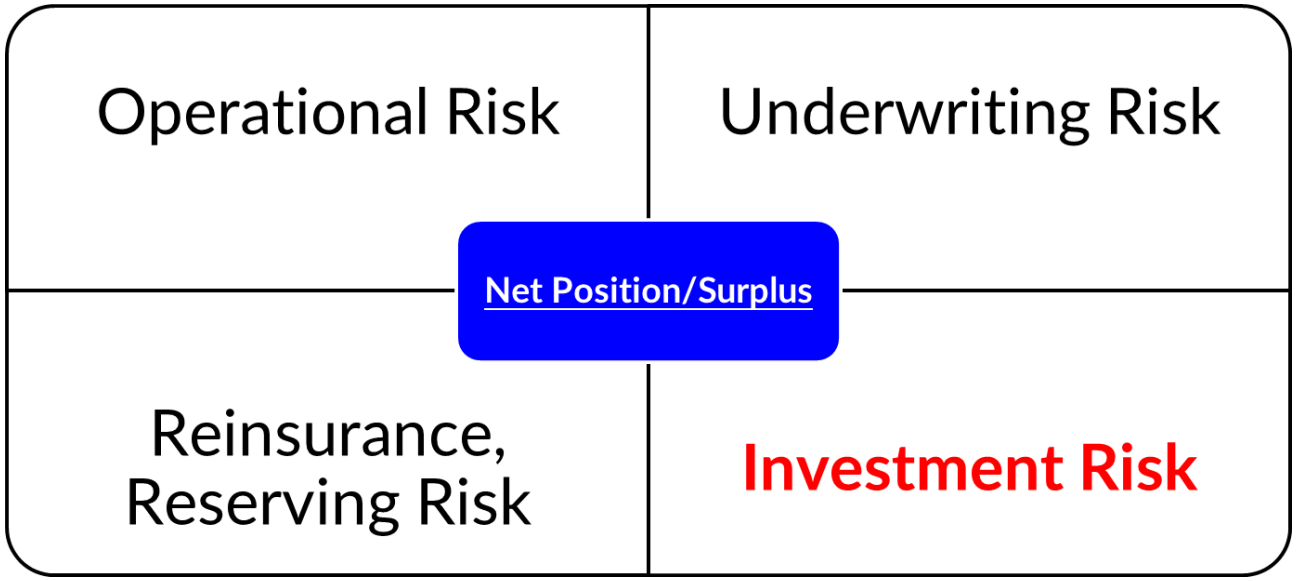
A Quick Overview

Key Business Risks
Insurance Company or Risk Pool…

…are addressed by Net Position/Surplus

- How much is needed to:

- Meet its members' needs;
- Manage the risk exposures it is comfortable taking;
- Maintain a cushion for contingencies



Core Fixed Income

Core Fixed Income Securities - Generally

Definition:

- A debt obligation of a corporation, governmental entity, or trust. Pays periodic interest and returns principal at maturity. Its value can fluctuate with changes in market yields.

Advantages:

- Generally fixed coupon rates that typically help create predictable cash flow
- Contractual obligation
- Strategies may capture fair value appreciation if rates decline

Disadvantages:

- Inflation can erode the value of your future cash flows
- May lose value if interest rates increase
- Eroding credit negatively impacts value

Many Flavors from Which to Choose…

Short-Term

Corporates

Treasuries (Nominal & Inflation-Protected)

Agencies

Mortgage-Back Securities (Agency & Non-Agency)

- RMBS
- CMO
- CMBS

Asset-Backed Securities (ABS)

