



The Evolution of Insurers' Fixed Income Portfolios

SAA Insurer Investment Forum XXV

March 2025

Today's Agenda

- Back To The Future
- Fixed Income Levers
- Looking Forward

Audience participation



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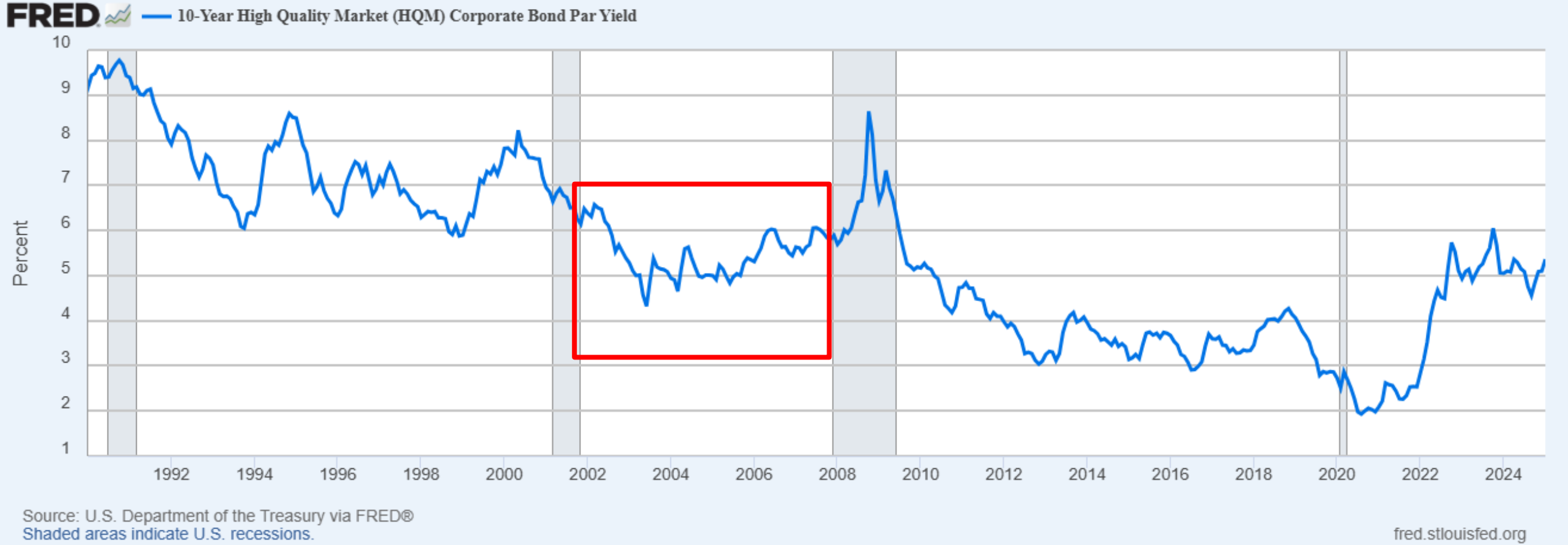
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Asset Allocation

Why Do Insurance Companies Invest in Bonds?

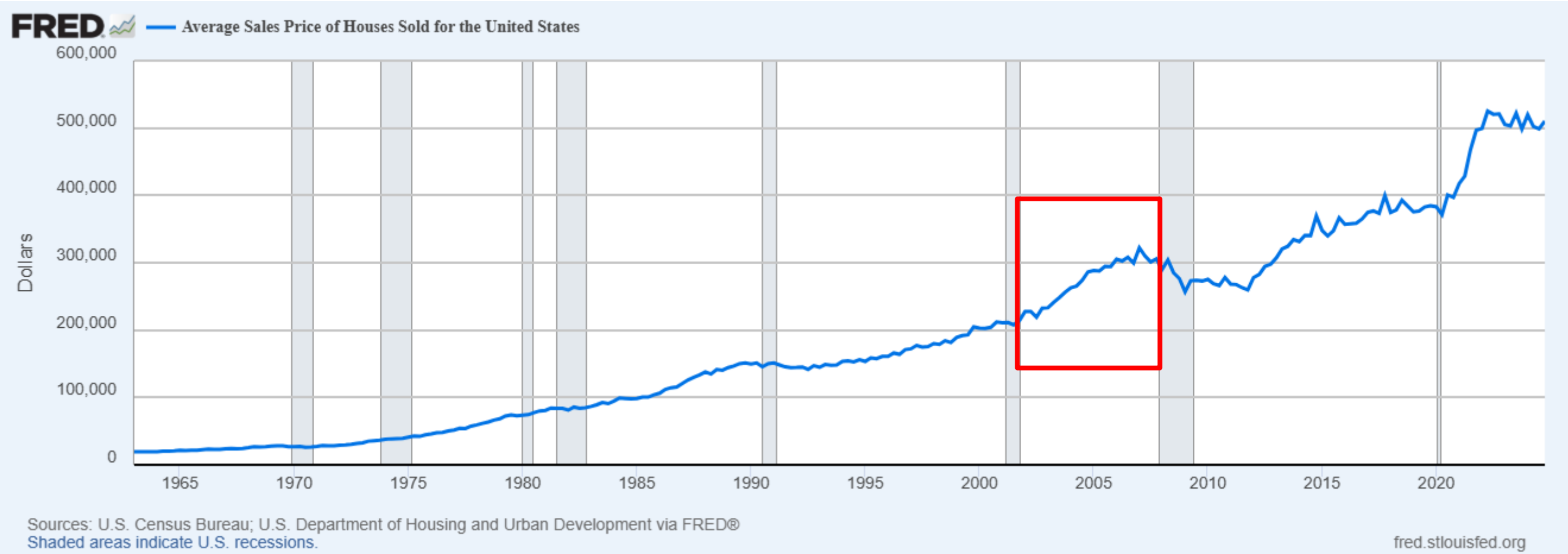
- Liability matching
- Capital preservation
- Regulatory requirements
- Stable and predictable income
- Risk mitigation
- Diversification
- Tax efficiency

2000-2002: Corporate Bond Yields, the Dot Com Crash, and The Fed



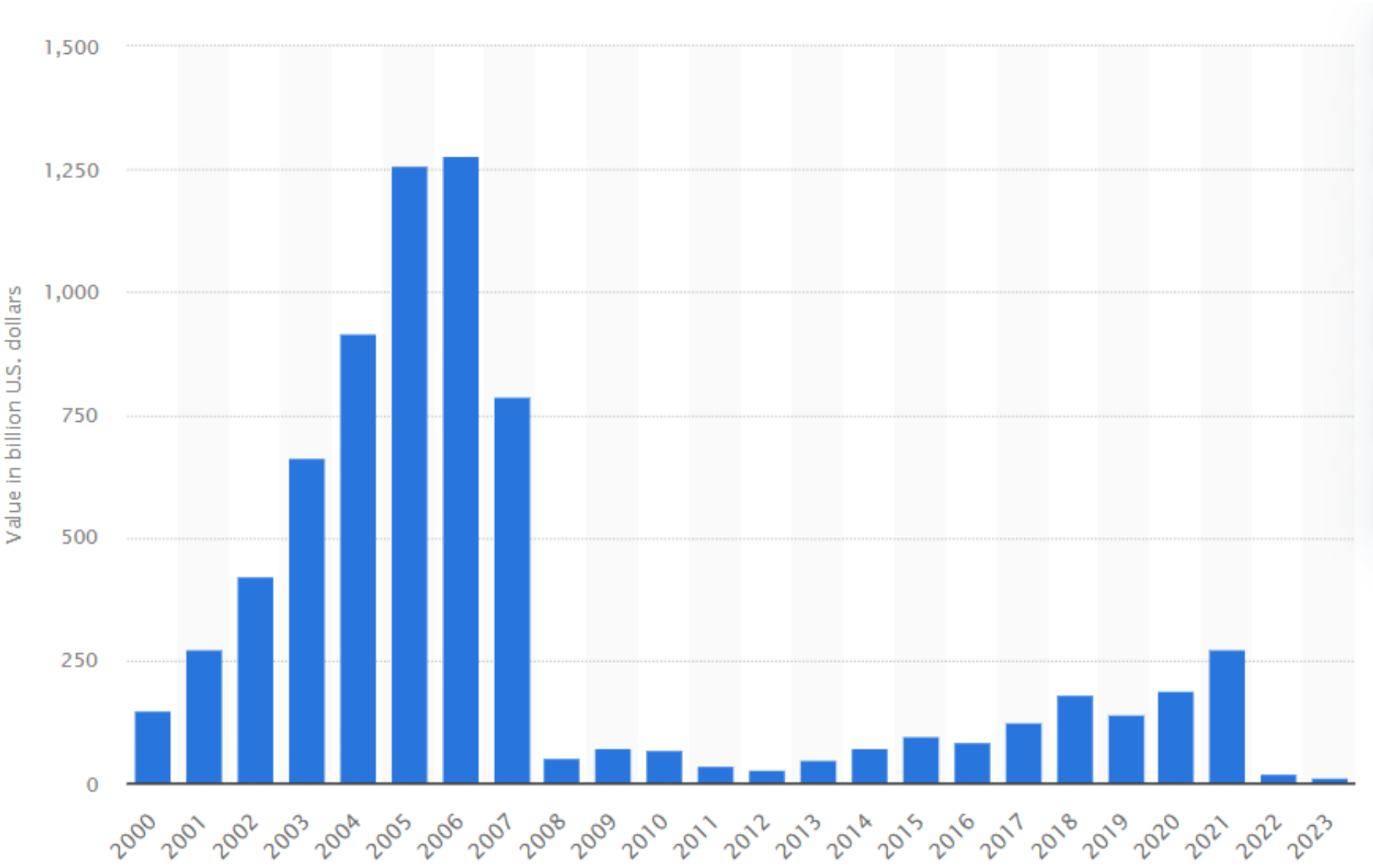
Source: US Department of Treasury via FRED. Data as of 1/1/2025.

