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IFoA GIRO Conference 2024

18–20 November, ICC, Birmingham



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Investments – generating crucial returns in volatile times

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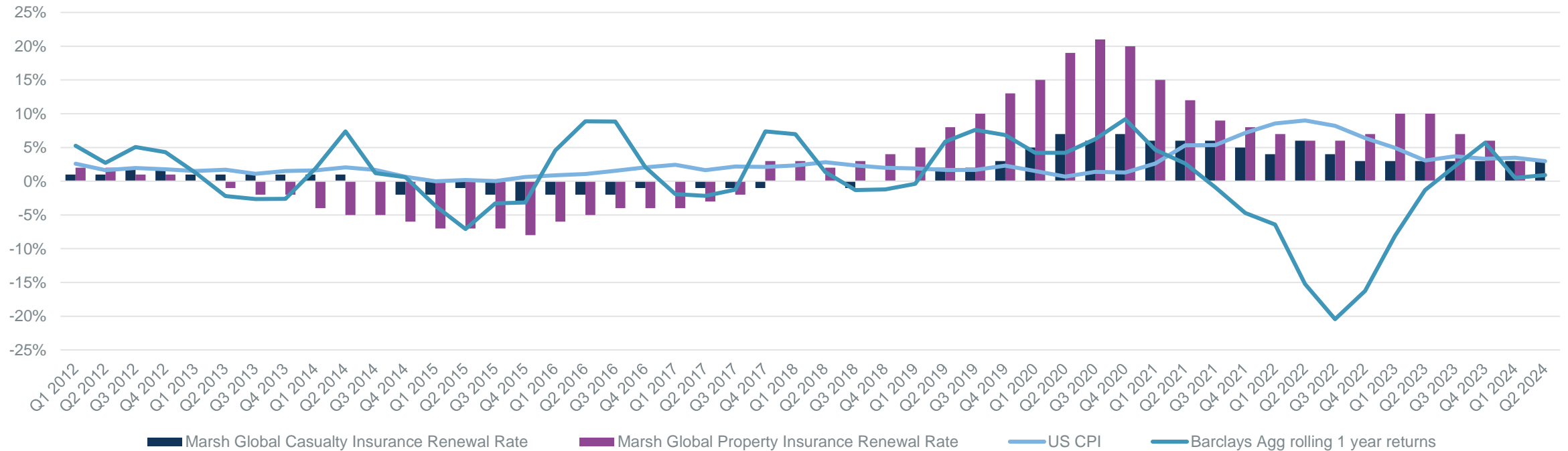
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Introduction and agenda

- Guiding principles
- Core Fixed Income
- Private Credit, Equities and Capital Efficiency
- Key messages

Why take investment risk?

- Limited correlation between economic and underwriting cycles
- Long term contributor to RoE: *“an additional 100 basis points (bps) of investment yield is roughly equivalent to 250bps improvement in the combined ratio”, Swiss Re, sigma 4/2023*



Source: Marsh Specialty and Global Placement, Federal Reserve Economic Data (FRED)