Municipals

Taxable Municipals

Types of Fixed Income Risk

Liquidity

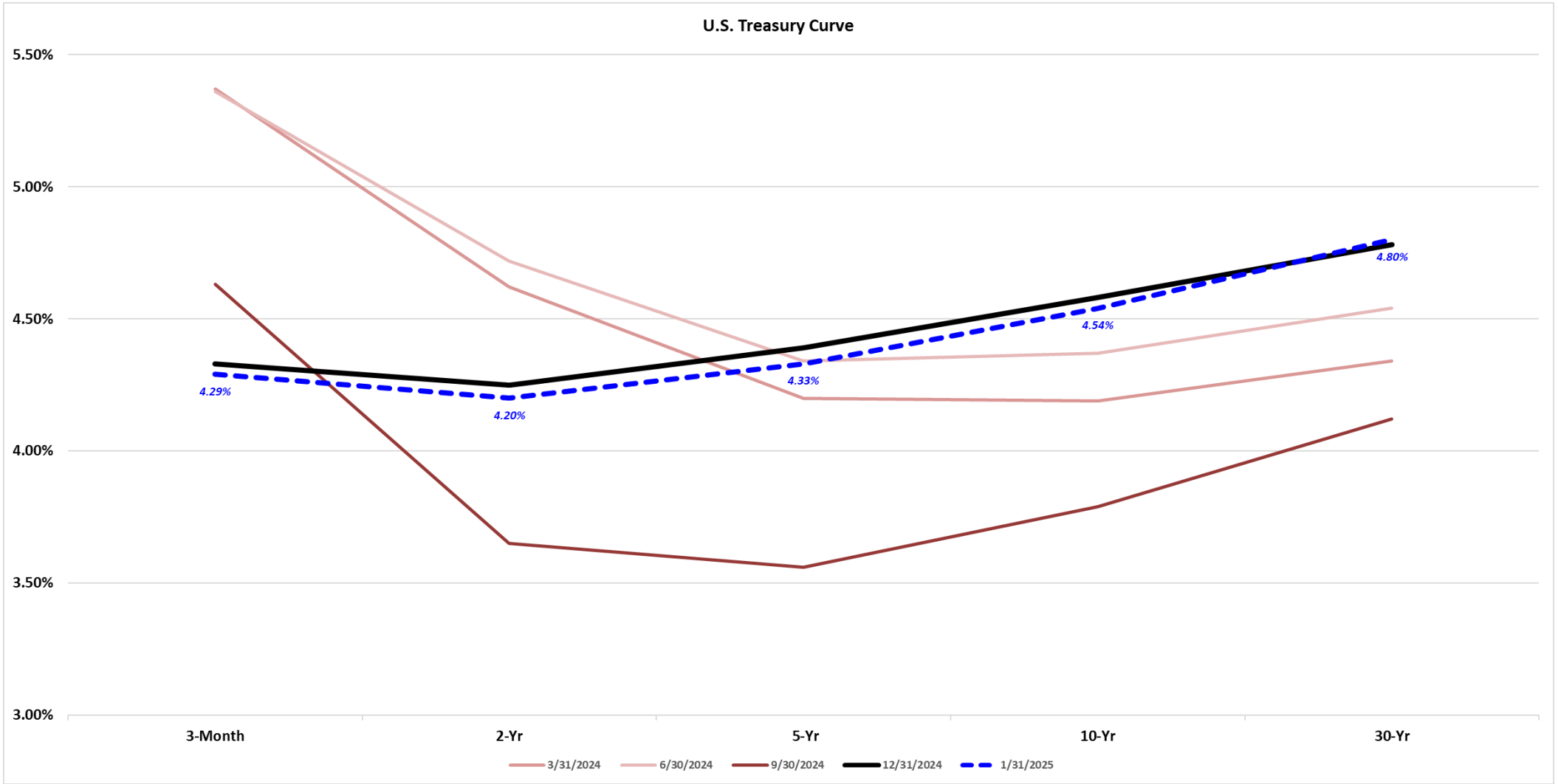
Credit

Prepayment

Reinvestment

Interest Rate

The Base Rate



Source: Bloomberg (BB)

