



Finding Value in the Short- and Long-Term

March 2024

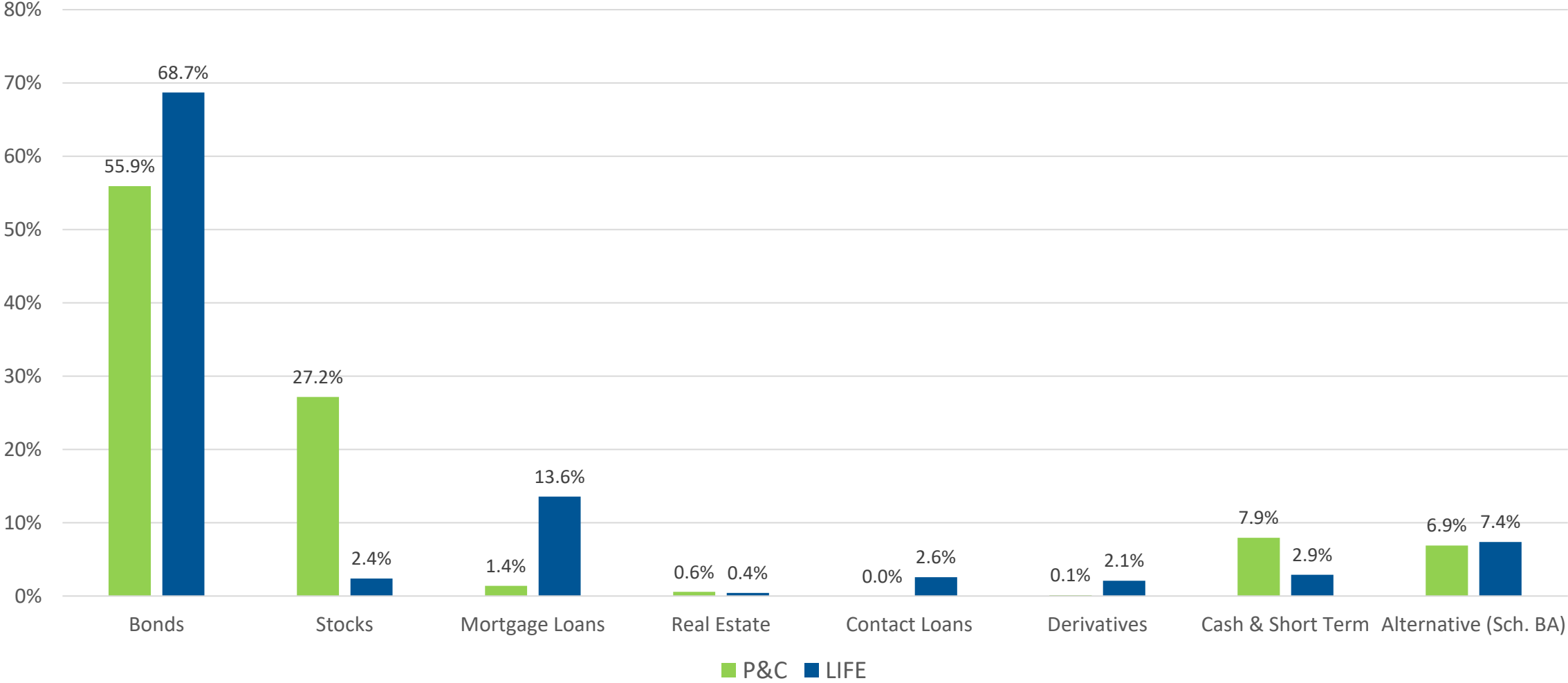
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- Insurance Asset Allocation: Observations, Considerations and Framework
- Short-Term Opportunities vs. Long-Term Enterprise Value Optimization
- Takeaways



Insurance Asset Allocation

U.S. Industry Broad Asset Allocation (as of 9/30/23)



Source: S&P Market Intelligence, NEAM Analytics

- **Life:**
 - **ALM optimization** addresses the cost of liability, duration management, and reinvestment risk.
 - **Long-dated (and sticky) liabilities** allow a potential appetite for illiquid asset classes (risk).
 - **High investment leverage** limits the undertaking of risk assets.
 - **P&C:**
 - **Tax situations** influence the allocations of tax-exempt municipal bonds and preferred securities.
 - **Underwriting risk** frames the insurer's asset risk capacity and tolerance.
 - A conventional barbell **risk-taking strategy** might result in sub-optimal risk-adjusted returns.
- **A holistic approach to address insurance enterprise goals and objectives**

