Navigating Through Uncertain Waters

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Today’s investment environment is subject to a number of challenges:

- Low interest rates
- Reduced return expectations
- High return correlations
- Increased volatility
- Risk Management

Moving forward, investors will also need to contend with:

- *Rising* interest rates
- Increased inflation expectations

However, the timing of higher interest rates and inflation are unknown.
Central bank interest rate policies and quantitative easing programs around the globe have successfully driven asset prices higher, but have also created challenges for those seeking portfolio yield such as insurance entities.

<table>
<thead>
<tr>
<th>Fixed Income Option Adjusted Spreads (bps) as of 6/30/2013</th>
<th>Jun-13</th>
<th>Jun-12</th>
<th>1 Year Change</th>
<th>Long-term Average *</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABS</td>
<td>58</td>
<td>59</td>
<td>-1</td>
<td>108</td>
</tr>
<tr>
<td>CMBS*</td>
<td>150</td>
<td>235</td>
<td>-85</td>
<td>212</td>
</tr>
<tr>
<td>MBS</td>
<td>60</td>
<td>76</td>
<td>-16</td>
<td>63</td>
</tr>
<tr>
<td>Corporate</td>
<td>152</td>
<td>199</td>
<td>-47</td>
<td>140</td>
</tr>
<tr>
<td>Financials</td>
<td>158</td>
<td>253</td>
<td>-95</td>
<td>147</td>
</tr>
<tr>
<td>Industrials</td>
<td>149</td>
<td>172</td>
<td>-23</td>
<td>138</td>
</tr>
<tr>
<td>Utility</td>
<td>150</td>
<td>180</td>
<td>-30</td>
<td>137</td>
</tr>
<tr>
<td>High Yield*</td>
<td>492</td>
<td>615</td>
<td>-123</td>
<td>527</td>
</tr>
<tr>
<td>EM (US$)*</td>
<td>358</td>
<td>405</td>
<td>-47</td>
<td>407</td>
</tr>
</tbody>
</table>

*Average since 1993, except for High Yield, CMBS and EM which begin in Jan 1994, Jan 2000 & Jan 2001 respectively.
Navigating Through Uncertain Waters

- Bond prices have been driven up and yields have decreased substantially, including riskier sectors of the credit markets such as high yield.
- As a result, dividend yields are now higher than bond yields in many developed markets.
Navigating Through Uncertain Waters

- At the same time, equity prices have risen to record levels as the domestic economy continues to improve and central bankers provide excess liquidity through large scale asset purchase programs on a global scale.
- Current equity market fundamentals appear supportive of current valuations when compared against similar periods in recent history.

**S&P 500 Valuation Fundamentals**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 Level</td>
<td>1527</td>
<td>1565</td>
<td>1570</td>
</tr>
<tr>
<td>S&amp;P earnings (operating)</td>
<td>$51.68</td>
<td>$87.72</td>
<td>$96.82</td>
</tr>
<tr>
<td>PE Ratio</td>
<td>29.5</td>
<td>17.8</td>
<td>16.2</td>
</tr>
<tr>
<td>S&amp;P Dividend per Share (trailing)</td>
<td>$16.76</td>
<td>$26.98</td>
<td>$32.11</td>
</tr>
<tr>
<td>10 Year Treasury Yield</td>
<td>6.14%</td>
<td>4.67%</td>
<td>1.90%</td>
</tr>
<tr>
<td>Equity Risk Premium</td>
<td>-1.0%</td>
<td>1.5%</td>
<td>5.1%</td>
</tr>
<tr>
<td>US GDP (nominal)*</td>
<td>$9,952</td>
<td>$14,029</td>
<td>$15,685</td>
</tr>
<tr>
<td>Money Supply*</td>
<td>$4,689</td>
<td>$7,388</td>
<td>$10,413</td>
</tr>
<tr>
<td>Household Debt Service Ratio</td>
<td>12.0%</td>
<td>14.1%</td>
<td>10.4%</td>
</tr>
</tbody>
</table>

* in billions
Navigating Through Uncertain Waters

- Today’s uncertain investment environment can be mitigated by diversifying across asset classes and by introducing additional income producing strategies across the capital structure.
- The challenge is understanding what asset classes are appropriate and how to size risk exposures based on organizational circumstances.
What is an Investment Consultant’s Role?