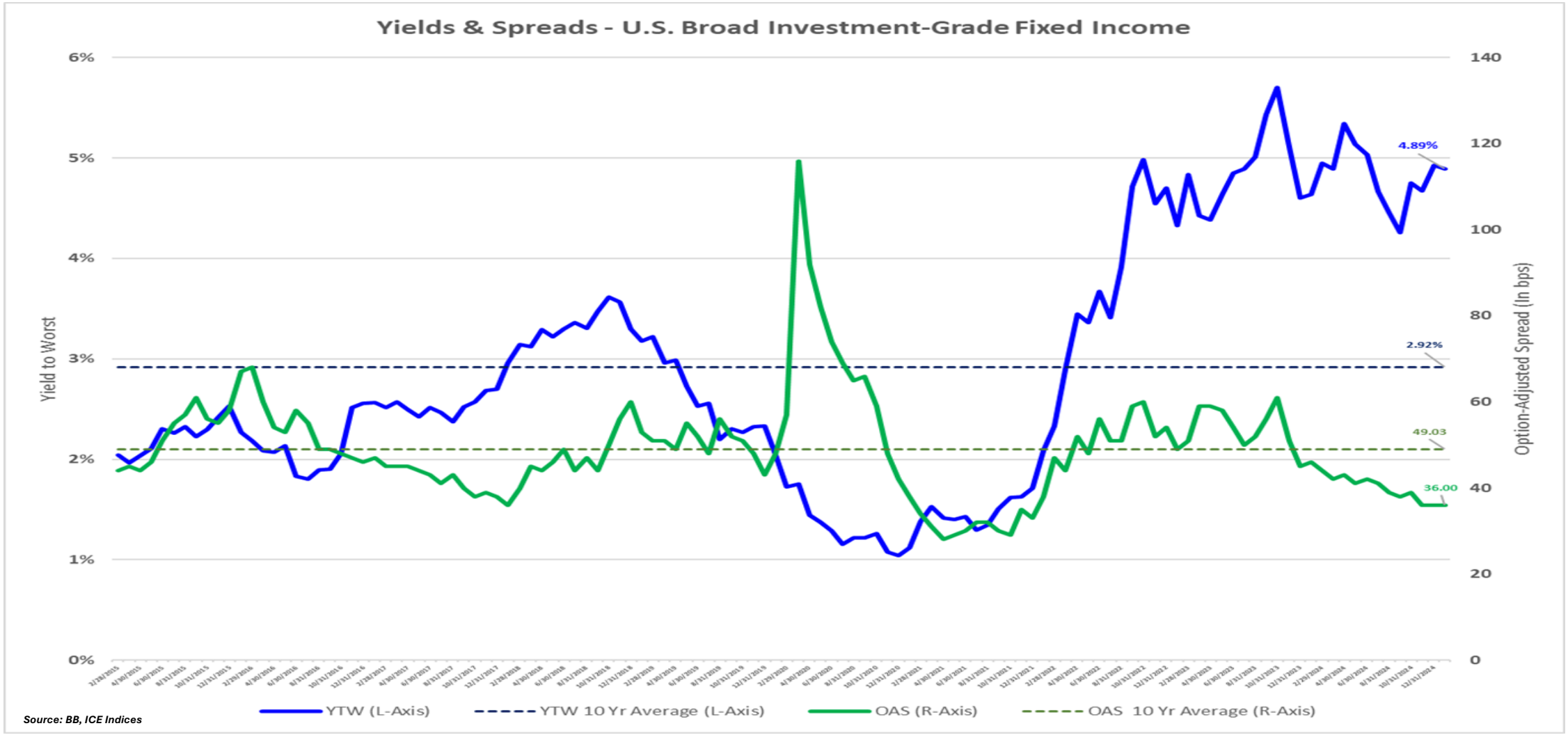
The Bloomberg U.S. Aggregate Index

1. **U.S. Treasuries (44.1%)**
2. **Securitized (ABS, CMBS, MBS) (27.9%)**
3. **Corporate Bonds (23.7%)**
4. **Other Government-Related Bonds (4.3%)**