A Holistic Asset Allocation Framework

Insurance Focus



Consider insurance products profile and liability cash flows characteristics

Enterprise Framework

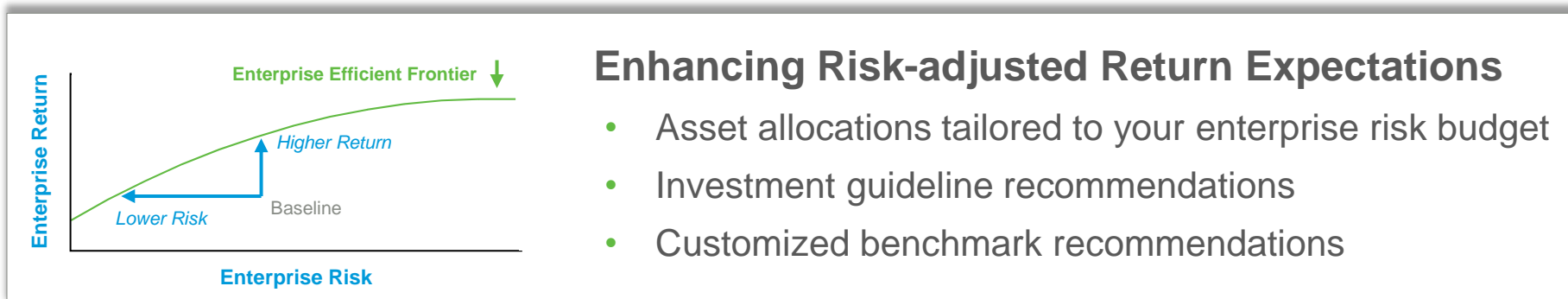


Enable holistic economic, rating agency and regulatory impact assessment

Stress / Scenario Testing



Assess and understand the consequence of being wrong



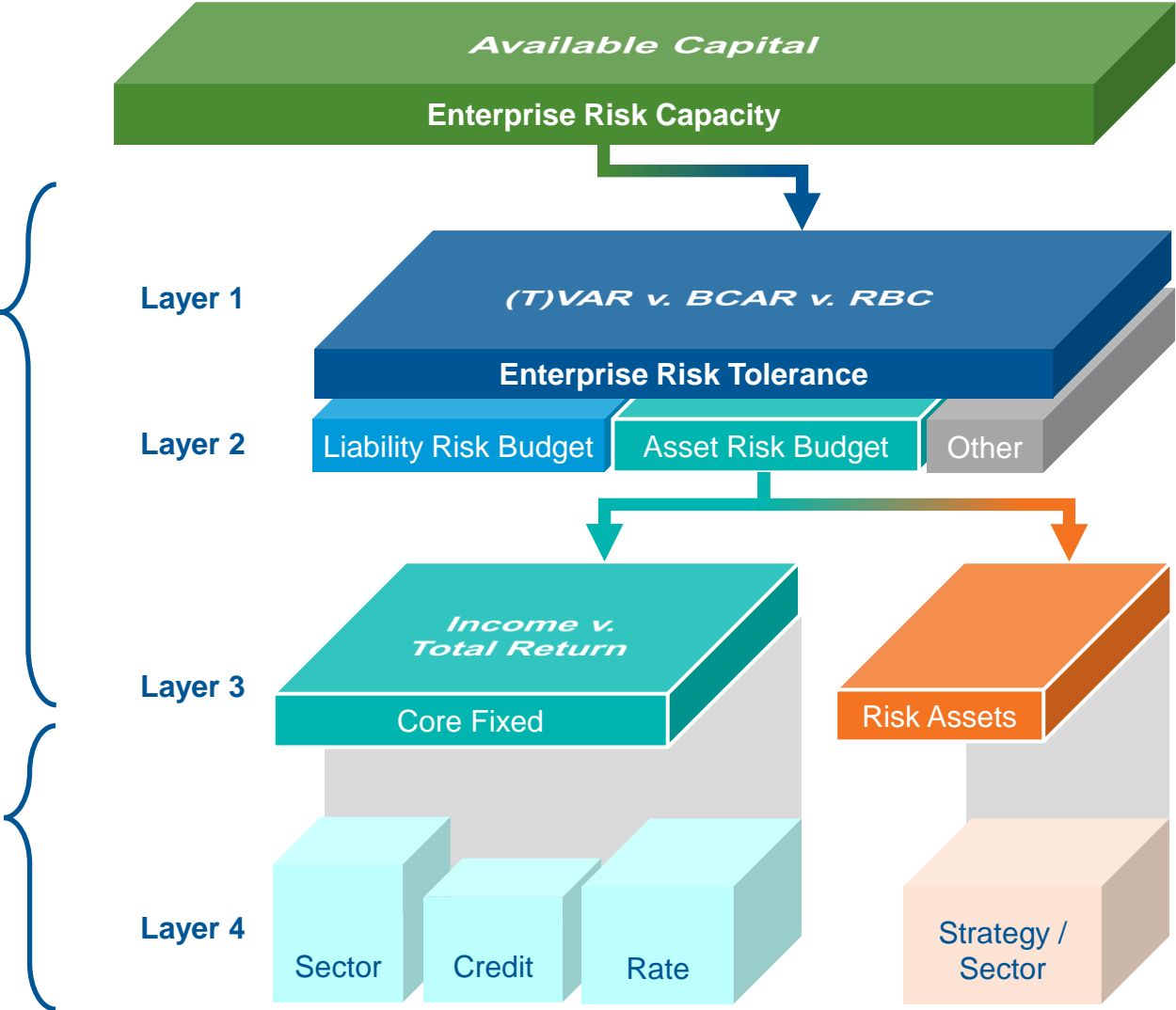
Insurance Asset Allocation Under An Enterprise Context

Long-Term: Enterprise Based Asset Allocation facilitates an understanding of the firm's risk capacity utilization, including:

- Risk tolerances and risk budgeting between assets and liabilities
- How asset risk can be allocated into core and risk asset buckets
- Strategic, long-term expectations of asset risk and return
- Benchmarks, guidelines

Short-Term: Portfolio Optimization analysis builds on EBAA™; assesses specific Core Fixed portfolio attributes at current market conditions, including:

- Granular *sector* positions
- Specific *credit* quality profile
- Interest *rate* sensitivity, cash flows and liquidity specifications



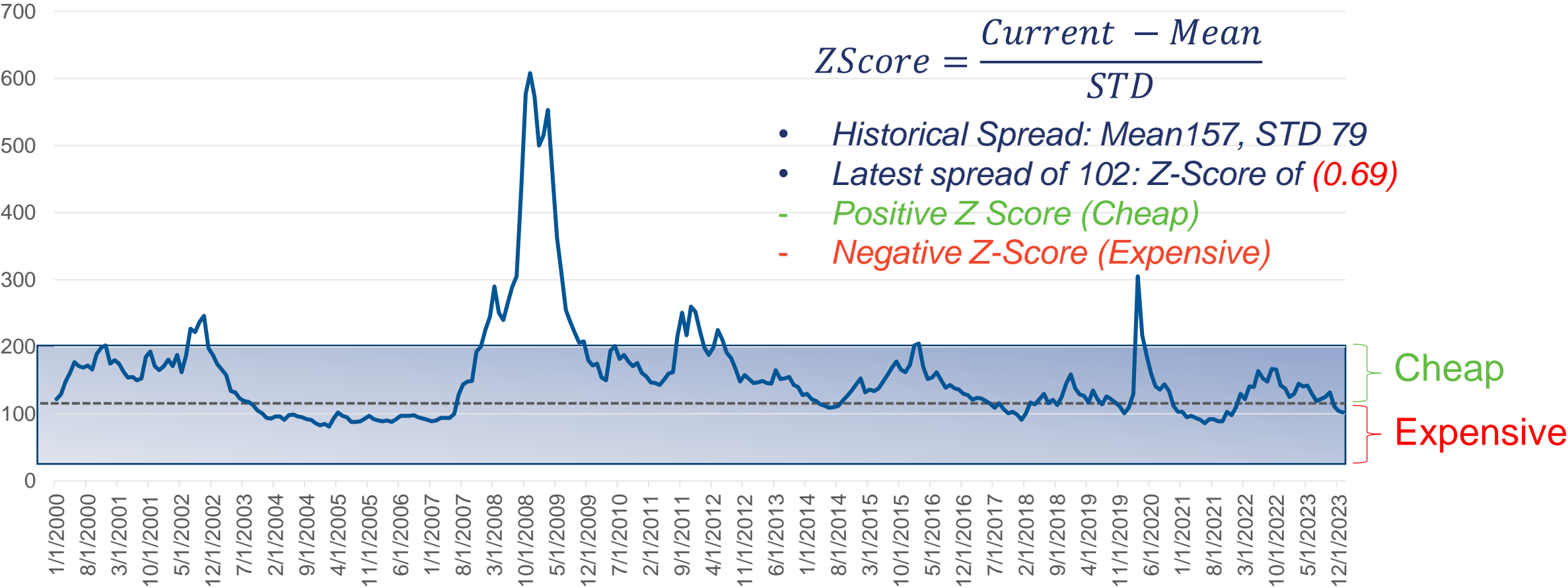
A decorative graphic consisting of two overlapping, wavy, curved shapes. The shape on the left is dark blue and tapers to a point on the right. The shape on the right is a vibrant green and starts from the point where the blue shape ends, extending to the right edge of the frame. The text is centered within the white space between these two shapes.

Short-Term Opportunities: Relative Value Framework

Z-Score: Fixed Income Relative Value Metric



ICE USD IG Corp Index: Average Spread

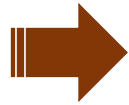


Source: ICE Index, NEAM Analytics

Z-Score: YE 2019 vs. March 2020 vs. February 2024

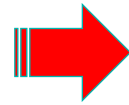
		12/31/2019				
Asset Class	Sector	Mty Sect	ZScr 1yr	ZScr 3yr	ZScr 5yr	ZScr Incp
MUNI	Muni 2Yr	2YR	(0.62)	(0.77)	(1.05)	(0.75)
MUNI	Muni 5Yr	5YR	(1.53)	(1.76)	(1.68)	(1.09)
MUNI	Muni 10Yr	10YR	(1.08)	(1.66)	(1.66)	(0.65)
MUNI	Muni 30Yr	30YR	(1.18)	(1.99)	(1.76)	(0.24)
MUNI	Taxable Muni	ALL	0.22	(0.10)	(0.69)	(1.19)
ABS	AUTO Fixed AAA 2Yr	2YR	1.14	0.49	(0.14)	(0.27)
ABS	CC Fixed AAA 5Yr	5YR	0.09	0.82	0.30	(0.31)
ABS FLT	CC Libor1M AAA 5Yr	5YR	(0.23)	1.16	0.88	(0.02)
CMBS	AAA CMBS 10yr	10YR	(0.34)	(0.82)	(0.88)	(0.94)
CMBS	AA CMBS 10yr	10YR	0.05	0.10	(0.58)	(0.50)
CMBS	A CMBS 10yr	10YR	0.02	(0.19)	(0.68)	(0.50)
CMBS	AAA CMBS 5yr	5YR	0.82	1.52	0.12	(0.17)
CORP	A, FINANCE, 2 YR	2YR	(1.48)	(1.93)	(1.96)	(0.60)
CORP	A, FINANCE, 5 YR	5YR	(1.86)	(1.88)	(1.81)	(0.66)
CORP	A, FINANCE, 10 YR	10YR	(2.24)	(1.44)	(1.60)	(0.61)
CORP	A, INDUSTRIAL, 2 YR	2YR	(0.84)	(1.37)	(1.72)	(0.65)
CORP	A, INDUSTRIAL, 5 YR	5YR	(1.64)	(1.13)	(1.33)	(0.74)
CORP	A, INDUSTRIAL, 10 YR	10YR	(2.33)	(0.68)	(1.01)	(0.55)
CORP	A, UTILITY, 2 YR	2YR	(0.83)	(1.54)	(1.72)	(0.69)
CORP	A, UTILITY, 5 YR	5YR	(1.36)	(1.44)	(1.41)	(0.65)
CORP	A, UTILITY, 10 YR	10YR	(2.05)	(0.54)	(0.94)	(0.32)
CORP	BBB, FINANCE, 2 YR	2YR	(1.12)	(1.46)	(1.49)	(0.62)
CORP	BBB, FINANCE, 5 YR	5YR	(1.57)	(1.51)	(1.50)	(0.64)
CORP	BBB, FINANCE, 10 YR	10YR	(1.94)	(1.25)	(1.41)	(0.58)
CORP	BBB, INDUSTRIAL, 2 YR	2YR	(1.00)	(1.49)	(1.39)	(0.62)
CORP	BBB, INDUSTRIAL, 5 YR	5YR	(1.68)	(1.01)	(1.09)	(0.57)
CORP	BBB, INDUSTRIAL, 10 YR	10YR	(2.24)	(0.54)	(0.84)	(0.34)
CORP	BBB, UTILITY, 2 YR	2YR	(0.68)	(1.24)	(1.43)	(0.63)
CORP	BBB, UTILITY, 5 YR	5YR	(1.05)	(0.73)	(1.05)	(0.62)
CORP	BBB, UTILITY, 10 YR	10YR	(1.61)	(0.31)	(0.72)	(0.44)
HIYLD	BB Rtd	5YR	(1.46)	(1.38)	(1.18)	(0.89)
HIYLD	B Rtd	5YR	(2.17)	(0.91)	(1.01)	(0.74)

