

Investment Management & Oversight

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Vice President & CFO

NLC Mutual Insurance Company

Roles of Boards, Staff & 3rd Parties

Understanding who is responsible for what

Board of Directors

- Total body is responsible for the development and implementation of investment policy and guidelines
- Board can prudently delegate authority to Investment Committee of the Board, who then report to the full Board
- Mandatory approval of all trading vests through the Investment Committee

Investment Committee

- Shall adopt a long-term strategic investment plan within policy guidelines
- Reviews and confirms compliance with regulatory and investment policies
- Reviews and ratifies policy
- Reviews and affirms investment strategy
- Reviews investment activity & performance
- Reports results to the Board

Chief Executive Officer

- Overseer of all duties assigned to CFO, Investment Consultant & Manager
- Confirms performance is provided in compliance with policy and timelines
- Communicates any special instructions received from Board to CFO & others

Chief Financial Officer

- Designated by the CEO with duties pertinent to investment activity as contained within investment policy
- CFO oversees all third-party service providers
- Reports on compliance with approved policy & regulatory guidelines
- Manages investment cash flows and other financial, business and regulatory constraints

Investment Consultant

- Serves as adjunct CIO for Company
- Advises Board and Committee on policy
- Assists in the identification and management of external managers
- Provides benchmark recommendations
- Reports on the manager performance
- Reports on total investment performance
- Reports on policy compliance
- Reports on broad market conditions

Investment Manager

- Manages assets in accordance with policy
- No deviation is permitted without approval
- Reports to CFO on all significant matters
- Immediately notifies CFO of major changes in tactics
- Reports on transactions to CFO & Custodian
- Provides performance to CFO at least quarterly (monthly preferred)
- Manages portfolio losses within policy limits
- Standard reporting to investment committee

Policy Acceptance

- **Signed acceptance by Company (all matters)**
- **Signed acceptance by investment consultant (all matters)**
- **Signed acceptance by investment manager (money management, asset allocation, & compliance)**

Custodial Arrangement

- In a regulated environment, an approved bank custodian is compulsory
- An effective firewall must be in place between bank assets and assets under custody
- Monthly reporting to management and investment manager

Internal Management

- Can be supported in a buy and hold ladder portfolio
- Market resources would still be required
- Internal performance analyses would be required
- Some level of investment expertise in concert with investment consultant

When to Outsource?

- Typical bond mass required is \$10 ml for a segregated account
- Typical equity mass required is \$5 ml for segregated account
- Typical convertible mass required is \$10 ml
- Active management versus indexing
- Competitive management fees

Internal Controls

- Internal management requires greater controls
- In a small operating environment, segregation of duties more challenging
- 3rd party custodial relationship is essential
- Oversight of transactions should be mandatory

Reporting Elements

- **Asset allocation**
- **Equity to surplus ratio**
- **Consolidated Performance Summary**
- **Performance by portfolio**
- **SVO and/or credit ratings**
- **Impairment/OTTI scan**
- **Book yield & duration trends**
- **Peer/universe comparisons**

Forward Challenges

- US inflation reported at 3.8% at August
- Medical inflation probably higher
- Current Treasury yield curve 0% 1-month to 2.89% 30-year
- 2007 yield curve 3.34% 1-month to 4.89% 30-year
- In this rate environment, where does one find alpha?