

# INVESTMENTS 201

*Applied Decision-Making for Insurance Investment Committees*

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Insurer Investment Forum | March 25, 2026



# Where We Left Off

*Yesterday: the toolbox. Today: how to use it.*

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## Two Risks

Loss of principal vs. loss of purchasing power.  
Every decision balances these.



## Lender / Owner

Every investment is one of two things. That framework still applies.



## Surplus = Risk Budget

Your financial position determines what you can afford to do.



## Governance Matters

The IPS, roles, fiduciary duty — the guardrails are set. Now what?

**Today's focus: moving from "what is it?" to "what do I do with it?"**

# Reading Your Investment Report

Your manager sent you 20 pages. Here are the 6 numbers that matter — and the red flags that demand action.



## Performance vs. Benchmark

Absolute return tells you what happened. Relative return tells you if your manager earned their fee. Look at 1, 3, and 5 years — not just last quarter.



## Yield & Real Earning Power

Book yield is the income engine. But subtract inflation — a 4.5% yield in a 3.5% inflation environment is only 1% real return. Total return matters over time, but yield is what pays claims today.



## Duration vs. Policy Range

If your policy allows 2–6 years and your manager is at 2.1, they're making a big bet on rising rates. Ask why.



## Sector Shifts QoQ

A sudden jump in corporates or structured products means your manager changed the risk profile. Were you informed?



## Compliance Exceptions

Any position outside policy limits — even briefly — is a finding. Don't accept 'we fixed it' without understanding how it happened.



## Cash & Liquidity

Can you meet the next 6 months of claims without selling anything at a loss? If the answer isn't an immediate yes, that's a problem.

## Board Takeaway

3+ quarters of underperformance without clear attribution, style drift, benchmark mismatches, or concentrated positions — each triggers a direct conversation. One bad quarter in a disciplined strategy is not.

# Portfolio Positioning: Duration & Credit

Two decisions that matter right now — and how to think about each one.

## THE DURATION DECISION

**The setup:** 10-yr Treasury at ~4.6%. Your policy allows 2–6 years. Your manager is at 3.2.

### Extend to 5 years?

**If rates rise 100bps:** ~5% price decline. Painful on paper, but you're still earning 4.6%+ and the loss self-corrects at maturity.

**If rates fall 100bps:** ~5% price gain plus you've locked in a higher yield. The income advantage compounds.

*The real question: Is your surplus strong enough to absorb the mark-to-market hit if you're wrong?*

## THE CREDIT DECISION

**The setup:** IG corporate spreads near 15-year lows. You're taking credit risk without much extra compensation.

### What moving up in quality costs you:

Shifting from BBB to A-rated gives up ~40bps of yield. On a \$100M portfolio, that's \$400K/year in income. Real money.

### What staying put risks:

When spreads widen (and they will), BBB gets hit harder. A 200bp widening on a 5-year portfolio is a ~10% price decline.

*The real question: Are you being paid enough for the risk you're taking?*

**Board Takeaway** Both decisions come back to surplus. A well-funded pool has room to extend duration and hold credit. An underfunded pool needs to stay short and stay safe. Know your number before debating the strategy.

# Risk Assets: Should You Own Them?

*Not a sales pitch. A decision gate. Five tests your organization must pass first.*

- 1 SURPLUS** Can you absorb a 25–30% drawdown on the risk asset portion without threatening your ability to pay claims? If your surplus ratio is already tight, this conversation is over before it starts.
- 2 TIME HORIZON** Do you have a 5+ year window for this capital? Equity exposure with a 2-year horizon isn't investing — it's gambling with member money.
- 3 GOVERNANCE CAPACITY** Do you have the board sophistication and reporting infrastructure to monitor something more complex than bonds? Alternatives especially demand ongoing diligence most small pools can't resource.
- 4 DOES IT MOVE THE NEEDLE?** A 5% equity allocation on a \$50M portfolio is \$2.5M. After fees and complexity, is the expected return improvement worth the operational burden?
- 5 DUAL EXPOSURE** An equity drawdown during a catastrophic claims year hits both sides of the balance sheet simultaneously. Risk pools with concentrated geographic or line-of-business risk feel this acutely.

**Board Takeaway** If you can't clear all five gates, the answer is not yet — and that's a perfectly responsible outcome. The worst version of this decision is adding risk assets because someone at a conference said you should.

# Stress Testing Your Portfolio

*If you can't stomach these numbers, your allocation is too aggressive for your financial position.*

| Scenario  | What Happens   | IG Bond Impact | 60/40 Impact | Dual Exposure?   |
|---|--|----------------|--------------|--|
| <b>2008 Replay (Credit Crisis)</b>              | Spreads blow out 400+ bps. Equities fall 37%. Liquidity freezes. Forced sellers take deep losses.                  | -5% to -8%     | -25% to -30% | Yes — claims spike as economy contracts                      |
| <b>2022 Replay (Rates + Inflation)</b>          | Rates rise 300bps in a year. Bonds and stocks fall together. Diversification fails. No place to hide.              | -13%           | -16%         | Moderate — inflation drives claims costs higher              |
| <b>Climate Catastrophe (Cat Event + Market)</b> | Major cat event triggers claims surge. Market stress follows. Muni downgrades hit if local economies are affected. | -3% to -6%     | -10% to -15% | Maximum — both sides of the balance sheet hit simultaneously |

**Board Takeaway** Ask your manager to run these scenarios on your actual portfolio — with real numbers, not hypotheticals. Then ask: "What does a 10–15% drawdown do to our surplus ratio?" If the answer makes you uncomfortable, your allocation is wrong — regardless of what the policy permits.

*Impacts are illustrative based on historical analogs. Actual results depend on portfolio composition, duration, and credit quality.*

# Five Questions for Every Meeting

*No finance degree required. Take these home and use them at your next quarterly meeting.*

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1

**How did we perform versus our benchmark — and why?**

*Absolute return is noise. Relative return is signal.*

2

**Are we within policy limits on duration and credit quality?**

*If the answer is 'mostly' or 'we were briefly outside,' that's a finding.*

3

**What is our current surplus ratio, and has it changed?**

*This single number determines how much risk you can responsibly take.*

4

**What assumptions is our allocation based on — and when were they last tested?**

*If nobody can answer this, you're governing blind.*

5

**What would need to change for us to do something different?**

*This is the question that separates active governance from rubber-stamping.*

# Questions & Discussion

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