MILES *Capital*

IS YOUR PORTFOLIO PREPARED℠

TO HELP DELIVER ON YOUR GOALS?

Many investors know, or have heard that asset allocation (or portfolio design) accounts for over 90 percent of portfolio performance.

But what kind of performance is it delivering?
And what kind of performance does an insurer need?

Is the objective to minimize risks or maximize return? This is the foundation of traditional asset allocation: the potential to achieve a specific return for a given level of targeted risk.

While this may be enough for a different type of investor, it has not been shown to be comprehensive for insurers. If a targeted return is achieved, does that mean the company objectives are achieved? And if market challenges occur, will the portfolio weather the storm?

BUSINESS OBJECTIVES

Intuitively, insurers recognize that all business functions must coordinate in order to achieve the company's mission and primary objectives. What would happen if the actuaries advised, and upper management agreed, that underwriting standards be changed, but marketing and agencies weren't informed? This may be a ridiculous scenario, but the outcomes would be similar to setting a company priority for stable growth of surplus while the investment portfolio is designed to deliver liquidity and low capital costs. The objective and the underlying reality are completely mismatched.

ASSET ALLOCATION CONSIDERATIONS

To overcome the challenges of traditional portfolio design, asset allocation for insurers must incorporate these seven considerations:

1. THE ENTIRE BALANCE SHEET

- Insurance asset management is different from other asset management. The portfolio design should include all characteristics of the insurer: size, type, business lines, capital, financial strength ratings, growth rates, trends.
- Traditional methods of asset allocation may provide the same portfolio structure for two very different firms simply because the objective is the same. A well-capitalized, large crop insurer should not be managed the same as a capital-constrained, small auto insurer simply because they both have an objective of growth of surplus.

2. THE ROLE OF THE PORTFOLIO IN MEETING BUSINESS OBJECTIVES

- The portfolio should be structured to help optimize business objectives, not a volatility number.
- Clearly prioritizing all critical business objectives is critical for a successful asset allocation.

3. STRATEGIC DECISION MAKING

- The portfolio should be guided by a forward-looking, multi-year plan that clearly demonstrates how it will support key objectives over time.
- Point in time risk analyses do not tell an insurer how surplus will grow over time or at what point Net Investment Income will reach company targets.

4. THE KEY NEEDS ALL INSURERS FACE

- No matter the profile, all insurers have four fundamental investment needs in varying degrees. They are yield generation, growth, inflation protection, and risk mitigation.
- While it is fairly clear which need core bonds help satisfy, what needs do real estate, private credit, or currency help address?

5. ALL RELEVANT ASSET CLASSES

- Traditional asset allocation is dependent upon deciding which asset classes to include before completing any analysis.
- A stronger approach is to include all assets, then eliminate those that are inaccessible or do not provide the desired outcomes.

6. CHANGING MARKET AND COMPANY DYNAMICS

- Market expectations for rates, spreads, returns, correlations shift almost constantly. And we all know insurance company characteristics and regulatory frameworks evolve as well.
- Using backward-looking data is not comprehensive enough. Asset allocation should dynamically incorporate new data.

7. EFFECTIVE COMPARISONS BETWEEN OPPORTUNITY SETS

- Insurers need to know the impact over time of adding an investment to municipal bonds vs. high yield or of public equity vs. private equity.
- It may seem simple to select the more conservative option each time there is a fork in the road, but one cannot select a path forward without understanding where the path leads and what long-term outcomes are likely.

A STRONGER SOLUTION

Objectives-Based Asset Allocation® (OBAA®) is built on Miles Capital's thirty years of managing insurance company portfolios. It is unique in that it both aligns the investment portfolio with critical company priorities and provides forward-looking analysis to help ensure market challenges are met. It specifically addresses the considerations above. OBAA®:

• Directly incorporates all insurance company characteristics.

• Seeks to structure the investment portfolio to optimize the business objectives of the insurer.

• Provides each insurance company client with a forward-looking, multi-year analysis that supports strategic decision making.

• Addresses the four fundamental investment needs shared by all insurance companies.

• Considers over 30 different asset classes, ensuring breadth of inclusion.

• Dynamically incorporates updated market and company data in order to ensure proactive portfolio construction.

• Produces a library of analytics illustrating the effectiveness of the asset allocation to be used for direct compare and contrast analysis.

OBAA®, by design, helps ensure that the investment portfolio is strategically aligned with the business objectives of the insurer and provides forward-looking insights to help meet market challenges.

CONCLUSION

EXAMPLE:
An insurer's investment portfolio, under traditional asset allocation methods, may be designed to meet a standard deviation/risk measure of 4 percent.

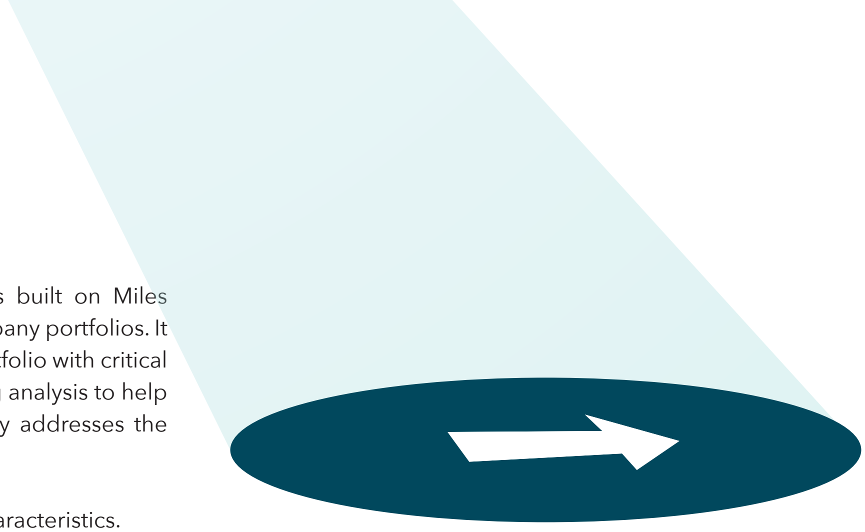
• But what does this mean for earnings growth or Net Investment Income?

• If the standard deviation stays at approximately this target, does that actually support surplus growth or maintain liquidity?

• And, what if interest rates spike in a 200 basis point parallel shift in 2 months?

• Or what if they stay low for the next three years? How will company objectives be impacted?

• How does a CFO measure portfolio success in a difficult underwriting or market year?



• Is it simply that the bond portfolio produced a total return over that of the Barclay's Aggregate?

We believe insurers should expect more from their portfolios.

IN SHORT, IS YOUR PORTFOLIO PREPARED℠ FOR BOTH TODAY AND TOMORROW? OR DOES IT SIMPLY EXIST?

Done correctly, your portfolio should be constructed with a full understanding of company profile and objectives, and should have meaningful targets that fully align with company priorities. We believe portfolio design or asset allocation should help deliver a portfolio with true direction.

CONTACT US OR VISIT

www.miles-capital.com/asset-management/asset-allocation

TO LEARN HOW WE CAN HELP

YOUR PORTFOLIO

DELIVER RESULTS THAT MATTER.

Miles Capital