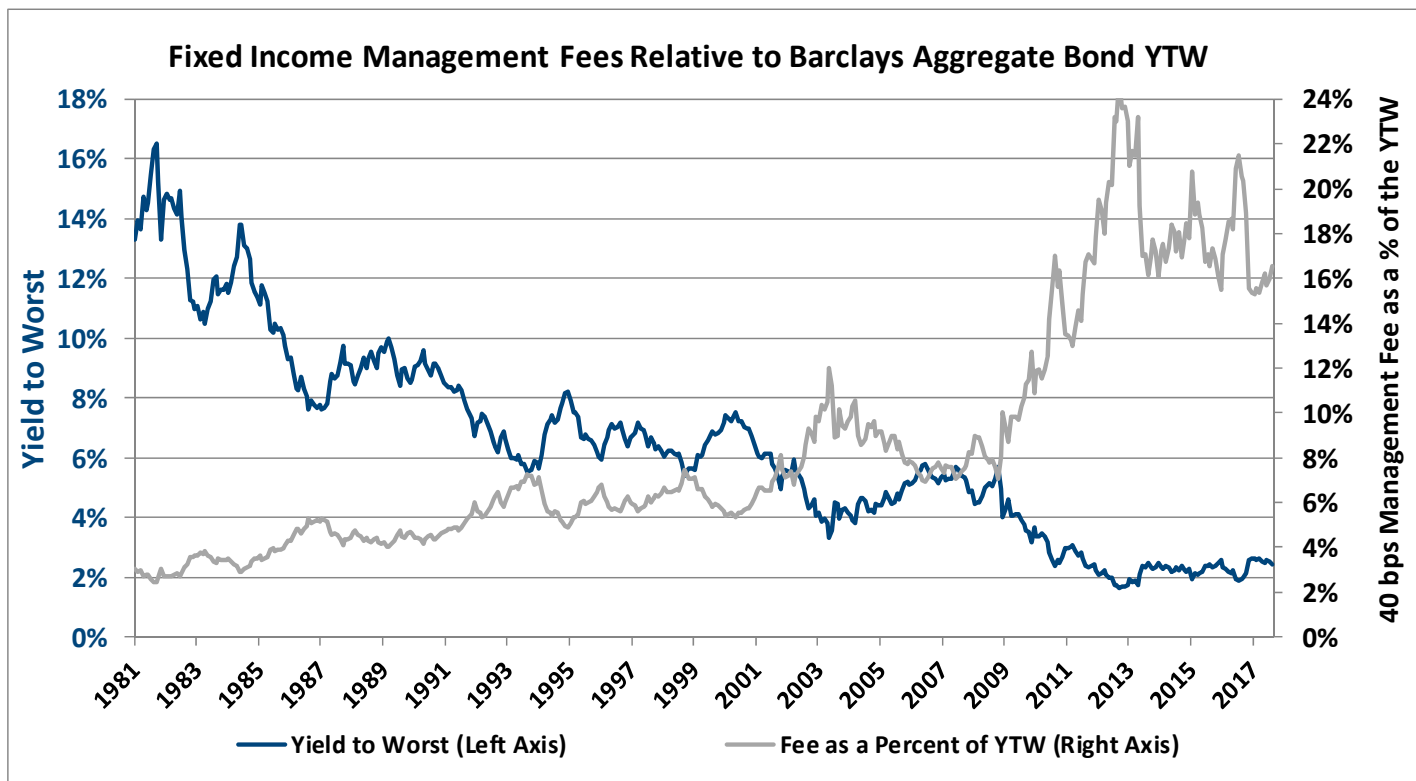
KEY CHALLENGES FOR INSURANCE COMPANY EXECUTIVES

The investment industry has become increasingly complex. Institutional investors no longer enjoy the structural advantages that were prevalent decades ago. In the past investors could earn a competitive return on certificates of deposits and corporate bonds without incurring excessive risk. The top financial institutions had an information advantage over weaker competitors because information was not easily obtained. Today's executives face:

- Intelligent investors with easy access to information
- Complex investment vehicles that are hard to decipher
- Low interest rates and market volatility
- Complying with industry regulations while trying to earn a reasonable rate of return
- Determining the appropriate capital allocation to fund liabilities
- Managing the amount held in Reserves (Liquidity) versus Surplus (Risk Capital)