2001-2007: The Housing Market and “AAA rated” investments



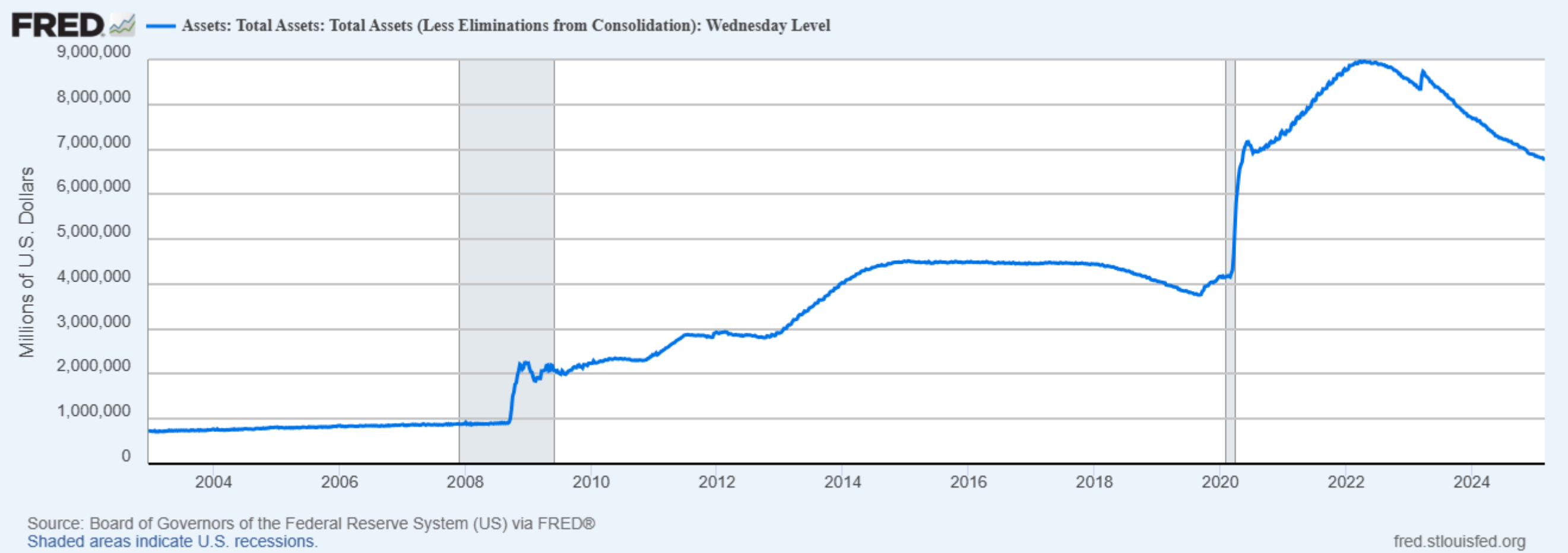
Source: US Department of Treasury via FRED. Data as of 10/1/2024.

Non-agency RMBS originations in the US



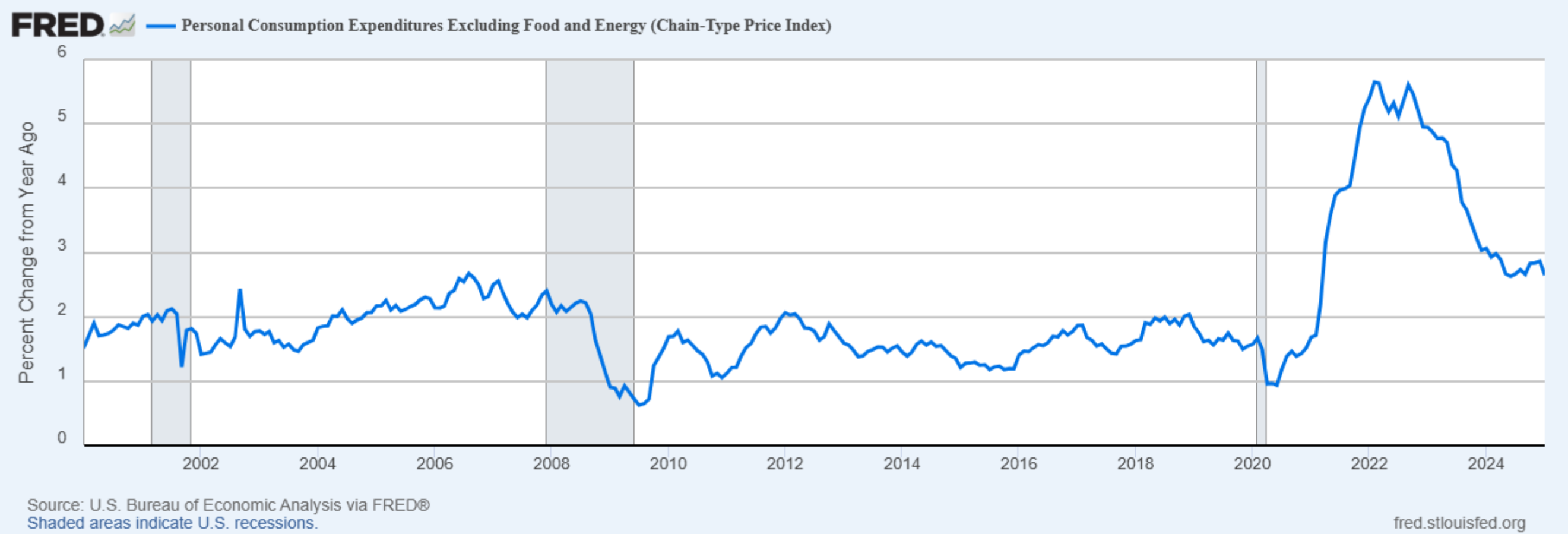
Source: Statista. Data as of 12/31/2023.