Expensive



		03/25/2020				
Asset Class	Sector	Mty Sect	ZScr 1yr	ZScr 3yr	ZScr 5yr	ZScr Incp
MUNI	Muni 2Yr	2YR	6.46	11.23	14.12	18.64
MUNI	Muni 5Yr	5YR	6.67	11.61	14.84	24.46
MUNI	Muni 10Yr	10YR	5.94	10.32	12.77	18.13
MUNI	Muni 30Yr	30YR	5.19	8.88	10.53	8.44
MUNI	Taxable Muni	ALL	3.17	5.31	2.95	1.03
ABS	AUTO Fixed AAA 2Yr	2YR	5.61	9.59	11.85	2.17
ABS	CC Fixed AAA 5Yr	5YR	7.05	11.34	13.98	1.90
ABS FLT	CC Libor1M AAA 5Yr	5YR	7.20	11.13	13.84	2.43
CMBS	AAA CMBS 10yr	10YR	6.82	11.28	9.17	8.72
CMBS	AA CMBS 10yr	10YR	6.92	11.55	8.48	0.97
CMBS	A CMBS 10yr	10YR	6.85	11.15	5.36	0.60
CMBS	AAA CMBS 5yr	5YR	6.90	11.66	13.03	12.08
CORP	A, FINANCE, 2 YR	2YR	5.88	9.70	10.37	1.39
CORP	A, FINANCE, 5 YR	5YR	5.65	9.04	8.87	1.14
CORP	A, FINANCE, 10 YR	10YR	4.94	7.54	7.55	1.44
CORP	A, INDUSTRIAL, 2 YR	2YR	5.86	9.79	11.37	2.75
CORP	A, INDUSTRIAL, 5 YR	5YR	5.63	8.90	8.95	2.30
CORP	A, INDUSTRIAL, 10 YR	10YR	4.86	6.75	6.78	3.66
CORP	A, UTILITY, 2 YR	2YR	6.19	9.29	8.82	2.07
CORP	A, UTILITY, 5 YR	5YR	6.02	9.66	8.82	2.08
CORP	A, UTILITY, 10 YR	10YR	5.33	7.91	8.41	3.89
CORP	BBB, FINANCE, 2 YR	2YR	6.42	10.29	9.20	1.04
CORP	BBB, FINANCE, 5 YR	5YR	6.16	9.33	7.65	0.95
CORP	BBB, FINANCE, 10 YR	10YR	5.51	7.79	6.70	1.29
CORP	BBB, INDUSTRIAL, 2 YR	2YR	6.28	10.37	9.27	2.34
CORP	BBB, INDUSTRIAL, 5 YR	5YR	5.92	9.19	7.20	2.20
CORP	BBB, INDUSTRIAL, 10 YR	10YR	5.20	7.12	5.79	3.00
CORP	BBB, UTILITY, 2 YR	2YR	6.74	10.39	9.69	1.76
CORP	BBB, UTILITY, 5 YR	5YR	6.41	9.59	8.57	1.74
CORP	BBB, UTILITY, 10 YR	10YR	5.72	7.89	7.84	2.64
HIYLD	BB Rtd	5YR	5.09	8.22	5.42	2.10
HIYLD	B Rtd	5YR	5.00	7.71	4.94	2.21

