

Re:Think Investment Partnership

Expect More from your Investment Partners

Insurance is a niche market, and insurance companies invest in a completely different way than other types of institutions. To maximize the contribution of their investments to their business goals, insurers often need an asset manager with an intimate knowledge of the particular needs of their sector.

Unfortunately, we regularly encounter insurance portfolios that are not aligned with their company goals. We believe insurers should expect more from their asset allocation and their investment partner.

Not All Investment Partners Are Created Equal

When it comes to asset management, insurance companies often turn to a broker, a wealth manager or a bank instead of someone who specializes in the insurance space.

The reality is that investing for insurers is a unique niche with very specific considerations — including compliance, regulations, capital efficiency, asset liability matching, and investment specialization. Experts who know the insurance landscape will know how to invest funds to help maximize the portfolio outcomes with the goal of minimizing the risk.

A standard broker or wealth manager will likely be unable to provide the full range of insurance-specific support services, including such services as rating agency support, OTTI reporting and state code compliance.

Let's take a look at the three most common solutions: investment advisers, brokers, and wealth managers.

INVESTMENT ADVISERS

A registered investment adviser is overseen by the U.S. Securities and Exchange Commission (SEC) and has a fiduciary duty to their clients. Investment advisers typically don't charge fees based on transactions but rather a fee based on the total assets under management. This type of service also tends to provide discretionary management within guidelines that have been outlined by the insurer. Investment advisers typically

provide guidance regarding portfolio structure and other investment-related services.

BROKERAGE FIRMS

An alternative to an adviser is a securities brokerage firm. Brokerage firms are regulated by the Financial Industry Regulatory Authority (FINRA), and may not have a fiduciary responsibility. Agreements between brokerage firms and insurers are usually non-discretionary, meaning the broker must obtain approval before executing any trade. These relationships are more transactional than a holistic advisory service, whereby brokers identify a bond that may be of interest and contact the client for each purchase. They receive compensation through a transaction-based fee or a premium or commission on trades, which may not always be fully apparent. Additionally, with broker-dealers, clients typically receive a limited scope of additional services.

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WEALTH MANAGERS

Local wealth managers are among the most common investment partners for smaller organizations. While wealth managers may be a fiduciary investment advisory firm, they often don't have specialized institutional knowledge and typically recommend mutual funds. These arrangements often provide little investment guidance or insurance industry education and may cost more than institutional managers.

While these various types of investment arrangements all have pros and cons, it's important for insurers to understand the scope of services available and what they would like. A more robust set of investment services requires a more comprehensive partnership.

Investment managers with specific insurance industry knowledge are better able to help meet clients' needs.

What Services Should an Insurance Investment Partner Provide?

Here's an overview of the key investment services insurers require.

- **Strategic, Objectives-Based Asset Allocation®:** Your portfolio should be aligned directly with your unique needs.
- **Investment Policy & State Code Compliance:** Your portfolio should be in compliance - and verified as such - with your IPS and state code on a daily basis.
- **Education and Guidance:** Ongoing education, training and market commentary helps enhance team depth.
- **Forward-Looking Glide Paths:** Forward-looking analysis of business and portfolio metrics help ensure the portfolio can contribute to broader objectives.
- **Capital Efficiency Analysis:** The overall portfolio and each investment recommendation can help maximize capital efficiency.
- **Assistance to the Board:** Communication and guidance through challenges or market changes, participation in strategic planning, and more can be useful for an insurer's management team.
- **Cost Control:** Best execution (trading with multiple counterparties to enhance yields), investment fee analysis, and new custodial search and selection can help lower overall investment costs.

Considerations When Choosing an Investment Partner

RISK CONTROLS

How will you limit your exposure to risk factors such as industry, issuers, maturities and credit quality? What is your exposure to interest rate risk (fluctuations in interest rates), reinvestment risk, credit risk, liquidity risk, etc.? Do you have a well-balanced risk profile? An investment partner should be able to assist in this step through the investment process.

Insurers are in the business of risk management and know there are myriad risks for their business lines. The same goes for the portfolio. Value at risk, BCAR, stressed surplus growth and credit losses are all examples of risk measures that should be evaluated for every portfolio design. Volatility, or standard

deviation, is not a comprehensive measure of risk, and it doesn't correlate directly to the impact on an insurer's capital.

TRADING CAPABILITIES

Is it important to you to be sure you're receiving best execution (best yield or pricing) on the investments you purchase? Is your investment partner able to use multiple trading counterparties to ensure you get appropriate execution, or do they just provide one price and yield? Does the investment partner have competitive trade executions? Investors are typically able to get better pricing, yields and execution if they're able to compare among multiple service providers.

FEES

All investment partners charge fees. How transparently can you view yours, and what do you want to drive your fees?

Do you want to incentivize your partner to bring you additional trades or to preserve principal and grow the assets? Does your organization know what you're paying in fees for the various portions of your portfolio, and how that compares with what you could get with a different service provider? Often, fees may be more than you think and can significantly affect what you're receiving in both total return and income. Fees vary widely by investment partner type and warrant careful consideration.



VALUE-ADDED SERVICES

Are you getting additional resources from your investment team or are you merely getting stocks and bonds? Ideally, an investment partner should be helping you construct a portfolio


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that aligns as closely as possible with your cash-flow, quality and income needs. How are you benchmarking performance? How do you know if your portfolio is meeting your objectives?

Additional services could cover a host of factors beyond portfolio construction and benchmarking. These include asset allocation, ongoing economic and market education, portfolio stress testing, compliance verification, meetings and communication, custodial liaison services and cost controls. As an organization, do you want these services? Do you want the value add of a team backing your investment portfolio?

COMPLIANCE

Compliance is another issue of great importance to insurers that's often overlooked by standard advisers. Insurers are regulated at the state level, and each state imposes rules on how an insurer can be allocated. Investment partners that aren't cognizant of these regulations could be setting their clients up for trouble. A knowledgeable asset manager can help identify these compliance issues before they arise.

Conclusion

At Miles Capital, everything we do is created from the point of view of you, the insurer. We leverage our three decades of insurance expertise, along with our comprehensive asset management prowess, to design and deliver clear, flexible, tailored solutions that are in your best interests. We understand the unique objectives, parameters and regulatory constraints that our insurance clients face, and we offer customized investments to help meet these needs.

Contact us today for more information or help in evaluating your investment partnership needs.

Considerations When Choosing an Investment Partner	Registered Investment Adviser	Brokerage Firms/ Wealth Managers
Do you want your investment partner to assist in establishing risk controls for your portfolio?	YES	MAYBE
Is it important to you to be sure you're receiving best execution (best yield or pricing) on the investments you purchase?	YES	MAYBE
Do you want full transparency in fees and what you are paying for your portfolio?	YES	MAYBE
Would you like additional relationship services and reporting from your investment partner or just stocks and bonds?	YES	MAYBE
Do you want your investment partner to ensure you're in compliance with state regulations on insurance investment allocations?	YES	MAYBE

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**Contact us at 800.343.7084 or visit www.miles-capital.com
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