NATIONAL LEAGUE OF CITIES

NLC-RISC RISK INFORMATION SHARING CONSORTIUM

Are You Governing Your Pool's Investment Process In the Best Interests of Your Members?

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Strategic Asset Alliance

STRATEGIC ASSET ALLIANCE

THE INSURANCE INVESTMENT SPECIALIST

Who is SAA?

Independent Investment Consulting Firm

Founded in 1994 that Only Focuses on
Insurance Organizations and Governmental Risk Pools

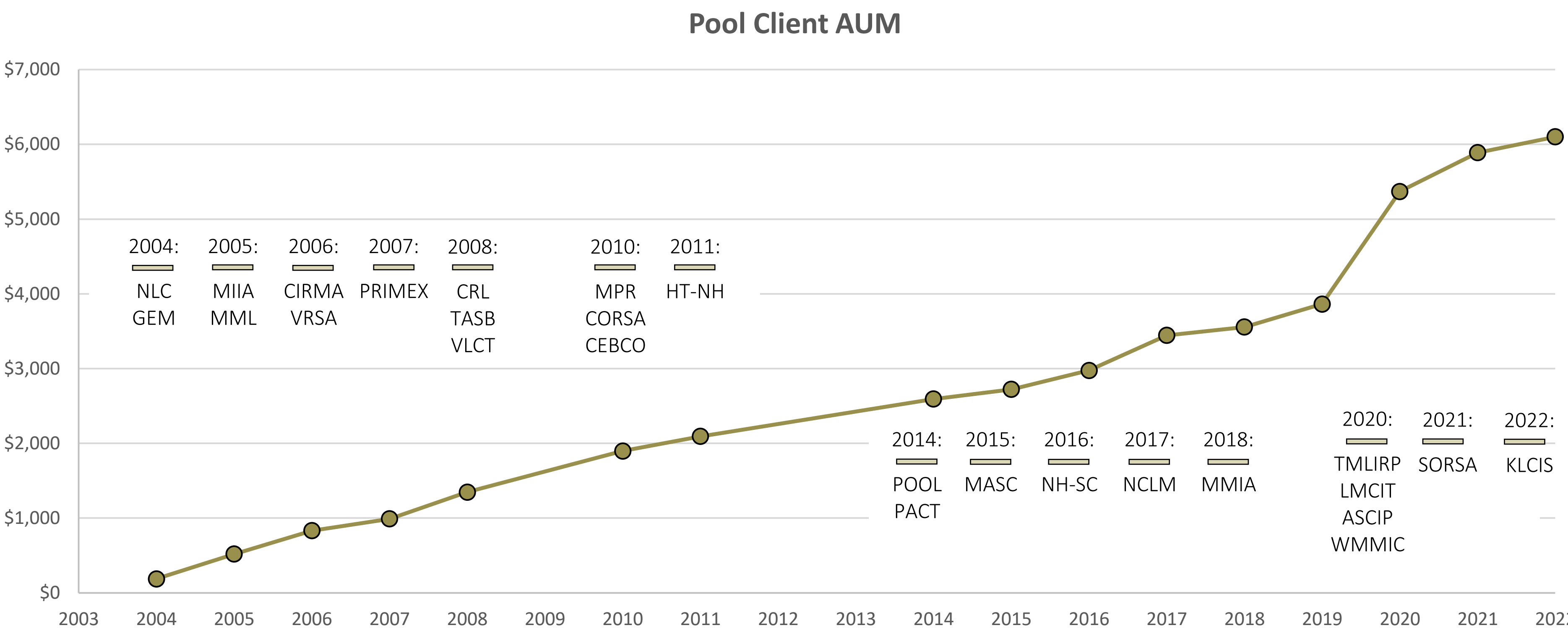
49*
Insurance & Risk Pooling Clients

$9.7B*
Assets Under Advisement

- Headquartered in Bellingham, WA with an office in Maine.
- Staff of six, including one CEO, one Managing Director and one Director.
- Clients span various segments, including:
  - Governmental Risk Pooling organizations
  - Commercial P&C
  - Commercial Life
  - Commercial Health
  - Captives

*As of 1.1.23
*Within 31 Client Relationships

SAA Governmental Risk Pool Clients – A Long History



- SAA's partnership with the Governmental Risk Pooling community began in 2004 through our work with risk pool reinsurer, NLC Mutual, and has grown to be the largest part of our business.
- SAA now works with 25 Governmental Risk Pools and Risk Pool Reinsurers from across the U.S., and is active in AGRIP, CAJAPA, NLC RISC and other industry groups.
- SAA works directly with risk pools in 18 states. Including indirect relationships through our risk pool reinsurance clients, SAA works with risk pools in 41 states.

