

Risk Pool Investment Outlook

DECEMBER 8, 2020



Session Topics

- (1) Market & COVID Update - What a strange year it's been...**
- (2) How are other risk pools positioned and performing?**
- (3) Rates Lower for Longer – Thoughts, Implications & Opportunities**



Market Update

(1)



Fixed Income Market Performance YTD

Source: Bloomberg



Equity Market Performance YTD

Source: Bloomberg



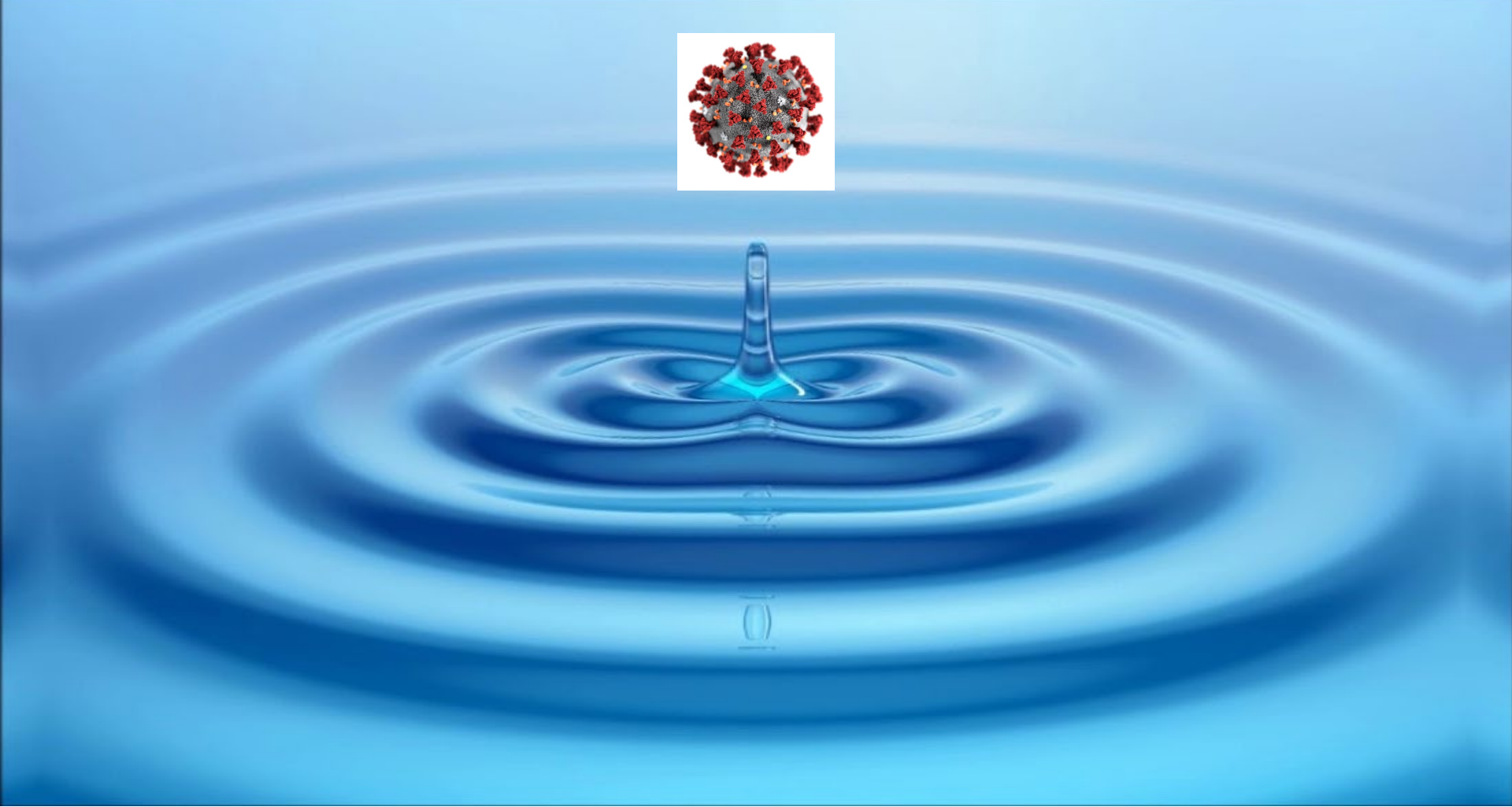
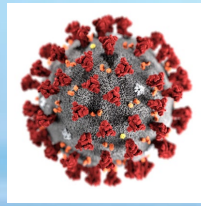
U.S. Treasury Yields