2013-2014: Federal Reserve Balance Sheet and Quantitative Easing



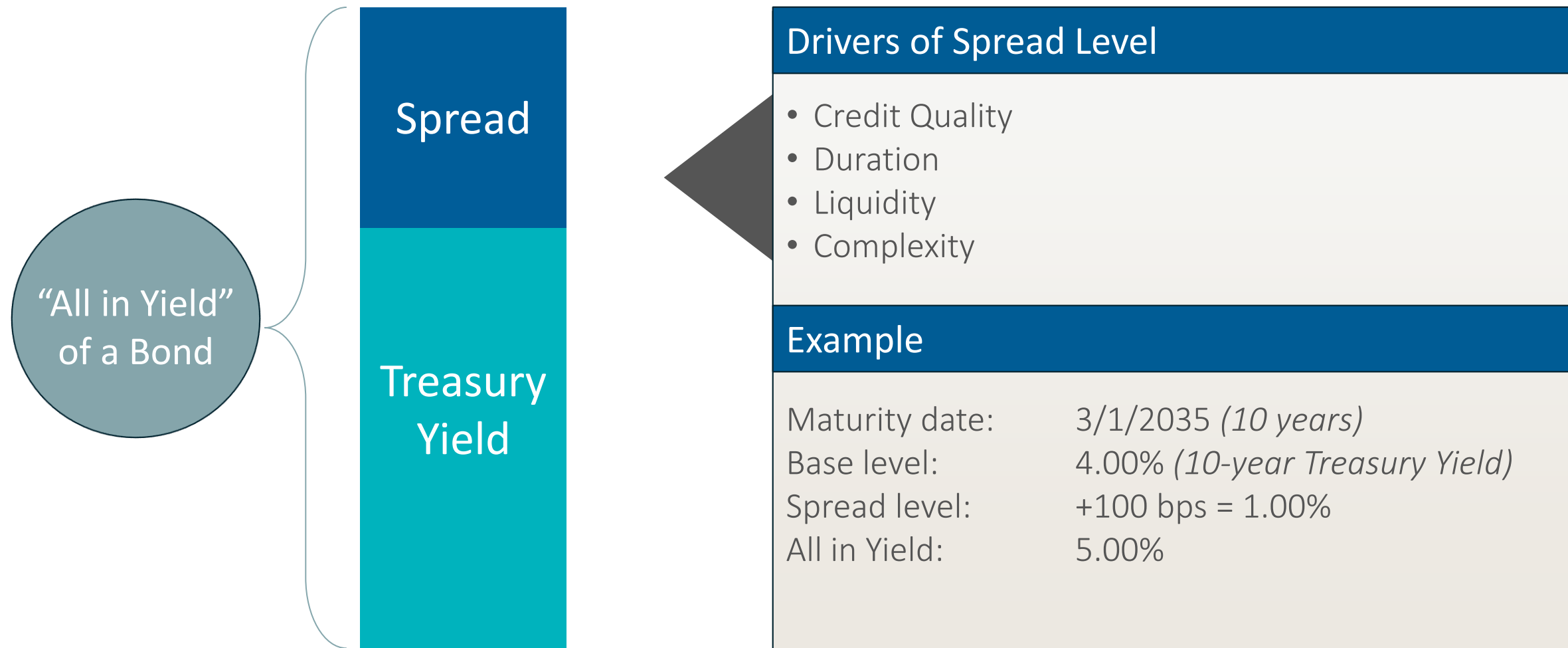
Source: Board of Governors of the Federal Reserve System via FRED. Data as of 12/31/2024.

2020-2022: Covid Spending and Inflation



Source: U.S. Bureau of Economic Analysis via FRED. Data as of 12/31/2024.

Structure of a Bond and Levers In Fixed Income Investing

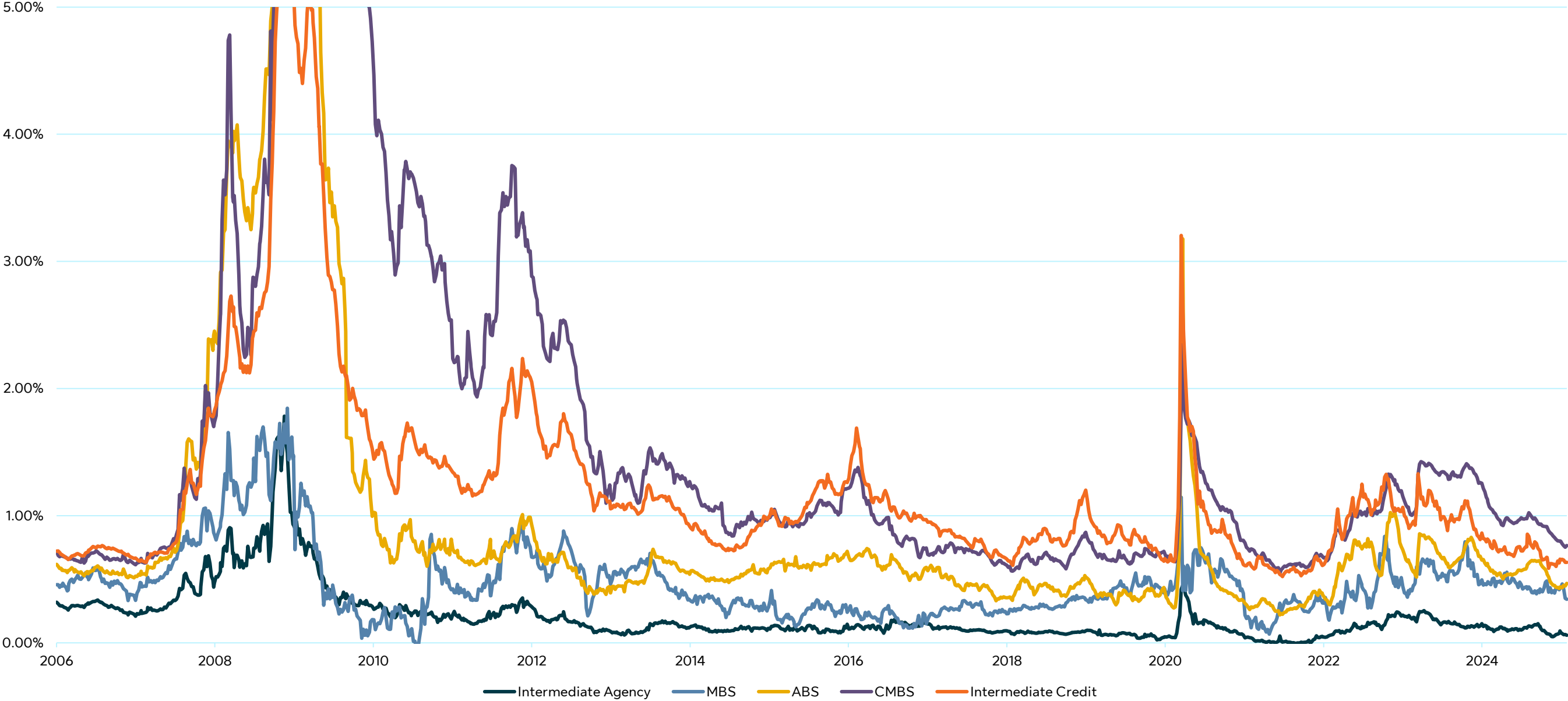




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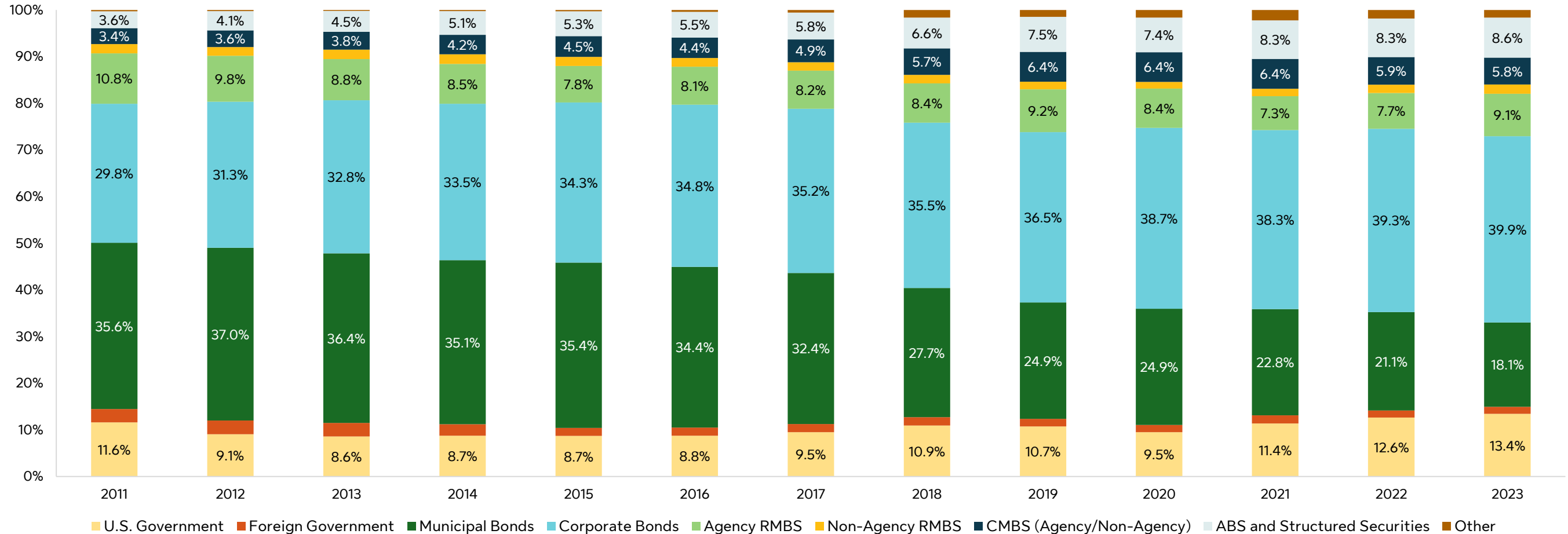
Sector Allocation

Historical Average Bond Spread by Sector



Source: Bloomberg. Data as of 1/31/2025.

