



# RISK POOL INVESTMENT SEMINAR

## MARCH 29, 2023



# Looking Back



### 2001-2020

	<u>Return / Volatility</u>
● 100% US Stocks	<b>+7.91%</b> / 15.66%
● 100% US Fixed Income	<b>+4.62%</b> / 3.45%
● 50% / 50%	<b>+6.73%</b> / 7.57%
● 100% HY Fixed Income	<b>+6.40%</b> / 7.89%





### 2022

	<u>Return</u>
● 100% US Stocks	-19.60%
● 100% US Fixed Income	-13.25%
● 50% / 50%	-16.43%
● 100% HY Fixed Income	-9.06%
● 100% Commodities	+24.08%
● 100% Cash	+1.82%





### 2021-2023

	<u>Return / Volatility</u>
● 100% US Stocks	+2.45% / 18.59%
● 100% US Fixed Income	-6.88% / 6.75%
● 50% / 50%	-1.94% / 11.74%
● 100% HY Fixed Income	-1.92% / 8.77%



# Fixed Income Yields – 12/31/2021 versus 3/17/2023

Index	YTW @ 12/31/2021	YTW @ 3/17/2023	Chg In YTW		Addition Annual Income per \$10M	YTW Multiple relative to 12/31/2021
					\$ 10,000,000	
<b>Aggregate</b>	1.75%	4.36%	↑	2.61%	\$ 261,000	2.49 ★
<b>Intermediate Aggregate</b>	1.55%	4.31%	↑	2.76%	\$ 276,000	2.78 ★
U.S. Treasury	1.23%	3.74%	↑	2.51%	\$ 251,000	3.04
U.S. 3-Month Treasury	0.05%	4.41%	↑	4.36%	\$ 436,000	88.20 ★
U.S. 2-Yr Treasury	0.73%	3.88%	↑	3.15%	\$ 315,000	5.32
U.S. 5-Yr Treasury	1.26%	3.51%	↑	2.25%	\$ 225,000	2.79
U.S. 10-Yr Treasury	1.50%	3.43%	↑	1.93%	\$ 193,000	2.29
U.S. 30-Yr Treasury	1.89%	3.63%	↑	1.74%	\$ 174,000	1.92
U.S. Agency MBS	1.98%	4.41%	↑	2.43%	\$ 243,000	2.23
ABS	1.13%	4.64%	↑	3.51%	\$ 351,000	4.11
CMBS	1.88%	5.01%	↑	3.13%	\$ 313,000	2.66
U.S. Credit	2.25%	5.18%	↑	2.93%	\$ 293,000	2.30
A-Rated Corporates	2.11%	5.11%	↑	3.00%	\$ 300,000	2.42
BBB-Rated Corporates	2.55%	5.59%	↑	3.04%	\$ 304,000	2.19
Municipal Bond	1.11%	3.35%	↑	2.24%	\$ 224,000	3.02
Taxable Municipal Bond	2.33%	4.74%	↑	2.41%	\$ 241,000	2.03
U.S. High Yield	4.21%	8.98%	↑	4.77%	\$ 477,000	2.13
Global Agg. (USD)	1.31%	3.48%	↑	2.17%	\$ 217,000	2.66

# Risk Pool Peer Group Summary

As of 12/31/2022

# SAA Risk Pool Peer Group Overview – As of 12/31/2022



## TOTAL

- **23 Clients**
- **51 Portfolios**
  - **\$5.58B In Assets**
  - **\$4.7B Core Fixed Income (84.22%)**
  - **\$0.88B Risk Assets (15.78%)**

## MULTI-LINE P&C

- 18 Clients
- 31 Portfolios
  - \$4.29B In Assets
  - \$3.63B Core Fixed Income (84.62%)
  - \$0.66B Risk Assets (15.38%)

## HEALTH

- 9 Client Portfolios
  - \$333M In Assets
  - \$288M Core Fixed Income (86.49%)
  - \$45.2M Risk Assets (13.51%)

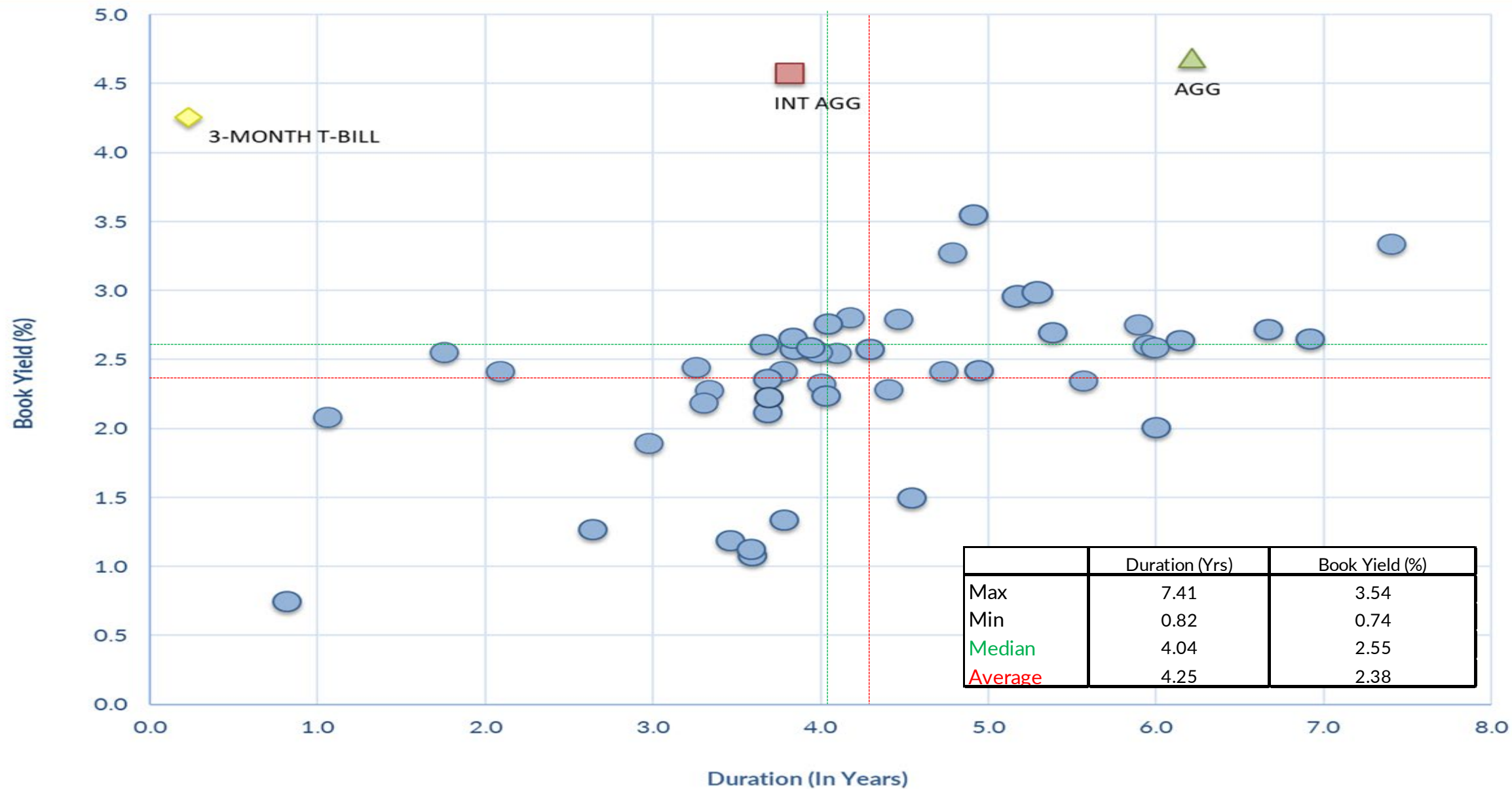
## REINSURERS

- 9 Client Portfolios
  - \$961M In Assets
  - \$776M Core Fixed Income (80.75%)
  - \$185M Risk Assets (19.25%)