	CASH	BONDS	STOCKS	ALTERNATIVES
1980	CD'S	CORPORATE GOVERNMENT	US LARGE CAP	REAL ESTATE
NOW	MMMF'S	MBS CMBS GLOBAL EMERGING MRKTS HIGH YIELD CONVERTIBLE BANK LOANS	FACTOR STRATEGY PORTABLE ALPHA INDEXING EMERGING MRKTS GLOBAL INTERNATIONAL FRONTIER	REITS PRIVATE REAL ESTATE MANAGED FUTURES HEDGE FUNDS PRIVATE EQUITY PRIVATE CREDIT CURRENCIES

FEES: EFFICIENT AND COST CONSCIOUS IMPLEMENTATION



- Fixed income management fees have remained static while interest rates have declined
 - Fees remain significantly high as a percentage of expected returns
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- Singular objective to 'beat the market' has generally become more expensive and less probable
 - Fixed income managers have had more success – partially due to inefficient benchmarks

Percentage of Active Funds that Outperformed their Benchmark (Period Ending Dec. 2016)*

Asset Class	Index	1-Year (%)	3-Year (%)	5-Year (%)
Intermediate Fixed Income	Barclays Int. Gov. / Credit	80.25%	62.35%	65.61%
Large Cap Equity	S&P 500	34%	6.61%	11.70%
Small Cap Equity	S&P Small Cap 600	14.46%	4.31%	3.43%
International Equity	S&P 700	15.06%	28.91%	33.05%

*Source: S&P Dow Jones Indices, CRSP

KEY COMPONENTS OF SUCCESSFUL INVESTMENT PROGRAMS

SOUND GOVERNANCE

- Establish a framework for decision making and accountability
- Set a risk budget based on financial tolerance
- Document intentions via a formal Investment Policy Statement (“IPS”)
- Institute oversight and monitoring of portfolio results versus the IPS and long-term goals
- Focus on relevant and productive forward-looking matters

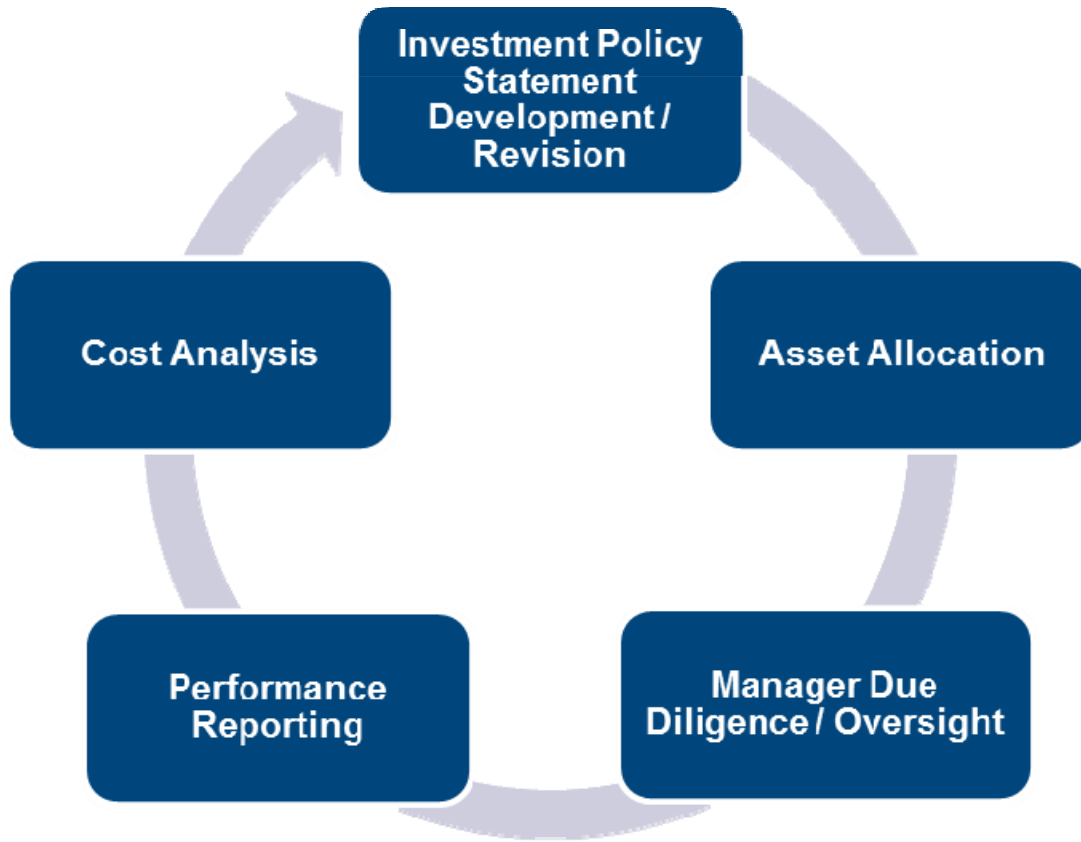
INVESTMENT STRATEGY

- Develop appropriate investment strategies which align with the operating needs of the organization
- Recognize the importance of risk management
- Focus on long-term strategy, while remaining aware of short-term market dynamics
- Establish liquidity for demands of the organization
- Utilize a combination of assets that attempts to minimize risk and maximizes return