Fixed Income Portfolio Sector Allocation: P&C

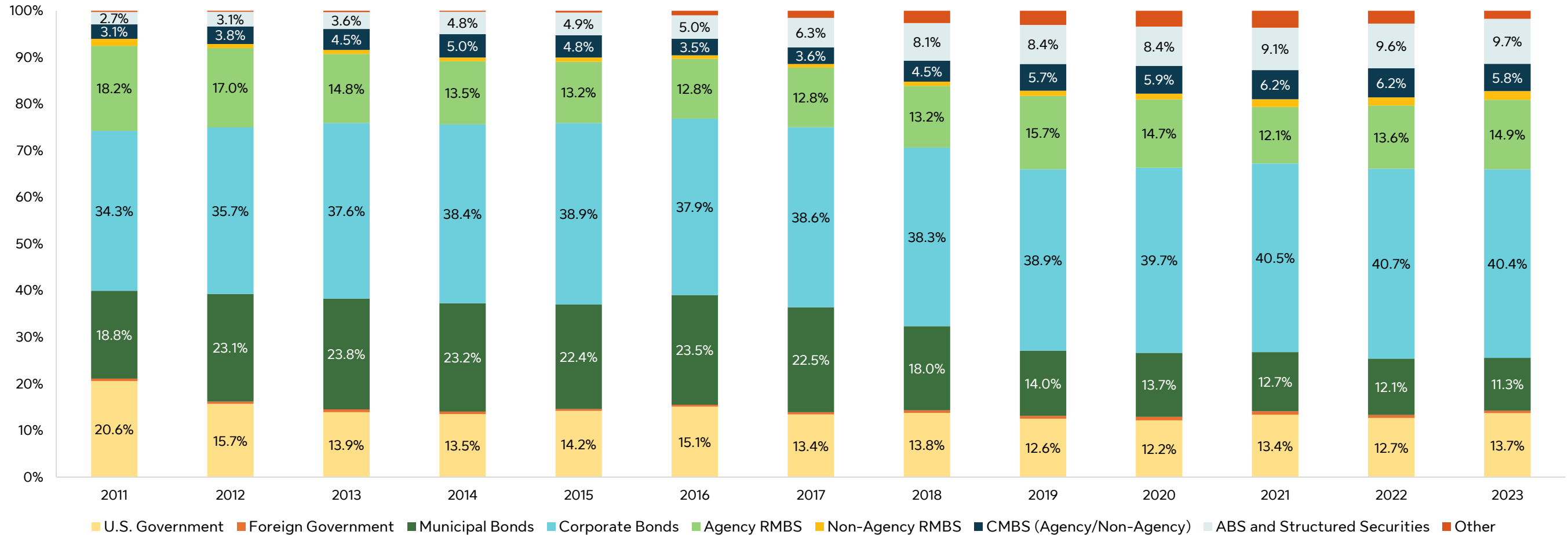


Property/Casualty evolution of sector allocation

- Municipal allocation significantly lower due to 2017 tax reform
- Corporate allocation remains easiest place to get additional yield
- Securitized allocations have increased from 20% to 25% as insurers have become more comfortable with complexity
- Government allocation has increased as spreads have tightened

Source: NAIC Capital Markets Report. Data as of 12/31/2023.

Fixed Income Portfolio Sector Allocation: Health

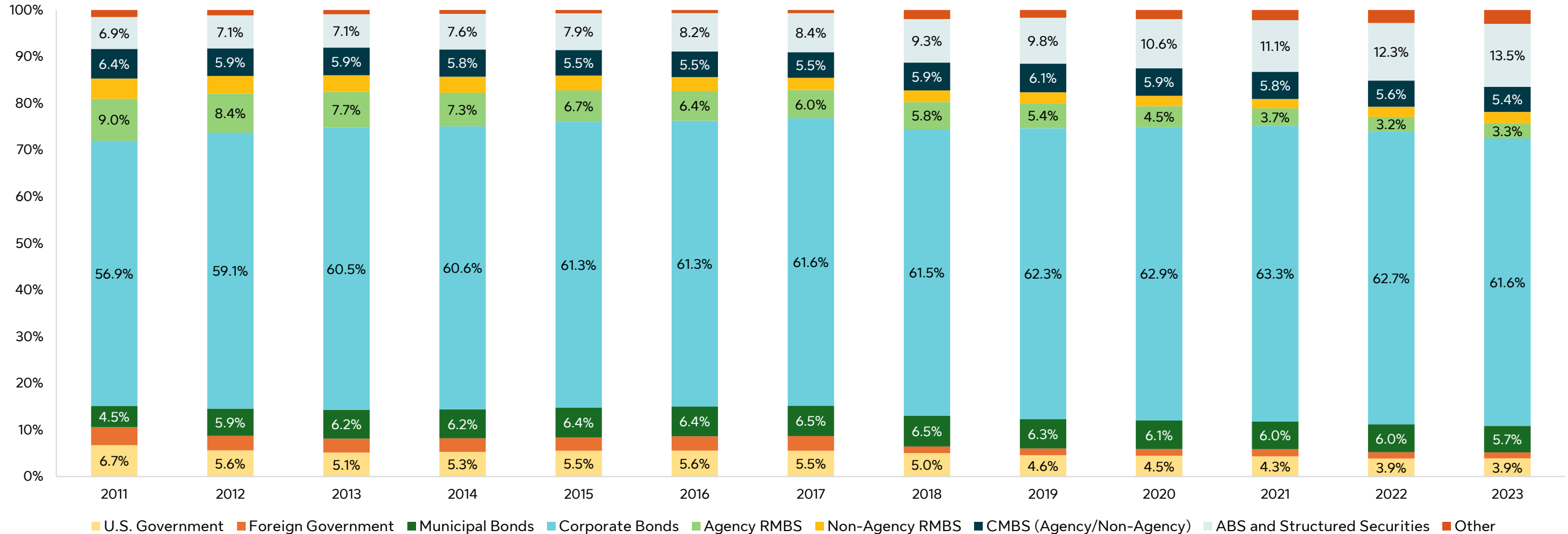


Health evolution of sector allocation

- Municipal allocation significantly lower due to 2017 tax reform
- Corporate allocation remains easiest place to get additional yield
- Securitized allocations have increased from 25% to 32% due to duration management
- Government allocation unchanged with liquidity needs

Source: NAIC Capital Markets Report. Data as of 12/31/2023.

Fixed Income Portfolio Sector Allocation: Life



Life evolution of sector allocation

- Allocations are fairly consistent since 2011
- One noticeable exception is less Agency RMBS and more ABS and Structured Securities

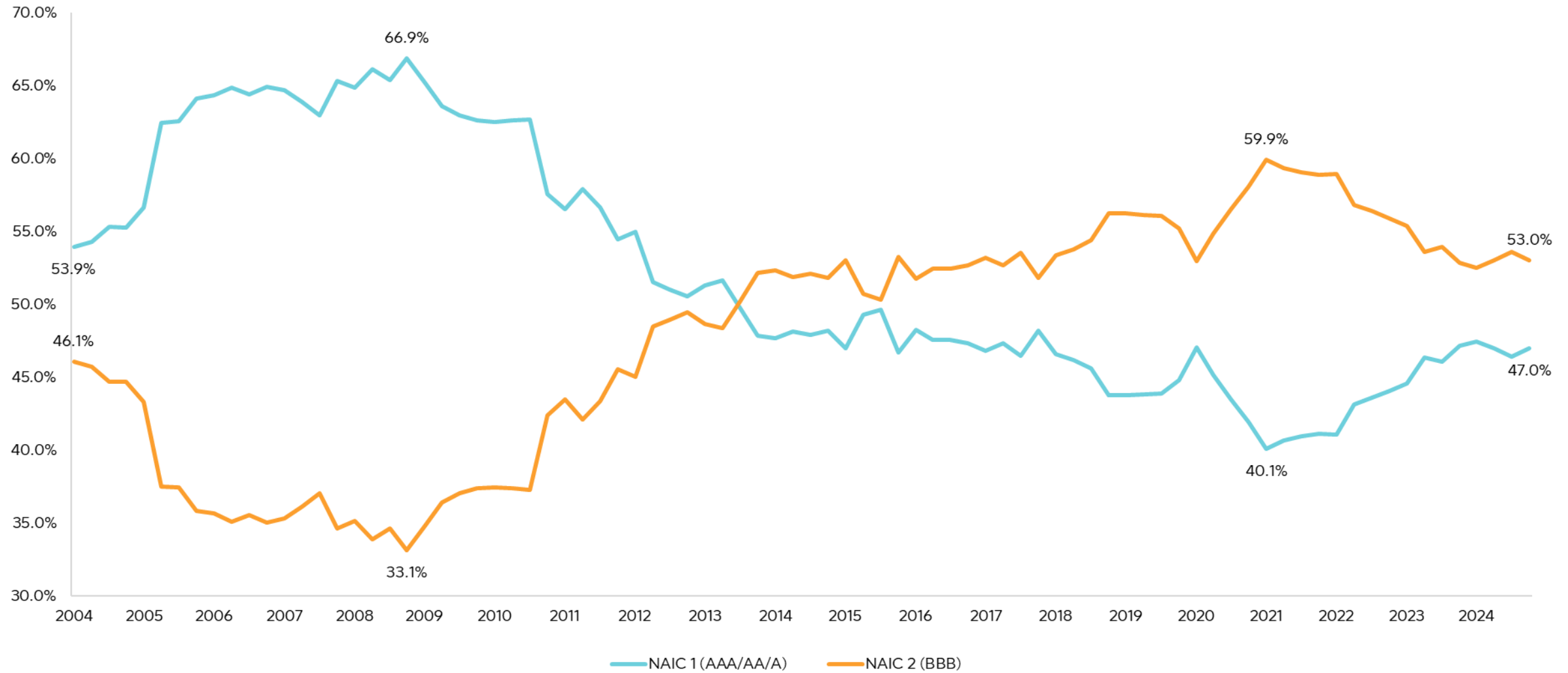
Source: NAIC Capital Markets Report. Data as of 12/31/2023.



