STRATEGIC ASSET ALLIANCE
THE INSURANCE INVESTMENT SPECIALIST

Insurer Investment Forum: Sample Case Study
"Fossil Fuel Divestment"

Background/Situation

Joe Smith, Chief Investment Officer of Mountain Top Insurance Company (MTIC), received an email from Frank Turbine, CEO, referring to a Financial Times article about the growing Fossil Fuel divestment movement, the forecasted decline in earnings and the value of future reserves for major energy companies, and the potential impact on investment returns on these companies. Frank hinted this should be a discussion topic for the next Investment Committee.

Joe recalled a local CFA Society luncheon that featured a speaker on the Fossil Fuel divestment subject. Joe called Dr. Berkeley, explained the situation and suggested that he attend the next Committee meeting as a guest speaker.

The Committee Meeting

After Dr. Berkeley presented his research, the Committee members had several options:

(1) Maintain the portfolio as currently constructed. Further, they can ignore this potential risk permanently or set a date to reassess.

(2) Decide to reduce exposure to fossil fuel related investments or find a separate account equity managers to implement "Fossil Free" portfolios that restrict investments in companies that meet a certain revenue or fossil fuel reserves screen.

(3) Approach the issue aggressively by eliminating exposure across the entire equity portfolio and also begin to consider doing so across the fixed income portfolio.

Questions for the Groups (Forum Attendees):

(1) How did your group choose to proceed?
(2) Why did you choose that approach? What factors played into your decision?
(3) What are the risks and you discussed in terms of acting or deciding not to act? What other considerations might investors be missing when thinking about this issue?

INSURER INVESTMENT FORUM XVIII
March 20-23, 2018
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Mountain Top Insurance Company (MTIC) Profile

- MTIC is a domestic surplus lines carrier that is admitted in 49 states and the District of Columbia. Based in Colorado, the company has two divisions. One is a P&C company that offers niche programs and excess & surplus lines coverages. The other company is a P&C carrier that underwrites non-profit D&O, E&O, general liability and commercial multi-peril risks including fire, allied lines, and other liabilities. Both companies are rated "A" by A. M. Best.
- Combined assets are approximately $350 million and surplus is $157 million.
- The company wrote net written premiums of ~$89 million in 2015.
- The company does business across the country but its largest exposure is in the Southwest & West including California where the government has been increasingly active in the Fossil Fuel divestment movement.
- The company has grown significantly over the past five years with Net Written Premiums increasing from $35mm to $89mm over the period.
- The company's investment portfolio consists of 64% Bonds, 27% Common Stocks and 6% other assets including some real estate and venture capital funds.
- Common Stock/Surplus is approximately 55%.
- The company's fixed income investments are managed by one investment manager in a separate account.
- The company's equity investments have been implemented via ETF's (large and mid-cap) and mutual funds (small cap and international).