**AUM Figures as of the listed year*

Overview:

- **Governance 'Best Practices'**
- Key Errors Trustees Should Avoid
- Effectively Implementing Investment Strategy: Board Perspective

GOVERNANCE "BEST PRACTICES"

Governance: Best Practices

Governance Checklist

- [ ] Best Practices' Policies and Procedures
- [ ] Risk Management
- [ ] Compliance Function/Internal Audit
- [ ] External Oversight
- [ ] Clear Lines of Responsibility and Accountability
- [ ] Performance Measurement and Reporting
- [ ] Transparency and Communication

What Are a Trustee's Investment Responsibilities?

Trustees carry numerous duties as part of their overall responsibilities for the pool's investment operations:

1. To act with 'reasonable' skill and care;

   Dependent upon the trustee's personal knowledge.

2. To take advice where appropriate;

   If not fluent with investments, trustees should get proper education (at a minimum) and/or advice unless the cost of advice is prohibitive relative to the size of the pool.

3. To keep investments under review;

   Investments should be reviewed regularly by trustees in conjunction with appointed advisors, as applicable.

Investment Responsibilities *(Continued)*

Trustees must also include these key elements into their decision-making process as it relates to their investment responsibilities:

1. Suitability;
   i.e. member needs, appropriate asset classes, etc.

2. Diversification;
   Reducing the overall risk profile of the pool.

3. Delegation, not abdication, of investment management functions;
   i.e. periodically reviewing internal/external investment policy statements and/or monitoring how the manager is adhering to the policy.

KEY ERRORS TRUSTEES SHOULD AVOID

Typical Hidden Errors

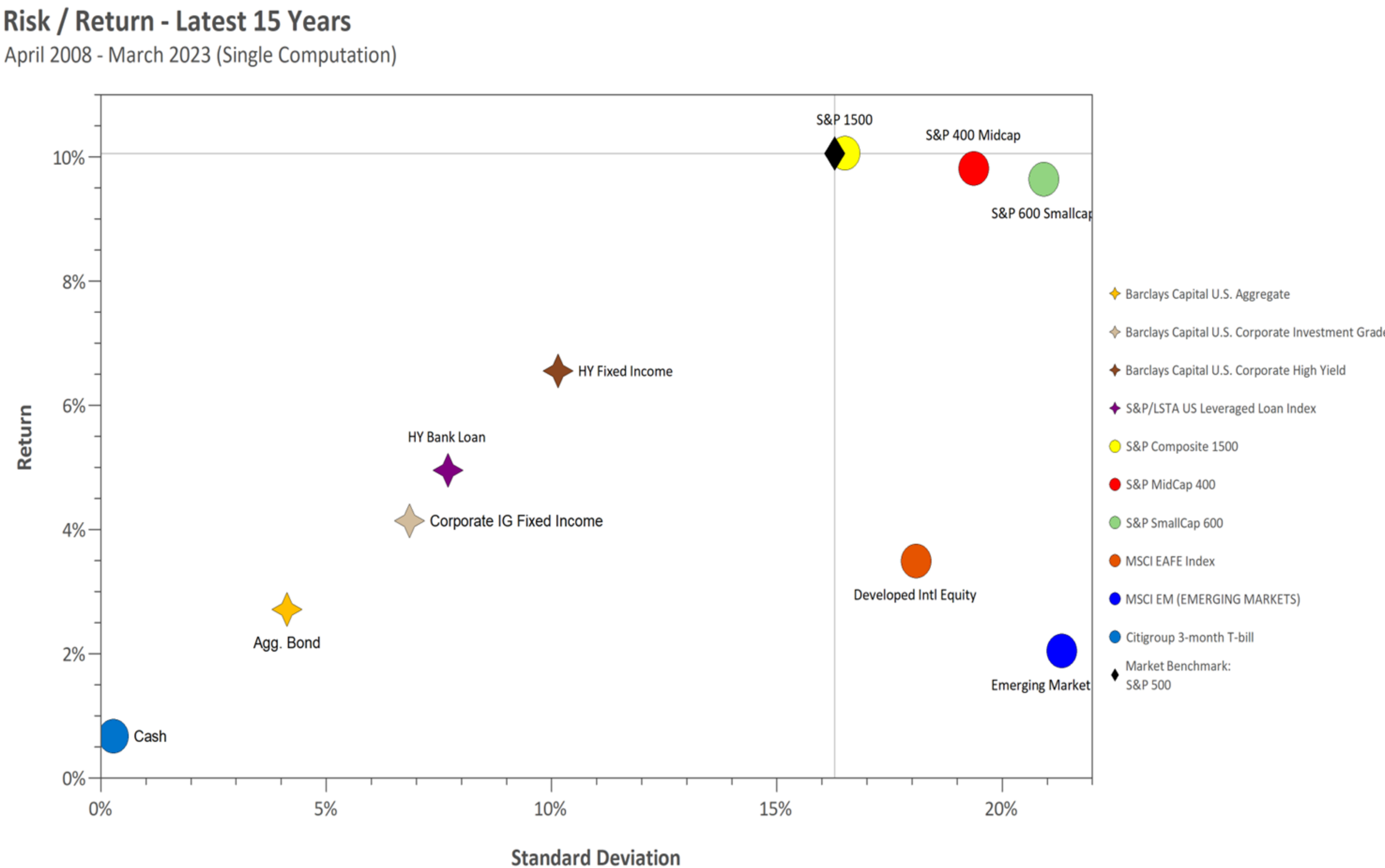
Trustees are often unaware of decisions that could have provided improvement, but are never shown on financial statements:

1. Not considering all allowable asset / a more diversified portfolio;

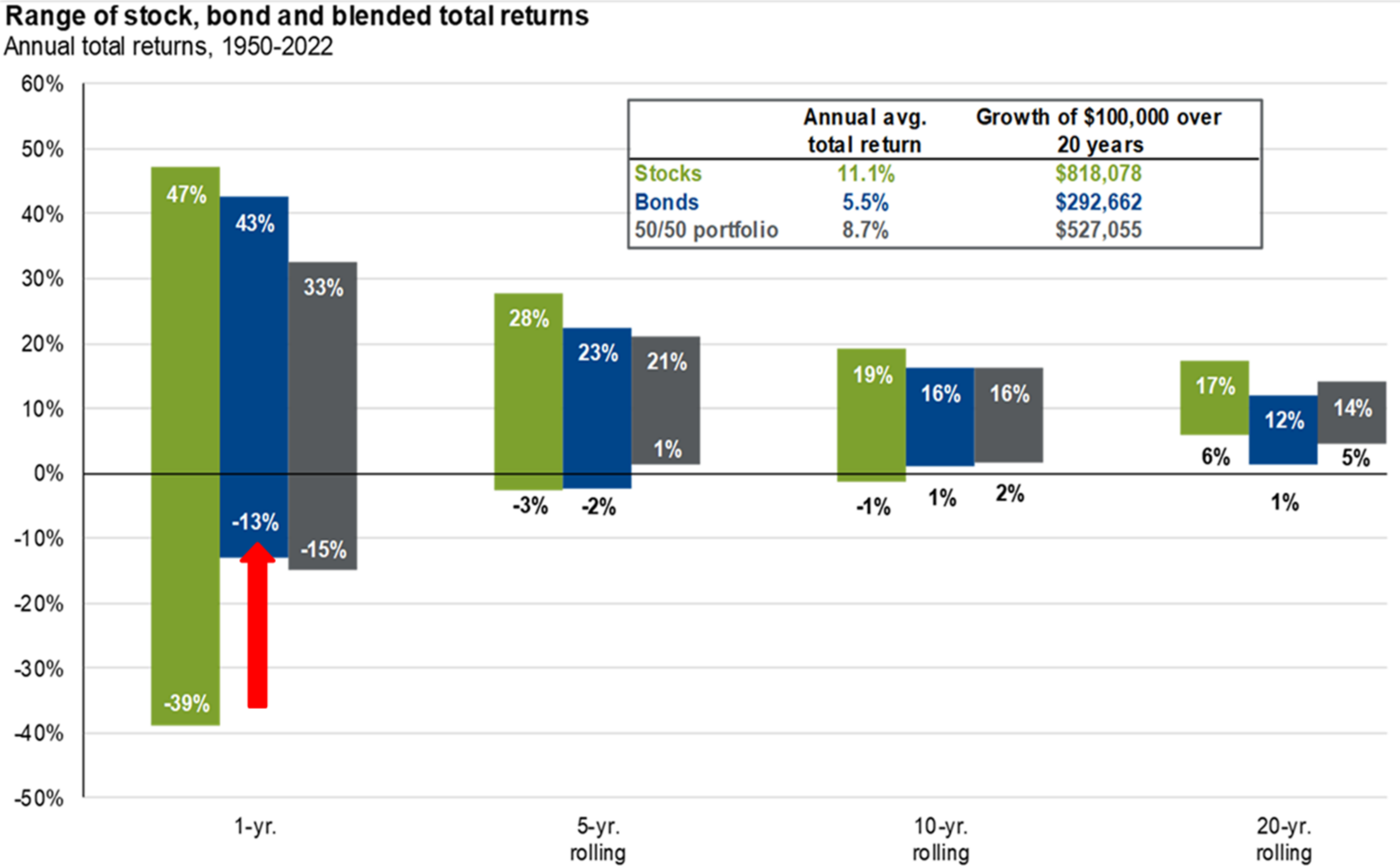
2. Not reviewing the pool's overall investment process on a periodic basis;