Source: Bloomberg



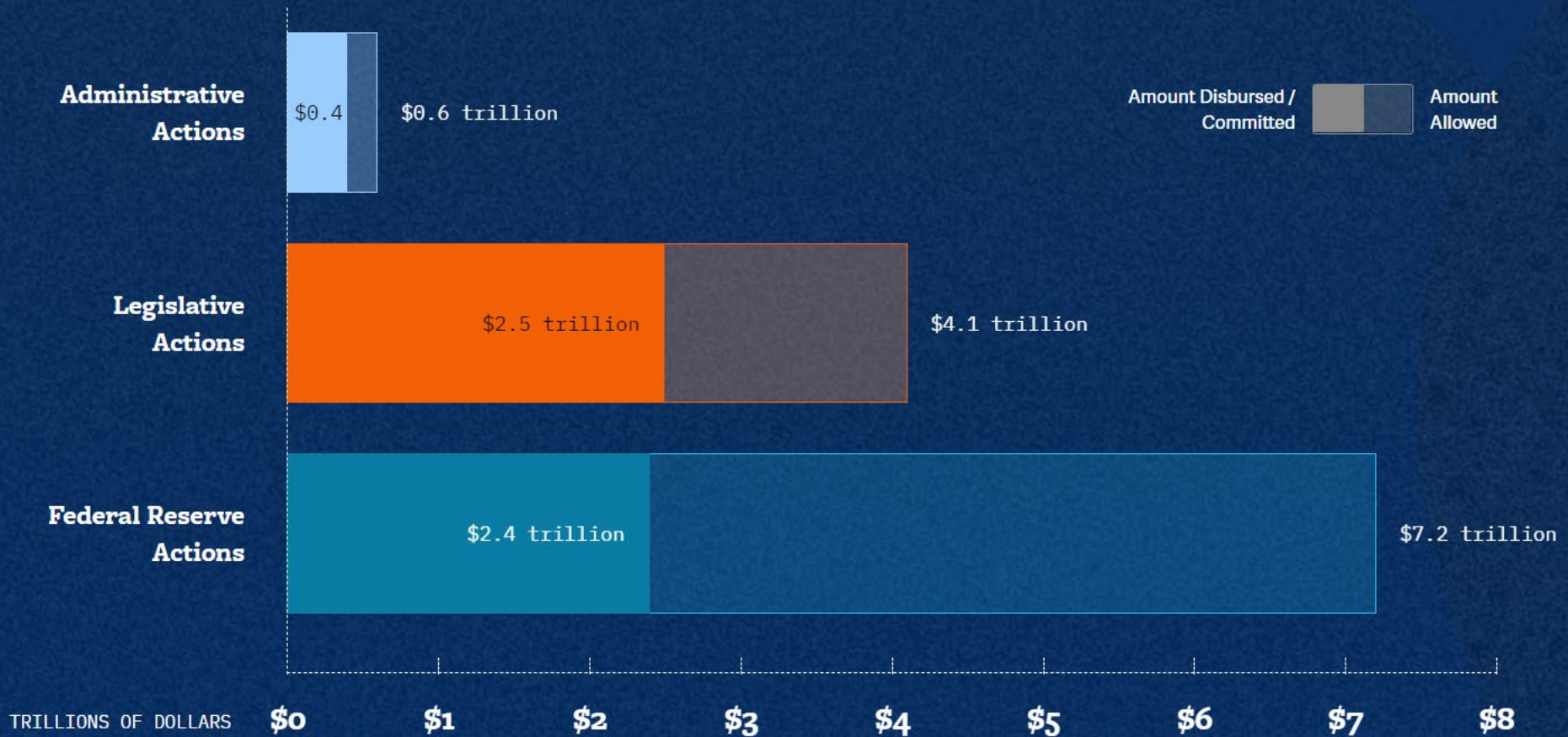
U.S. Credit Yields

Source: Bloomberg



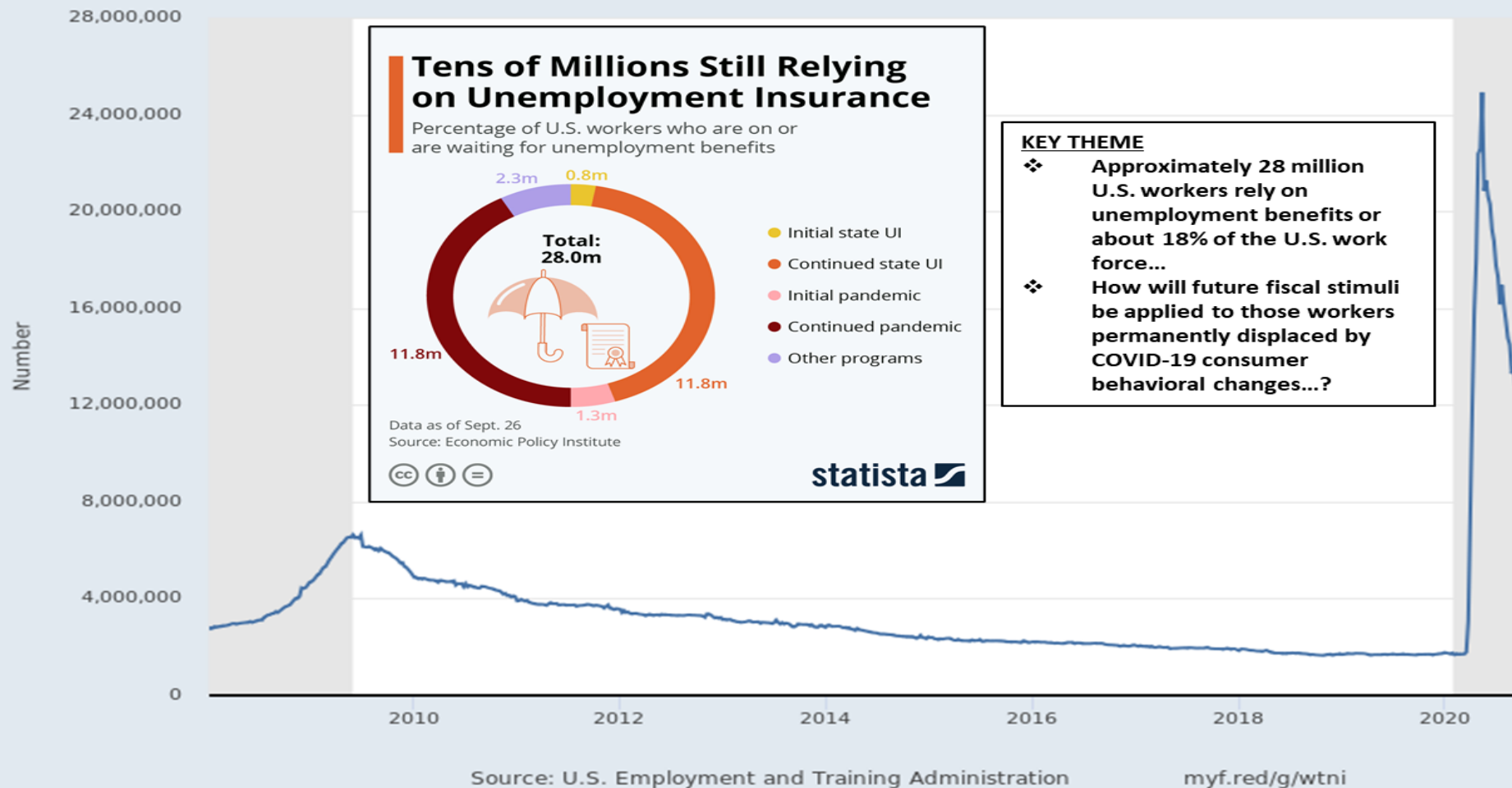
COVID Update

Tracking the COVID Response



Federal COVID Response

Source: Committee for a Responsible Federal Budget

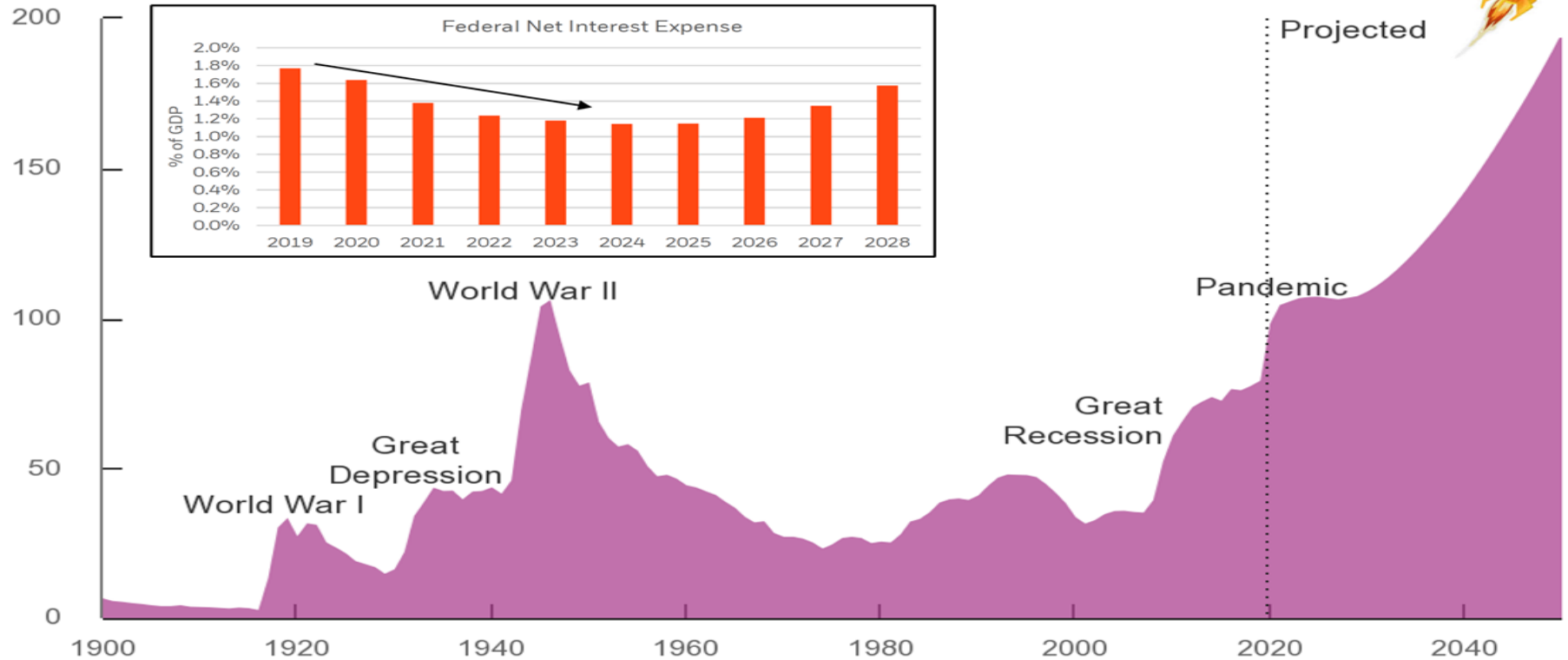


Unemployment – Continued Claims

Source: FRED & Statista

Federal Debt Held by the Public, 1900 to 2050

Percentage of Gross Domestic Product



KEY THEME – While U.S. debt rises as a percentage of GDP, the actual cost of servicing that debt will fall through 2023 and is less than 1.6% of GDP through 2028... Even so, U.S. demographics are working against the “grow your way out” theory on deficit spending...

Fiscal Stimulus Impact & Trends

Source: Congressional Budget Office (CBO)

A CLOSER LOOK AT FEDERAL SPENDING AND REVENUE (2019)

BREAKDOWN OF FEDERAL SPENDING

Total spending in 2019 reached \$4.4T and was allocated across a wide range of categories.

MANDATORY SPENDING

\$2.7T

Health programs
25.5%

Social security
23.6%

Income security
6.8%

Federal civilian and
military retirement
3.7%

Other
2.5%

DISCRETIONARY SPENDING

\$1.3T

Defense **15.4%**

Transportation **2.3%**

Veteran's benefits & services **1.9%**

Education **1.6%**

Health **1.5%**

Administration of justice **1.3%**

International affairs **1.2%**

General government **1.2%**

Housing assistance **1.1%**

Natural resources and environment **1.0%**

General science, space, and technology **0.7%**

BREAKDOWN OF FEDERAL REVENUES

The vast majority of revenues come from taxes—
more specifically, taxes on individuals.

TOTAL REVENUE

\$3.5T

Individual income taxes
50%

Payroll taxes
36%

Corporate income taxes are a
relatively small contributor to
federal revenues.

Corporate income taxes **7%**

Other **3%**

Excise taxes **3%**

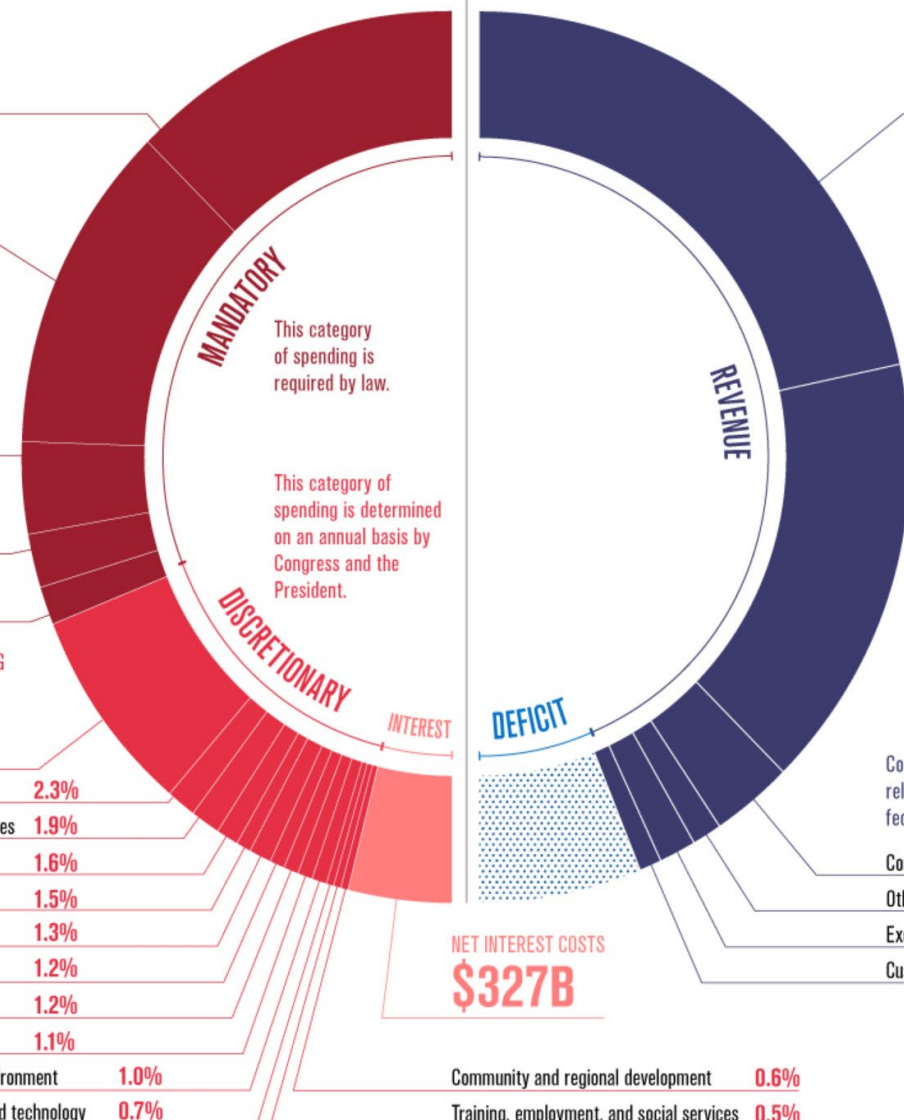
Customs duties **2%**

NET INTEREST COSTS

\$327B

Community and regional development **0.6%**

Training, employment, and social services **0.5%**



Federal Spending

Source: Peter G. Petersen
Foundation &
Virtualcapitalist.com

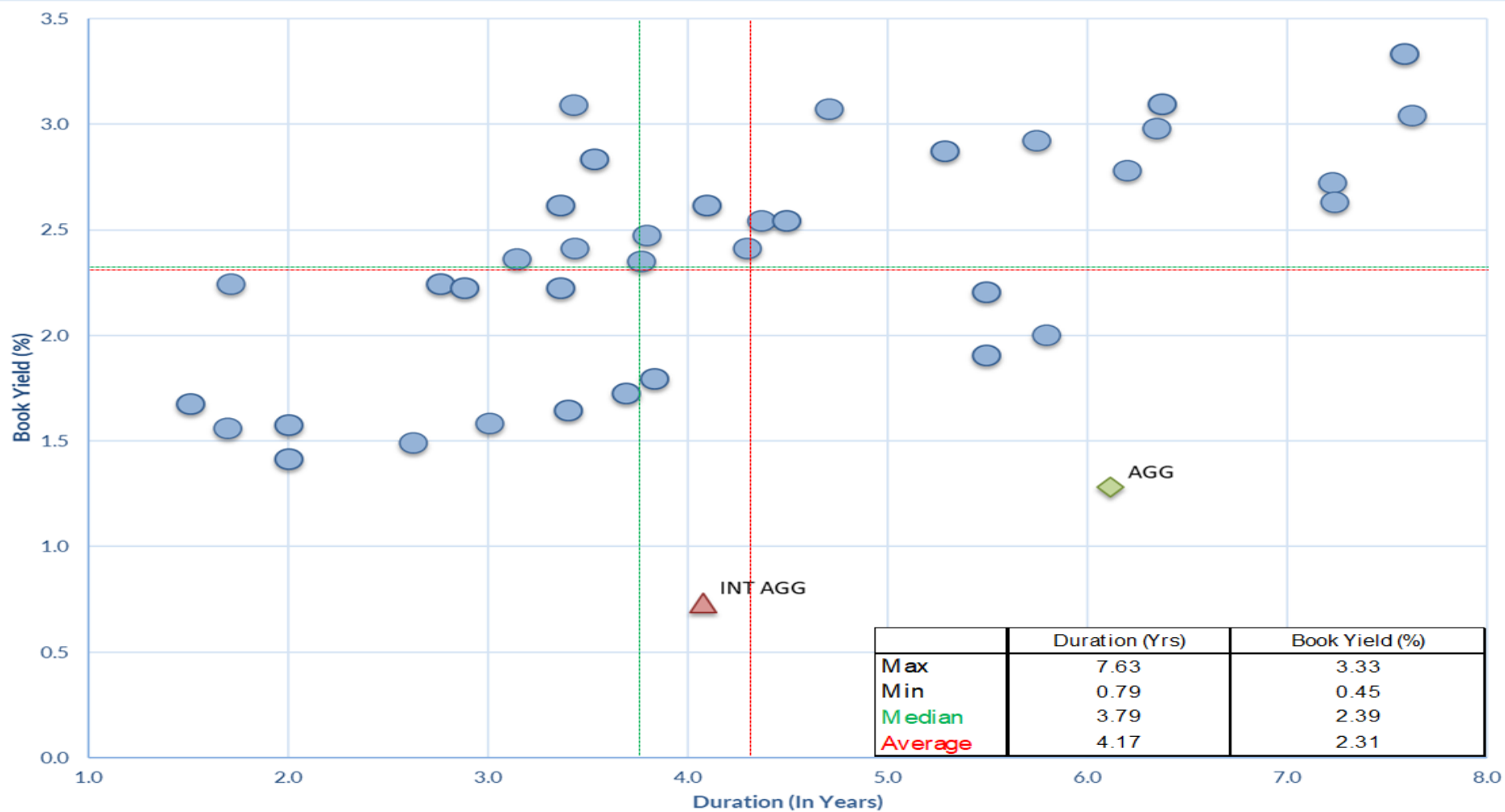


Is the grass greener?

