REGULATORY RELIEF

Who says the regulations can’t be changed?

Investment Policy & Strategy Considerations - Post HB 291

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MMIA Investment Opportunities:

PRE HB 291

MMIA Investment Regulations:
MCA Title 7, Chapter 6 - Pre HB 291

Allowable Investments	Asset Class:	Further Defined as:
	U.S. Treasuries	**Obligations of the US Government including Treasury bills, notes, bonds, SLGS, STRIPS, or similar Treasury obligations**
	U.S. Agencies	**Agency debentures issued by FHLB, FNMA, FHLMC, FFCB**
	Money market funds	**US government security money market funds**
	Maximum maturity for a single security	**10 Years**
	Maximum average maturity for entire portfolio	**6 Years**
	Agency-backed Structured Securities	Agency-backed Structured Securities
	Asset -backed Securites	Non-agency Structured Securities
	Tax-Exempt & Taxable Municipal Securities	Bonds issued by state, special districts, local government, etc.
	Foreign Securities (excluding Canada)	Substantially the same types as those that an insurer is permitted to acquire under this chapter
	Medium and lower-grade investments	NAIC 3-6 / Fixed income and preferred rated below investment grade
	Preferred Stocks	US Only
	Equity	US Only
	Basket Clause	Assets not specifically prohibited in this chapter the lesser of 10% of AA or 50% of surplus

= Allowed
= Prohibited

MMIA Investment Opportunities:

POST HB 291

MMIA Investment Regulations:
MCA Title 33, Chap 12 - HB 291 Enacted

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No security or portfolio maturity limitations.

What is TMLIRP?

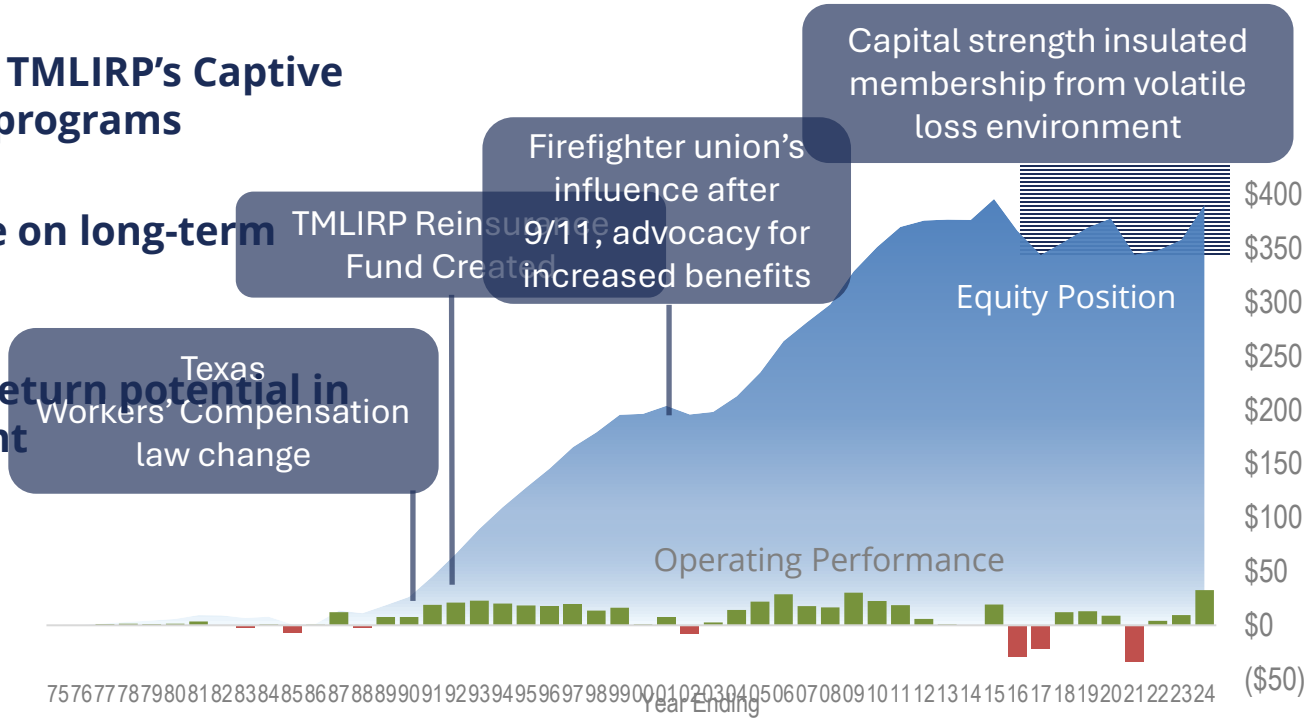
- Property Casualty (WC, LB, Property & Cyber) Risk Pool serving Texas municipalities
- Investment base of $850 million out of $900 million total assets
- Equity balance $390 million
- Target equity range of $340 million to $640 million, base is 1-in-200 year capital event(s)