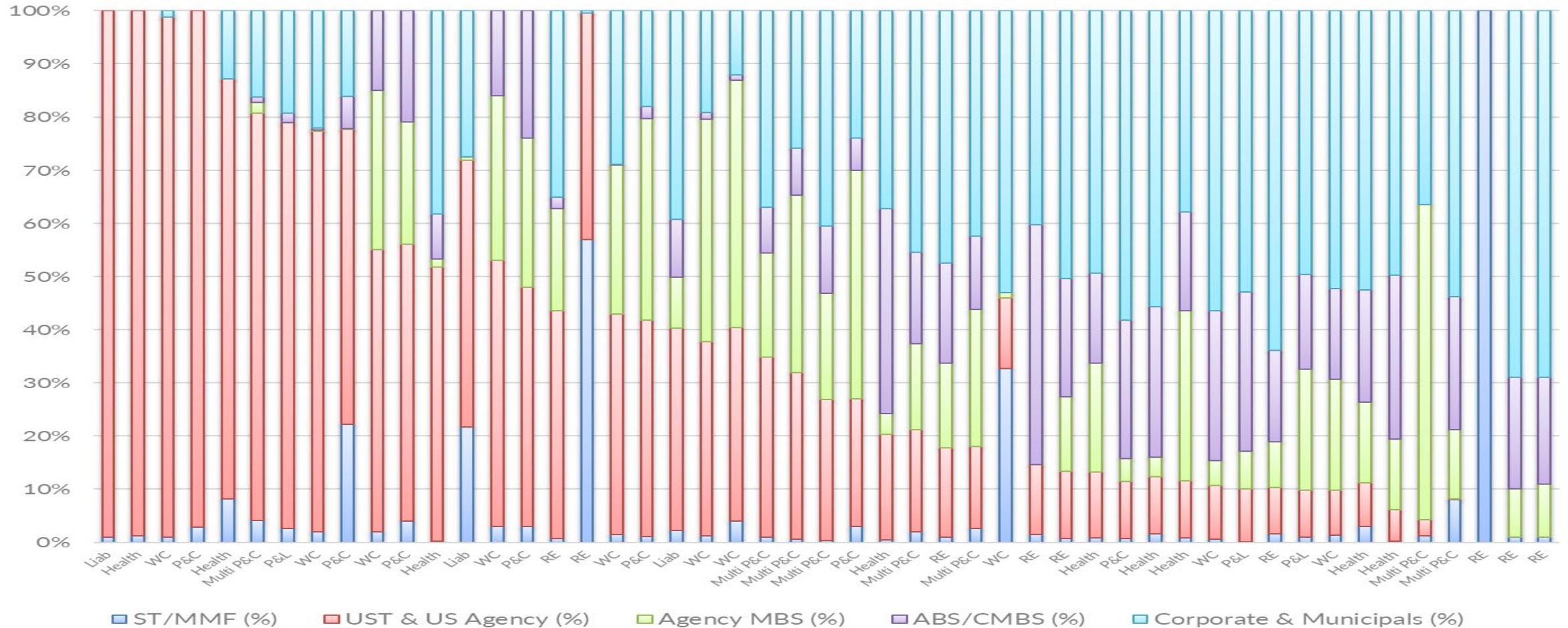
# Fixed Income: Book Yield & Duration



# Fixed Income Allocation By Sector



Fixed Income Portfolio - By Sector

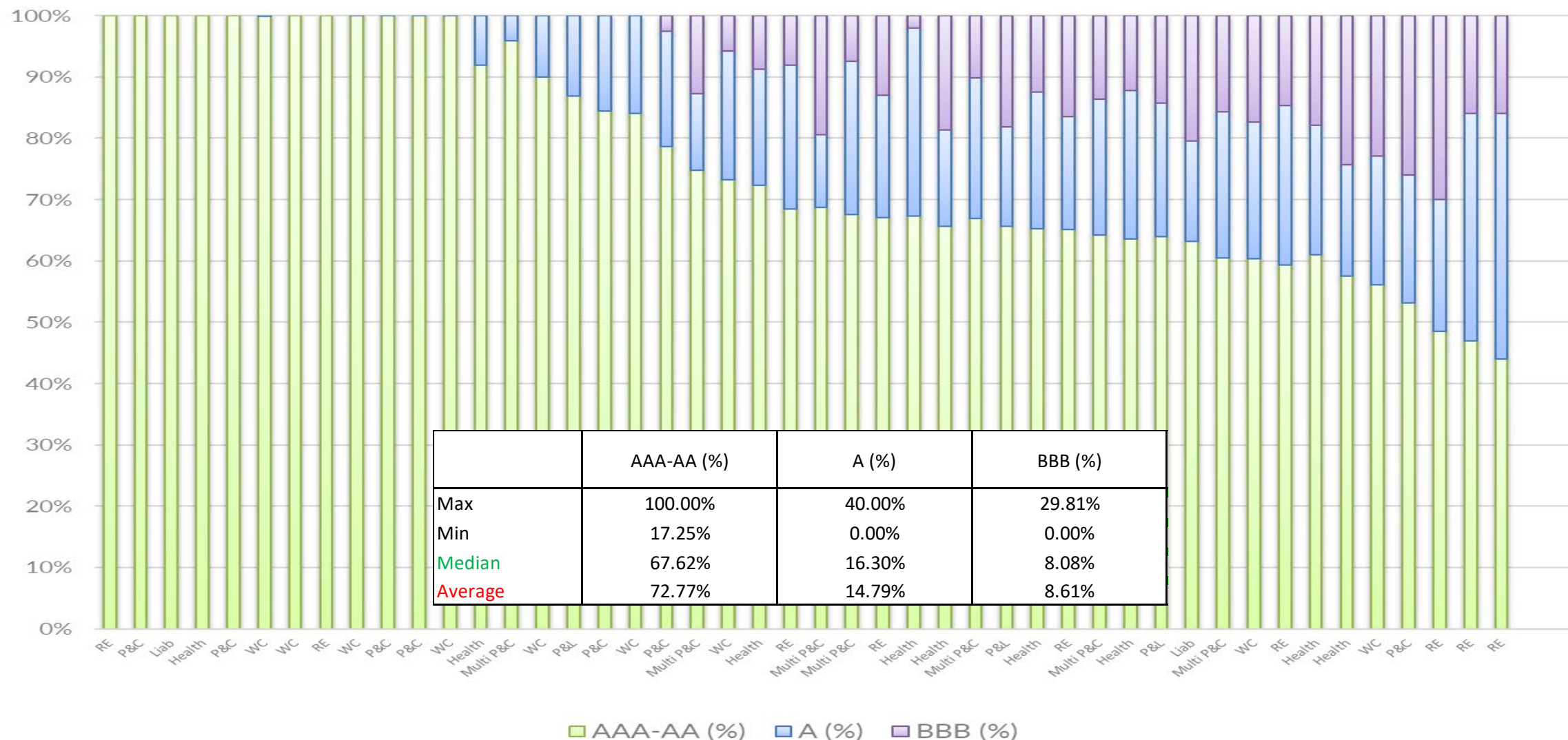


	ST/MMF (%)	UST & US Agency (%)	Agency MBS (%)	ABS/CMBS (%)	Corporate & Taxable Muni (%)	Credit (%) Corp/Structured
Max	100.00%	99.10%	59.20%	45.00%	100.00%	100.00%
Min	0.10%	0.00%	0.00%	0.00%	0.00%	0.00%
Median	1.40%	26.50%	13.10%	12.64%	37.15%	46.17%
Average	6.42%	34.06%	15.02%	12.66%	33.13%	45.54%

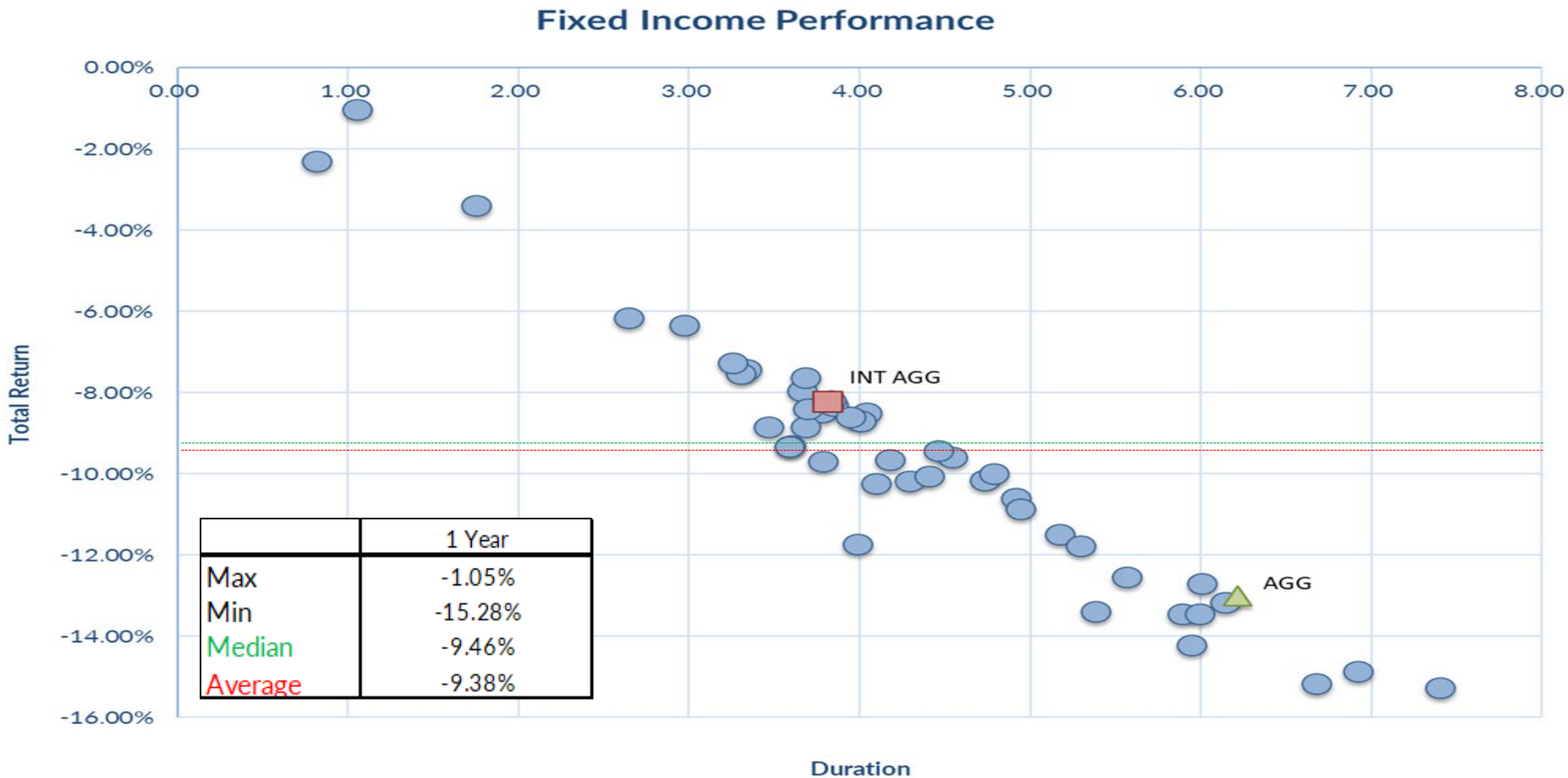


# Fixed Income Portfolio – By Credit Rating

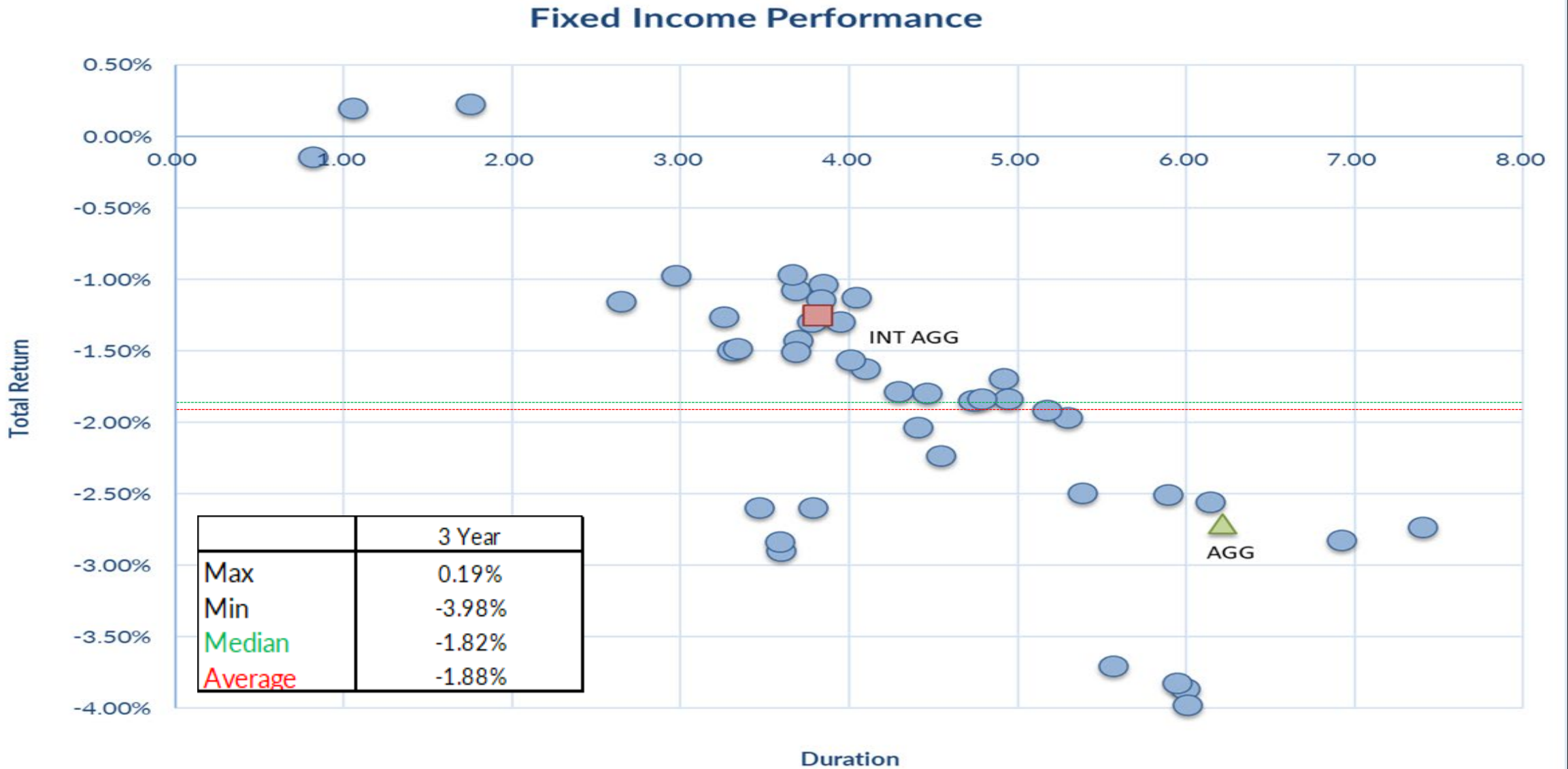
Fixed Income Portfolio - By Credit Rating