Risk Pool Investment Peer Analysis

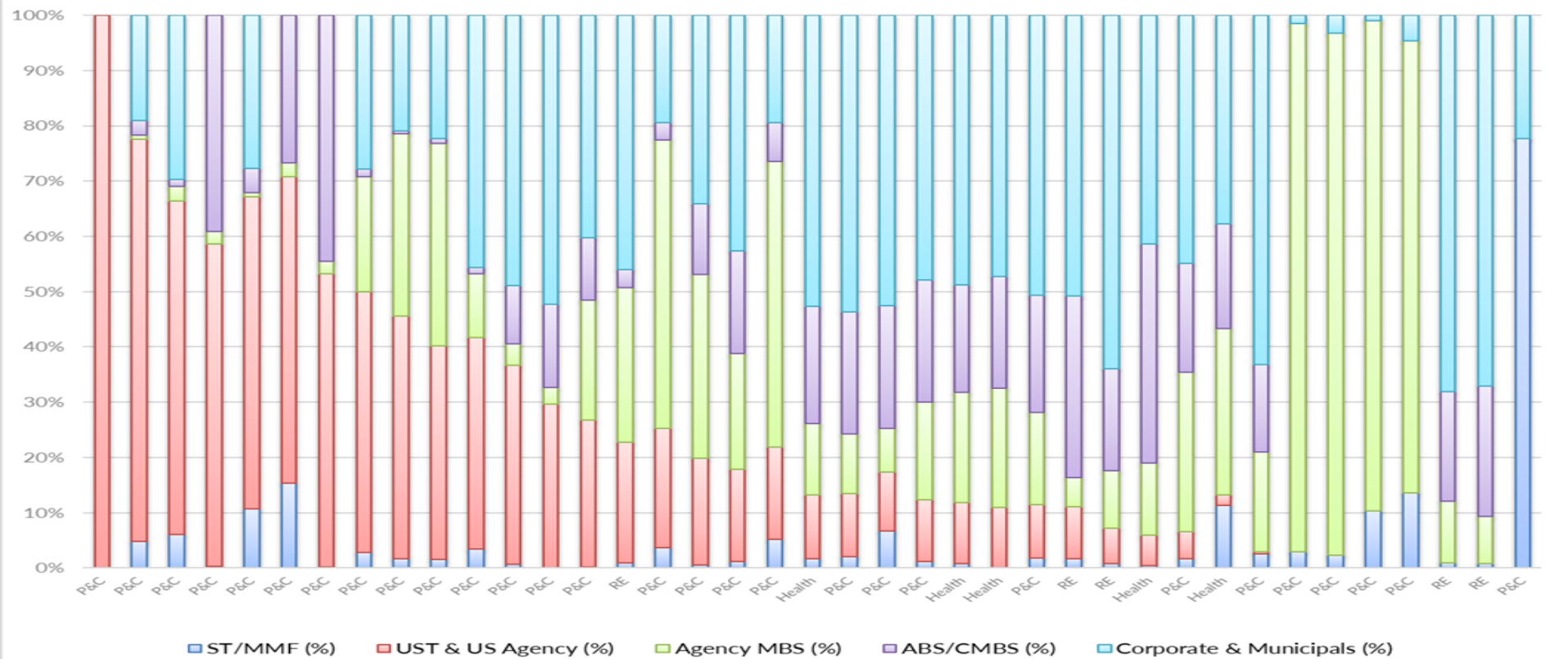
As of 9/30/2020 (21 Risk Pools / \$5.6B in Assets)

(2)



Fixed Income Portfolio Book Yield & Duration

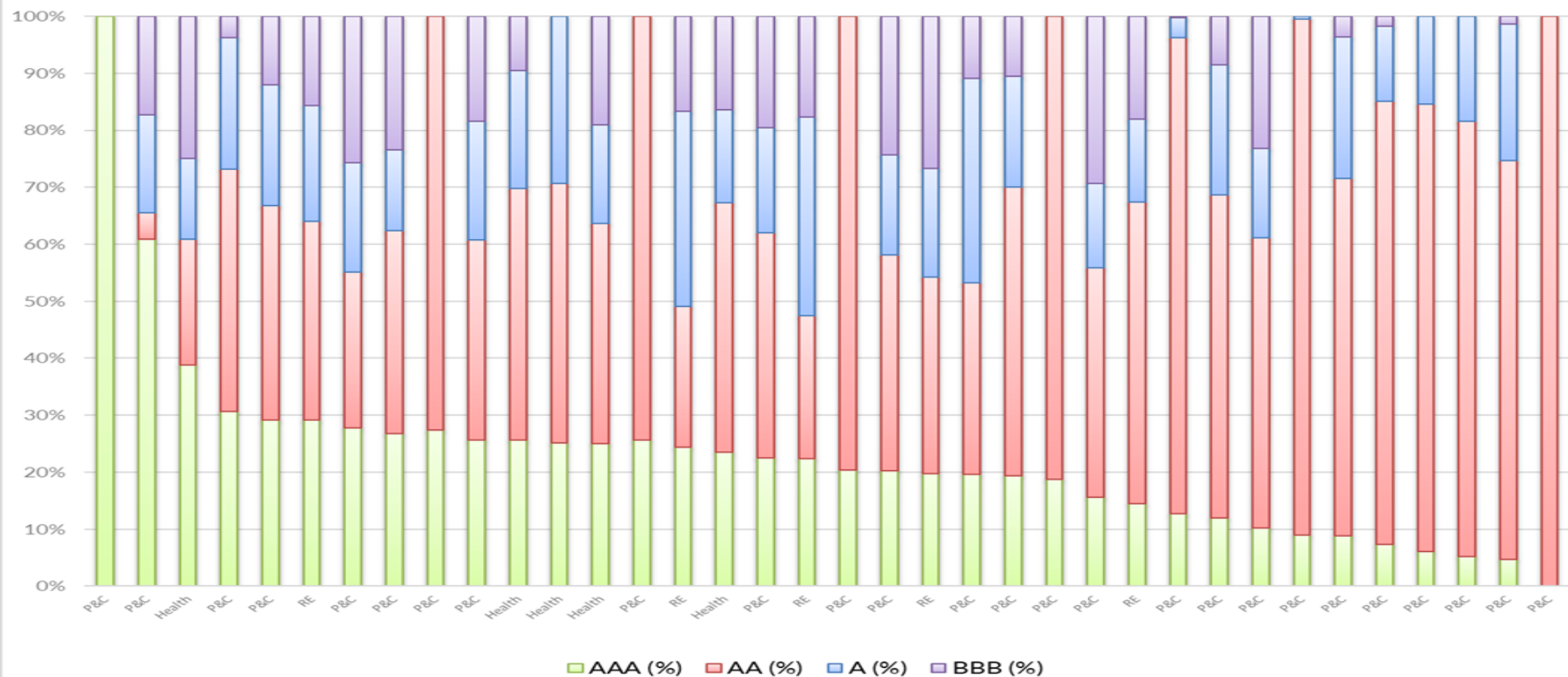
Fixed Income Portfolio - By Sector



	ST/ MM F (%)	UST & US Agency (%)	Agency MBS (%)	ABS/ CMBS (%)	Corporate & Taxable M uni (%)
Max	77.72%	100.00%	95.13%	44.50%	68.07%
Median	1.73%	11.55%	16.76%	15.10%	40.22%
Average	5.15%	23.53%	23.59%	13.89%	33.87%

Fixed Income Portfolio Sectors

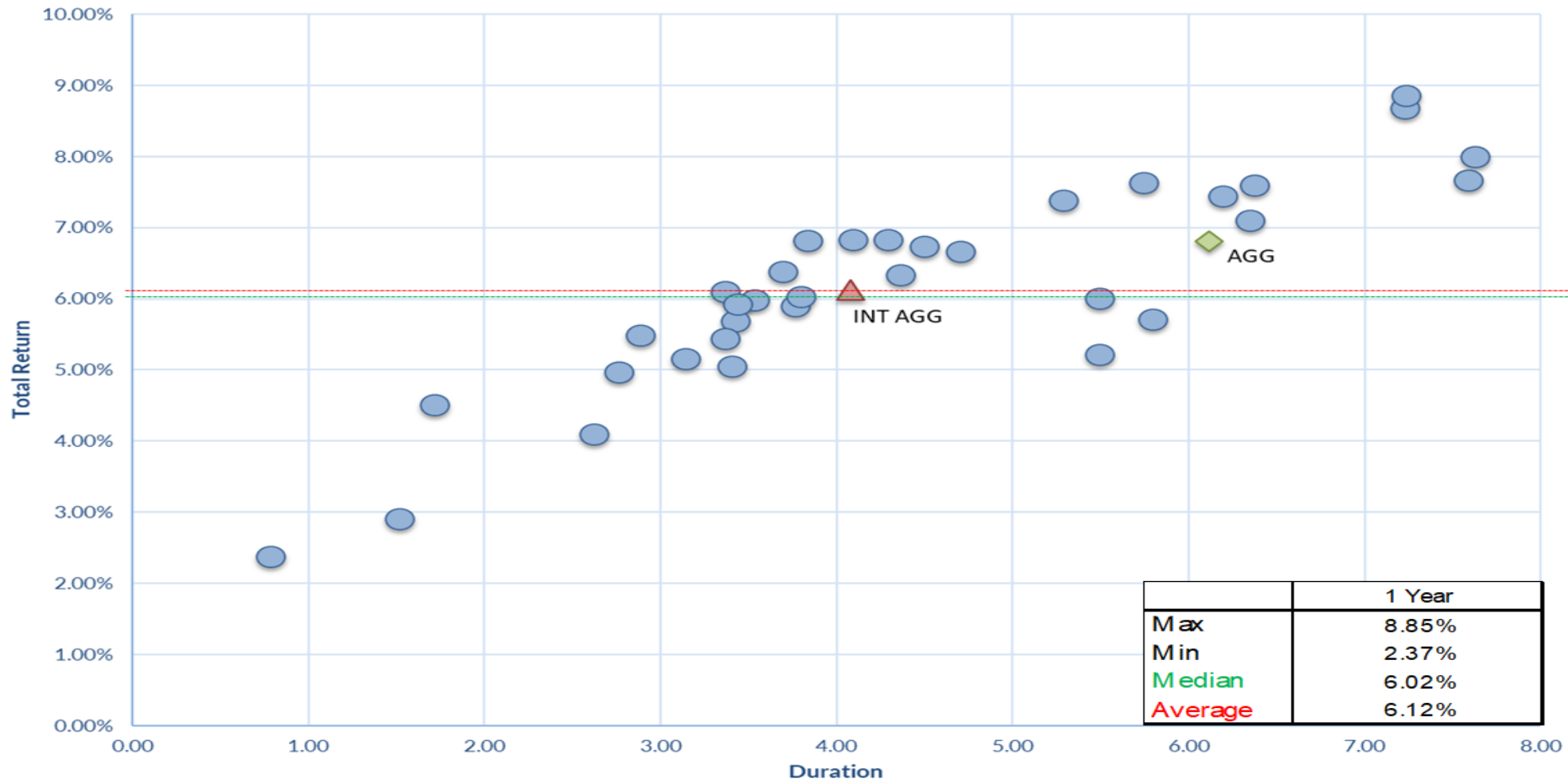
Fixed Income Portfolio - By Credit Rating



	AAA (%)	AA (%)	A (%)	BBB (%)
Max	77.74%	100.00%	35.52%	28.89%
Median	21.23%	43.72%	17.37%	10.66%
Average	21.67%	49.86%	16.03%	10.96%