How we got here?

Reinsurance Fund – TMLIRP's Captive sharing risk across programs

Legislative pressure on long-term liabilities

Desire to enhance return potential in volatile environment



Challenges bring opportunities

Reinsurance Fund – TMLIRP's Captive sharing risk across programs	Inquiry into captives to expand beyond regulatory constraint - PFIA
Legislative pressure on long-term liabilities	2019 Legislature – inevitable expansion of cancer presumption
Desire to enhance return potential in volatile environment	"If we're going to pay pension benefits, we should be able to invest like a pension"

2019

Challenges bring opportunities

Inquiry into captives to expand beyond regulatory constraint - PFIA

2019 Legislature – inevitable expansion of cancer presumption

“If we’re going to pay pension benefits, we should be able to invest like a pension”

Workers’ Compensation Law amended to allow self insured public entities and risk pools to incorporate risk assets relative to lifetime benefit liabilities and governed by the “prudent person rule”

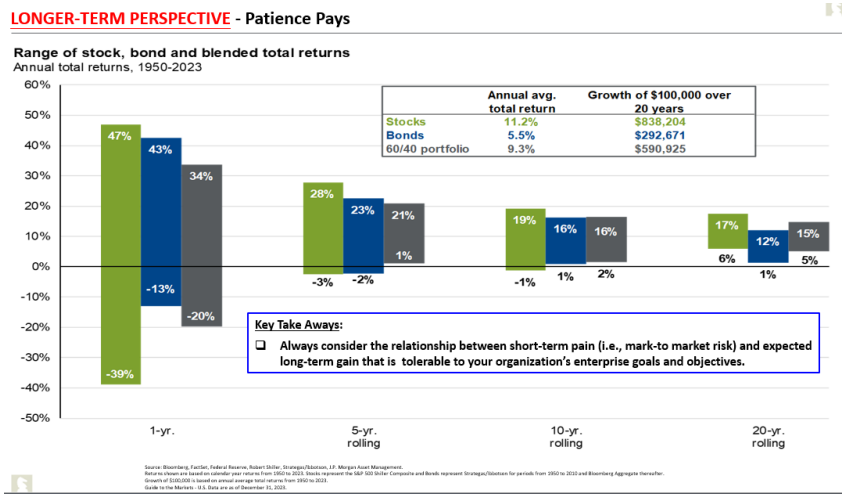
2019

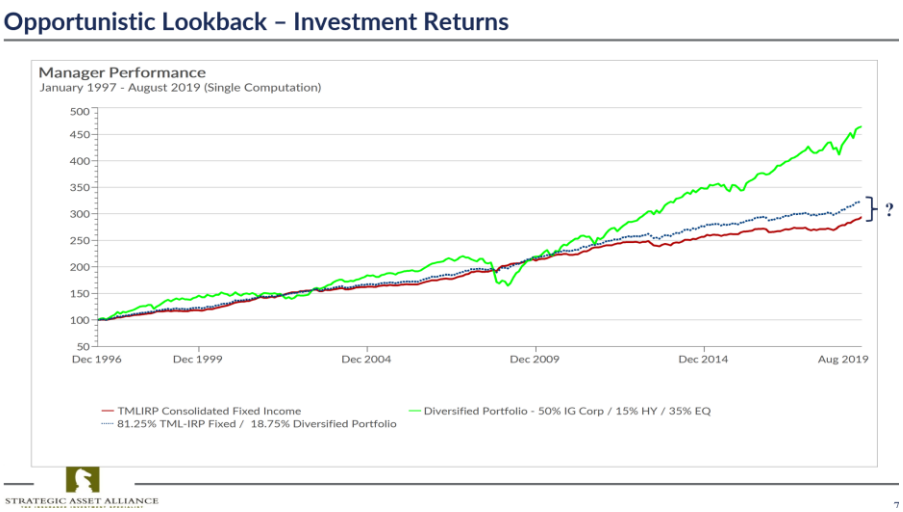
More risk is less risk

- Initial perception was “Sea Change”
- Long standing staple of investment presentation to board was “backed by the U.S. government” and “preservation of capital”.
- Amendment to PFIA was broad. How do we allocate?
- Implementation was “cautious” due to prior messaging to board.
- In hindsight, it was an evolution or maturation of the Pool’s investment portfolio

Oct 2019 Board Meeting

Compelling argument





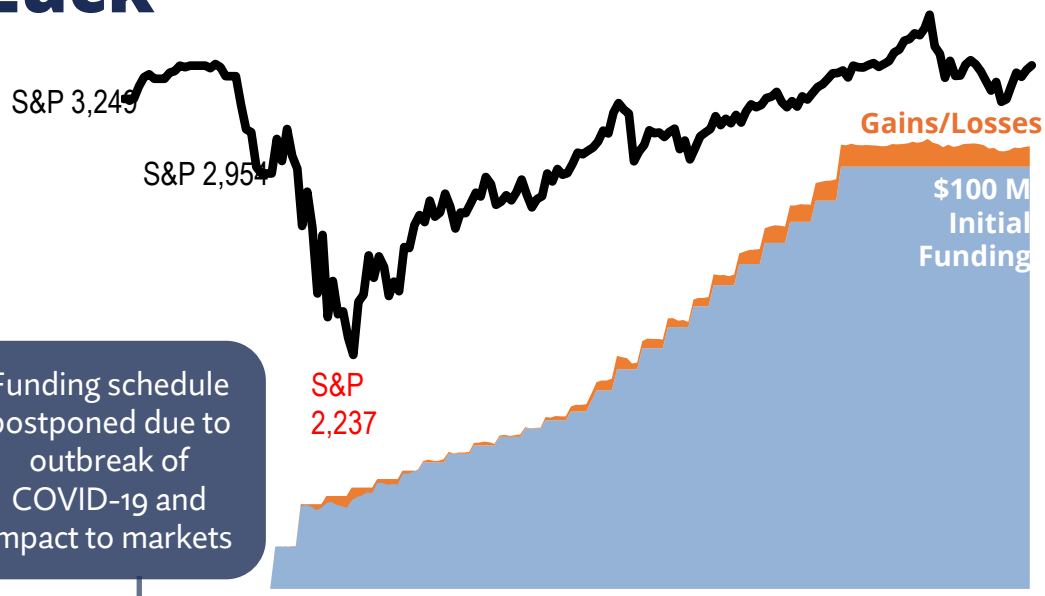
Oct 2019 Board Meeting

Cautious or Dumb Luck

Cautiously presented Board with too many valuation & allocation options; Board response was to come back in Jan 2020 with more specific recommendation

Board approves generous allocation method that includes both reserves and equity. Funding schedule to begin in the following month February