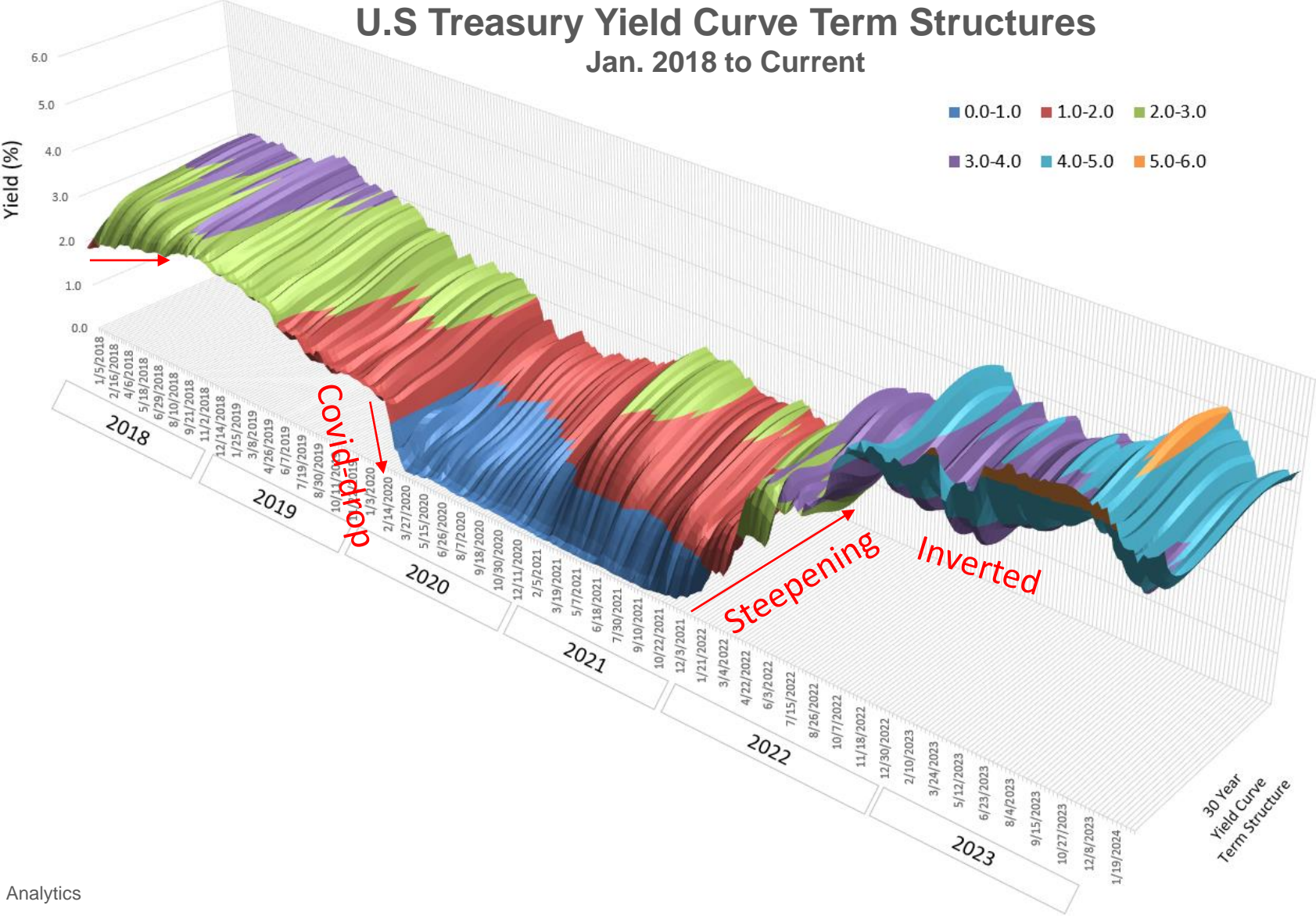
Cheap



		02/07/2024				
Asset Class	Sector	Mty Sect	ZScr 1yr	ZScr 3yr	ZScr 5yr	ZScr Incp
MUNI	Muni 2Yr	2YR	(0.57)	(0.45)	(0.44)	(0.68)
MUNI	Muni 5Yr	5YR	(0.98)	(0.49)	(0.40)	(0.78)
MUNI	Muni 10Yr	10YR	(1.62)	(1.62)	(0.84)	(1.41)
MUNI	Muni 30Yr	30YR	(1.37)	(0.74)	(0.73)	(0.59)
MUNI	Taxable Muni	ALL	(2.17)	(1.45)	(1.14)	(1.59)
ABS	AUTO Fixed AAA 2Yr	2YR	0.36	1.07	1.31	0.43
ABS	CC Fixed AAA 5Yr	5YR	(0.29)	0.99	0.72	(0.00)
ABS FLT	CC Libor1M AAA 5Yr	5YR	0.29	1.07	0.87	0.41
CMBS	AAA CMBS 10yr	10YR	(2.55)	(0.63)	(0.41)	(0.38)
CMBS	AA CMBS 10yr	10YR	(1.80)	(0.30)	(0.12)	(0.28)
CMBS	A CMBS 10yr	10YR	(2.12)	(0.06)	0.08	(0.16)
CMBS	AAA CMBS 5yr	5YR	(0.86)	0.66	0.91	1.71
CORP	A, FINANCE, 2 YR	2YR	(1.33)	(0.04)	0.07	(0.36)
CORP	A, FINANCE, 5 YR	5YR	(1.53)	(0.34)	(0.23)	(0.46)
CORP	A, FINANCE, 10 YR	10YR	(1.91)	(0.72)	(0.71)	(0.51)
CORP	A, INDUSTRIAL, 2 YR	2YR	(0.94)	(0.19)	(0.06)	(0.39)
CORP	A, INDUSTRIAL, 5 YR	5YR	(1.30)	(0.46)	(0.32)	(0.51)
CORP	A, INDUSTRIAL, 10 YR	10YR	(1.70)	(0.73)	(0.76)	(0.50)
CORP	A, UTILITY, 2 YR	2YR	(1.39)	(0.17)	0.02	(0.37)
CORP	A, UTILITY, 5 YR	5YR	(1.90)	(0.33)	(0.14)	(0.34)
CORP	A, UTILITY, 10 YR	10YR	(2.17)	(0.58)	(0.52)	(0.08)
CORP	BBB, FINANCE, 2 YR	2YR	(1.28)	0.05	0.16	(0.23)
CORP	BBB, FINANCE, 5 YR	5YR	(1.55)	(0.13)	(0.08)	(0.35)
CORP	BBB, FINANCE, 10 YR	10YR	(2.00)	(0.43)	(0.49)	(0.43)
CORP	BBB, INDUSTRIAL, 2 YR	2YR	(1.55)	(0.17)	(0.11)	(0.42)
CORP	BBB, INDUSTRIAL, 5 YR	5YR	(1.97)	(0.47)	(0.44)	(0.50)
CORP	BBB, INDUSTRIAL, 10 YR	10YR	(2.16)	(0.72)	(0.79)	(0.50)
CORP	BBB, UTILITY, 2 YR	2YR	(1.25)	0.08	0.15	(0.37)
CORP	BBB, UTILITY, 5 YR	5YR	(1.82)	(0.17)	(0.08)	(0.40)
CORP	BBB, UTILITY, 10 YR	10YR	(2.16)	(0.51)	(0.49)	(0.33)
HIYLD	BB Rtd	5YR	(1.80)	(1.44)	(0.96)	(0.84)
HIYLD	B Rtd	5YR	(1.81)	(1.33)	(1.06)	(0.80)

Expensive?