Fixed Income Portfolio Credit Rating

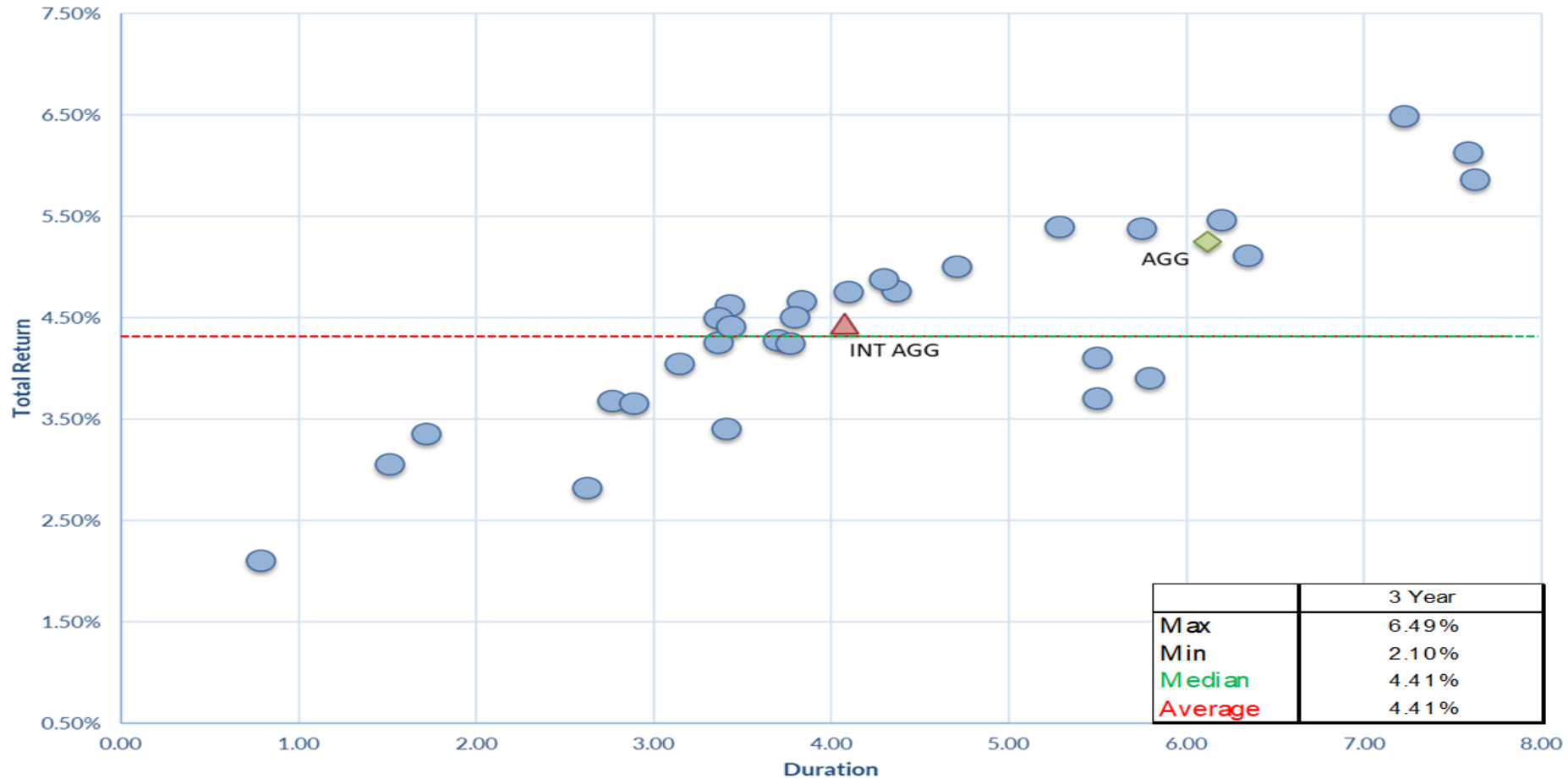
Fixed Income Performance



Fixed Income Performance - 1 Year

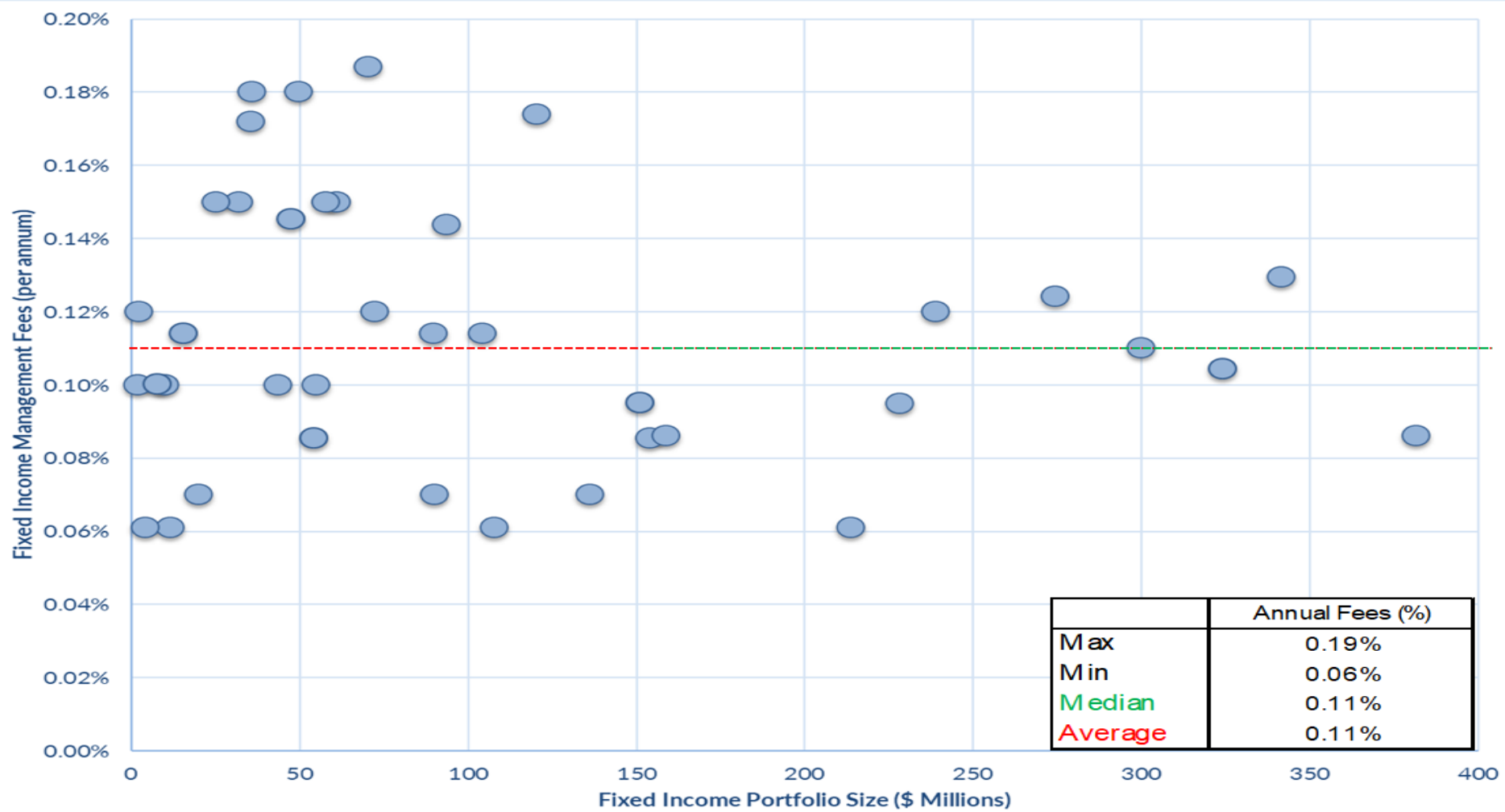
Period Ending 9/30/2020; Net of fees; return median/average calculated by portfolio not asset-weighted

Fixed Income Performance



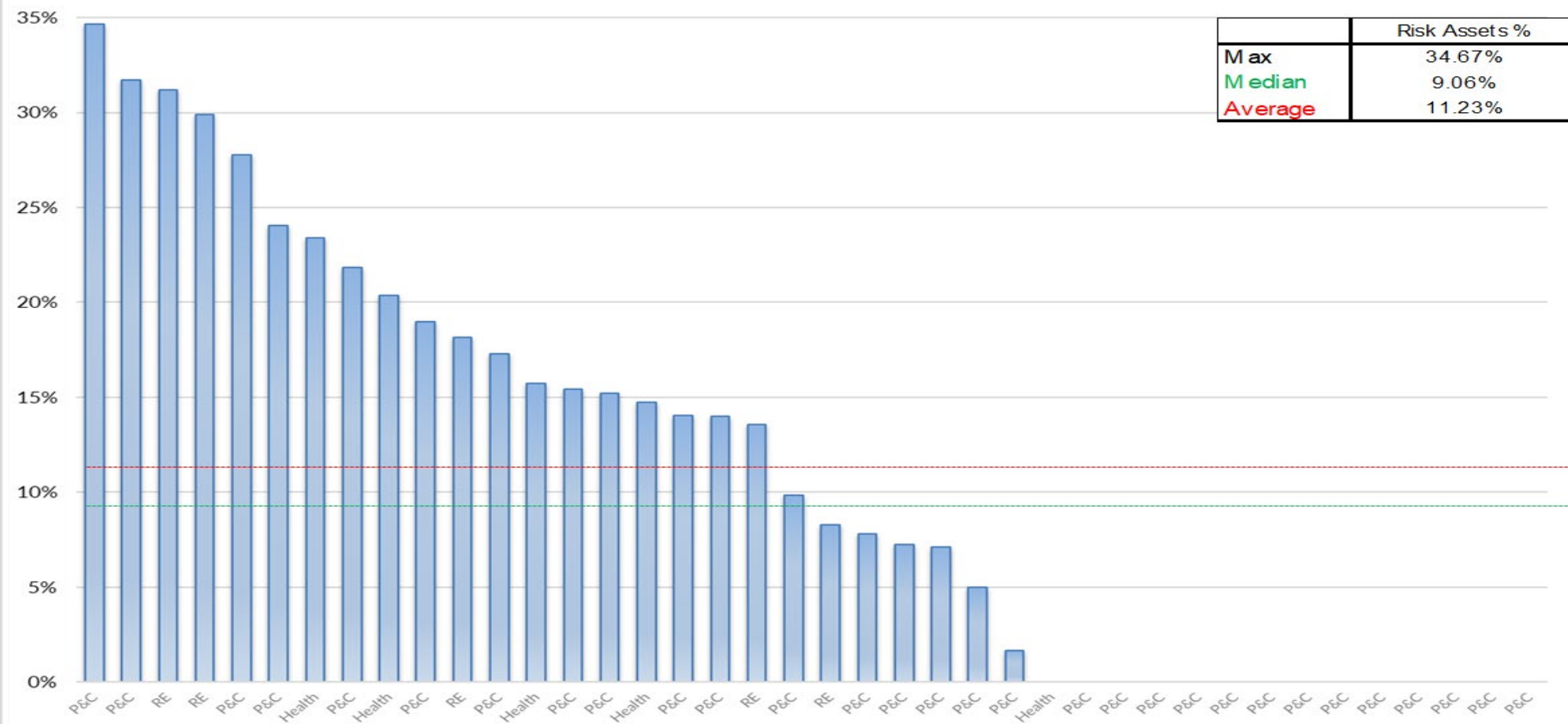
Fixed Income Performance - 3 Years

Period Ending 9/30/2020; Net of fees; return median/average calculated by portfolio not asset-weighted