Governance
- Establish framework for decision making and accountability
- Set a risk budget based on financial tolerance and constituents
- Provide oversight results versus policy and long-term goals

Strategy
- Design holistic strategies which align with the underlying needs and objectives of the client
- Recognize the importance of risk management
- Focus on long-term objectives, while remaining aware of short-term market dynamics

Execution
- Identify and manage high conviction investment managers
- Oversee and administer portfolio operations
- Focus on cost control and operating efficiency
Investment Consulting: Portfolio Governance

Governance

- Establish framework for decision making and accountability ("Best Practices").
- Document intentions via formal Investment Policy Statement ("IPS").
- Oversight and monitoring of portfolio results versus IPS and long-term goals.

Related Services

- Investment Policy
- Client Education
- Operating Structure
- Monitoring & Oversight
**Investment Consulting: Investment Strategy**

**Allocation Building Blocks**

- **Return Enhancement**
- **Core Capital**
- **Liquidity**

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- **Total return strategies that seek to grow surplus assets**
  - Expect equity-like levels of volatility

- **Incoming producing and low volatility strategies that support operating capital**
  - Provide diversification and safety

- **Liquid holding bucket for expected short-term cash flows**

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Investment Consulting: Execution

**Execution**

- Identify and manage high conviction investment managers
- Oversee and administer portfolio operations
- Focus on cost control and operating efficiency

**Related Services**

- Investment Manager Selection
- Performance Attribution
- Portfolio Rebalancing
- Cost Analysis
- Client Staff Support
Firm Overview & Profile
About The Concord Advisory Group

- Focused exclusively on delivering institutional investment advisory services
  - Over 95% of clients are insurance or non-profit organizations

- Assets under advisement (AUA)
  - $10.5 billion in assets, serving 83 client relationships

- Average client tenure is over 10 years

- Concord’s clients include:
  - Insurance & Corporate
  - Healthcare Organizations
  - Religious Organizations
  - Endowments & Foundations
Key Operating Principles

con • cord: noun; agreement of interests

- Ownership Structure is 100% Employee-Ownned -- The security of our capital rests solely with the success of our clients.

- One Service – Investment Consulting -- Sole focus on meeting clients’ expectations

- Single Revenue Source – Client Fees

- Full Transparency -- Transparency of actions, transparency of results, and transparency of costs

The Client Always Comes First
Commitment to Insurance Organizations

- 24 years experience advising insurance investment programs.

- Unique, comprehensive investment approach:
  - Integrate investments and organization financial situation.
  - Multi-dimensional risk management for clients.

- Thought leadership in insurance investment management:
  - Develop customized strategies for insurance clients.
  - Significant research efforts to identify niche managers.

- Participation in key insurance associations:
  - Insurance – PAMIC, NAMIC, VCIA
Process-Driven Investment Management Approach

Governance
- Investment Policy
- Best Practices
- Operating Structure
- Regulatory Constraints
- Monitoring & Oversight

Strategy
- Asset-Liability Financial Analysis
- Asset Allocation Modeling & Strategy
- Risk Management
- Portfolio Construction

Execution
- Investment Manager Selection
- Portfolio Rebalancing
- Tax-Efficient Implementation
- Cost Management

Consistent and disciplined process will lead to exceptional results
Customized for Needs of Insurance Organizations:

- Tailored investment solution that considers the **current and future financial situation** of the insurance company.

- Awareness of operational, tax, and income investing **objectives**, with **comprehensive perspective** on strategic planning.

- **Understanding** and analysis of important risks and **liquidity** requirements.

- Delivered with the **administrative** and **operational efficiency** required by insurance organizations in today’s market environment.
Concord’s Differentiating Factors

- **EXPERIENCE**
  - We have significant insurance investment advisory experience.
    - Work with a select group of clients to ensure we have a full understanding of their business and operations.
    - Track record of providing institutional quality advice for almost 25 years.

- **LEADERSHIP**
  - We provide leadership to our clients in the decision-making process.
    - Serve as extension of staff to improve efficiency and reduce burden.
    - Act with conviction to allow Board to focus on strategic policy issues.

- **SOLUTIONS**
  - We build holistic investment programs in support of client objectives.
    - Articulated through a comprehensive and proactive process.
    - Deliver results that meet and exceed strategic financial objectives.