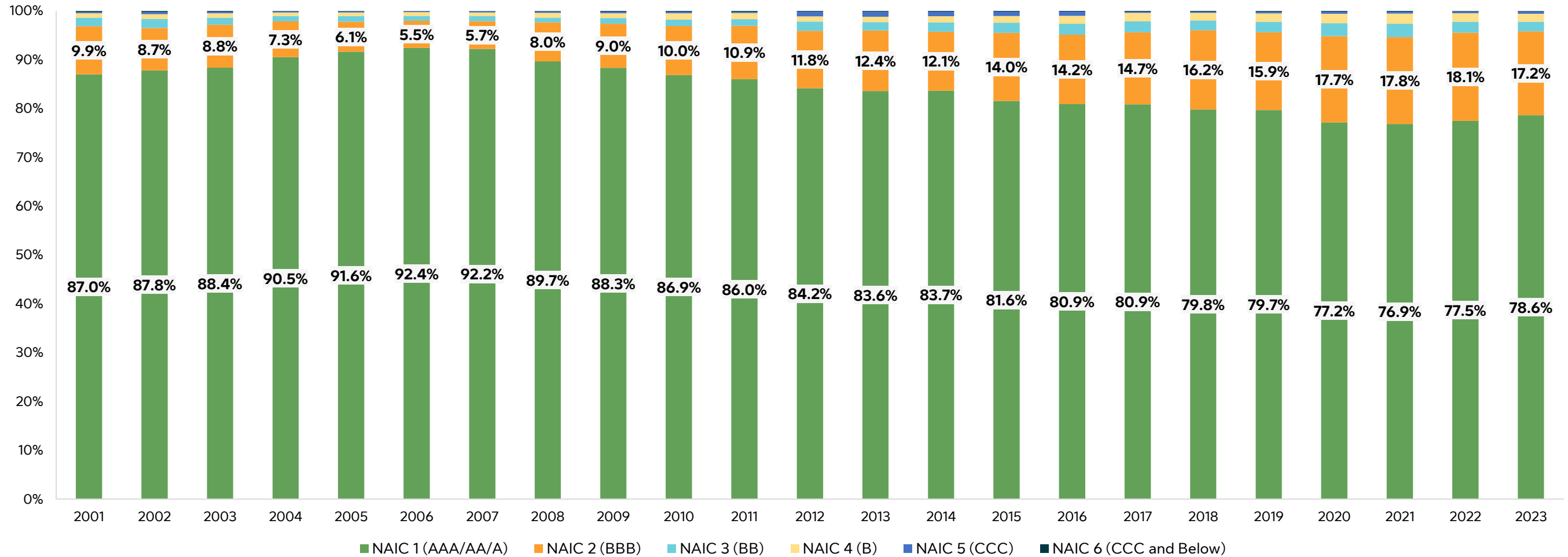
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Credit Quality

Lever – Credit Quality



Fixed Income Portfolio Credit Quality: P&C

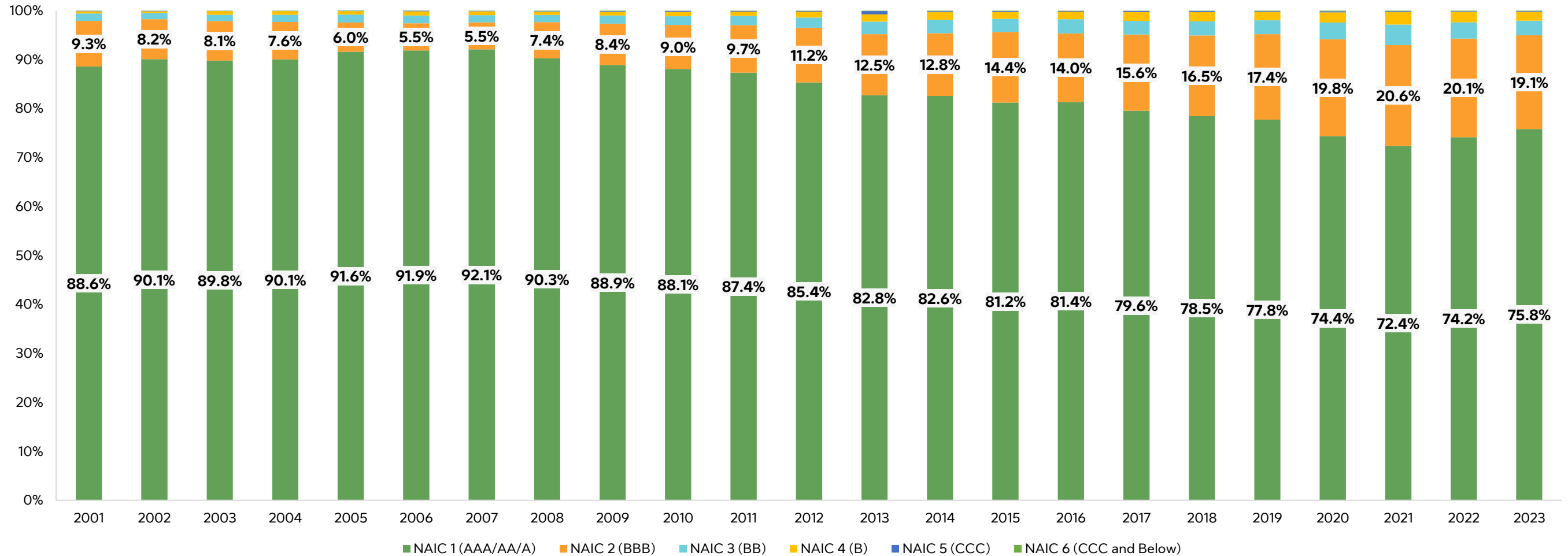


Property/Casualty evolution of credit quality

- NAIC 1 allocation peaked in 2006-07 (92%)
- NAIC 2 allocation now (17%) nearly triple from low two decades ago (6%)
- High yield now 5% compared to low of 2% in 2008

Source: S&P Global Market Intelligence. Data as of 12/31/2023.