Treasury Yields at Relative Higher Levels

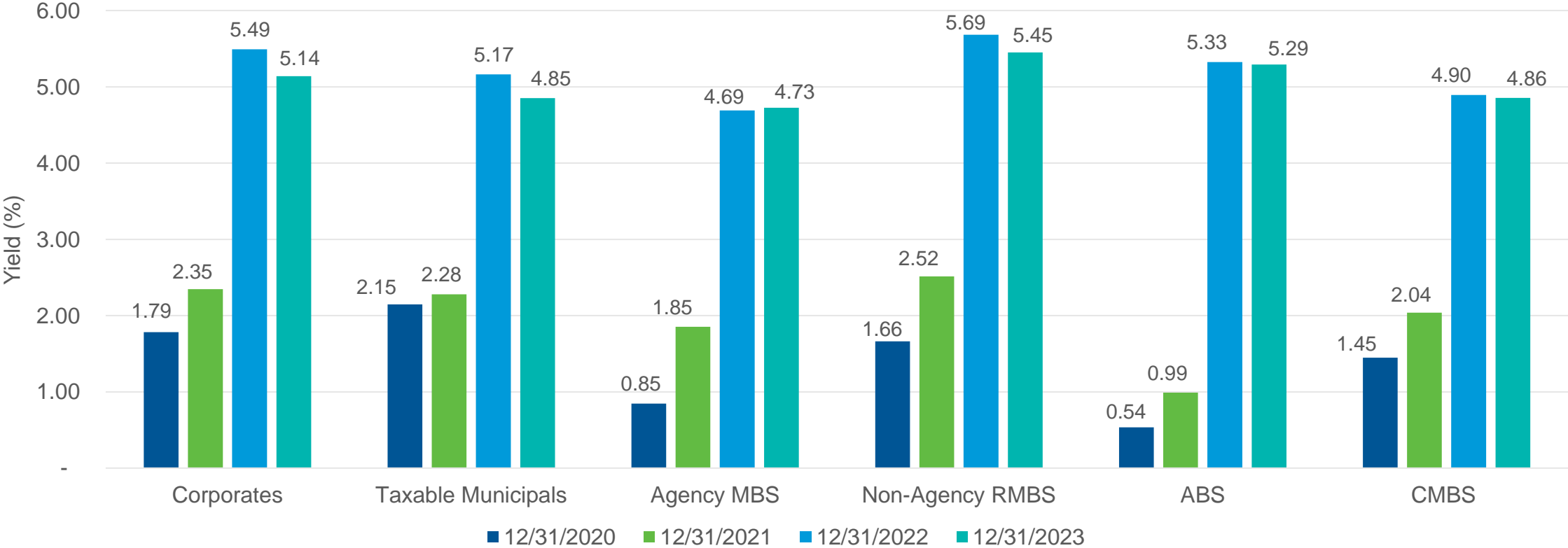


Source: ICE Index, NEAM Analytics

Attractive Opportunities in Fixed Income



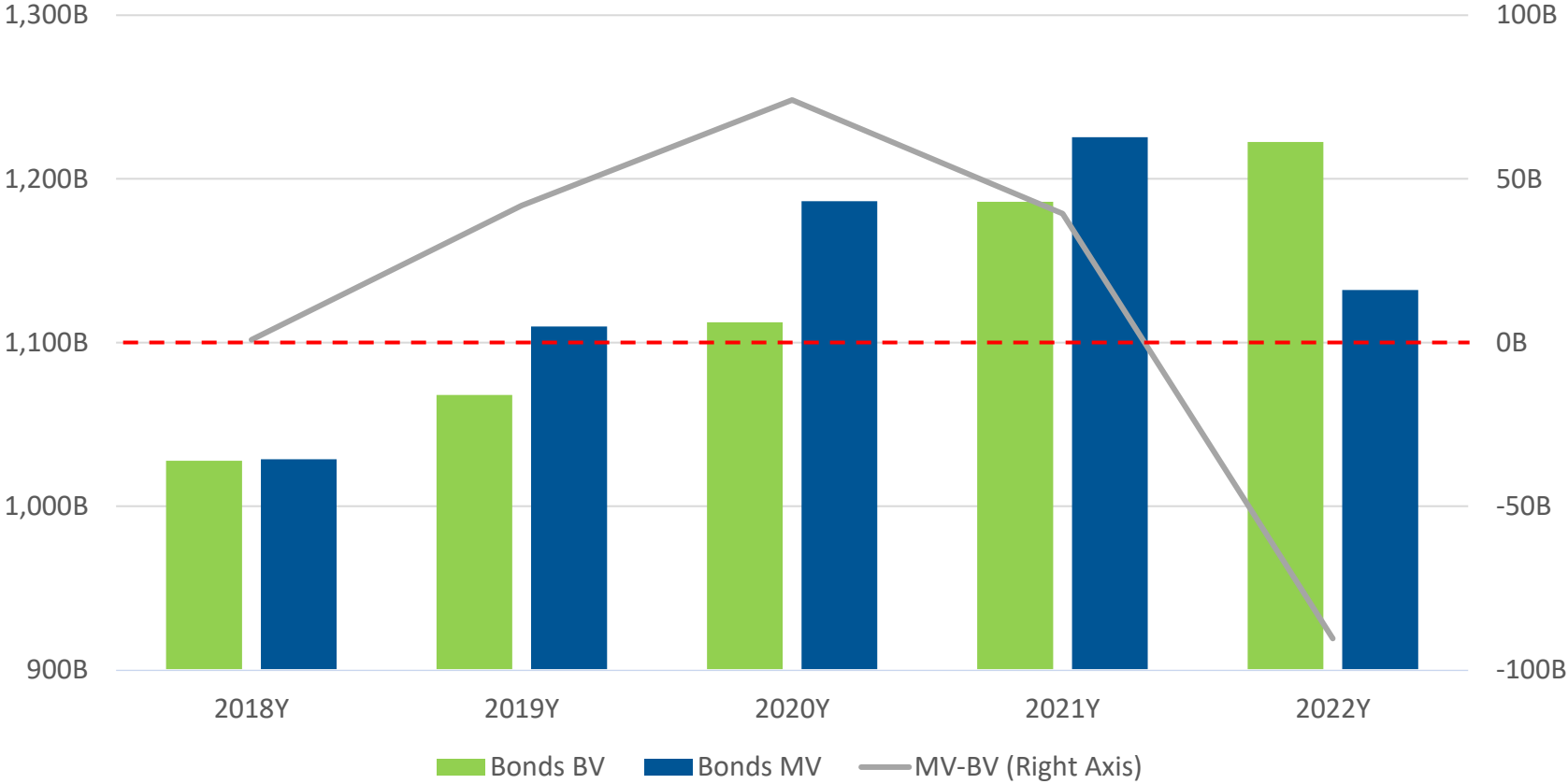
Comparative Fixed Income Yields



The current interest rate environment allows insurance companies to rebuild book yield, increase investment income, and grow surplus.

Source: Bloomberg, ICE BofA, NEAM.

Higher Rates Lead to Bond Market Value Decline



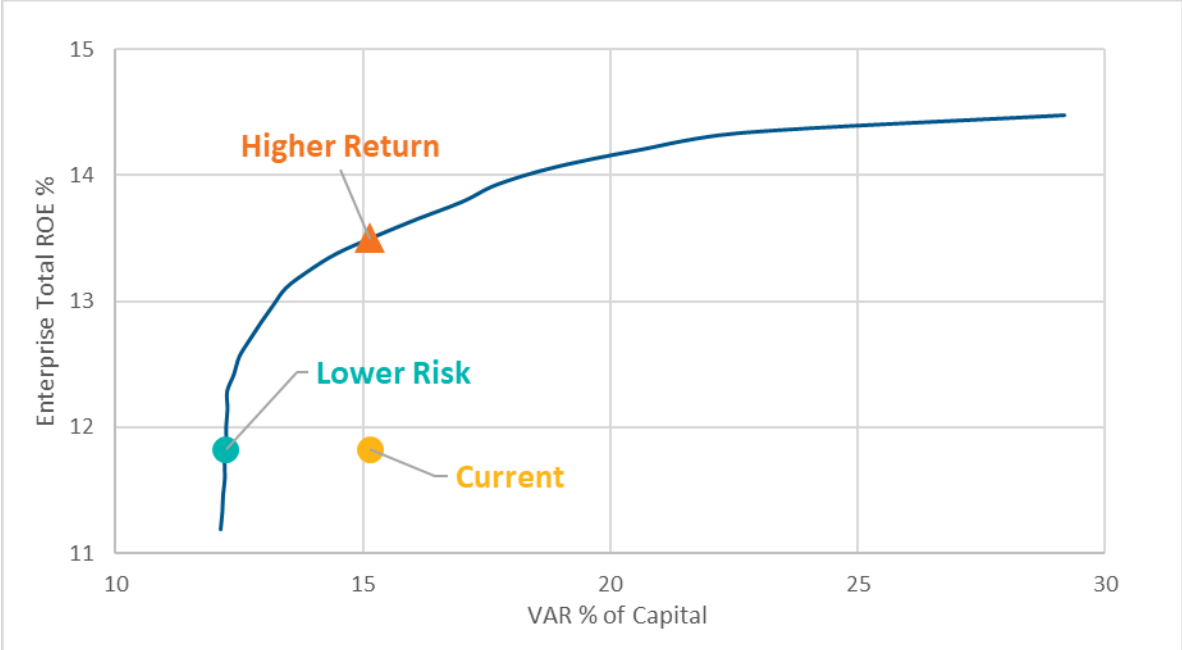
Multiple rate increases depreciated the market value of industry-wide bond holdings, bringing it below statutory book value as of year-end 2022

Source: S&P Market Intelligence, NEAM Analytics



**Long-Term Enterprise Value
Optimization: Return and
Risk Trade-Off Analysis**

Efficient Frontier – Enterprise Return / Risk Tradeoff



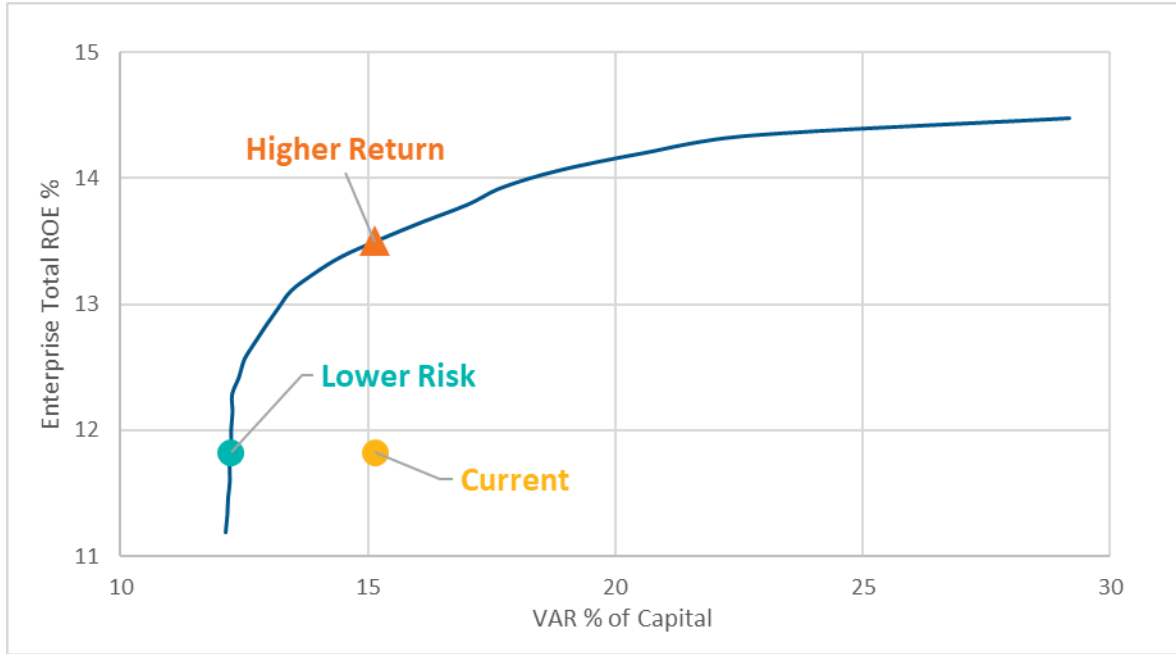
Asset optimization evaluated under an enterprise context