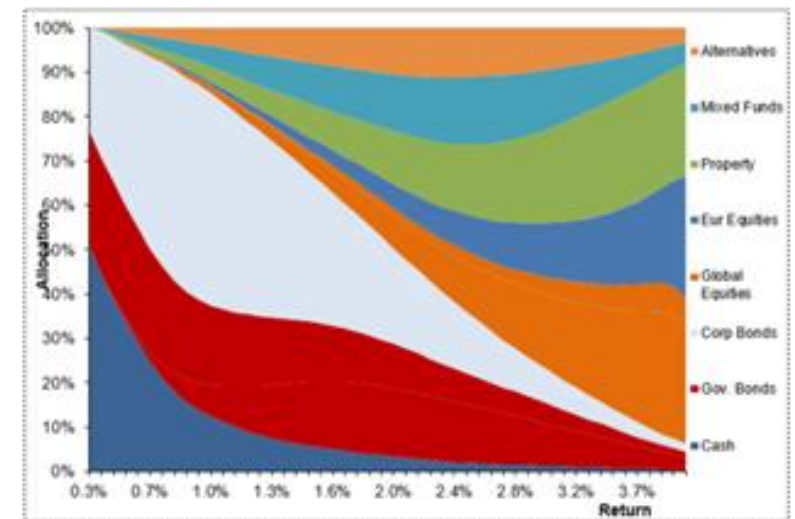
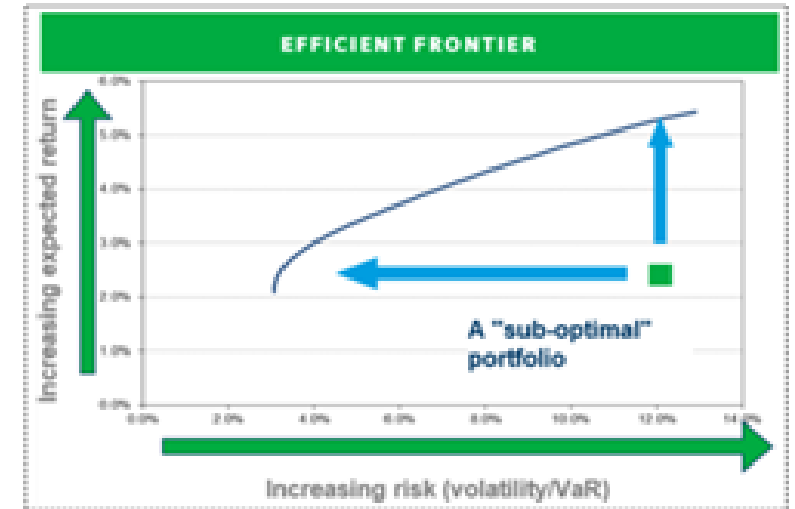
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Strategic Asset Allocation

- Regulatory expectations
- Market conditions
- Capital coverage
- ALM approach
- Peer behaviour
- Uncertainty in operational cash requirements
- **Volatile markets → increased SAA frequency**

Key Risk Indicators	Preferred Range	Tolerance Range	Outside Appetite
VaR (90%)	££m	£Xm to £Ym	££m



Prudent Person Principle

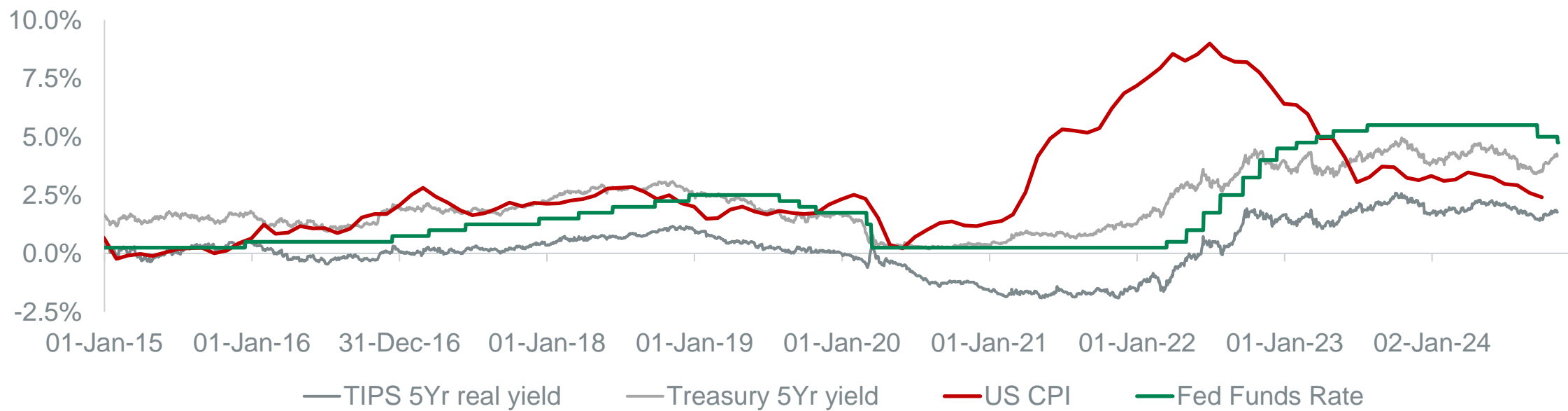
- Embedded in Solvency II from 1st January 2016
- Updated in the UK in June 2024 in Supervisory Statement 1/20
- Specific guidance in relation to outsourcing, non-traded assets and valuations



Inflation and interest rates

- “Core” inflation a driver of rates
- Central bank response and timing is critical
- No “silver bullet” inflation hedge