Fixed Income Portfolio Credit Quality: Health

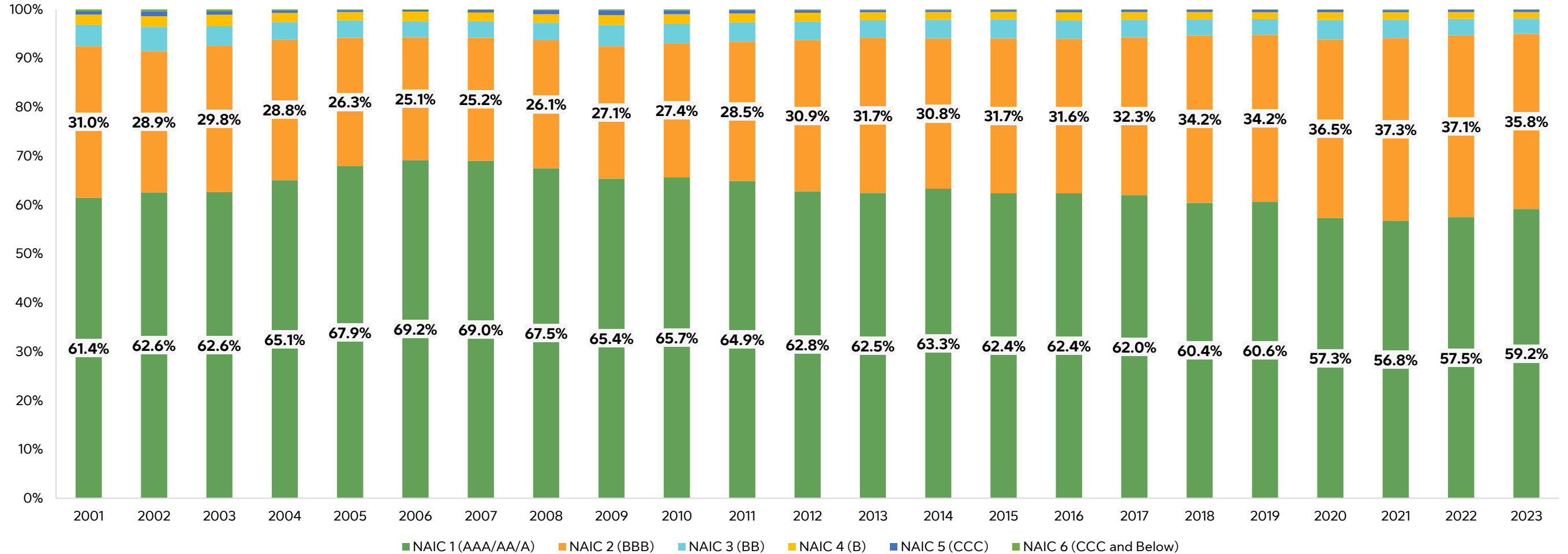


Health evolution of credit quality --- same as property/casualty

- NAIC 1 allocation peaked in 2006-07 (92%)
- NAIC 2 allocation now (19%) nearly triple from two decades ago (6%)
- High yield now 5% compared to low of 2% in 2008

Source: S&P Global Market Intelligence. Data as of 12/31/2023.

Fixed Income Portfolio Credit Quality: Life



Life evolution of credit quality

- NAIC 1 vs NAIC 2 differentiation not as pronounced as P/C and Health
- NAIC 2 allocation now double from two decades ago
- High yield now 5% compared to low of 2% in 2008

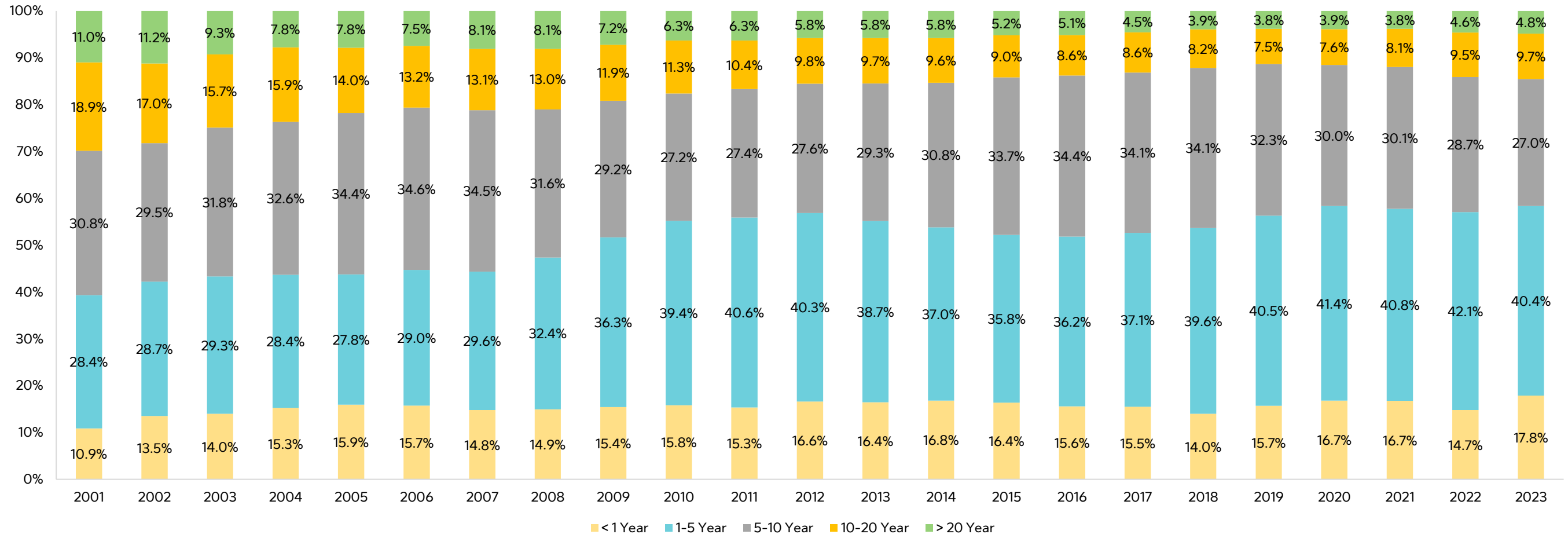
Source: S&P Global Market Intelligence. Data as of 12/31/2023.