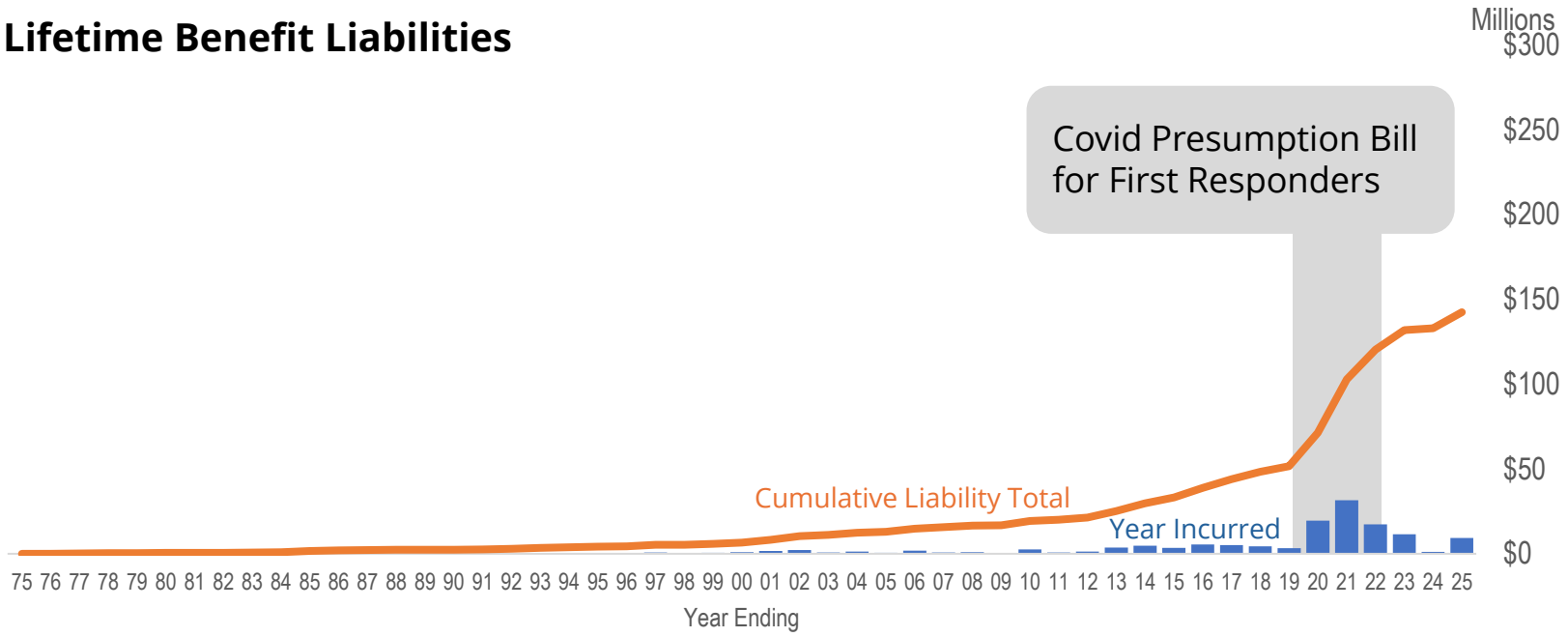
Funding schedule postponed due to outbreak of COVID-19 and impact to markets



Oct 2019 Jan 2020 Feb 2020 Oct 2020

“Fortune favors the prepared mind”