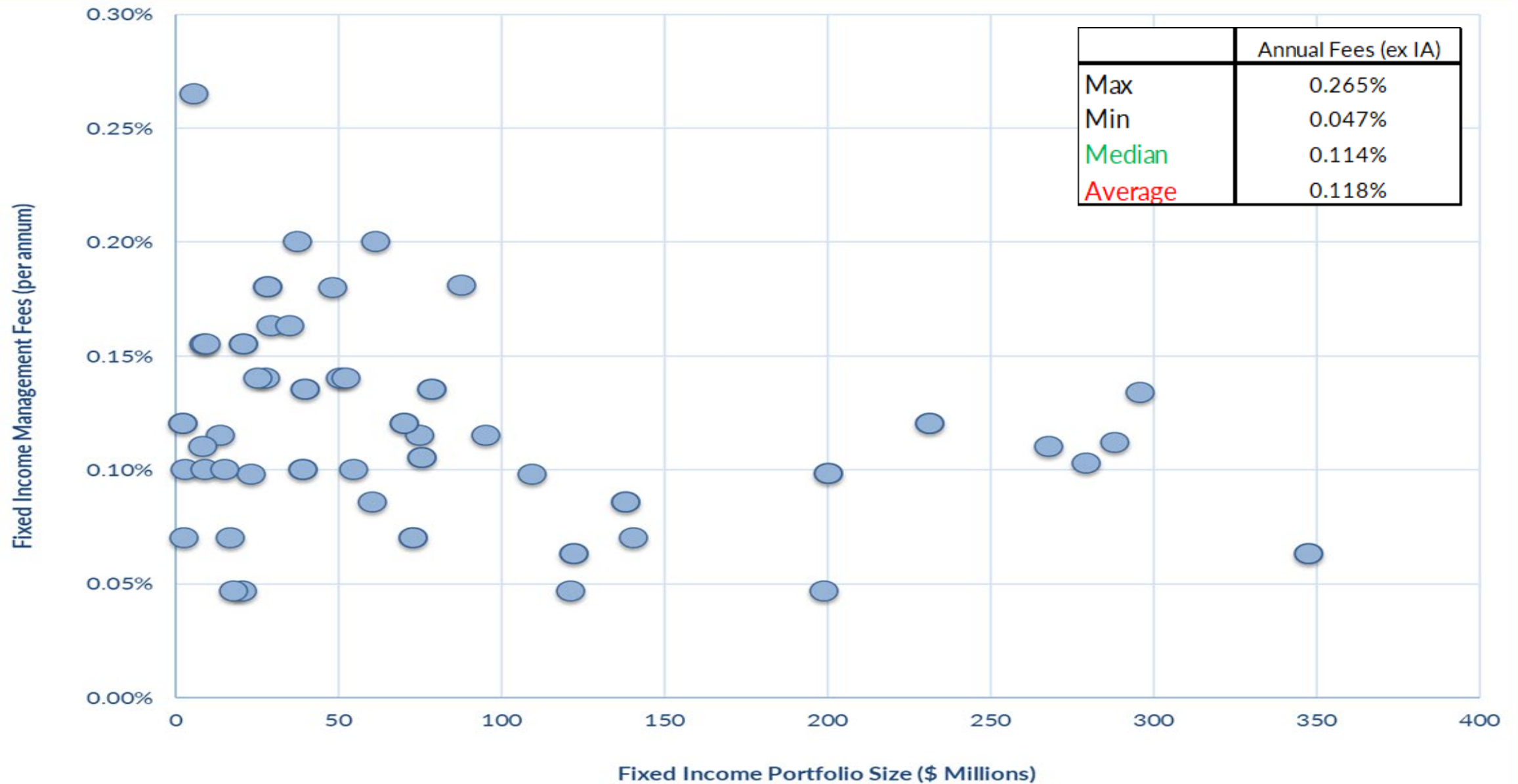
# Fixed Income: One-Year Performance



# Fixed Income: Three-Year Performance (Annualized)



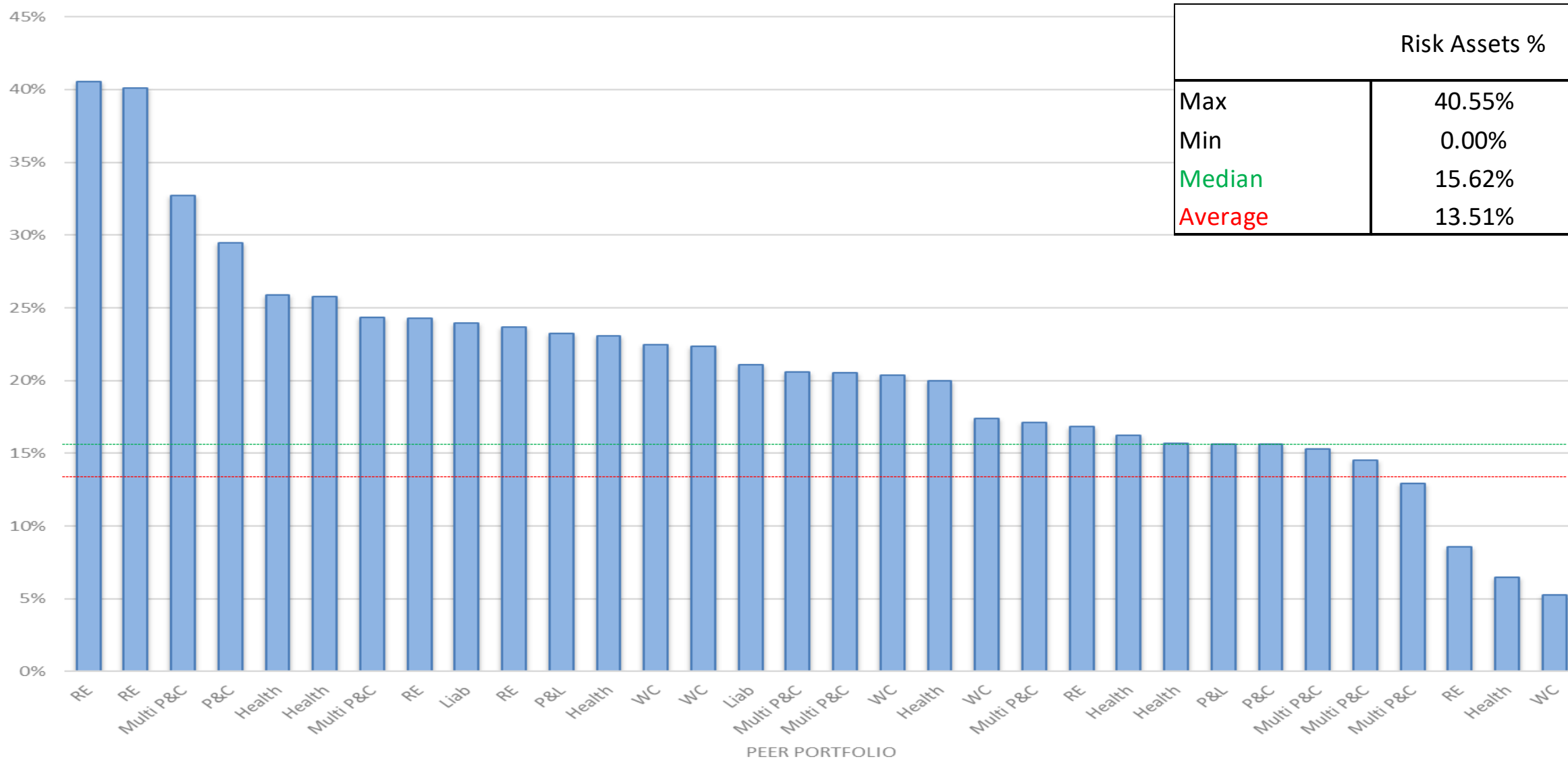
# Fixed Income Investment Management Fees (ex Investment Accounting)



Median/average calculated by portfolio not asset-weighted

# Risk Asset Allocation - % of Total Portfolio

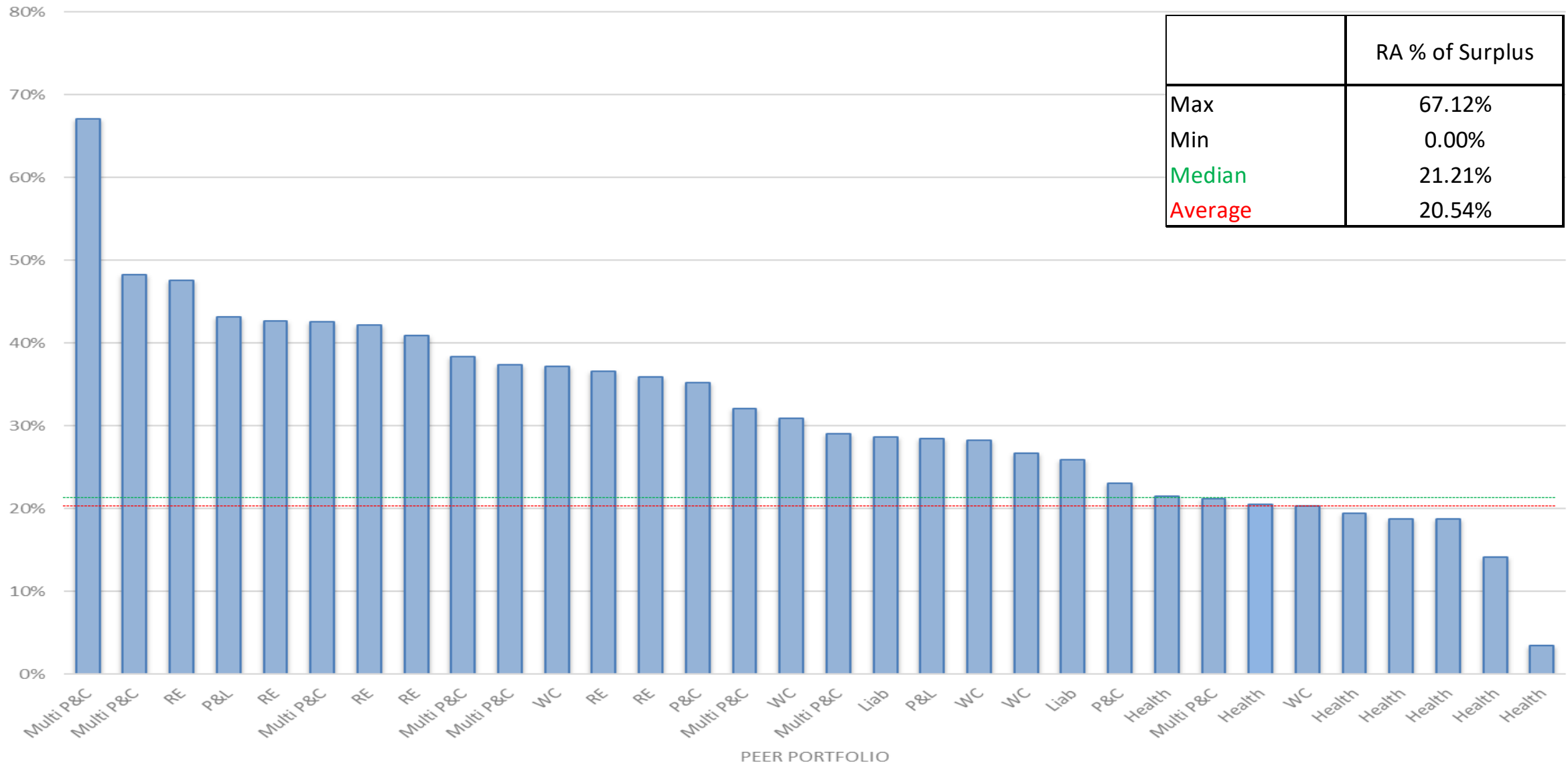
Risk Asset Allocation - **As % of Portfolio**