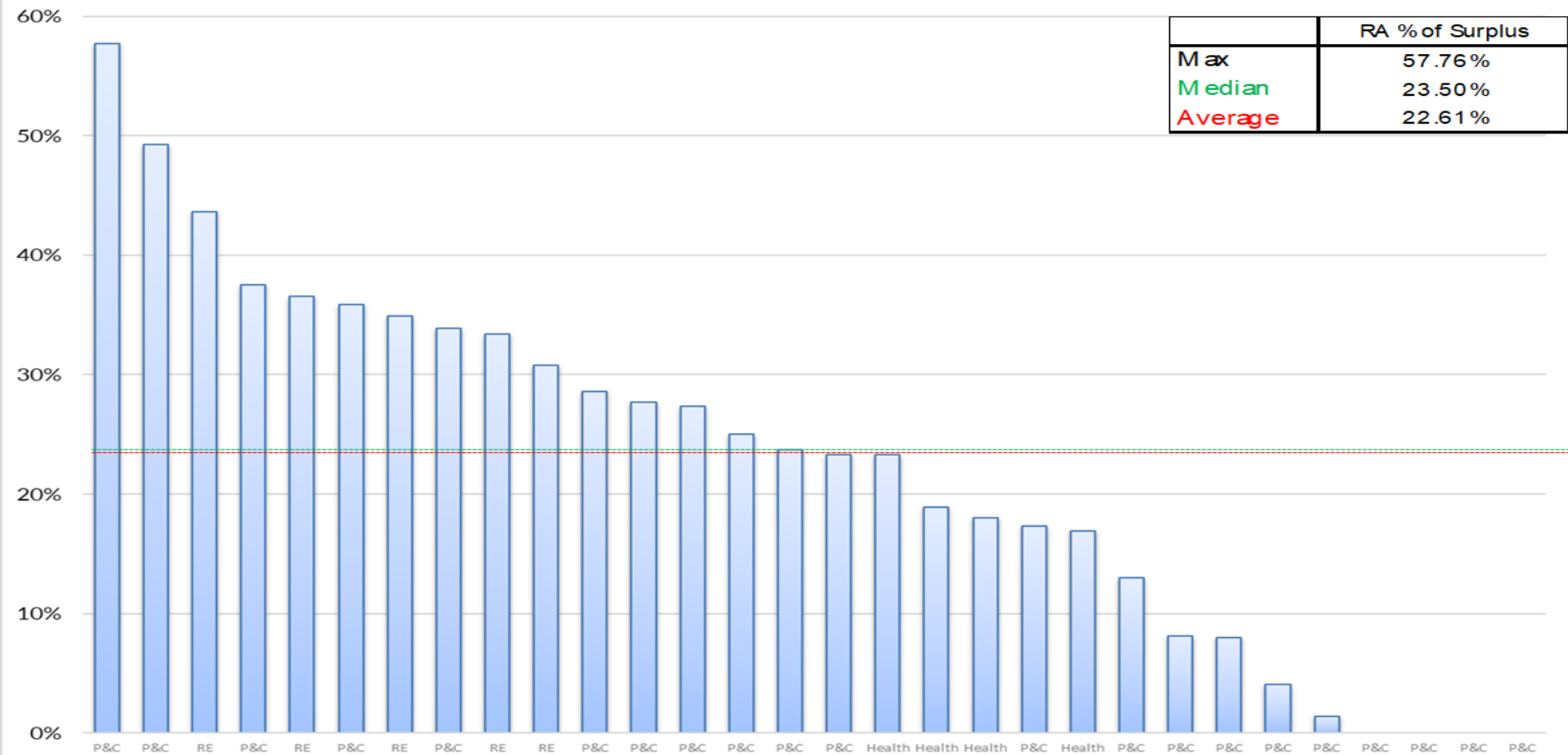
Fixed Income Manager Fees

Risk Asset Allocation As % of Total Portfolio



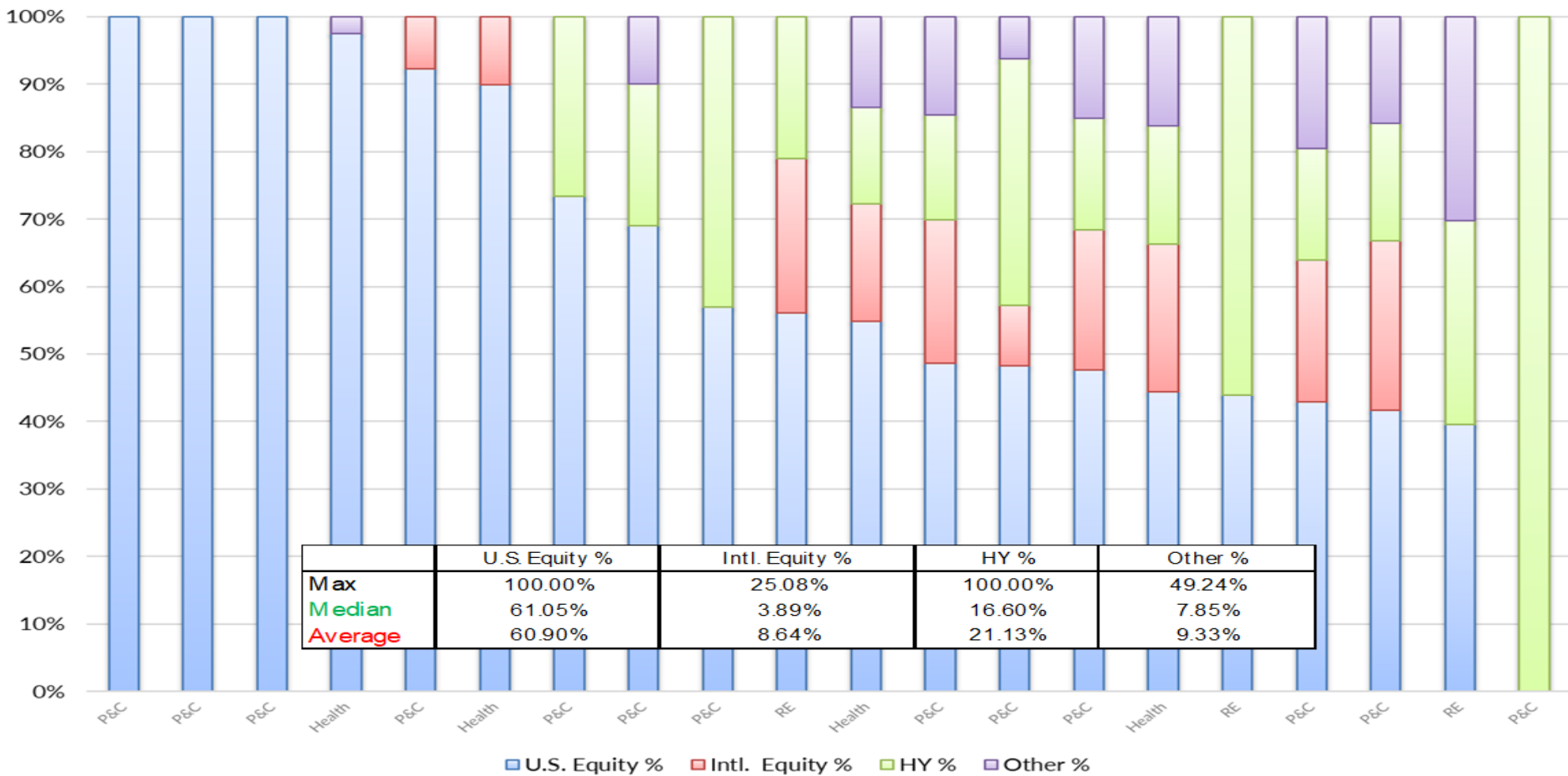
Risk Asset Allocation - % of Total Portfolio

Risk Asset Allocation As % of Surplus / Net Position



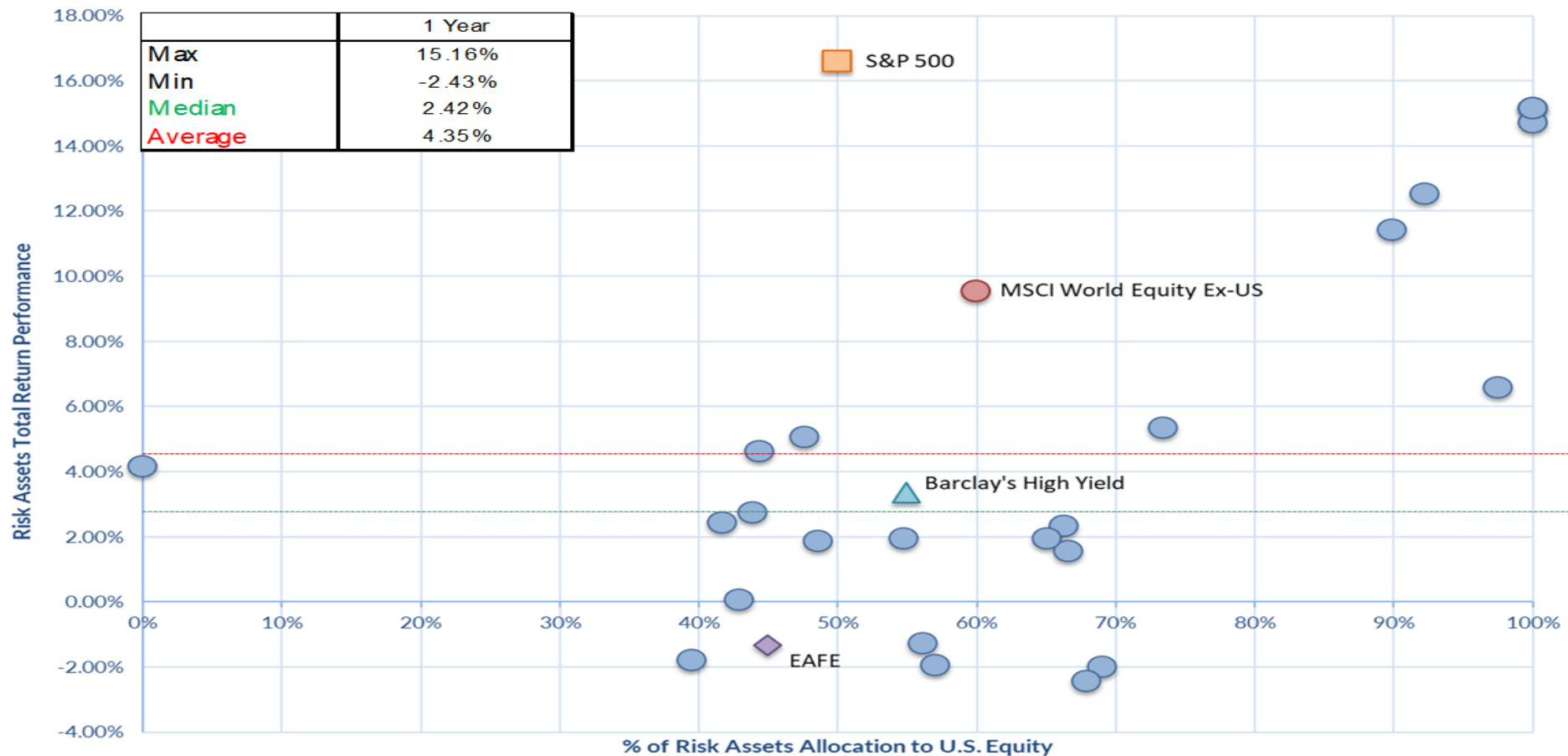
Risk Asset Allocation - % of Surplus / Net Position

Risk Asset Portfolio Composition



Risk Asset Allocation

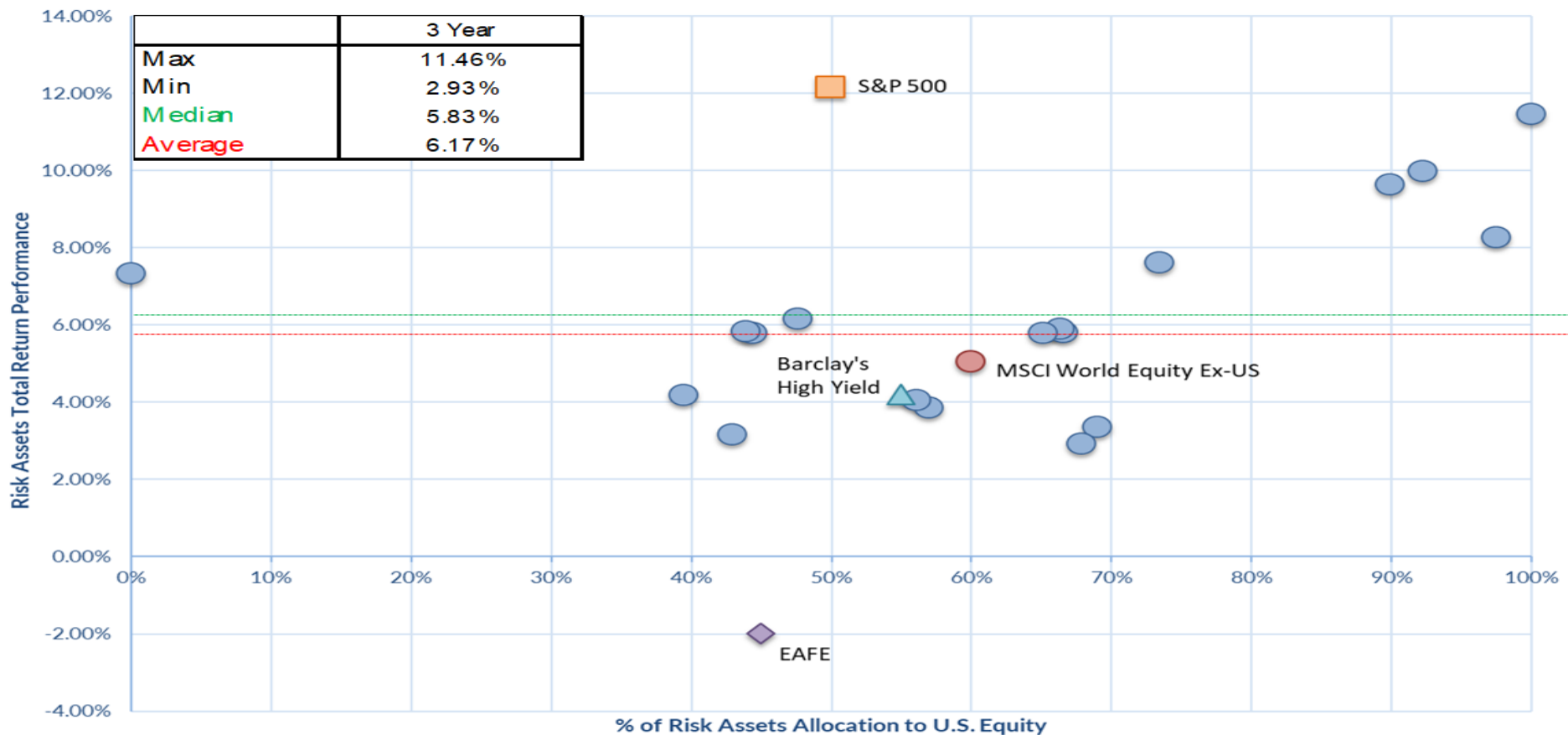
Risk Assets Performance



Risk Asset Performance - 1 Year

Period Ending 9/30/2020; Net of fees; return median/average calculated by portfolio not asset-weighted