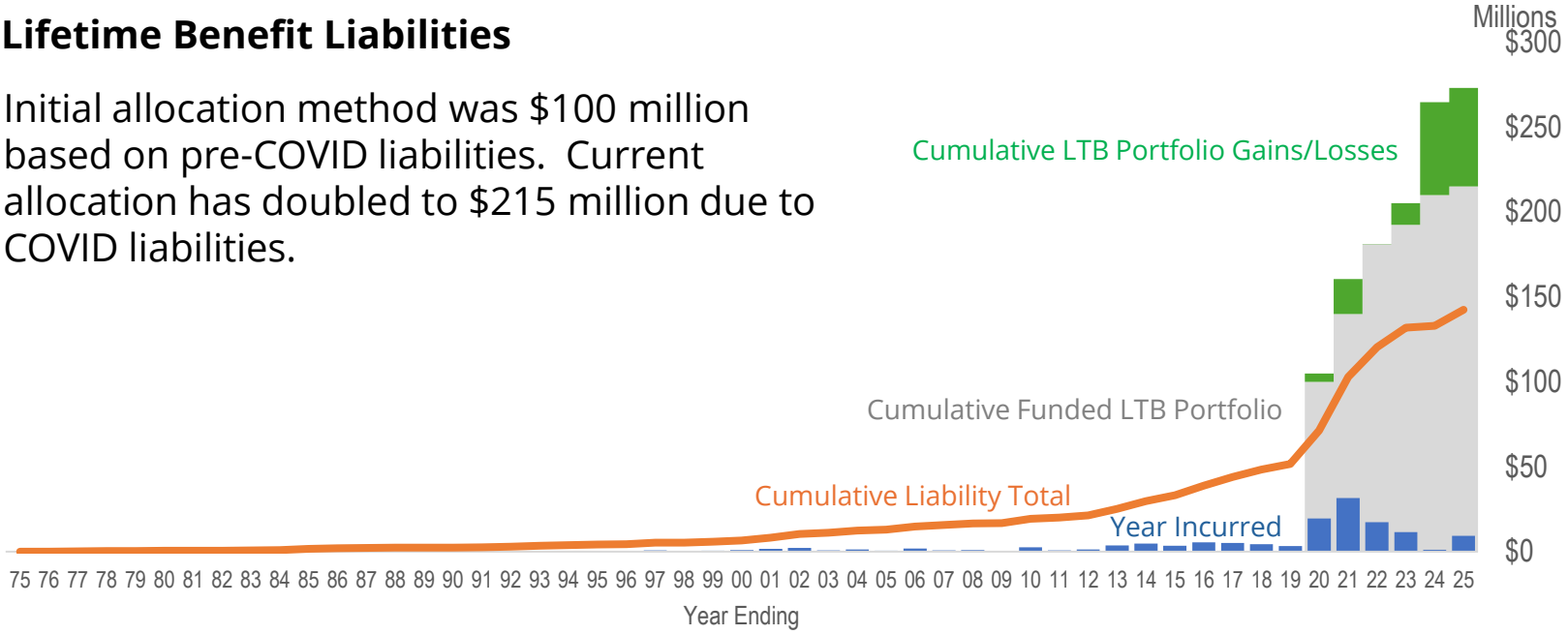
Lifetime Benefit Liabilities



“Fortune favors the prepared mind”

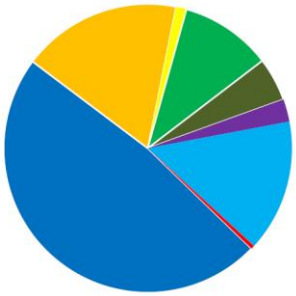
Lifetime Benefit Liabilities

Initial allocation method was $100 million based on pre-COVID liabilities. Current allocation has doubled to $215 million due to COVID liabilities.



Impact of LTB Portfolio

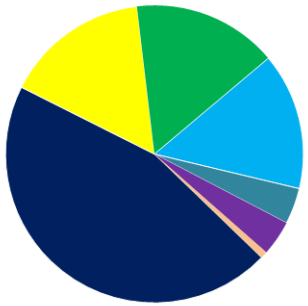
Total Portfolio



Combined Asset Allocation	Market Value & Accrued Interest	Portfolio (%)
Mortgages	$ 398,185,237	48.0
Municipal Bonds	148,286,984	17.9
Money Market & Accrued Interest	9,864,467	1.2
Stock Mutual Funds	85,265,177	10.3
High Yield Corp. Bond Mutual Fund	40,372,195	4.9
International Stock Mutual Funds	21,004,249	2.5
Investment Grade Corp. Bonds	122,590,540	14.8
US Treasury	3,321,782	0.4
Total Market Value	$ 828,890,631	100.0

LTB Portfolio 33% of Total

13% after initial $100M funding



Combined Asset Allocation	Market Value & Accrued Interest	Portfolio (%)
Investment Grade Corp. Bonds	$ 122,590,540	45.2
VG Div. Appr. Fund (VDADX)	42,593,350	15.7
VG High Yield Fund (VHYAX)	42,671,827	15.7
VG High Yd. Corp. Fund (VWEAX)	40,372,195	14.9
VG Int. High Div. Yd. Corp. Fund (VYMI)	10,645,182	3.9
VG Int. Div. Appr. Fund (VIGI)	10,359,067	3.8
Money Market & Accrued Interest	2,017,391	0.8
Total Market Value	$ 271,249,552	100.0

Portfolio	Current Book Yield	Total Return Since LTB inception
Government Backed	3.20%	-0.64%
LTB (Risk Assets)	**3.62%**	**6.26%**
Total Portfolio	3.34%	0.82%

↑ 6.90 %

LTB Portfolio performance relative to Government Backed Portfolio