# Risk Asset Allocation - % of Surplus / Net Position



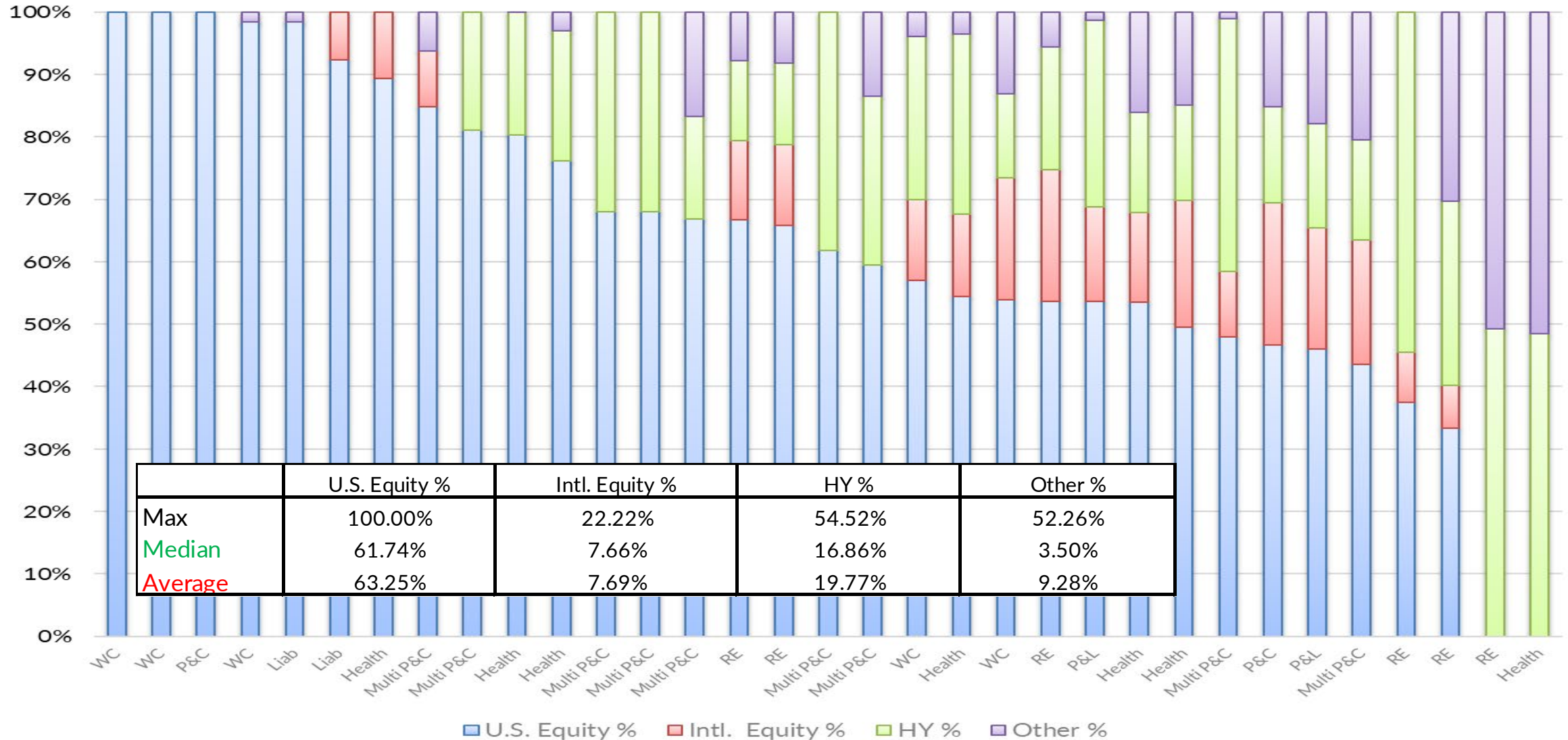
Risk Asset Allocation - **As % of Surplus / Net Position**