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Duration

Fixed Income Maturity Structure: P&C

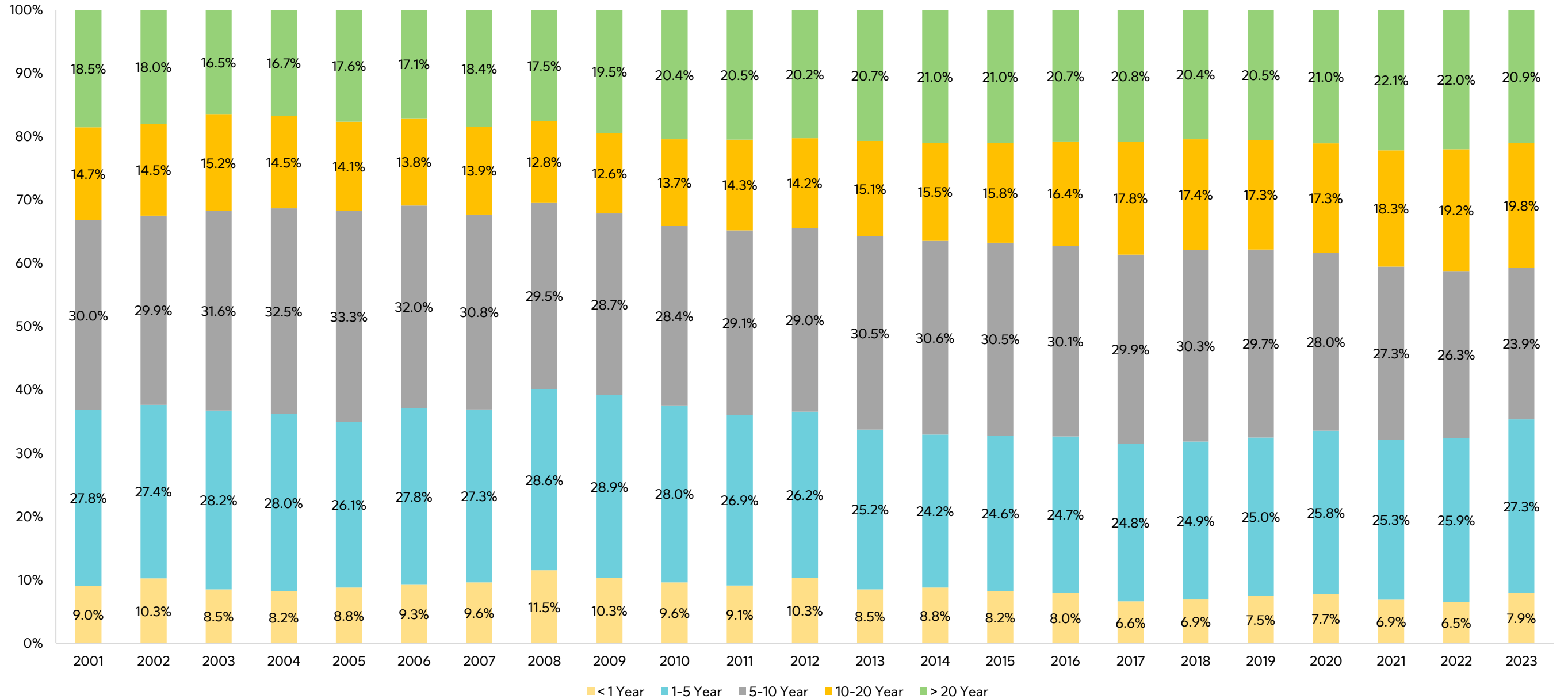


Property/Casualty evolution of duration

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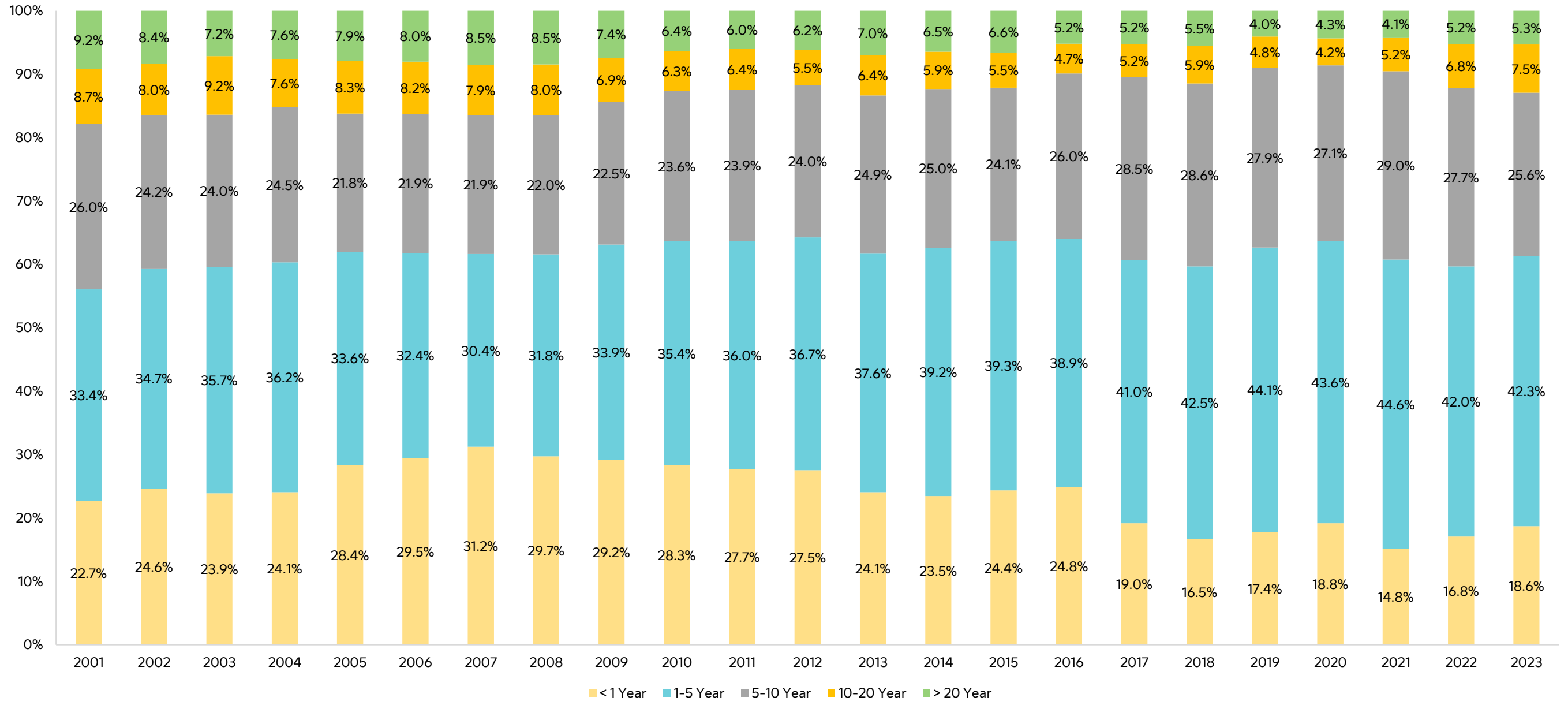
Source: S&P Global Market Intelligence. Data as of 12/31/2023.

Fixed Income Maturity Structure: Life



Source: S&P Global Market Intelligence. Data as of 12/31/2023.

Fixed Income Maturity Structure: Health



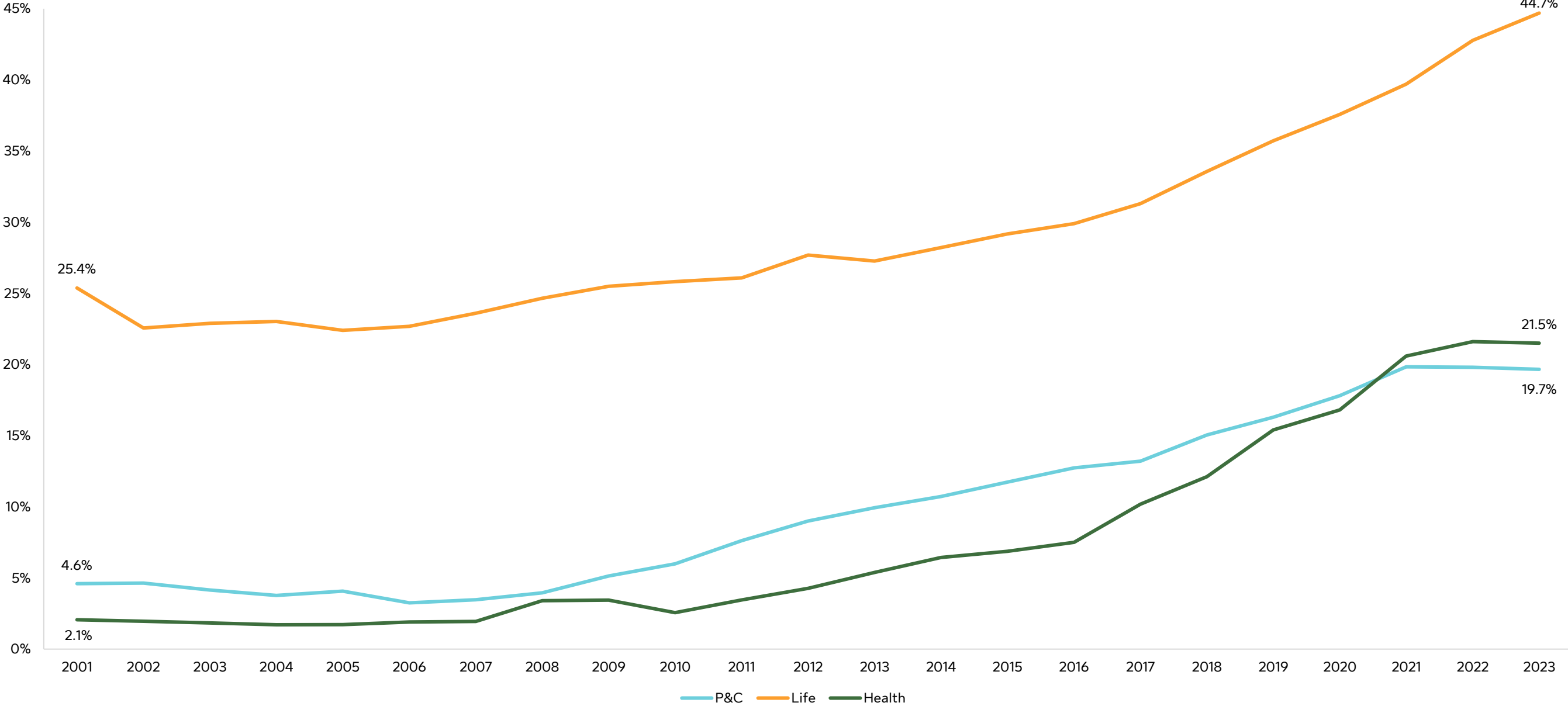
Source: S&P Global Market Intelligence. Data as of 12/31/2023.