$31 Trillion @ 2/14/2025

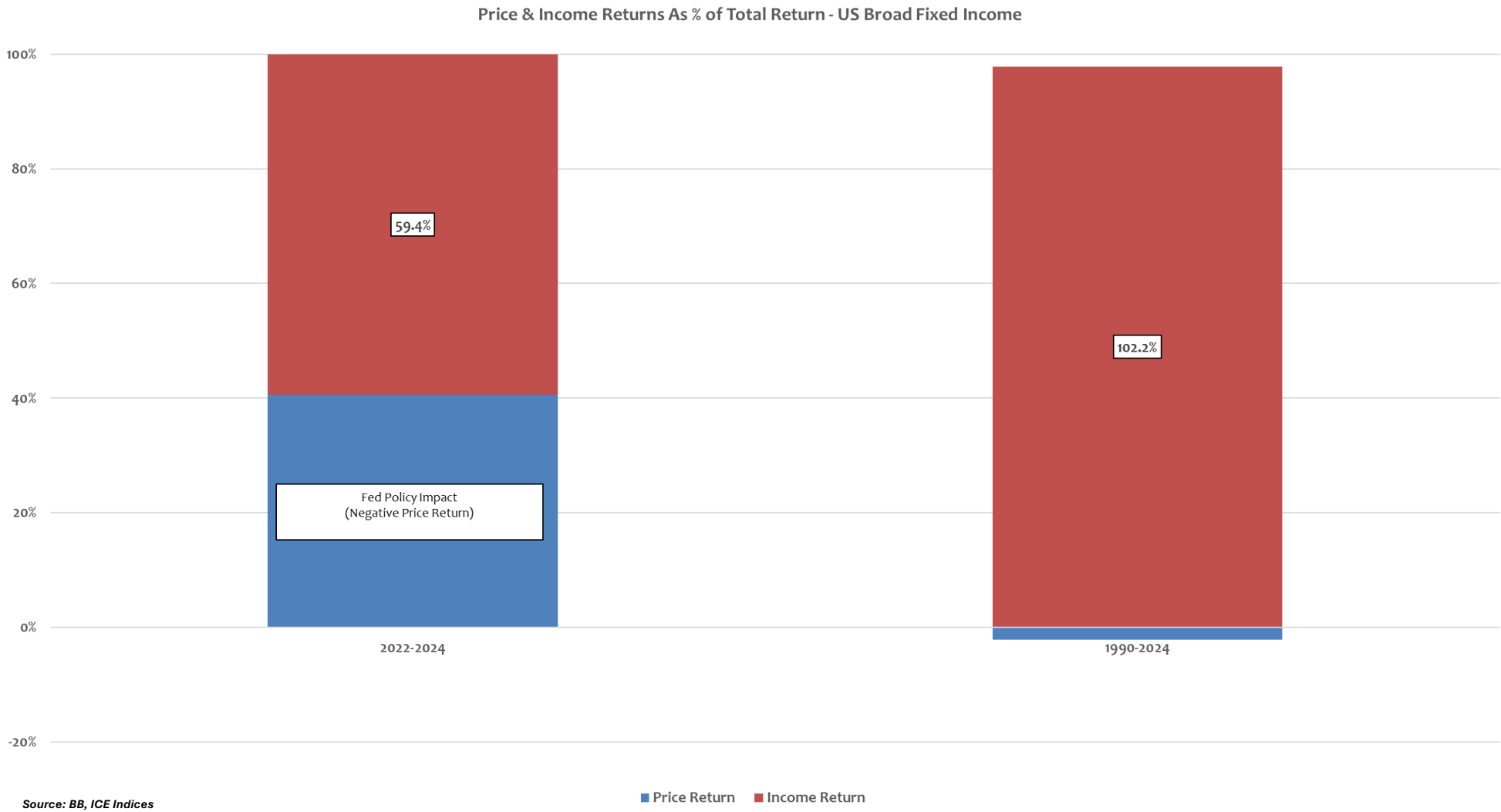
Source: BB

Rates vs. Spreads



Source: BB, ICE Indices

In the end, it's really all about yield…



Source: BB, ICE Indices

Risk Assets

Risk Assets - Generally

Definition:

- An asset class that is not “core fixed income that is used to both diversify investment exposure and enhance investment returns.

Advantages:

- Higher expected long-term returns as compared to core fixed income
- Provide diversification benefits

Disadvantages:

- May experience significant short-term market value volatility relative to fixed income

Adding a “Boost” to Fixed Income

U.S. Equity

Developed International Equity

Emerging Market Equity

High Yield Bonds

High Yield Bank Loans

How much boost?

Excess Returns vs. Bloomberg Aggregate	1 yr	3 yrs	5 yrs	7 yrs	10 yrs	15 yrs	20 yrs
S&P Composite 1500	23.73%	13.11%	15.45%	11.77%	12.25%	11.91%	7.60%
Bloomberg U.S. Corporate High Yield	7.61%	5.87%	5.09%	3.57%	4.05%	4.14%	3.52%
Morningstar LSTA US Leveraged Loan Index	6.90%	8.64%	6.48%	4.20%	4.00%	2.89%	2.03%
FTSE DEVELOPED ALL CAP EX US INDEX	6.93%	6.15%	7.16%	3.13%	4.98%	4.08%	2.89%
FTSE EMERGING INDEX	15.80%	2.66%	5.13%	0.77%	3.50%	2.04%	3.99%

Information Ratio vs. Bloomberg Aggregate	1 yr	3 yrs	5 yrs	7 yrs	10 yrs	15 yrs	20 yrs
S&P Composite 1500	2.76	1.03	0.98	0.76	0.86	0.84	0.51
Bloomberg U.S. Corporate High Yield	2.60	1.14	0.69	0.51	0.61	0.63	0.41
Morningstar LSTA US Leveraged Loan Index	1.16	1.20	0.77	0.54	0.59	0.47	0.26
FTSE DEVELOPED ALL CAP EX US INDEX	0.90	0.52	0.47	0.21	0.35	0.27	0.18
FTSE EMERGING INDEX	1.44	0.21	0.34	0.05	0.23	0.12	0.20