# Risk Asset Allocation

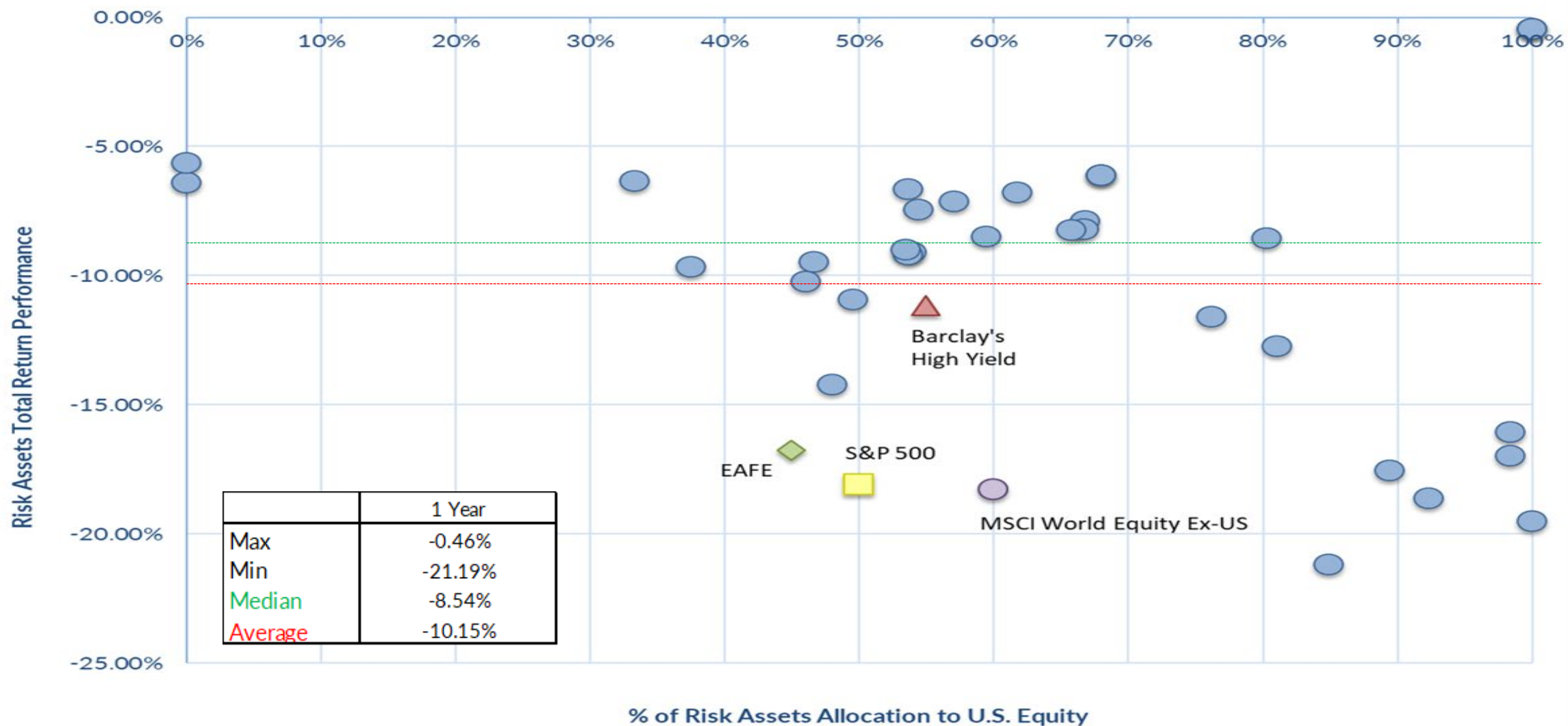
## Risk Asset Portfolio Composition



# Risk Assets: One-Year Performance

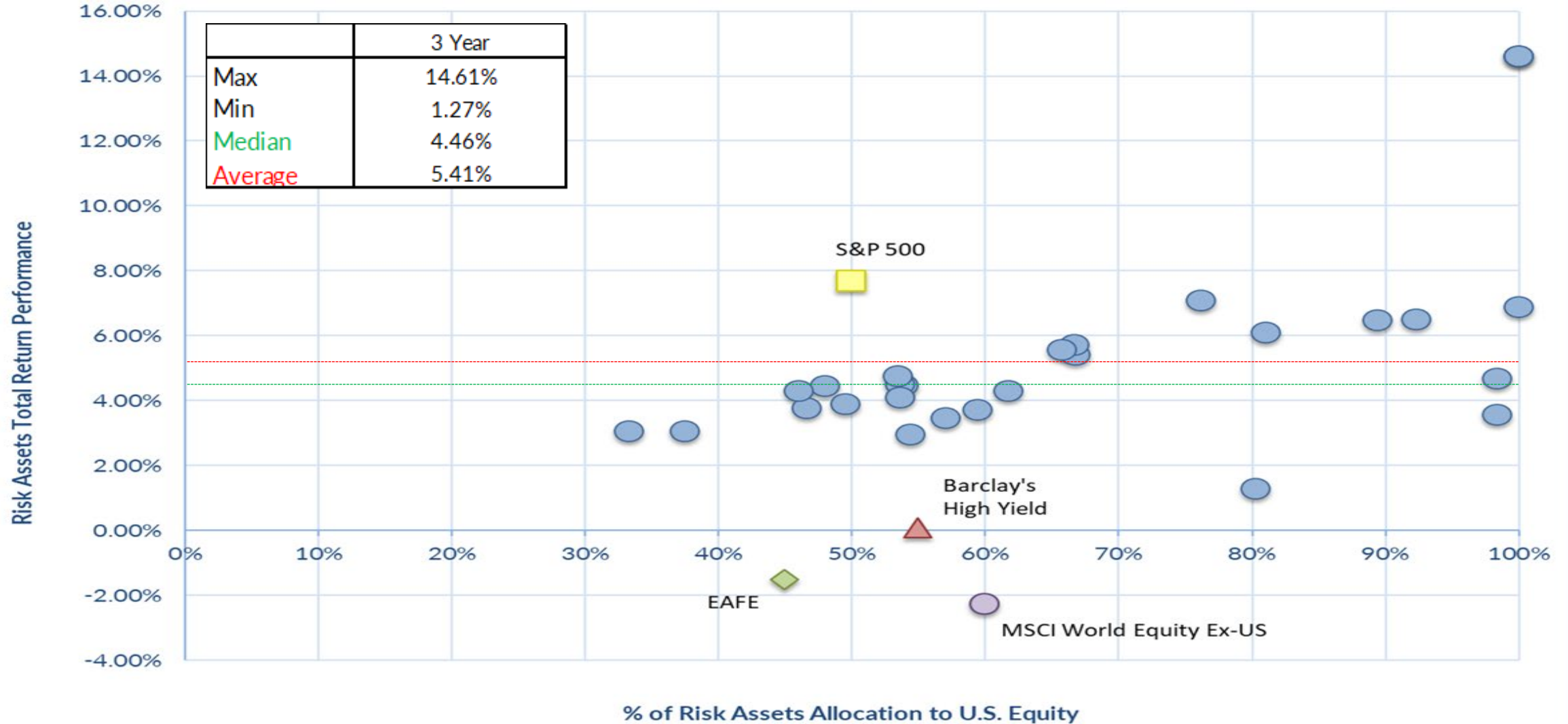


## Risk Assets Performance



# Risk Assets: Three-Year Performance (Annualized)

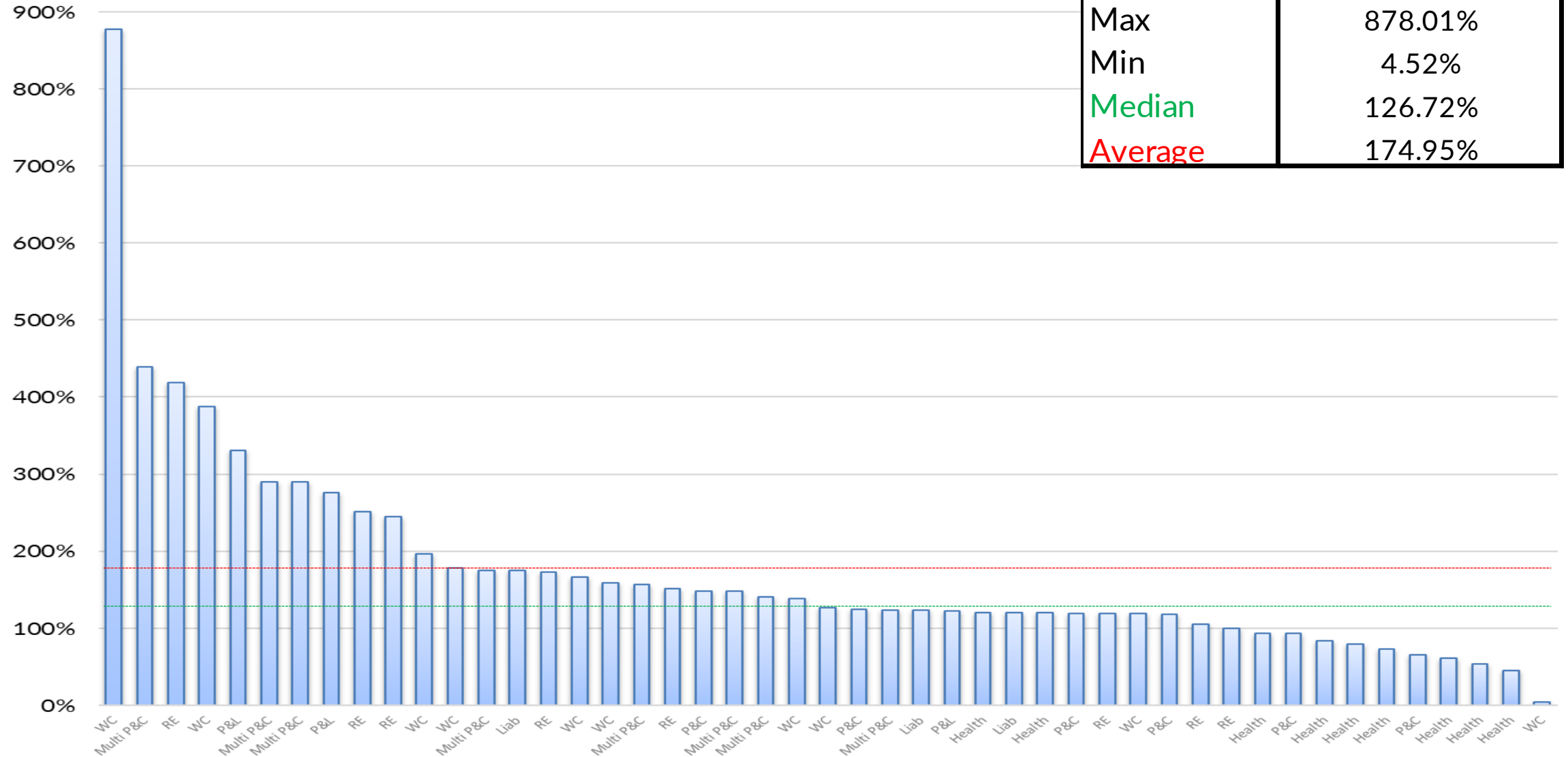
## Risk Assets Performance



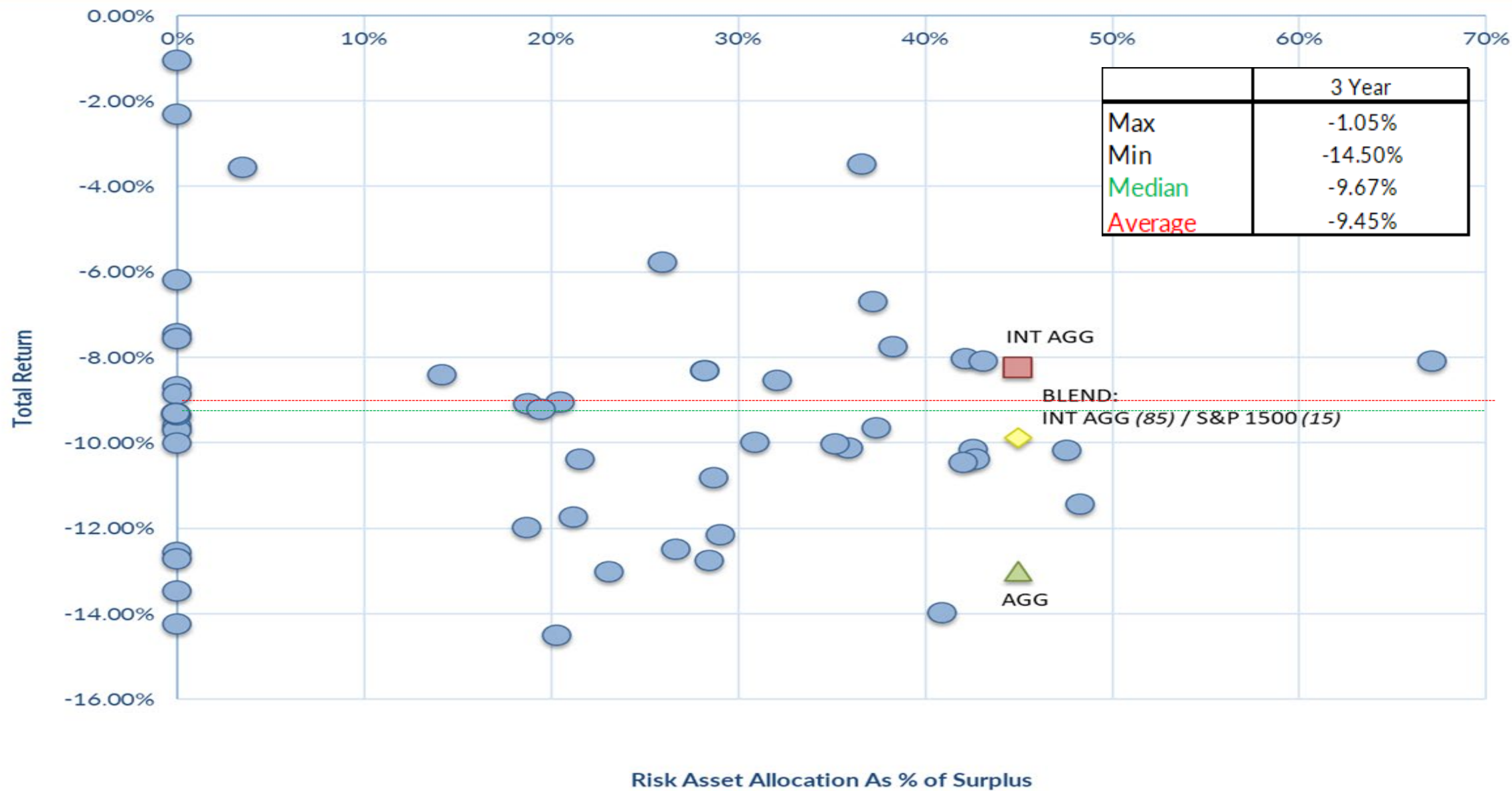
# Investment Leverage

Invested Assets / Surplus

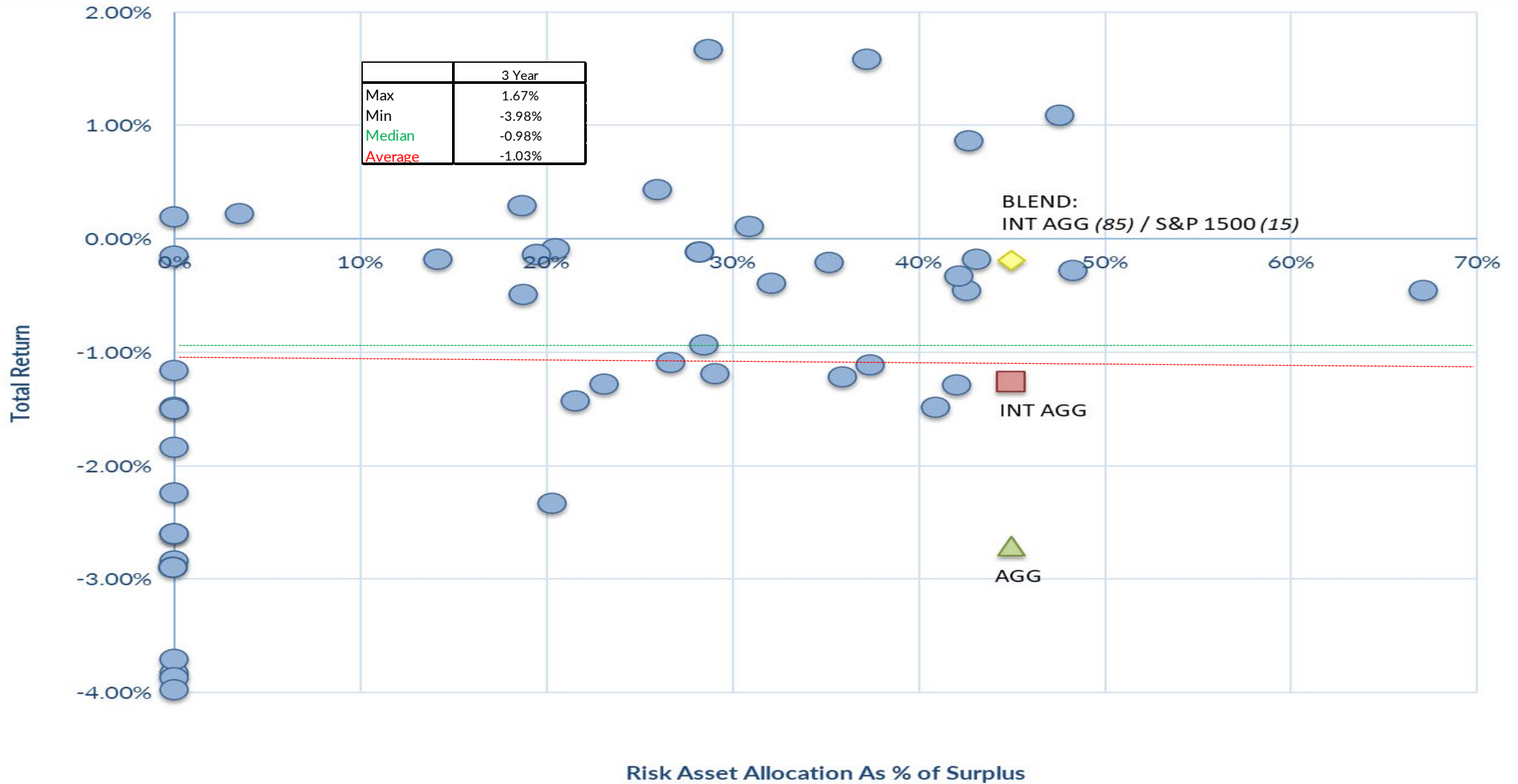
	Inv Assets/Surplus
Max	878.01%
Min	4.52%
Median	126.72%
Average	174.95%



# Total Performance: One-Year Performance



# Total Portfolio Performance: Three-Year Performance



**Here & Now**

- Cybersecurity
- Climate Change
- Regulatory Change
- Aging Infrastructure
- Evolving Liabilities
- Inflation







- Member Value Proposition
- Technological Change
- Talent & Workforce Management
- Reinsurance
- Capital Efficiency



## Group Question #1 (30 min)

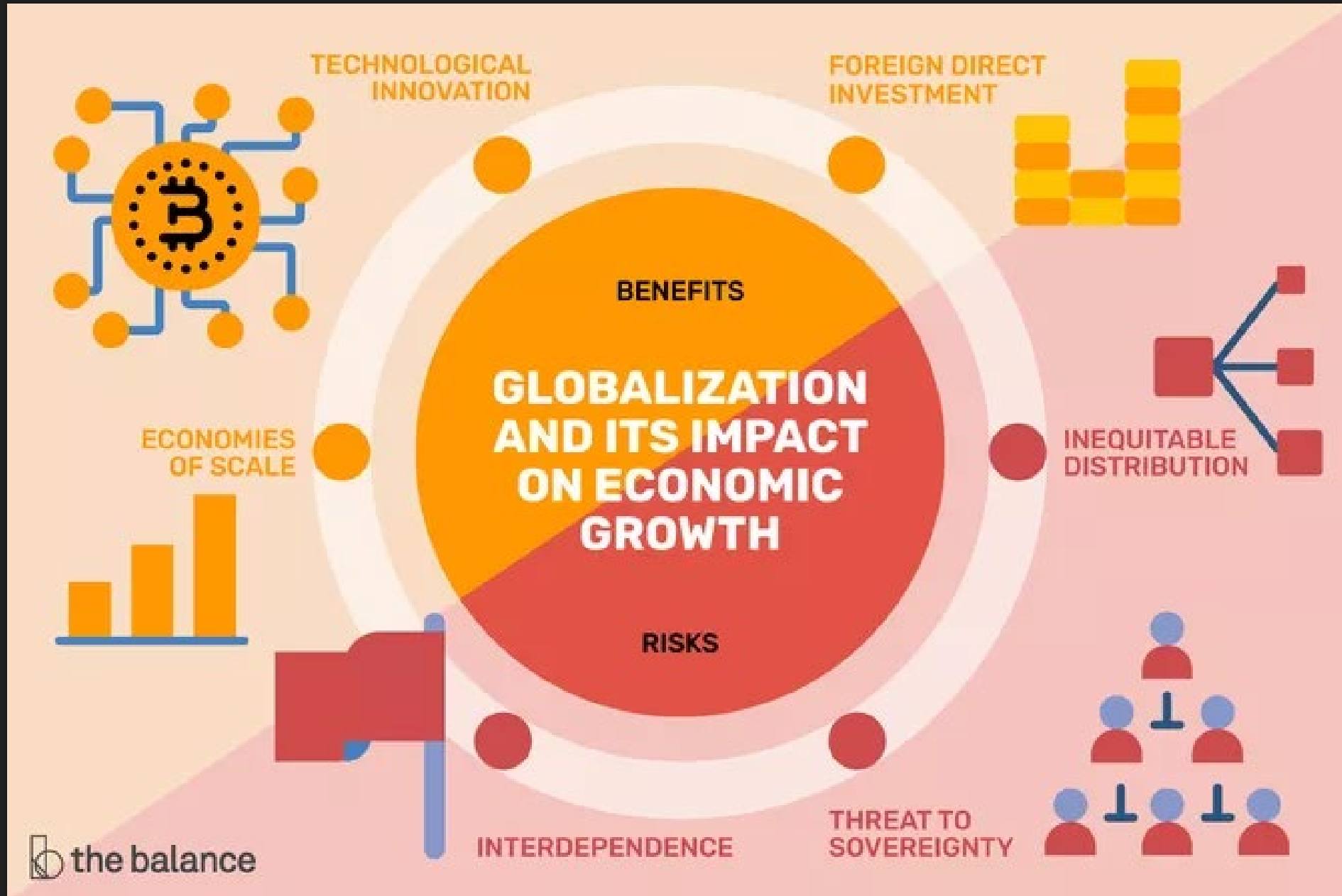
- Due to significant Board member turnover the past couple of years, a new Board member asked Staff and long-tenured Board members to brief the Board at their next meeting on the most important KEY RISK POOL ISSUES over the next 1-3 years.
- Discuss at your table. Determine the top 3 KEY RISK POOL ISSUE and decide on the most important one.
- Be prepared to discuss the reasons for your selections.