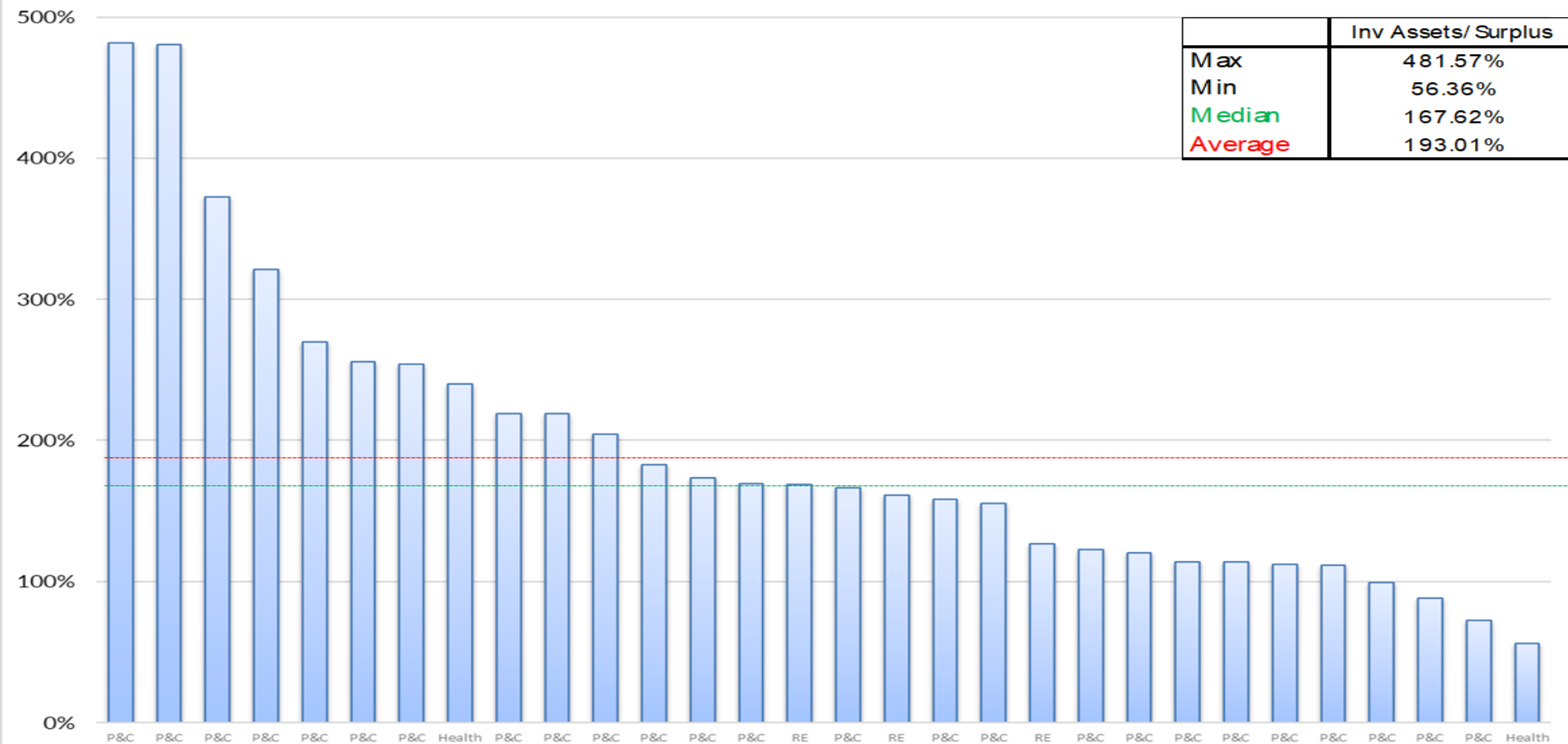
Risk Assets Performance



Risk Asset Performance - 3 Years

Period Ending 9/30/2020; Net of fees; return median/average calculated by portfolio not asset-weighted

Invested Assets / Surplus



Investment Leverage

Invested Assets / Surplus

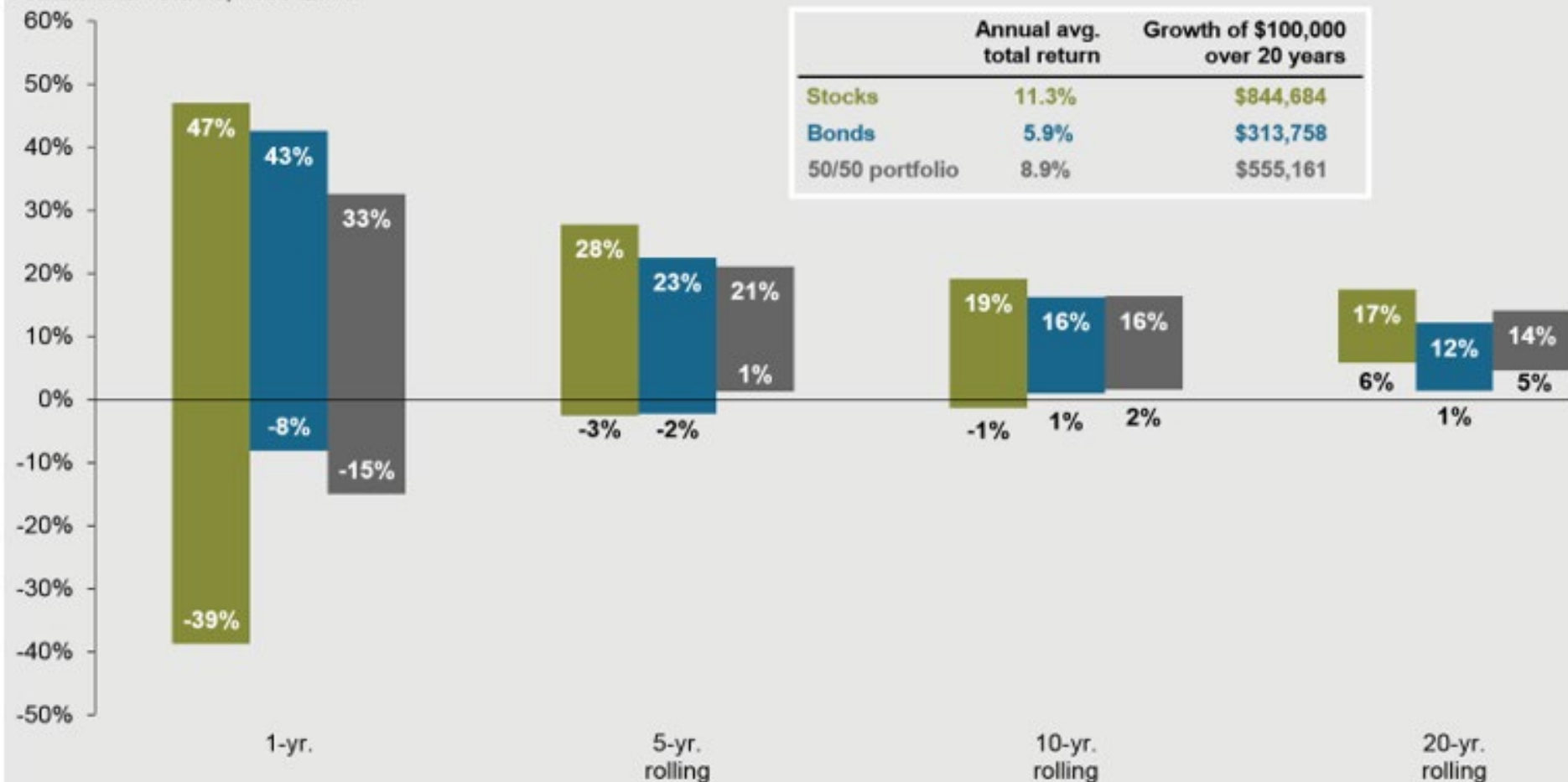


**Yields – Lower for Longer...
Thoughts, Implications & Opportunities**

(3)

Range of stock, bond and blended total returns

Annual total returns, 1950-2019

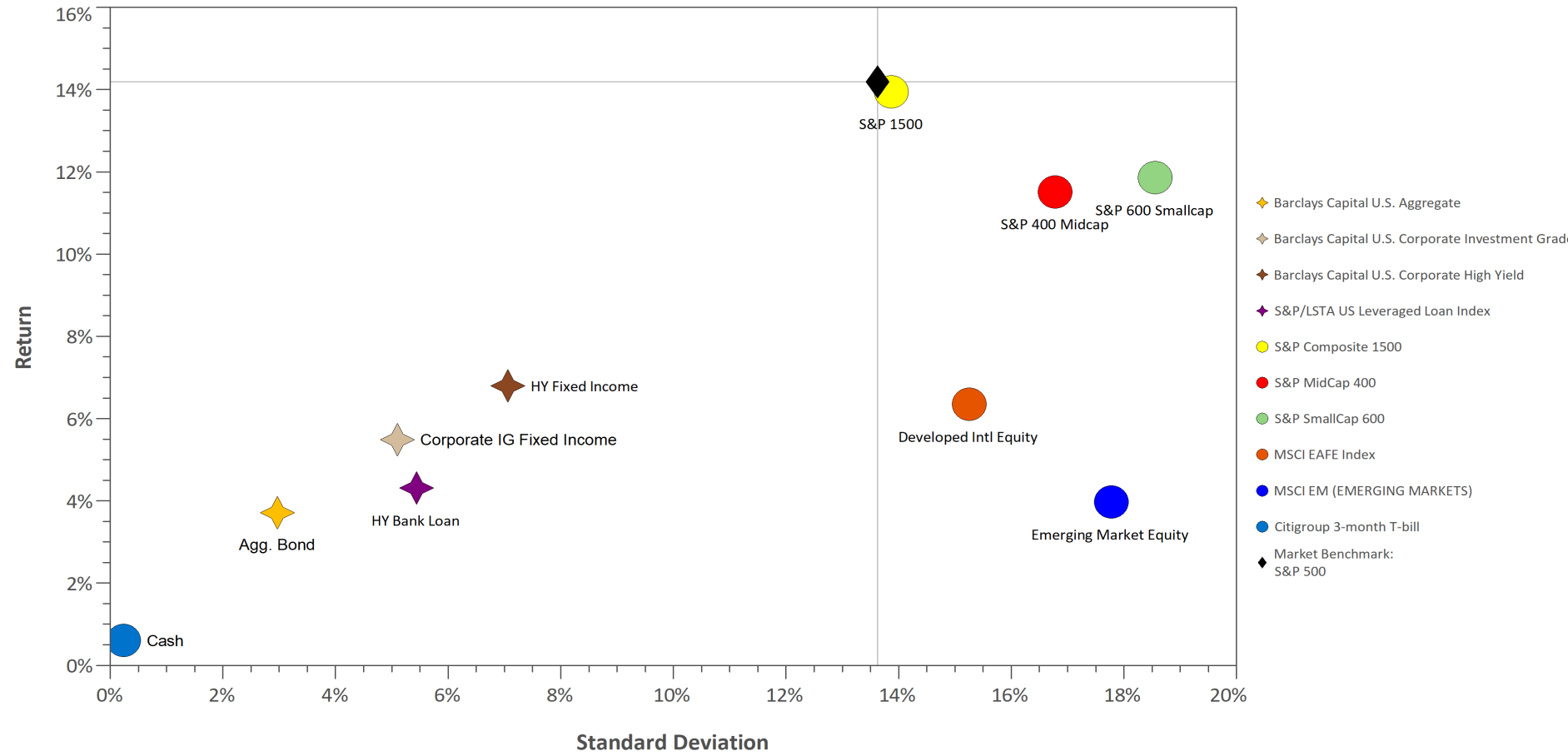


Time, Diversification & The Volatility of Returns

Source: JP Morgan Asset Management

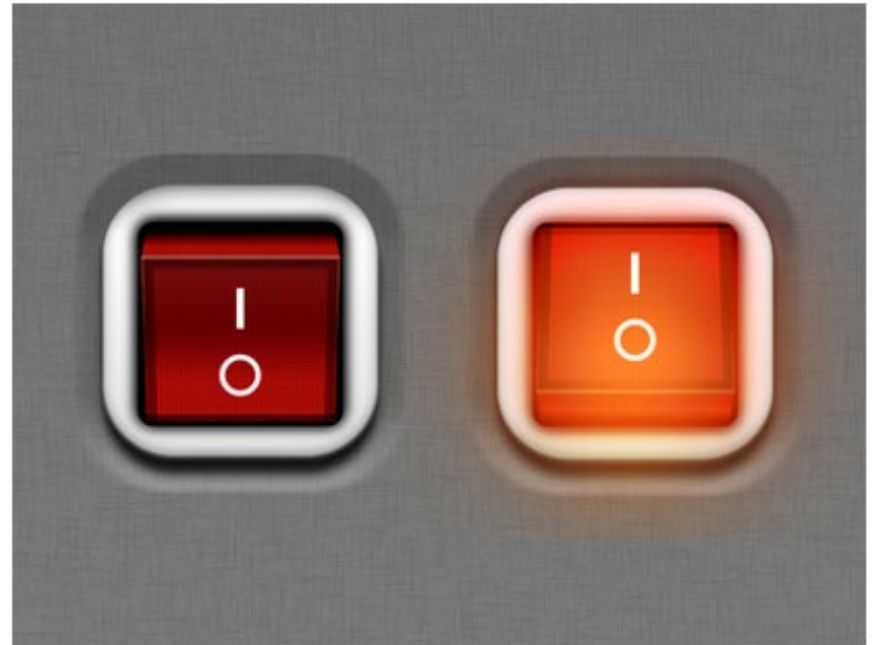
Risk / Return - Latest 10 Years

December 2010 - November 2020 (Single Computation)



Horizon Thinking

- **Duration**
- **Credit Quality**
- **Liquidity**
- **Structure**
- **Leverage**