Return and risk metrics driven by company objectives

Results	Current	Lower Risk	Higher Return
Enterprise Statistics			
Total Return on Equity	11.8	11.8	13.5
Earnings Risk (Std Dev)	8.8	7.6	9.1
99.0 VAR (% of Capital)	15.2	12.2	15.2
99.0 T-VAR (% of Capital)	17.6	14.3	17.6
Total Return on Assets	3.4	3.4	4.1
Investment Leverage	2.5	2.5	2.5
Product Leverage	0.9	0.9	0.9
Product Margin	4.1	4.1	4.1

Source: NEAM Analytics
Figures are for illustrative purposes only.

Enterprise Holistic Impact Assessment



- Asset allocation assessed under multiple macro and micro return and risk metrics
- Directional guidepost for core vs. risk asset allocations
- Enhanced enterprise decision making

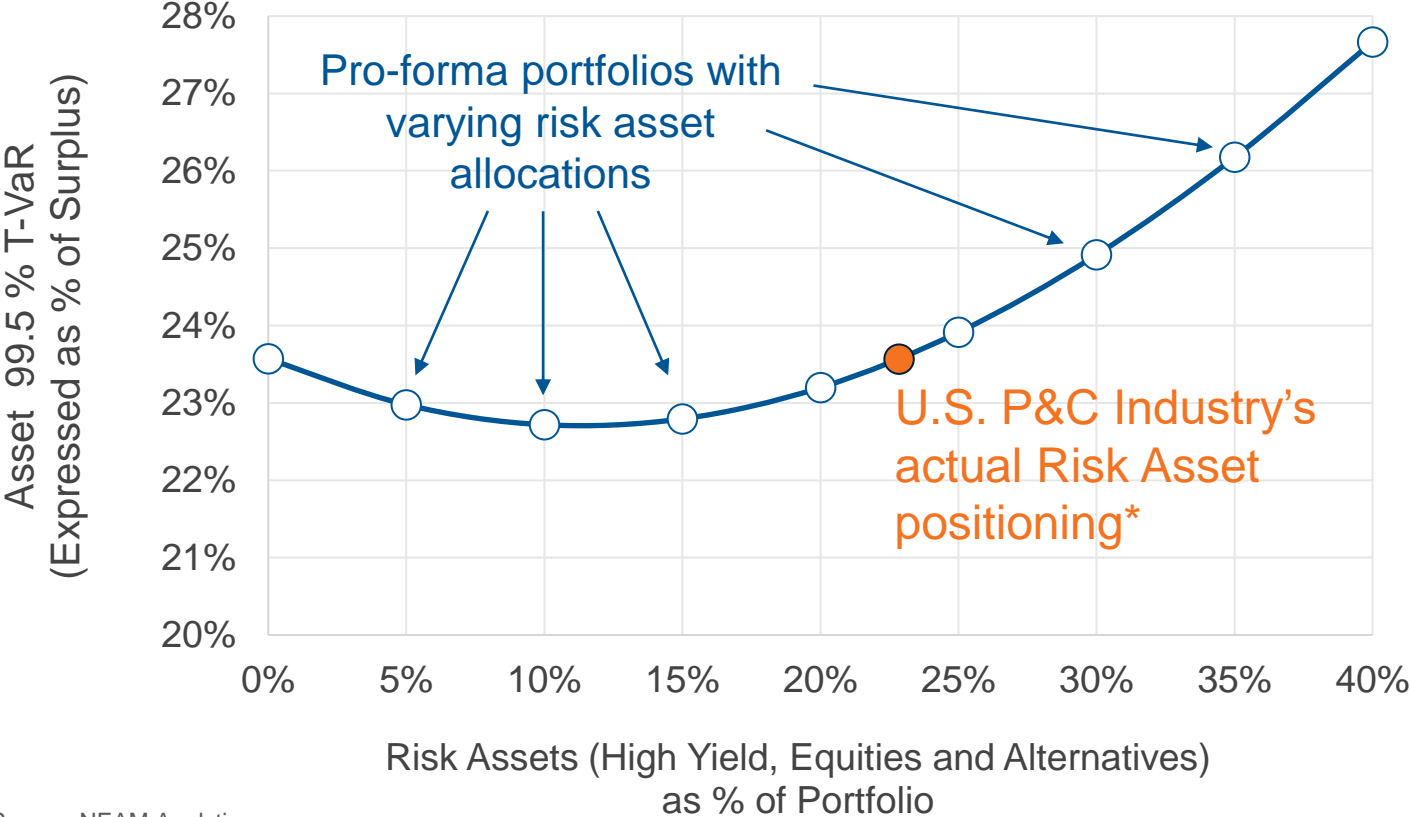
Source: NEAM Analytics
Figures are for illustrative purposes only.

Results	Current	Lower Risk	Higher Return
Enterprise Statistics			
Total Return on Equity	11.8	11.8	13.5
Total Return on Assets	3.37	3.37	4.05
Add. Return/Risk Metrics			
Duration (OAD)	2.5	2.7	2.7
Book Yield (FI)	4.18	4.12	4.89
Market Yield (OAY FI)	5.14	5.06	5.74
Default Loss (\$)	10.4	8.6	16.1
NAIC RBC (\$)	56.3	42.2	84.7
AMB CAR (\$)	113.3	119.8	222.6
Average Rating	AA	AA	AA-
BBB (%)	7.4	4.6	7.5
<BBB (%)	5.3	2.1	12.1
Non-FI (%)	2.0	3.7	6.0
Sector Distribution			
Short Term	25.2	9.6	7.1
Govt_Agency	5.2	18.0	3.7
Municipal	0.2	2.4	0.1
Muni-Tax	3.5	12.7	8.8
Inv Grade Corp	33.9	25.9	29.4
Structured Sec.	24.8	27.8	34.9
Core Fixed Income	92.8	96.3	84.0
High Yield / Bank Loans	5.2	-	10.0
Equity	2.0	3.7	6.0
Risk Assets	7.2	3.7	16.0
Total	100.0	100.0	100.0