Source: Zephyr StyleAdvisor

Alternatives

Adding a Kick beyond Risk Assets

Hedge Funds

Direct Lending

Private Equity

Venture Capital

Infrastructure

Real Assets

Cryptocurrency

Gold

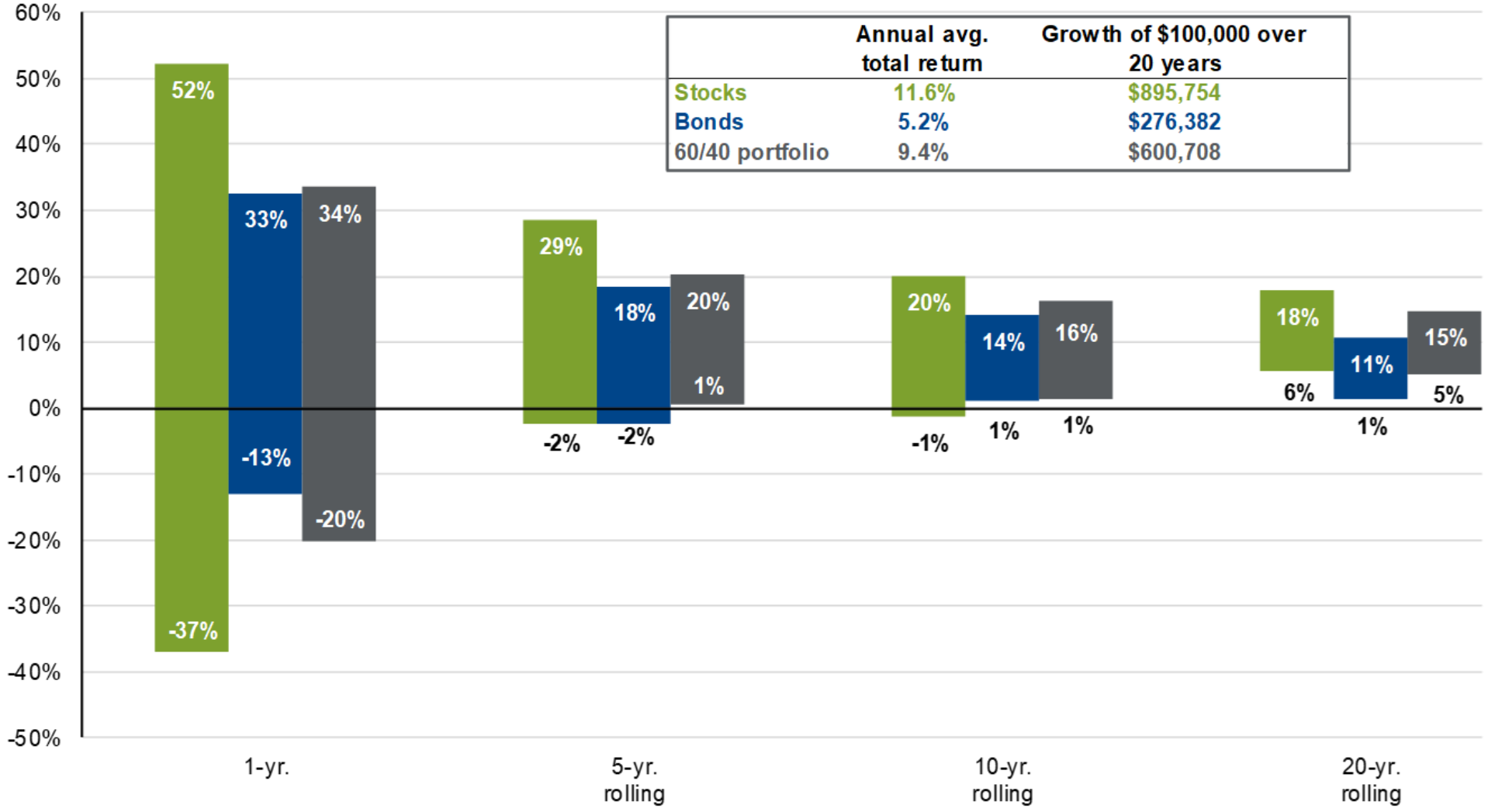
Commodities

All the above with AI overlays...

Asset Allocation

Time, diversification and the volatility of returns

Range of stock, bond and blended total returns
Annual total returns, 1950–2024



Source: Bloomberg, FactSet, Federal Reserve, Standard & Poor's, Strategas/Ibbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2024. Bonds represent Strategas/Ibbotson for periods prior to 1976 and the Bloomberg Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2024. *Guide to the Markets – U.S.* Data are as of January 31, 2025.