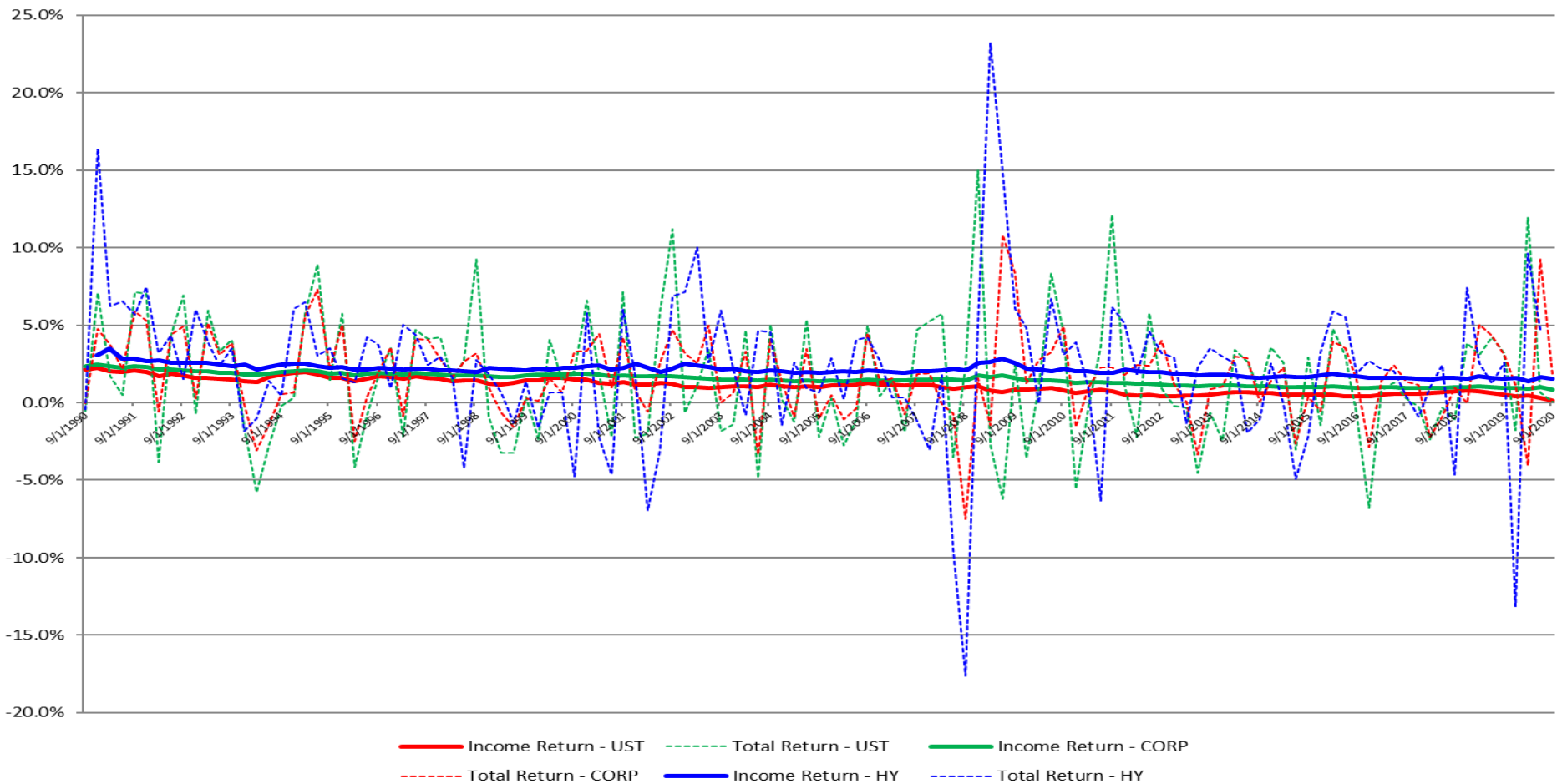
The Quest for Fixed Income Yield
Which switches to flip?

Index YTW	12/31/2019	9/30/2020	10/31/2020	11/30/2020	Chg Prior Qtr	Chg Calendar Yr
Aggregate	2.31%	1.18%	1.24%	1.15%	-0.03%	-1.16%
Intermediate Aggregate	2.14%	0.89%	0.94%	0.87%	-0.02%	-1.27%
U.S. Treasury	1.80%	0.48%	0.58%	0.56%	0.08%	-1.24%
U.S. 2-Yr Treasury	1.56%	0.13%	0.15%	0.15%	0.02%	-1.41%
U.S. 5-Yr Treasury	1.68%	0.27%	0.38%	0.36%	0.09%	-1.32%
U.S. 10-Yr Treasury	1.91%	0.68%	0.86%	0.84%	0.16%	-1.07%
U.S. 30-Yr Treasury	2.38%	1.45%	1.63%	1.57%	0.12%	-0.81%
U.S. Agency MBS	2.54%	1.29%	1.34%	1.28%	-0.01%	-1.26%
ABS	2.05%	0.54%	0.55%	0.51%	-0.03%	-1.54%
CMBS	2.48%	1.44%	1.53%	1.41%	-0.03%	-1.07%
U.S. Credit	2.79%	1.91%	1.94%	1.73%	-0.18%	-1.06%
A-Rated Corporates	2.64%	1.67%	1.71%	1.54%	-0.13%	-1.10%
BBB-Rated Corporates	3.19%	2.43%	2.43%	2.13%	-0.30%	-1.06%
Municipal Bond	1.78%	1.32%	1.41%	1.17%	-0.15%	-0.61%
Taxable Municipal Bond	3.04%	2.22%	2.37%	2.22%	0.00%	-0.82%
U.S. High Yield	5.19%	5.77%	5.78%	4.70%	-1.07%	-0.49%
Global Aggregate (USD)	1.45%	0.90%	0.91%	0.86%	-0.04%	-0.59%
U.S. Agg. vs. Global Agg.	0.86%	0.28%	0.33%	0.29%	-0.01%	-0.57%
UST 2yr-10yr Spread (bps)	35.0	55.0	71.0	69.0		
UST 2yr-5yr Spread (bps)	12.0	14.0	23.0	21.0		
UST 5yr-10yr Spread (bps)	23.0	41.0	48.0	48.0		

Fixed Income Market Sector Yields

Source: Bloomberg Barclays Indices & BofA ICE Indices

Quarterly Total & Income Return
10Yr U.S. Treasury / U.S. Investment Grade Corporate Bonds / U.S. High Yield Bonds



Credit Risk, Volatility, & Income Advantage

Initial Investment	\$ 50,000,000				
Portfolio Type¹	1 year	3 years	5 years	7 years	10 years
All Govt (Base - Actual Returns)	5.07%	3.86%	2.91%	2.99%	2.68%
Add 25% IG Corps	5.49%	4.23%	3.36%	3.29%	3.07%
Add 40% IG Corps	5.70%	4.44%	3.62%	3.47%	3.30%
Gross Investment					
All Govt (Base - Actual Returns)	\$ 52,535,000	\$ 56,016,370	\$ 57,710,906	\$ 61,451,914	\$ 65,137,128
Add 25% IG Corps	\$ 52,745,000	\$ 56,617,178	\$ 58,983,767	\$ 62,715,941	\$ 67,653,889
Add 40% IG Corps	\$ 52,850,000	\$ 56,960,080	\$ 59,729,371	\$ 63,485,004	\$ 69,178,831
Net Investment Gain vs. Base					
Add 25% IG Corps	↑\$ 210,000	↑\$ 600,808	↑\$ 1,272,861	↑\$ 1,264,028	↑\$ 2,516,761
Average Annual Addition Investment Income		\$ 200,269	\$ 254,572	\$ 180,575	\$ 251,676
Add 40% IG Corps	↑\$ 315,000	↑\$ 943,711	↑\$ 2,018,465	↑\$ 2,033,090	↑\$ 4,041,703
Average Annual Addition Investment Income		\$ 314,570	\$ 403,693	\$ 290,441	\$ 404,170
Manager vs Benchmark: Standard Deviation (i.e Volatility)					
All Govt (Base - Actual Returns)	2.68%	3.06%	3.19%	3.04%	2.98%
Add 25% IG Corps	2.50%	2.79%	2.89%	2.78%	2.76%
Add 40% IG Corps	3.24%	2.93%	2.90%	2.76%	2.76%
Portfolio Volatility vs. Base					
Add 25% IG Corps	↓ -0.18%	↓ -0.27%	↓ -0.30%	↓ -0.26%	↓ -0.22%
Add 40% IG Corps	↑ 0.56%	↓ -0.13%	↓ -0.29%	↓ -0.28%	↓ -0.22%
Notes:					
1) Using Merrill Lynch/ICE - U.S. Corporate Index -1-10 Year					

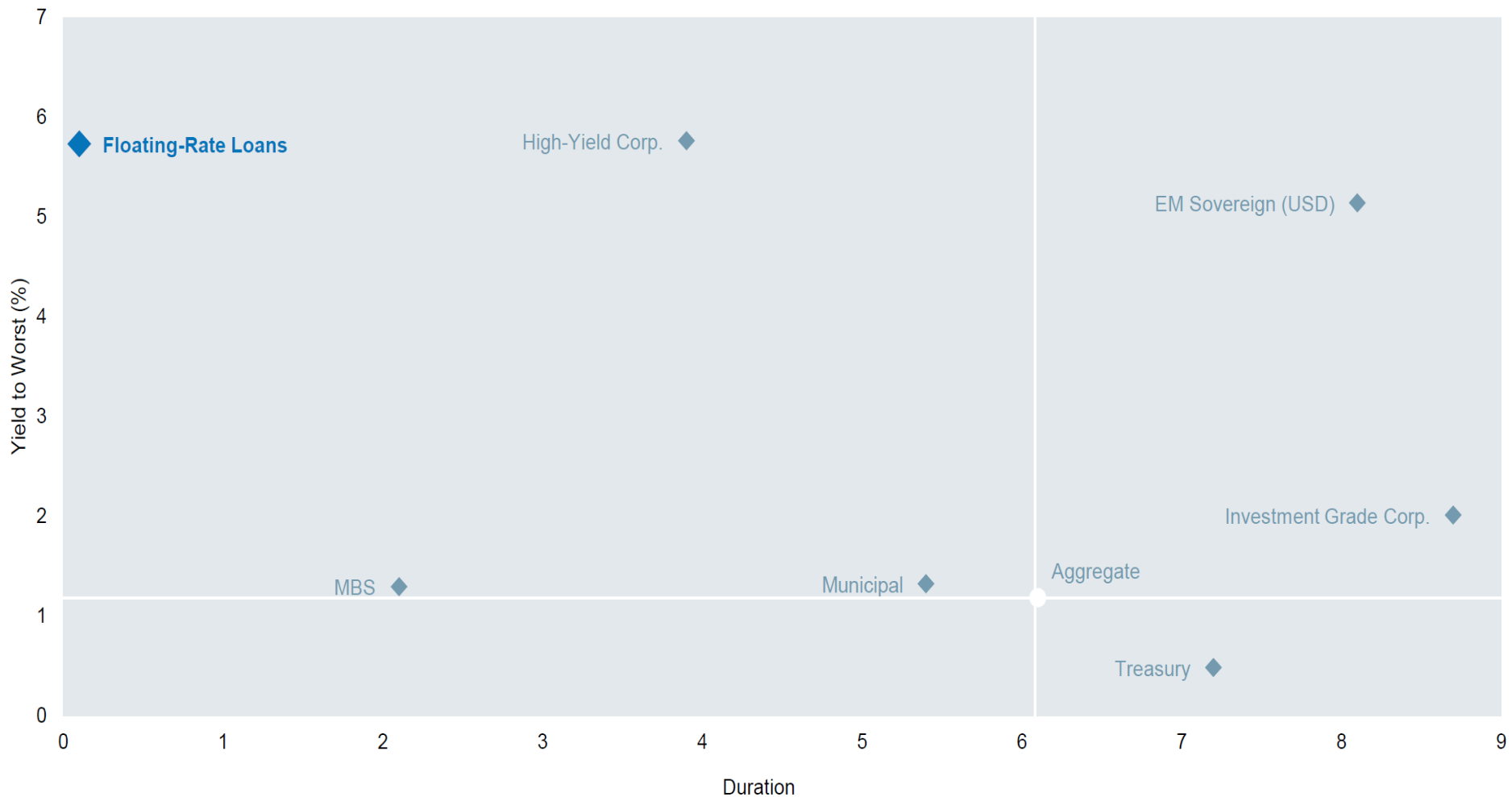
Live Risk Pool Example



	US Investment Grade	US Floating-Rate Loans	US High Yield
Size of Market	\$6.7 T	\$1.2 T	\$1.4 T
# of Issues	6,630	1,444	2,013
Credit Quality	A3/Baa1	B+	B1
Base Rate	US Treasuries	LIBOR	US Treasuries
Coupon Structure	Fixed	Floating	Fixed
Duration	8.7 yrs.	--	3.9 yrs.
Yield to Worst	2.0%	5.7%	5.8%
Maturity	12.2 yrs	4.7 yrs	6.4 yrs