PORTFOLIO EXECUTION

- Establish a process utilizing best practice procedures for vendor selections
- Implement constant pursuit of “best-in-class” pricing
- Provide transparency of portfolio operations
- Review benchmarking data to evaluate performance

GOVERNANCE PROCESS



A dynamic review process based on changing circumstances is embedded in the Governance process

Questions	Solutions
<i>Who's making your decisions?</i>	<i>Define the organization's decision-making hierarchy</i>
<i>How are decisions being made?</i>	<i>Create a process-driven investment program</i>
<i>How are decisions being implemented?</i>	<i>Develop portfolio operations best-practices</i>
<i>How are results evaluated?</i>	<i>Implement on-going monitoring procedures</i>

INVESTMENT PROGRAM ROLES & RESPONSIBILITIES

	Investment Consultant	Investment Manager	Insurance Company
Governance	Investment policy statement development & revision Portfolio monitoring & oversight Cost analysis Audit & regulatory filing support Board / Committee Reporting & Meetings Board / Committee Education	Investment policy input for specific asset classes or IPS development <i>(if no consultant)</i> Portfolio reporting Audit & regulatory filing support Board / Committee reporting & meetings	Regulatory compliance & oversight Daily accounting Quarterly & annual regulatory filings Investment policy statement approval Monthly portfolio review Quarterly committee oversight
Strategy	Asset allocation modeling & strategy Total portfolio risk management Portfolio customization	Asset class expertise Underlying portfolio risk management	Advise on projected cash flows & liabilities Asset allocation approval Establish risk tolerance thresholds
Execution	Investment manager searches & recommendations Portfolio rebalancing recommendations Document preparation & staff support	Discretionary management of underlying portfolios	Final manager selection decisions Portfolio rebalancing approval Transaction sign off

Board Responsibilities

Establish reporting structure and protocol for investment operations • Establish investment committee • Review and either approve or reject investment committee recommendations

Investment Committee Responsibilities

Recommend investment objectives, policies, and guidelines • Develop asset allocation and risk parameters for the portfolio • Vendor selection and performance evaluation

Staff Responsibilities

Daily oversight of investment operations • Ongoing reporting to board and investment committee

PROCESS-DRIVEN INVESTMENT MANAGEMENT

INVESTMENT STRATEGY RATIONALE IS BASED ON:

Liability Structure

Balance Sheet

Capital Market Conditions

ALLOCATION BUILDING BLOCKS

**Return
Enhancement**

Total return strategies that seek to grow surplus assets. Equity-like levels of volatility.

Core Capital

Income producing and low volatility strategies that support underwriting reserves. Provides diversification and safety to the majority of insurance assets.

Liquidity

Liquidity bucket for expected short-term cash flows. Periodically utilized as a tactical investment in periods of stress.

INSURANCE PORTFOLIO EVALUATION

All insurance portfolios evolve over time. Depending on your stage (Formation, Growth or Maturity) your organization's requirements, risk tolerance and investment management structure will vary.

Concord can help you determine your investment profile and the best-in-class investment options to realize your goals. We can implement a process driven investment program to improve your governance.

	Formation Stage	Growth Stage	Maturity Stage
<i>Investable Assets</i>	Limited Reserves	Reserve Accumulation / Modest Surplus	Stable Reserves / Rising Surplus
<i>Risk Tolerance</i>	None	Low	Moderate
<i>Investment Profile</i>	Capital Preservation	Growth & Income	Total Return
<i>Investment Goal</i>	Minimize Risk of Loss	Income Generation	Income & Capital Gains
<i>Investment Options</i>	Cash & Equivalents Short-Term Bonds	Investment Grade Bonds Global Bonds High Yield Bonds Convertible Securities High Quality Global Equities	Emerging Markets Equities Commodities Real Estate Alternative Strategies
<i>Typical Investment Management Structure</i>	Bank / Single Manager	Single or Multi-Manager / Consulting Services	Multi-Manager / Consulting Services