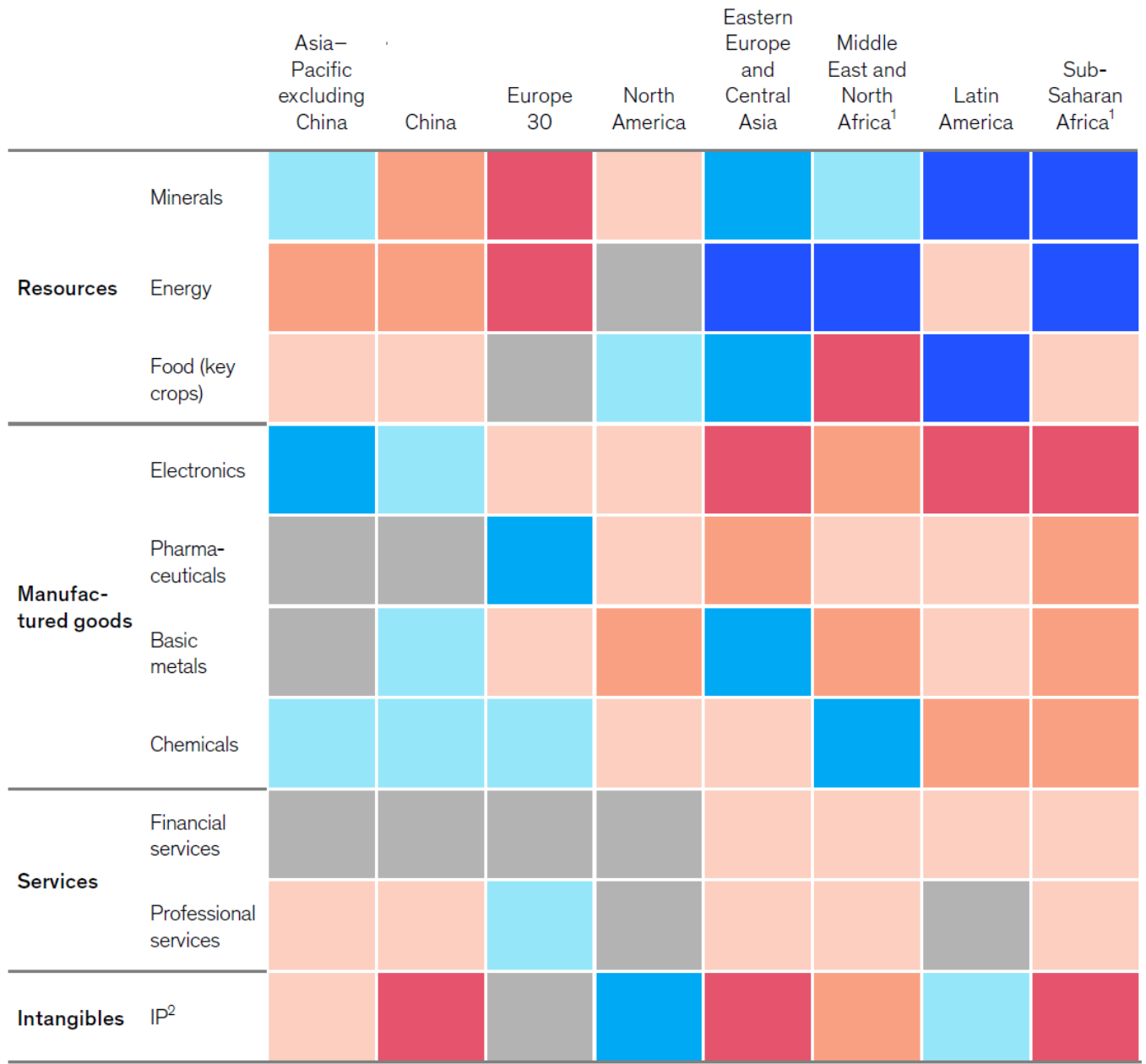
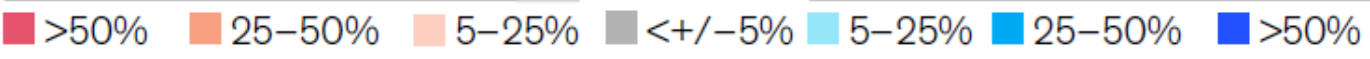
# Looking Ahead

# Globalization – Evolving But Still Very Much Present



Net inflows

Net outflows



Share of domestic consumption met by inflows, 2019, %

**No global region is self-sufficient nor ever will be, but the global connections are reconfiguring...**

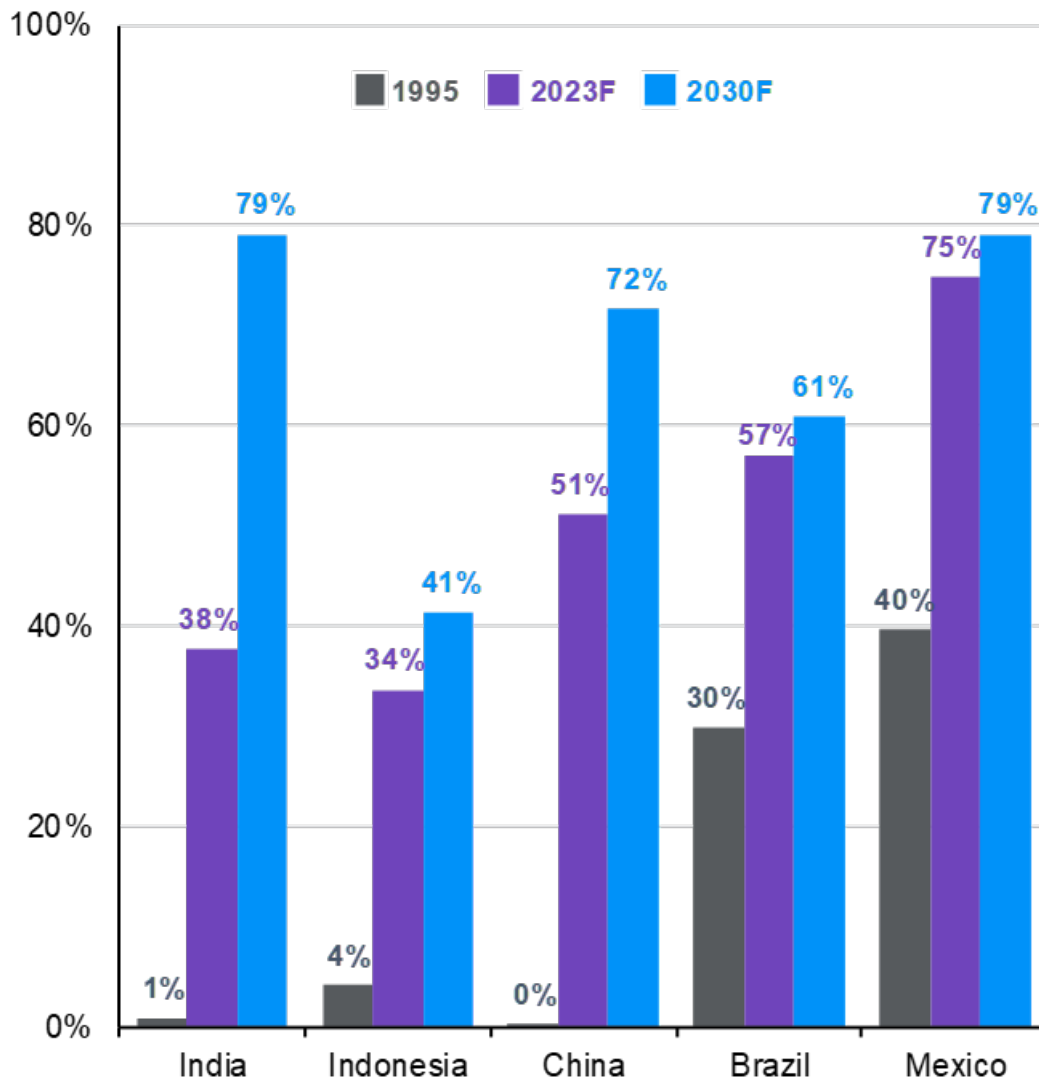
Source: International Energy Agency; USDA; UN Comtrade; Trade in value added, OECD; McKinsey Global Institute analysis