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Liquidity

Private Bonds (including 144A) as a % of Total Bonds



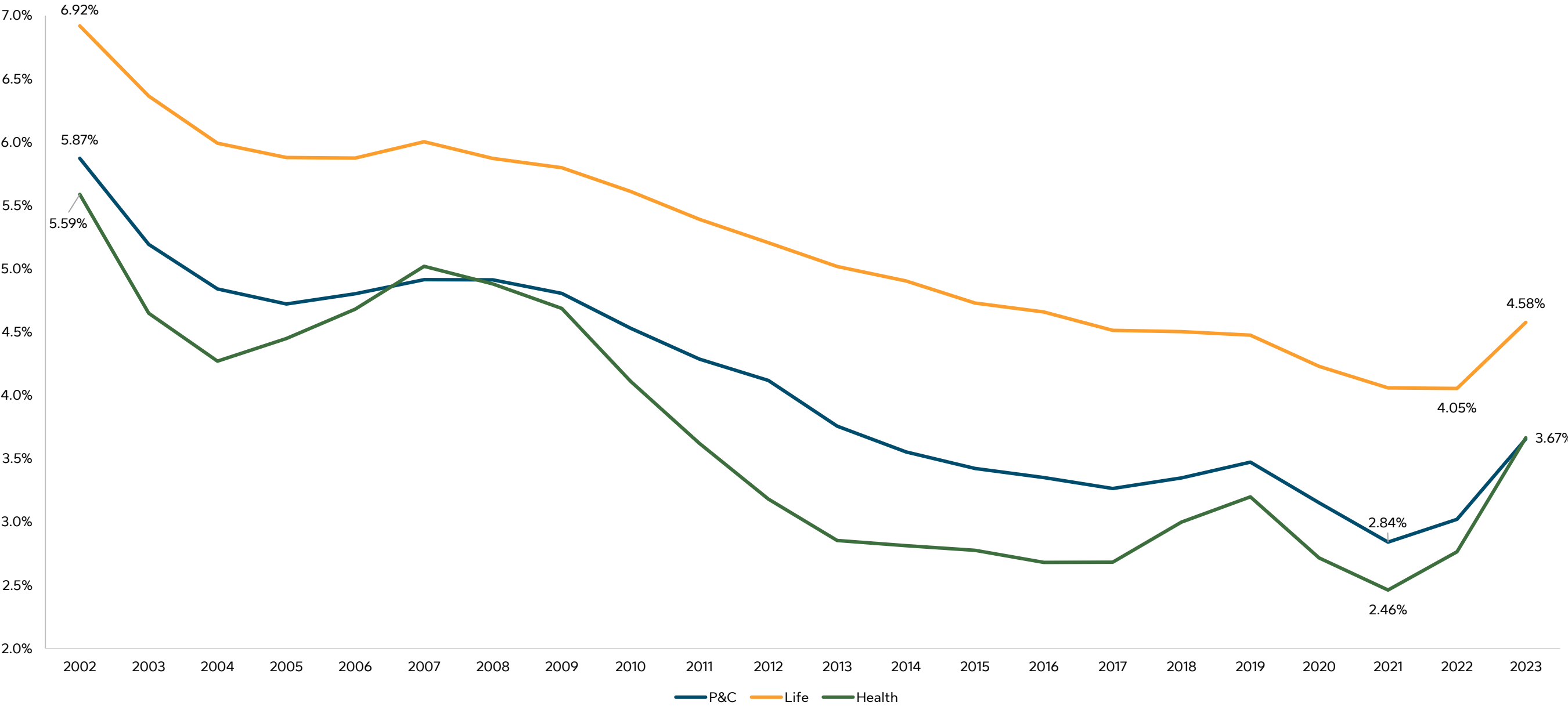
Source: S&P Global Market Intelligence. Data as of 12/31/2023.

Looking forward

What items will shape fixed income allocations for insurers over the next decade?

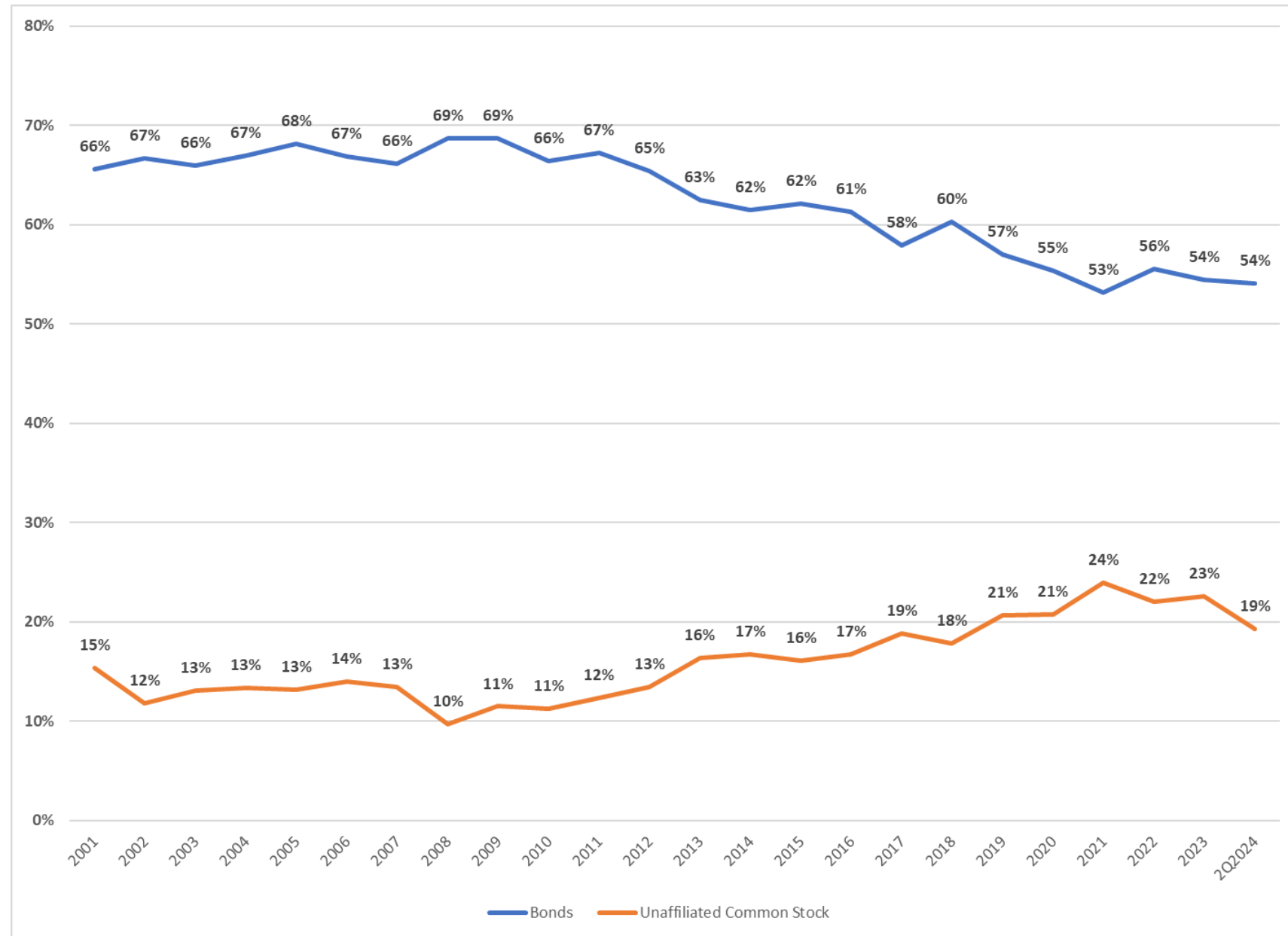
- Pending expiration of 2017 Tax Cuts and Jobs Act
- Credit research and technology
- Rise of structured finance
- Continued regulation
- The next black swan
- The role of investments with underwriting

Historical Average Bond Yield



Source: S&P Global Market Intelligence. Data as of 12/31/2023.

Bonds vs. Stocks



Sources: S&P Global Market Intelligence as of June 30, 2024



THOMAS KLEM
Managing Director, Insurance Product Specialist

Tom Klem is Managing Director, Insurance Product Specialist for SLC Management. In this role, Tom leverages his deep experience in portfolio management, insurance solutions, actuarial, regulation, and relationship management to analyze and assess the investment approach for current and future clients of SLC Management, so that they might achieve their investment objectives.

Tom joined the firm (then Prime Advisors) in 2005 and has over 28 years of investment and actuarial experience. In his current role, Tom oversees multiple insurance client relationships, ensuring that investment opportunities are integrated with insurance operational requirements, based on financial modeling, peer comparisons, stress testing and other quantitative analyses.

Tom's portfolio of work at SLC Management includes portfolio management, insurance solutions and overall strategy for our insurance clients. Past experience includes a variety of life actuarial and investment roles at Travelers, as well as property and casualty actuarial roles at Insurance Services Office.

Tom graduated with a Bachelor of Arts from Bucknell University, with a double major in Mathematics and Computer Science. Tom is an Associate in the Society of Actuaries (ASA) and a member of the American Academy of Actuaries (MAAA).

Disclosures

The Presenter is Tom Klem who is the Managing Director of SLC Management.

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