3. Not consistently reviewing investment manager;

Asset Class Risk & Reward – Latest 15 Years



Time, Diversification and the Volatility of Returns



	Annual avg. total return	Growth of $100,000 over 20 years
Stocks	11.1%	$818,078
Bonds	5.5%	$292,662
50/50 portfolio	8.7%	$527,055

Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2021. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to2010 and Bloomberg Aggregate thereafter.
Growth of $100,000 is based on annual average total returns from 1950 to 2021.
Guide to the Markets - U.S. Data are as of January 31, 2022.

Common Error: Applying Personal Practices

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   i.e. periodically reviewing internal/external investment policy statements and/or monitoring how the manager is adhering to the policy.

Common Error: Applying Personal Practices

1. Personal Investment Portfolios Differ Greatly From a Risk Pool's;
   i.e. time horizon, constraints, tax situation.

2. Risk Pooling Practices Also Differ From Endowments, Pension Funds, etc.;

3. Enterprise Risk Management Should Always Be a Consideration;

Common Error: Not Utilizing a True Fiduciary

Many Trustees do not receive investment advice from a true Fiduciary, which may result in actions that are not in the best interest of your risk pool.

What is a Fiduciary?

A fiduciary is legally and ethically held to ensuring any financial/investment services and expertise they provide your risk pool is solely in the best interest of your organization (i.e. an investment manager or broker by default is not necessarily a fiduciary). NO/MINIMAL CONFLICTS OF INTEREST

Are They a Fiduciary or Not?

Trustees can ask these simple questions to identify if they are receiving investment advice from a Fiduciary (or not):

1. Are they registered as an investment advisor with the SEC?
   If "Yes," then they may be a fiduciary.

2. Are they a broker/dealer who is responsible for determining investments?
   If "Yes," then they are NOT a fiduciary.

3. Are they an internal investment professional?
   If "Yes," then probably not as they are held to standards of employment.

4. Unsure? Ask them and get assurances in writing.
   Understand all potential conflicts of interest.

EFFECTIVELY IMPLEMENTING INVESTMENT STRATEGY: THE BOARD’S PERSPECTIVE

Investment Process is Key

Additionally, Trustees must understand their risk pool's investment process in order to correctly apply these elements and fulfill their responsibilities.

Investment Process is Key

For government risk pools to achieve strong investment results, a similarly strong investment process is required.

The investment process goes beyond choosing the right investment manager and consists of these six components.

Next (First) Steps?

Trustees can ask these simple questions to identify if they are receiving investment advice from a Fiduciary (or not):

1. Understanding Any Regulatory Constraints on Allowable Asset Classes;

2. Determine the Pool's Risk Appetite (via Questionnaire and Scenario-Based Analyses);
   The amount of risk an insurer or risk pool is comfortable taking on within the portfolio will shape the overall investment program.

3. Review Current Asset Allocation and Potential Alternatives;
   How might changes affect the pool's yield, surplus/net position, reserves, etc.

4. Implement an On-Going Investment Education Process

Thank You For Your Time!

Questions?

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