# The emergence of the EM middle class



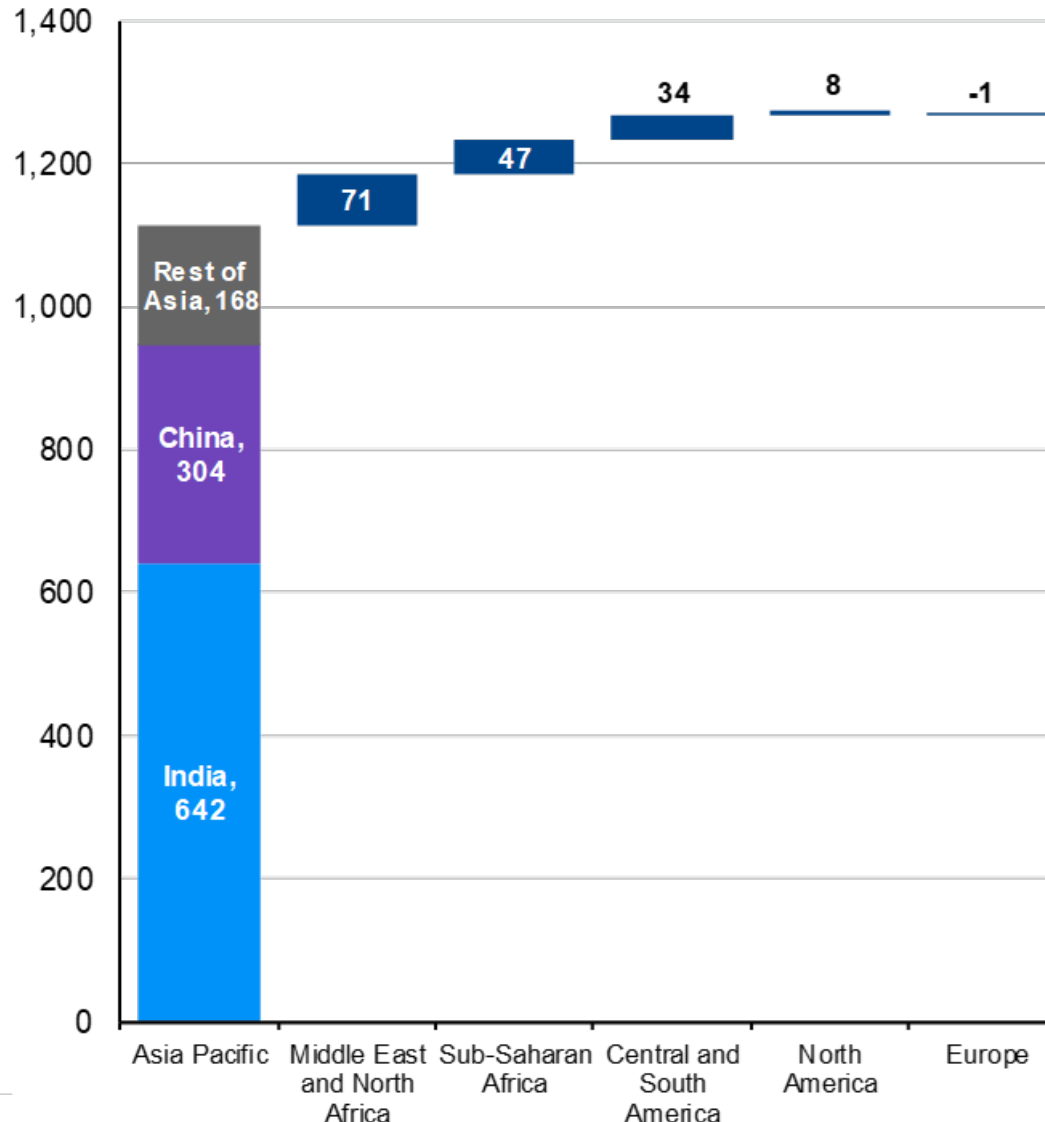
## Growth of the middle class

Percent of total population

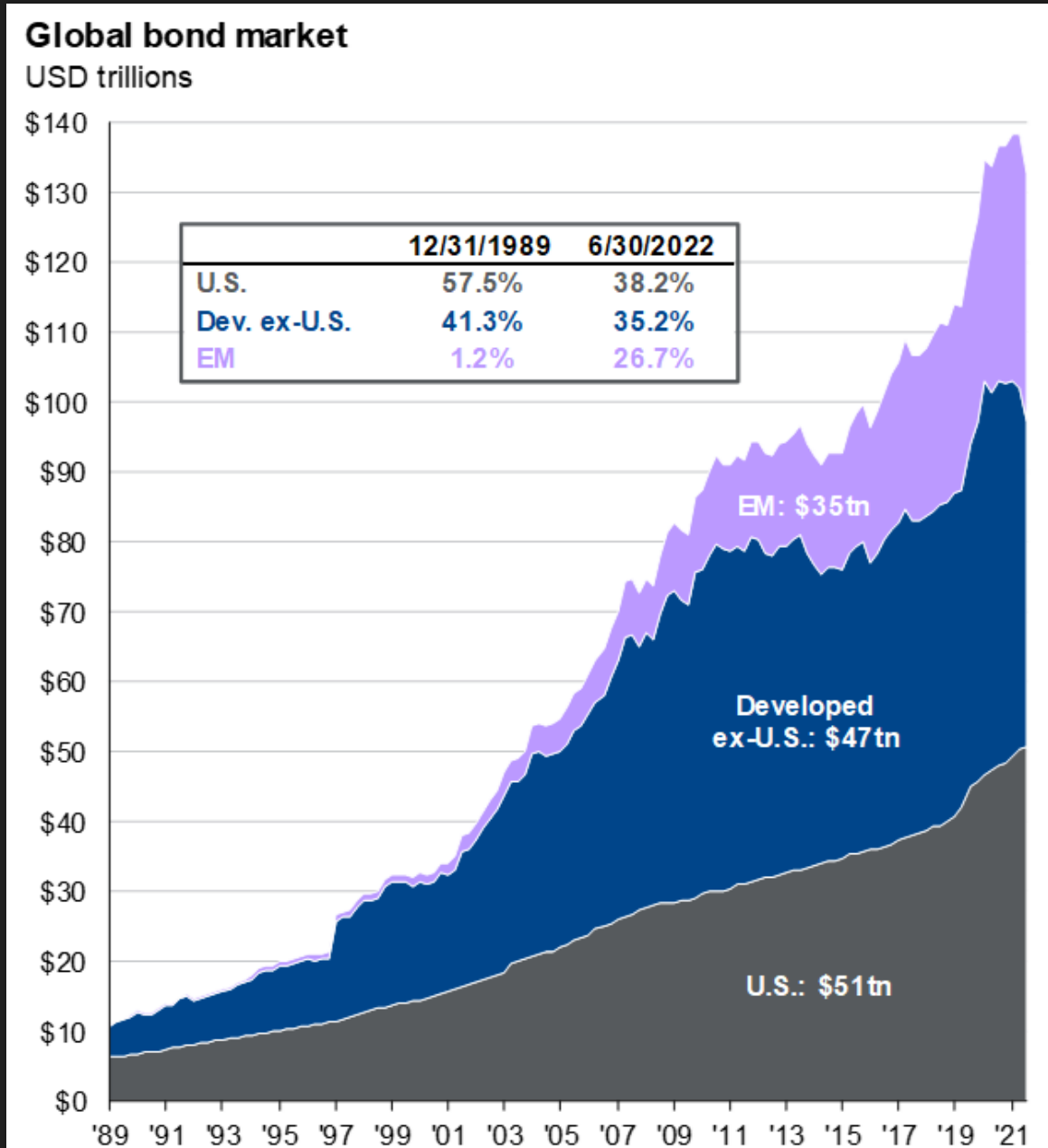


## Regional contribution to middle class growth: 2023 to 2030

Millions of people



# Global bond market – The Capital Financing Era?



○ \$140 Trillion

○ \$106 Trillion est. Global GDP

○ 132% Debt to GDP Ratio



## Sustainable Investing: What that means for pools?





# FIFTY YEARS OF DIGITAL ASSIMILATION

**Web 1.0** - Connected Organizations - Dial In  
Websites & Search • Digital Marketing • eCommerce

2000

THE TIPPING POINT (OF NO RETURN)

VIRUSES

**Web 2.0** - Connected People - 3G  
Social Technologies • Media • Networking Communication

2010

SOCIAL ENGINEERING

**Web 3.0** - Connected Things - 5G  
Smart Devices • IoT & M2M • Ambient Computing Mesh

2020

DEVICE TAKEOVER

**Web 4.0** - Virtual Intelligence - 8G?  
AI, ML, DL Ecosystem • Ambient Intelligence Mesh

2028

MI EXTORTION/CORRUPTION

**Web 5.0** - Augmented Capabilities - 10G?  
Wearables/Implantables • Transhumanism

2045

AUGMENTATION EXTORTION/CONTROL

DIGITAL RISK GROWS

Source: AGRIP Spring 2022, Scott Klososky Keynote, March 8, 2022

Combating implicit bias  
in health care p. 870

Science themes featured  
at Sundance 2023 p. 874

Organizing pedestrian  
and other flows p. 923

# Science

\$15  
3 MARCH 2023  
science.org

AAAS

## TAMING GRAPES

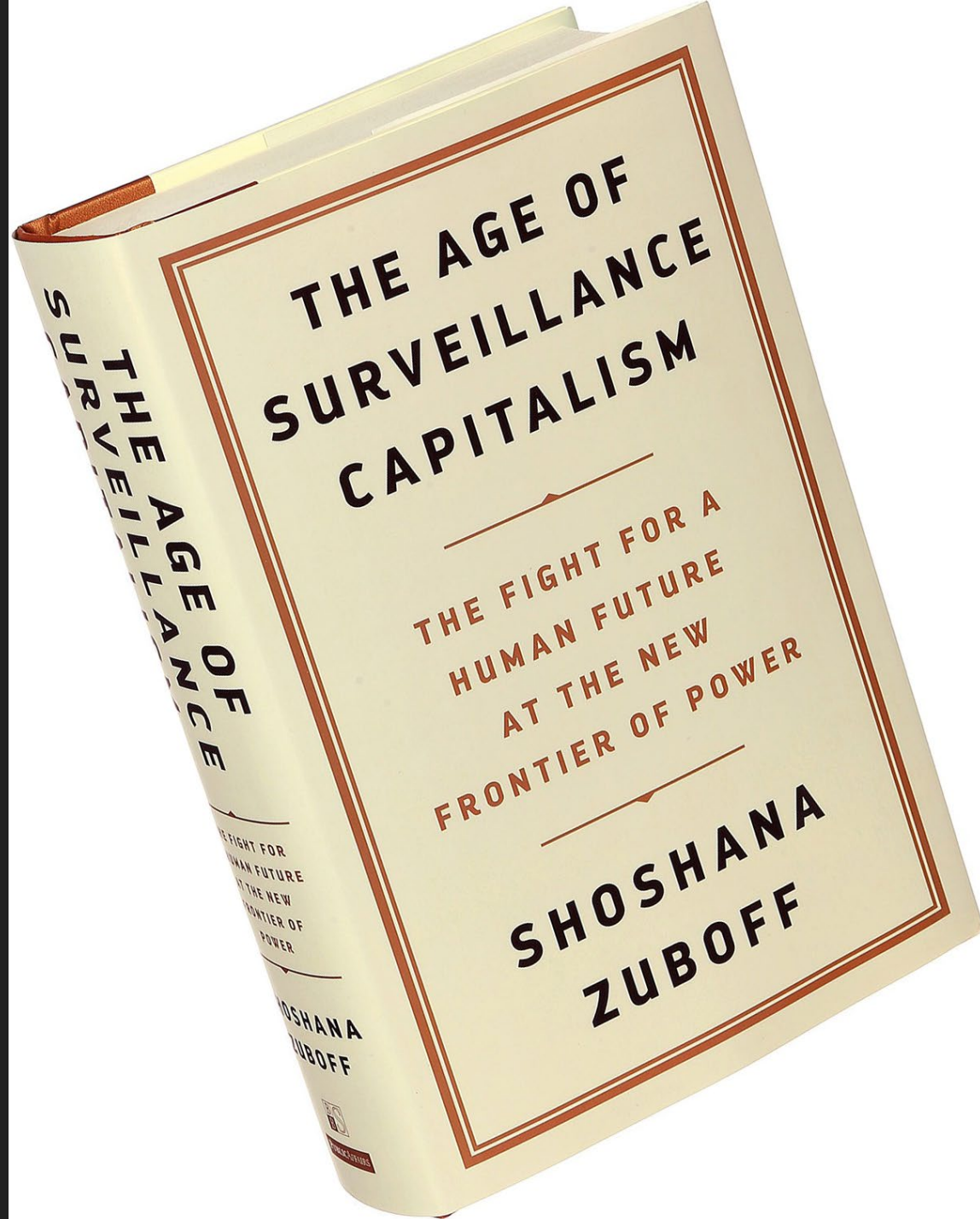
The domestication of an  
essential vine pp. 880 & 892

## POLICY FORUM

### The growing influence of industry in AI research

Industry is gaining control over the technology's future

[NUR AHMED](#), [MUNTASIR WAHED](#), AND [NEIL C. THOMPSON](#) [Authors Info & Affiliations](#)



**THE AGE OF  
SURVEILLANCE  
CAPITALISM**

**THE FIGHT FOR A  
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AT THE NEW  
FRONTIER OF POWER**

**SHOSHANA  
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# Things to Consider

# ○ Investment income:

- *Is a cornerstone to the risk transfer business model, and...*
- *maximizing risk-adjusted investment income can mean the difference between remaining competitive or losing members to aggressive pricing.*
  
- **How much can you expect to earn?**
- **How much risk are you willing to prudently take?**
- **What liabilities are you funding by design or presumption?**
- **“NEW” How much reinsurance is available and at what cost?**

# Investment Performance Objectives

- Where do you fall on this objective continuum and why?



