Equities: Comparison to Other Risk Assets

With interest rates at or near all-time lows, investing in "Risk Assets" can be a viable option for insurers and risk pools looking for ways to increase investment yields that support the underlying business. Risk assets provide greater potential yields, but with greater risk of loss and/or return volatility.

Equities (also known as 'Common Stock') are the asset class predominantly utilized for the risk asset portfolio. As insurers and risk pools look to find ways to more effectively utilize their capital and surplus, we've compared equities to other asset types commonly used in the industry.

	U.S. Equities	International Equities	High-Yield Bonds	Bank Loans	Real Estate Inv. Trusts
Description	Securities that represent ownership in a domestic corporation, with the value of the stock being tied to corporate growth/ stock market. Also known as "Common Stock."	Securities that represent ownership in corporations out-side of the U.S.	Fixed Income Securities that are below investment-grade.	Corporate debt issued by below-investment-grade borrowers. Inves-tors, typically via mutual funds, receive coupon income based on a floating rate. This floating rate resets every 40 to 60 days (on aver-age) with issuers using LIBOR as its base or reference interest rate.	REITs are companies that manage income-generating properties *(i.e. apartment building, commercial proper-ties, infrastructure, etc.)* and have pooled the capital from these properties into funds.
Industry Allocation *(Per NAIC Capital Markets Bureau)*	**13.2% ($993 Billion)** of Total Cash & Invested Assets **as of YE-2020*	**$34.2 Billion** Total Among U.S. Insurers **as of YE-2019*	**6.1% ($286 Billion)** of Total Bond Exposure **as of YE-2020*	**$63 Billion** Total Among U.S. Insurers **as of YE-2019*	N/A

Equities: Comparison to Other Risk Assets (Continued)

	U.S. Equities	International Equities	High-Yield Bonds	Bank Loans	Real Estate Inv. Trusts
Potential Reasons for Use *(Assuming Regulation & Policies Allow)*	Domestic common stock typically offer greater returns than bonds, but carry higher risk of loss, as well as increased return volatility. Given the scale of the common stock market, access and diversification are widely available.	International equities increase the opportunity for portfolio diversification and to (potentially) reduce exposure to domestic economic instability. However, investors are also exposed to potential currency and transparency risks.	These bonds offer higher interest-rates than investment-grade bonds and potentially higher returns over the long-term, but at a much greater risk of default.	The floating rate structure makes it less sensitive to interest rate movements and since the floating rate resets rather quickly, they have a very low duration. Much like high-yield bonds, bank loan issuers are at a much greater risk of default.	Provides exposure to the real estate market without any of the responsibilities tied to directly managing properties. However, REITs are influenced by real estate trends, tax changes and interest rates.
Common Performance Benchmarks	S&P 500 Index CRSP US Mid Cap Index CRSP US Small Cap Index	MSCI World Equity ex-U.S. FTSE Developed All Cap ex US	Bloomberg Barclays High Yield Bond	S&P/LSTA US Leveraged Loan Index	MSCI US REIT Index
Best Calendar Year	**37%** **S&P 500 (1995)*	**41%** **MSCI World Equity ex-U.S. (2009)*	**50%** **Bloomberg Barclays High Yield Bond (2009)*	**50%** **S&P/LSTA US Leveraged Loan Index (2009)*	**30%** **MSCI US REIT Index (2014)*
Worst Calendar Year	**-37%** **S&P 500 (2008)*	**-45%** **MSCI World Equity ex-U.S. (2008)*	**-30%** **Bloomberg Barclays High Yield Bond (2008)*	**-29%** **S&P/LSTA US Leveraged Loan Index (2008)*	**-38%** **MSCI US REIT Index (2008)*

Equities: Comparison to Other Risk Assets (Continued)

	U.S. Equities	International Equities	High-Yield Bonds	Bank Loans	Real Estate Inv. Trusts
Calendar Year - 2020	**18%** **S&P 500*	**8%** **MSCI World Equity ex-U.S.*	**4%** **Bloomberg Barclays High Yield Bond*	**5%** **S&P/LSTA US Leveraged Loan Index*	**-8%** **MSCI US REIT Index*
Calendar Year - 2019	**31%** **S&P 500*	**23%** **MSCI World Equity ex-U.S.*	**15%** **Bloomberg Barclays High Yield Bond*	**7%** **S&P/LSTA US Leveraged Loan Index*	**26%** **MSCI US REIT Index*
Calendar Year - 2018	**-4%** **S&P 500*	**-14%** **MSCI World Equity ex-U.S.*	**-3%** **Bloomberg Barclays High Yield Bond*	**-0.5%** **S&P/LSTA US Leveraged Loan Index*	**-4%** **MSCI US REIT Index*