Risk Asset's Role in Portfolio Diversification



Risk Asset Allocation and Impact to Asset Risk

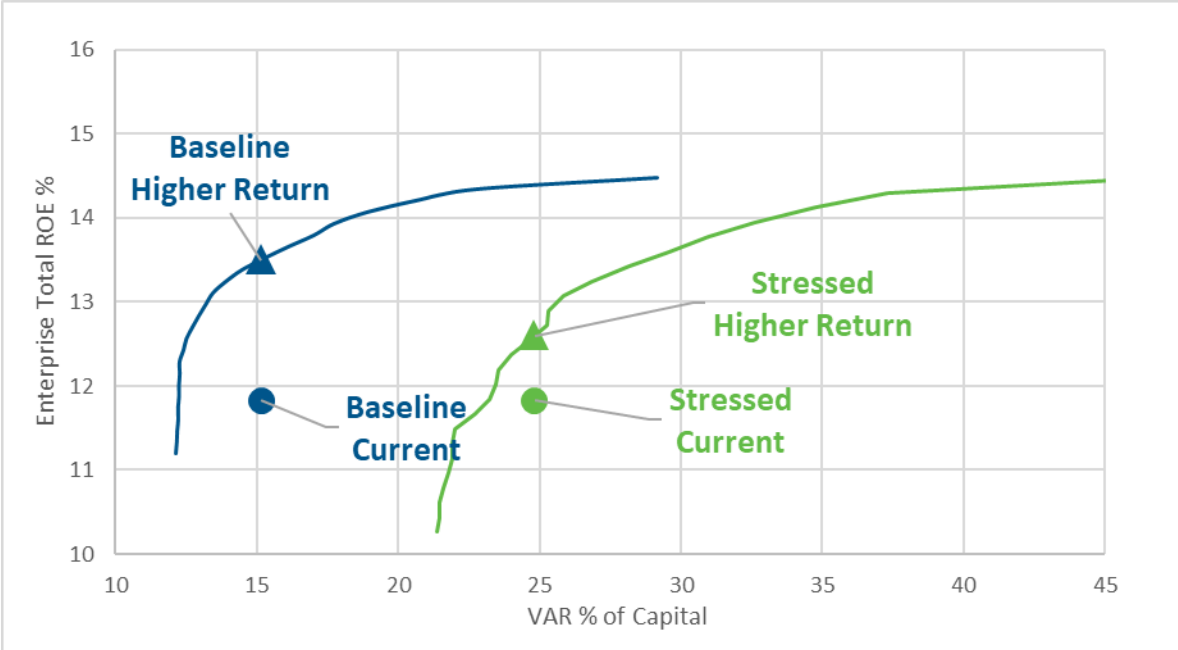


- Risk Assets are a source for diversification
- Reducing Risk Assets may not reduce Enterprise risk necessarily depending upon a portfolio’s positioning relative to its Risk Asset “inflection” point
- Risk Assets may be evaluated for their contribution to income return versus anticipated price appreciation

Source: NEAM Analytics
 Figures are for illustrative purposes only.

*excl. Berkshire Hathaway

Stress Test – Understand the Consequence of Being Wrong



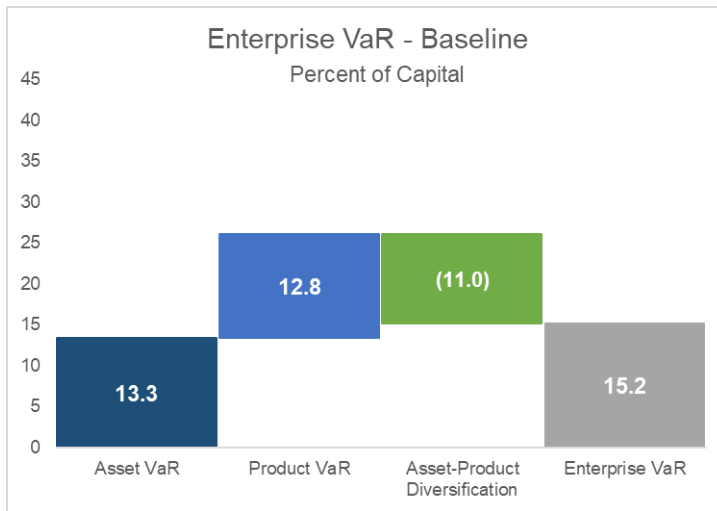
- Enterprise risk metrics changed significantly
- Diversifications affect core vs. risk asset allocations

Source: NEAM Analytics
 Figures are for illustrative purposes only.

Results	Baseline	Higher	Stressed	Higher
	Current	Return	Current	Return
Enterprise Statistics				
Total Return on Equity	11.8	13.5	11.8	12.6
Earnings Risk (Std Dev)	8.8	9.1	12.3	12.5
99.0 VAR (% of Capital)	15.2	15.2	24.8	24.8
Total Return on Assets	3.37	4.05	3.37	3.69
Add. Return/Risk Metrics				
Duration (OAD)	2.5	2.7	2.5	2.7
Book Yield (FI)	4.18	4.89	4.18	4.50
Market Yield (OAY FI)	5.14	5.74	5.14	5.32
Default Loss (\$)	10.4	16.1	10.4	10.1
NAIC RBC (\$)	56.3	84.7	56.3	55.7
AMB CAR (\$)	113.3	222.6	113.3	120.9
Average Rating	AA	AA-	AA	AA-
BBB (%)	7.4	7.5	7.4	7.8
<BBB (%)	5.3	12.1	5.3	5.8
Non-FI (%)	2.0	6.0	2.0	2.7
Sector Distribution				
Short Term	25.2	7.1	25.2	7.1
Govt_Agency	5.2	3.7	5.2	3.7
Municipal	0.2	0.1	0.2	0.1
Muni-Tax	3.5	8.8	3.5	10.5
Inv Grade Corp	33.9	29.4	33.9	32.1
Structured Sec.	24.8	34.9	24.8	39.1
Core Fixed Income	92.8	84.0	92.8	92.5
High Yield / Bank Loans	5.2	10.0	5.2	4.8
Equity	2.0	6.0	2.0	2.7
Risk Assets	7.2	16.0	7.2	7.5
Total	100.0	100.0	100.0	100.0

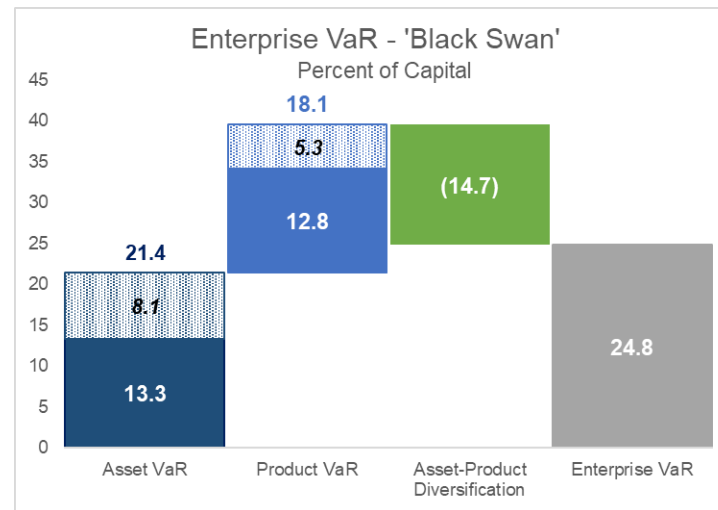
Stress Test – Understand the Consequence of Being Wrong

- Assess the consequences of being wrong.
- Stress testing assumptions to validate the integrity of enterprise risk models and their estimates.
- Example - stress testing correlation assumptions, risk dependencies and the sensitivity to enterprise risk estimates of assumed diversification are key analytics for enterprise risk intelligence.



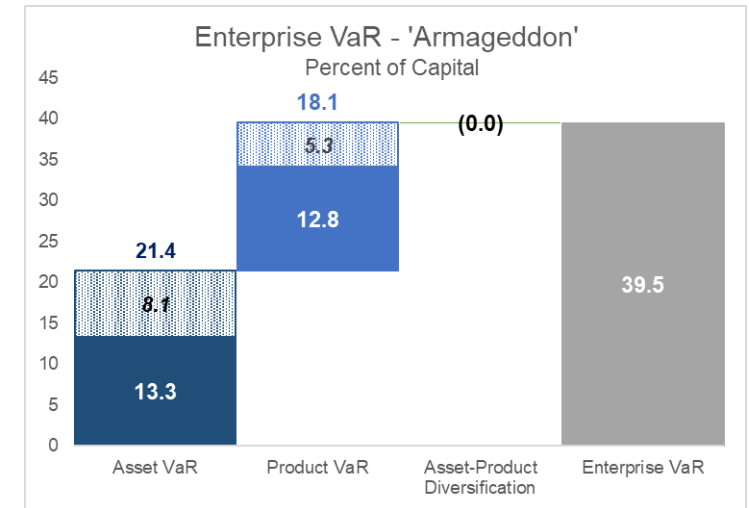
Baseline Assumption:

- Observed or expected correlations used as a baseline consideration.
- Enterprise risk estimates are developed.
- Enterprise diversification benefits are assessed.



'Black Swan':

- Separate correlation stresses for assets and for liabilities.
- Implied diversification benefits between assets and liabilities are preserved.
- Sensitivity of enterprise risk estimates is explored.