**Book yield  
'or'  
Income Only**

**Constrained total return**

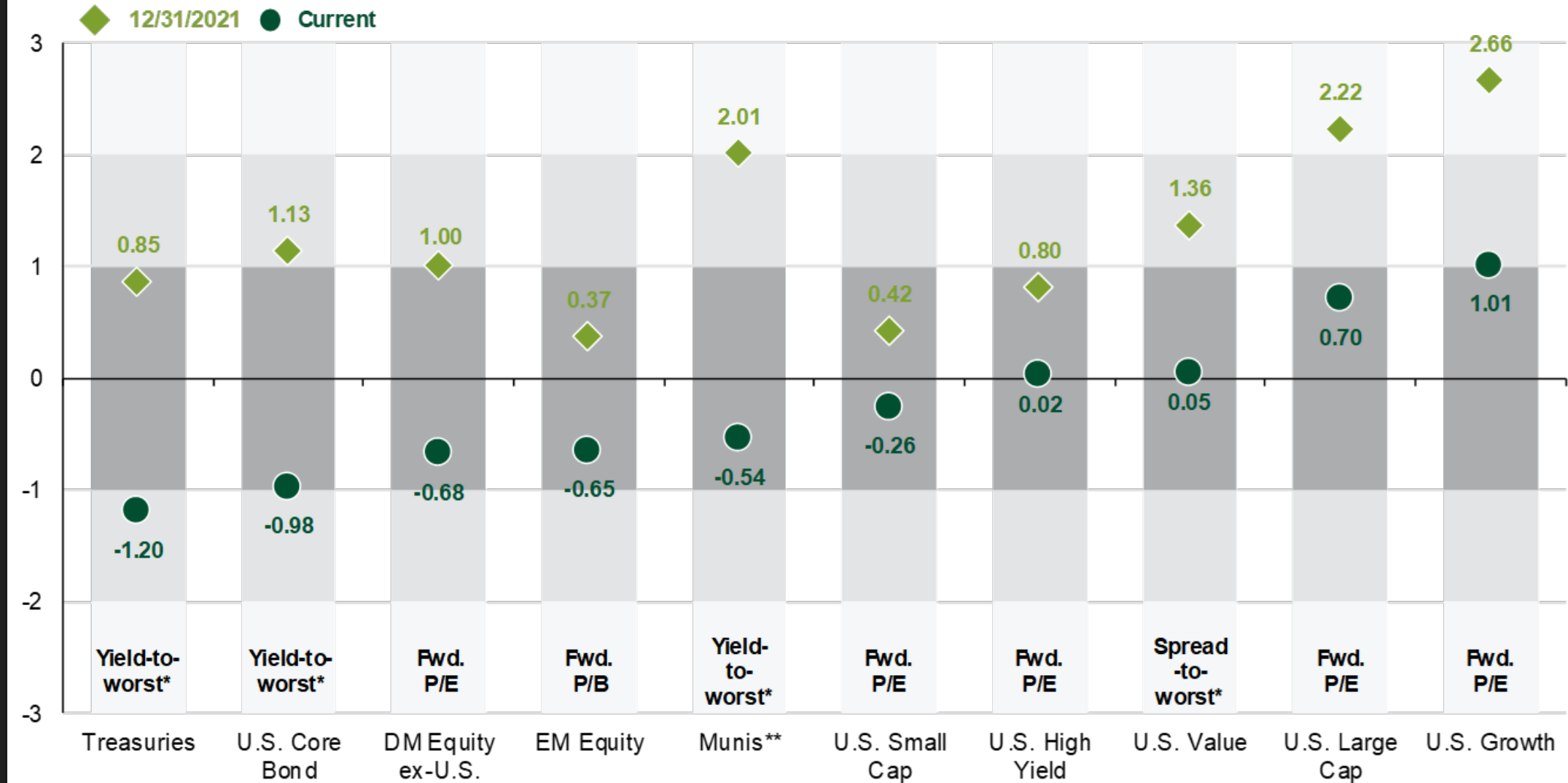
**Total return**

**Most Risk Pools &  
Insurers**

# Valuations Monitor (Latest 20 Years)

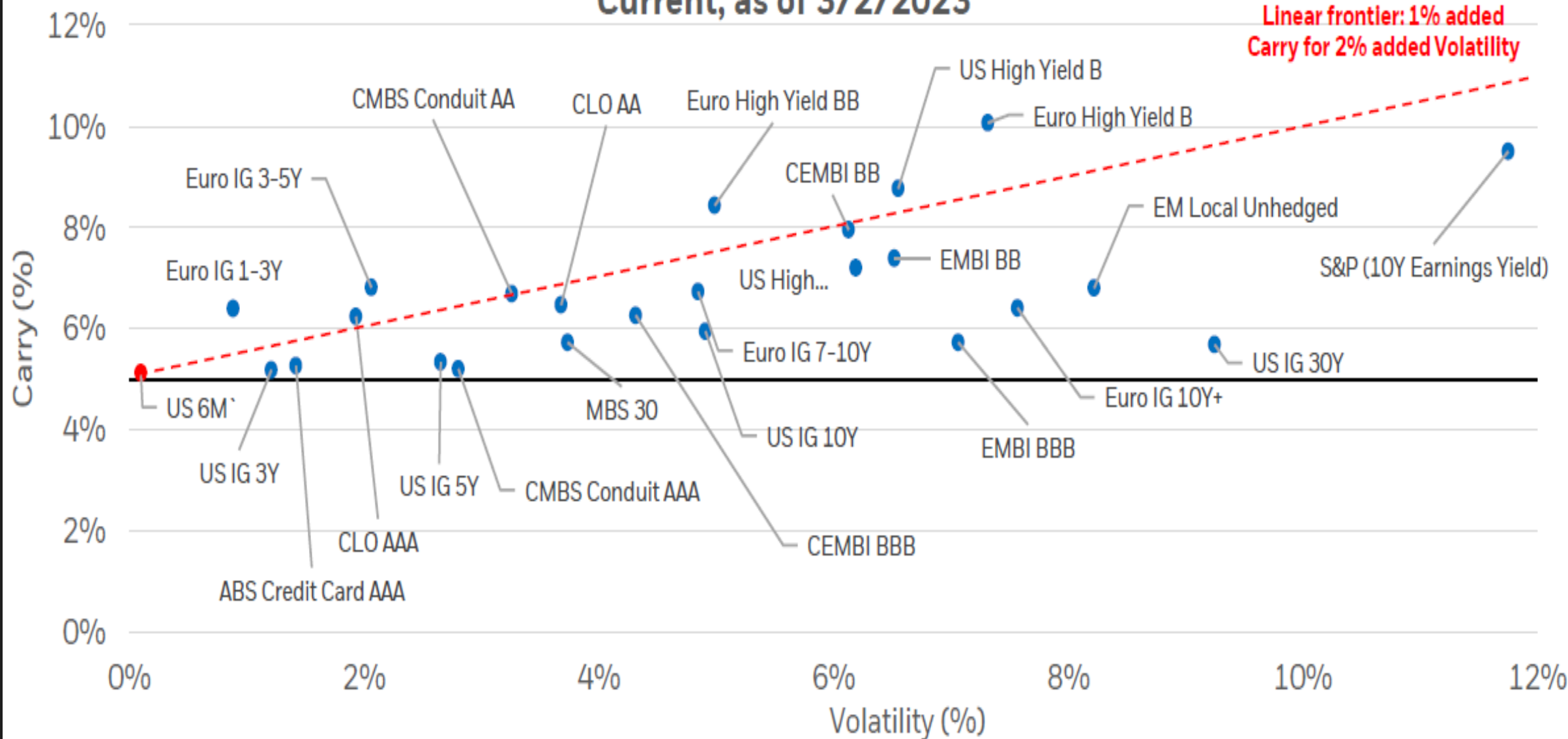
## Asset class valuations

Z-scores based on 20-year average valuation measures



# Tactical - Cash, Carry and Volatility Today

Current, as of 3/2/2023

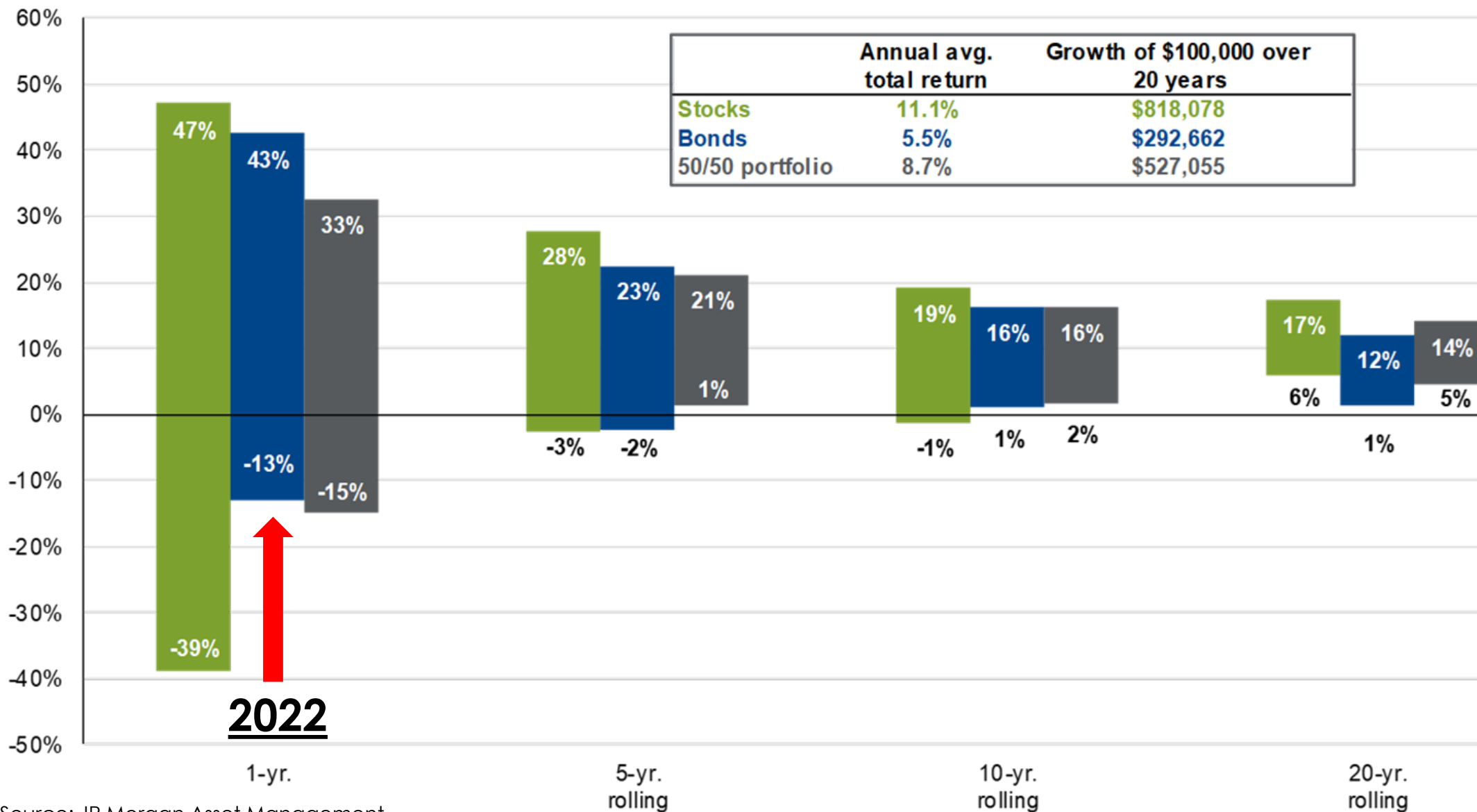




# Strategic - Time, Diversification and the Volatility of Returns

## Range of stock, bond and blended total returns

Annual total returns, 1950-2022



# Considerations – Investment Process

- How is your investment process addressing these trends?
  - Asset allocation (Yield vs. Growth)
  - Enterprise risk management modeling vs. culture
  - Board/staff education
    - (data vs. information vs. knowledge)
  - Investment policy flexibility
  - Captive formation

# Considerations – Investment Process cont.

- How is your investment process addressing these trends?
  - Internal Staffing
  - Investment manager(s)
  - Investment advisors
  - Investment manager Technology platform & flexibility
  - Investment accounting & reporting



SUWALLS