High Yield Fixed Income

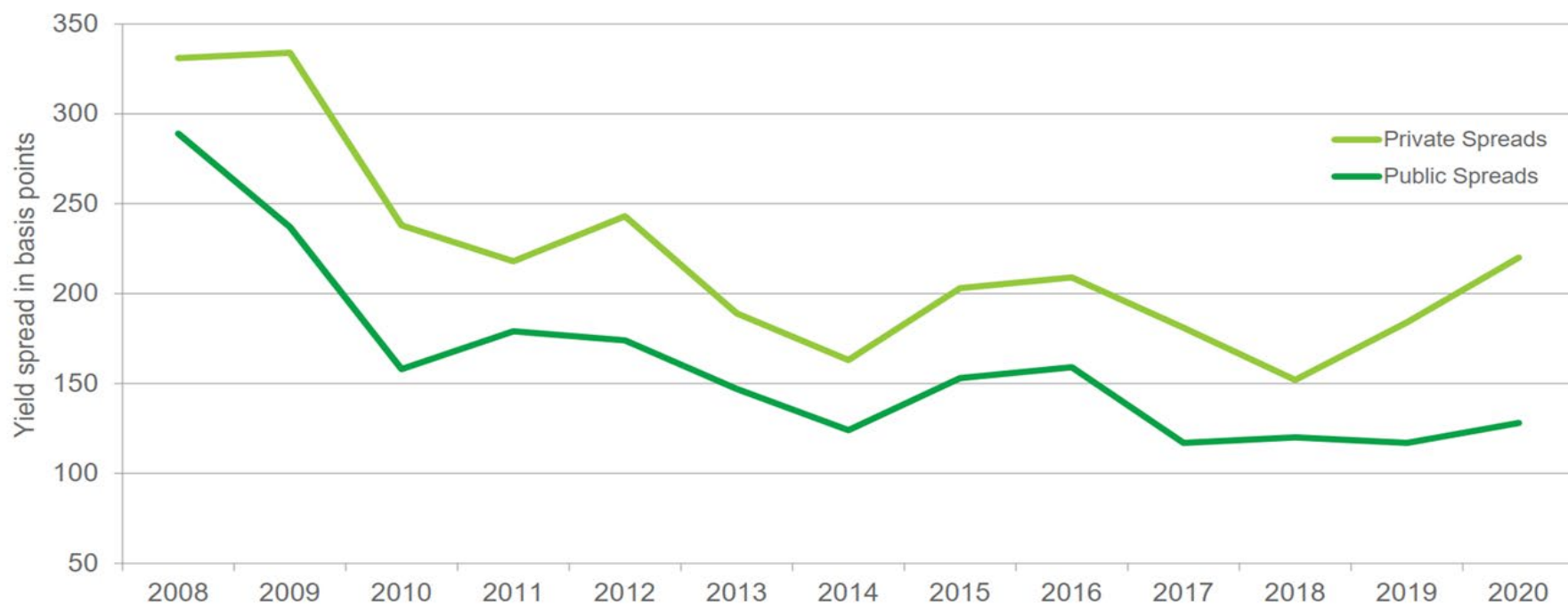
Source: Bloomberg Barclays, ICE Data Indices LLC



Floating Rate Bank Loans

Source: Eaton Vance, Bloomberg Barclays, JP Morgan, ICE Data Indices.

Provides spread advantage over public corporates



Private - Public Spread by Calendar Year (bps)

42	97	80	39	69	42	39	50	50	64	32	67	92
----	----	----	----	----	----	----	----	----	----	----	----	----

Source: Securian Asset Management, Inc. As of 09/30/2020 See Private Placement Acquisition Spreads Disclosure in Appendix. Private spreads represent average for all securities purchased by Securian AM during the calendar year and public spreads refer to the sector-specific (FIN, IND and UTIL) Factset derived daily matrices beginning 09/01/2018, and to the Merrill Lynch U.S. Corporate Master Index derived spread matrix for the periods prior to 09/01/2018. Spreads are the difference between a private credit security or public security and a government security of comparable duration. Private - Public Spread by Calendar Year (bps) represents the private spread minus the public spread for that calendar year shown in basis points.

Private Credit

Source: Securian Asset Management



How Big is Private Equity?

Almost everyone has heard of private equity (PE), but few understand the size and scope of PE firms.

Here are the top 25 private equity firms by their funds raised over the last five years.

BLACKSTONE is well-known for previous investments in Hilton Hotels, Pinnacle Foods, and Freescale Semiconductor

Notable Current Investments:

- Refinitiv
- Merlin Entertainments
- Gates Corp
- Cheniere Energy

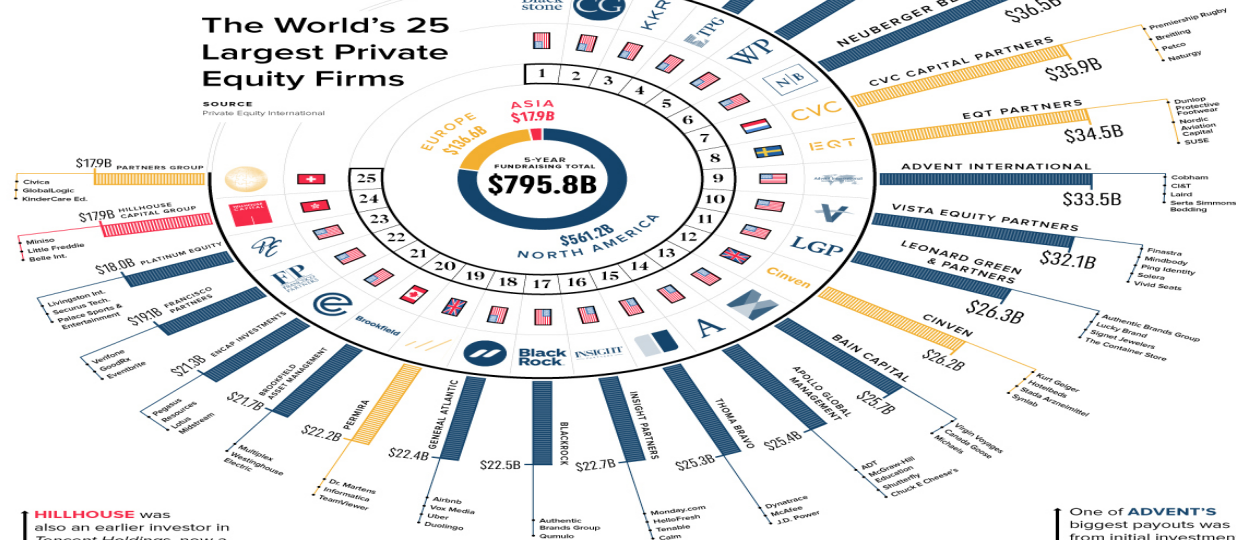
KKR'S 1989 leveraged buyout of *RJR Nabisco* was the largest buyout in history until 2005

NEUBERGER BERMAN was acquired by *Lehman Brothers* in 2003 before regaining independence following the firm's 2008 collapse

CVC was also the majority owner and later major shareholder of *Formula One* from 2005-2017

The World's 25 Largest Private Equity Firms

SOURCE: Private Equity International



HILLHOUSE was also an earlier investor in *Tencent Holdings*, now a major tech conglomerate and the world's largest video game vendor

One of **ADVENT'S** biggest payouts was from initial investments in *Lululemon Athletica*

BAIN CAPITAL was co-founded by American politician Mitt Romney

APOLLO was the sole bidder and savior of the *Hostess Brands* snack cakes division when the company went bankrupt in 2012

BLACKROCK'S PE branch is relatively young, but the company as a whole is the world's largest asset manager with \$7.4 trillion in AUM as of Q4 2019

*Toronto-based **BROOKFIELD** is the only North American PE firm on the Top 25 not headquartered in the U.S.



Private Equity

Source: Virtualcapitalist.com



BITCOIN IS NEAR ALL-TIME HIGHS

and the Mainstream Doesn't Care...Yet



GOOGLE SEARCH TRENDS FOR "BITCOIN"



Google search trends are quantified by search interest relative to the highest point on the chart.

BITCOIN PRICE (US\$)



Dec 17: Bitcoin's highest trading day ever, reaching \$19,891 on Coinbase. This was also 1 of 6 straight red days, with price closing almost 30% lower at \$14,210 on Dec 22.

As retail interest and fear of missing out (FOMO) peaked, big money sold into the wave of new buyers.

Search trends spiked back up to 26 as bitcoin formed the top of its summer rally at the \$12-13,000 price area.

Today, bitcoin is trading around \$19,000, and search trends are sitting at 21. While Google search interest is picking up, it is nowhere near the levels seen in late 2017.

Bitcoin

Source: GoogleTrends & Virtualcapitalist.com



Making Sense of the ESG Landscape



Environmental



Social



Governance

Carbon emissions

Diversity & workplace policies

Board structure

Energy efficiency

Labor standards

Board composition

Water scarcity

Supply chain management

Executive compensation

Waste management

Product safety and
usefulness

Political contributions
& lobbying

Pollution mitigation

Customer privacy

Bribery and corruption policies
& oversight

Community impact

Strategic sustainability
oversight

ESG Criteria Sample

FIGURE 1: SNAPSHOT OF GLOBAL SUSTAINABLE INVESTING ASSETS, 2016–2018

Region	2016	2018
Europe	\$ 12,040	\$ 14,075
United States	\$ 8,723	\$ 11,995
Japan	\$ 474	\$ 2,180
Canada	\$ 1,086	\$ 1,699
Australia/New Zealand	\$ 516	\$ 734
TOTAL	\$ 22,838	\$ 30,683

ESG Market Size (In Billions \$USD)

Source: 2018 GLOBAL SUSTAINABLE INVESTMENT REVIEW

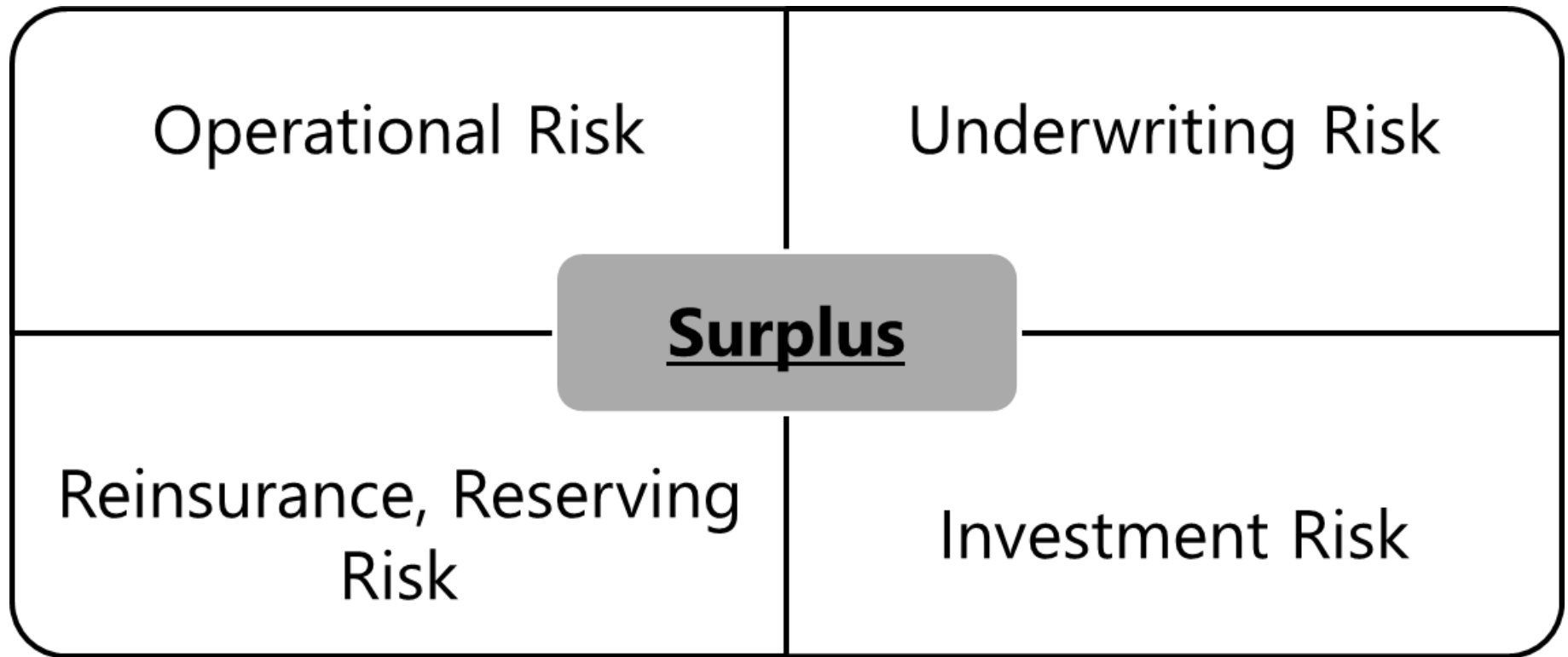


Some final...

Social Acceleration: A New Theory of Modernity

By Hartmut Rosa

- ❑ Speed of human movement from pre-modern times to today has increased by a factor of 100
- ❑ The speed of communications has increased by a factor of 10,000,000
- ❑ And, the speed of data transmission has increased by a factor of 10,000,000,000



Investments Always Support Enterprise Goals