'Armageddon':

- All enterprise diversification benefits are removed.
- Implications from correlation assumptions to capital-at-risk modelling for the enterprise are better understood.

Figures are for illustrative purposes only.

Highlights from Recent NEAM's EBAA Studies



Case Studies:

- Restrictive (2023) versus accommodative (2021) monetary policy – what's the impact to EBAA?
- 10 U.S. P&C insurers with regular and ongoing EBAA updates by NEAM were considered for an anecdotal perspective.

Company	Product Line Focus*	2023 Invested Asset Size Range (\$mm)	Baseline Medians (of the 10)	2023	2021	Difference
1	Commercial	>1000	ROE	6.7%	6.4%	0.3%
2	Commercial	500-1000	ROA	3.2%	2.7%	0.6%
3	Commercial	500-1000	Book Yields	3.5%	2.7%	0.8%
4	Personal	500-1000	Market Yields	5.2%	1.4%	3.9%
5	Commercial	100-500	Embedded Gain / Loss % of Assets	-6.0%	4.8%	-10.8%
6	Personal	100-500	Core FI Allocation	83%	84%	-1.0%
7	Multiline	100-500	Duration	4.2	4.3	-0.09
8	Commercial	100-500	Average Credit Quality	AA-	AA-	N/C
9	Commercial	<100	Investment Leverage	1.7x	1.8x	-0.1x
10	Commercial	<100	T-VaR of Capital (99.5%)	26%	30%	-4.3%

* These were subjective classifications. For example, some predominately commercial focused carriers in the study had small personal lines exposure as well.
 Source: NEAM
 Figures are for illustrative purposes only.

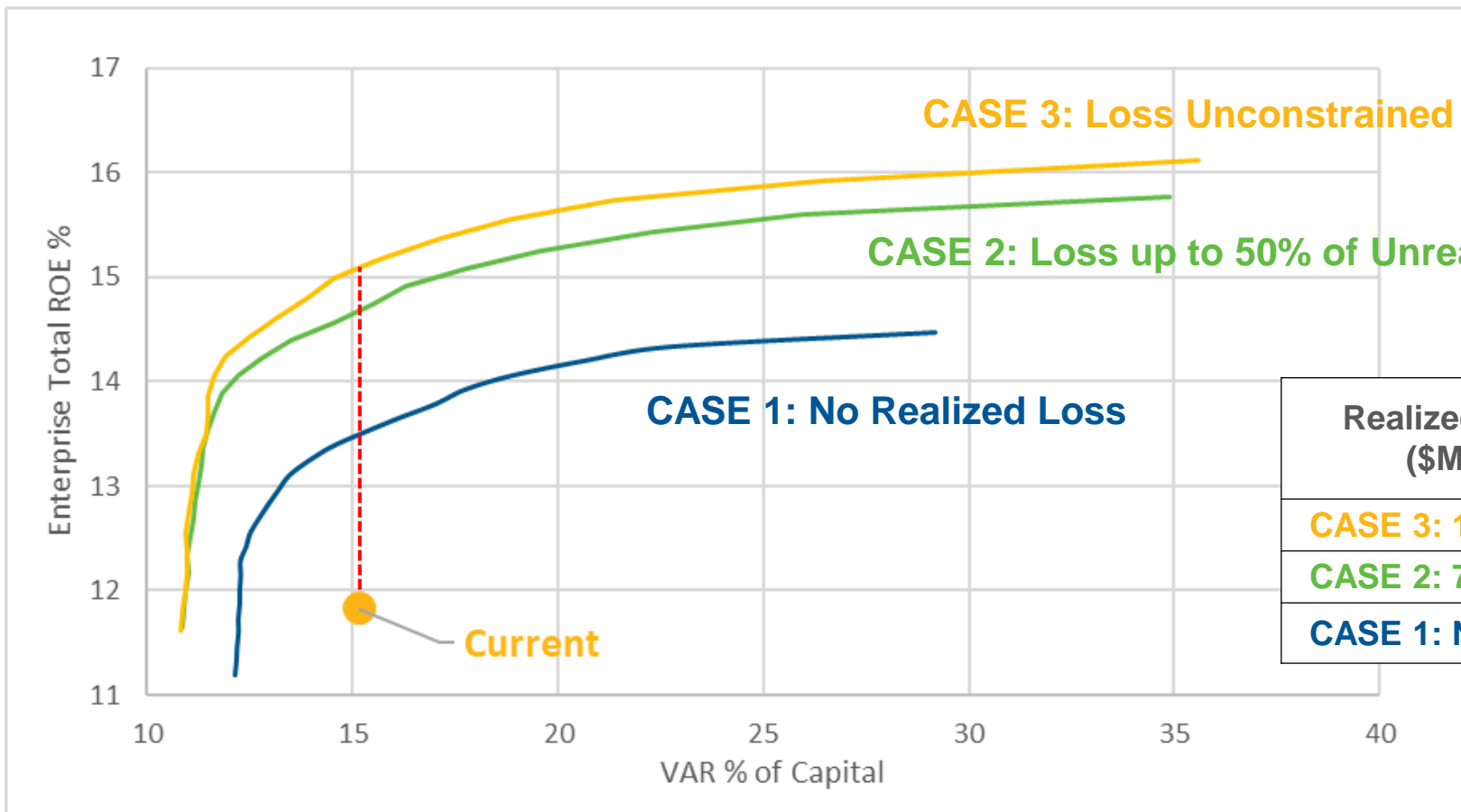
Highlights from Recent NEAM's EBAA Studies



	2023	2021
SECTOR ROTATION	<p>(4) Rotate the core FI allocation; more weight to <u>structured securities</u>.</p> <p>(3) Add more to core FI, <u>reduce risk assets / non-core</u>.</p> <p>(3) Add more to non-core / risk assets.</p>	<p>(9) <u>Add more to non-core / risk assets</u>.</p> <p>(1) Little change in sector target ranges.</p>
DURATION	<p>(9) <u>Little change in duration targets</u>.</p> <p>(1) Shorten duration.</p>	<p>(8) Some degree of <u>duration extension</u>.</p> <p>(2) Little change in duration targets.</p>
CREDIT QUALITY	<p>(10) <u>No change in average credit quality</u>.</p> <p>(1) Add more to non-traditional 'BBB'.</p>	<p>(6) No change in average credit quality.</p> <p>(4) Average credit quality target <u>lowered by one notch</u>.</p>
NET INCOME & TAXES	<p>(5) <u>Limited losses realized</u>, concerned about impact to net income / surplus.</p> <p>(3) <u>No net realized losses</u> allowed.</p> <p>(2) At a gain, limited gains realized, tempered with tax implications.</p>	<p>(9) At a gain, <u>realizing gains</u> and tax impact not an issue.</p> <p>(1) At a gain, limited gains realized, tempered with tax implications.</p>

Figures are for illustrative purposes only. Actual results will vary by insurance company.

Loss Realization “Bookend” Analysis



Realized Loss (\$MM)	Income Return Pickup* (\$MM)	Payback Period** (Months)
CASE 3: 137	52	32
CASE 2: 71	46	19
CASE 1: No Loss	21	-

- Allowing for loss realization in optimization impacts the respective efficient frontiers and opportunities for risk-adjusted return.
- As more realized loss is allowed, marginal return pickup decreases, making payback period longer.

Comparison between the current and Similar T-VAR points / ** Realized loss divided by Income Return Pickup (Yearly)
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A decorative graphic consisting of two overlapping, wavy, curved shapes. The left shape is dark blue and the right shape is green. They meet at a central point where the word 'Takeaways' is written.

Takeaways

- 1. Insurance Asset Strategy:** Balancing insurance product/liability characteristics with enterprise goals.
- 2. Fixed Income Prospects:** Current conditions favor boosting yield, income, and surplus via quality bonds.
- 3. Risk Assets:** Key for diversification and potential return enhancement.
- 4. Stress and Scenario Testing:** Essential for understanding potential impacts, aiding planning and risk management.
- 5. Tradeoff Analysis:** High interest rates may lead to unrealized losses for the bond portfolio. Evaluating opportunities using tradeoff analysis is crucial.