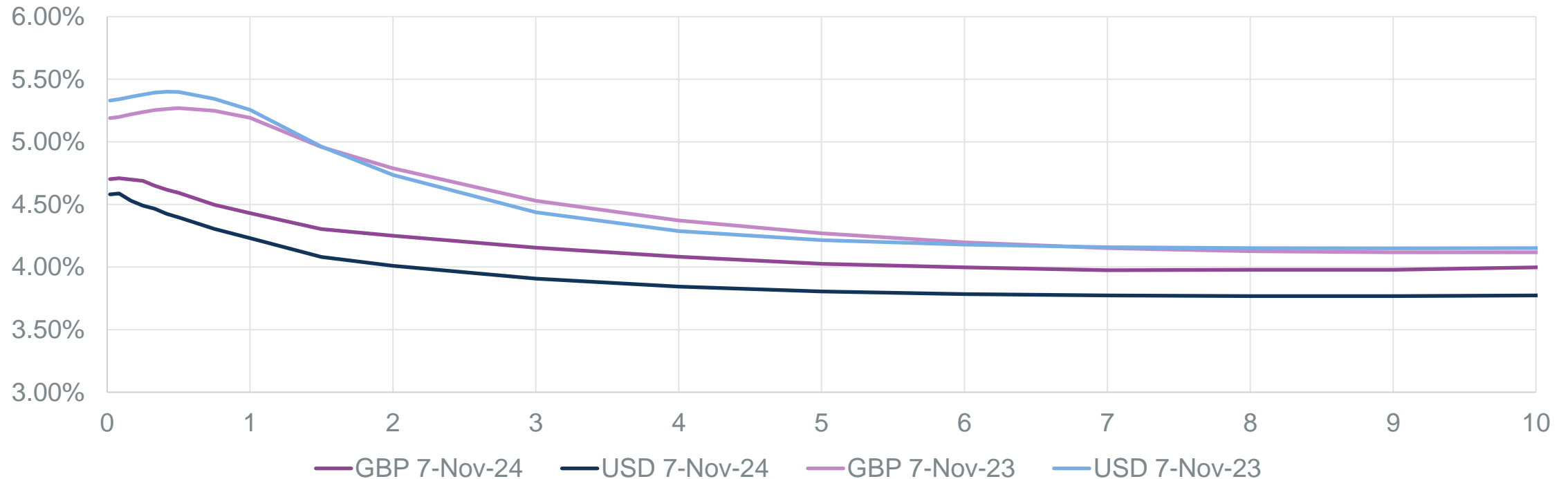
Total Return	2019	2020	2021	2022	2023
Treasuries, 1-5 Y	4.2%	4.4%	-1.2%	-5.5%	4.4%
TIPS, 0-5 Y	4.2%	5.2%	5.4%	-2.8%	4.7%
T-Bills, 0-3 Months	2.2%	0.6%	0.0%	1.6%	5.1%
CPI	2.3%	1.3%	7.2%	6.4%	3.3%



Source: S&P, FRED

Yield curves and income stability

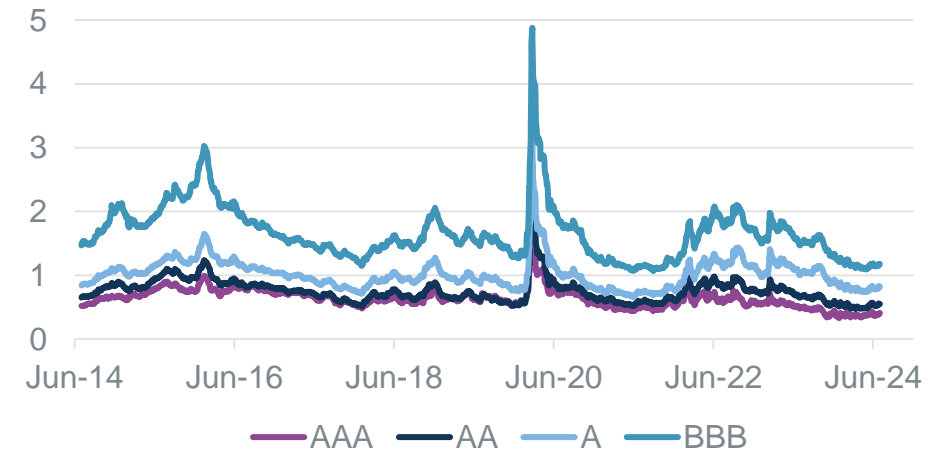
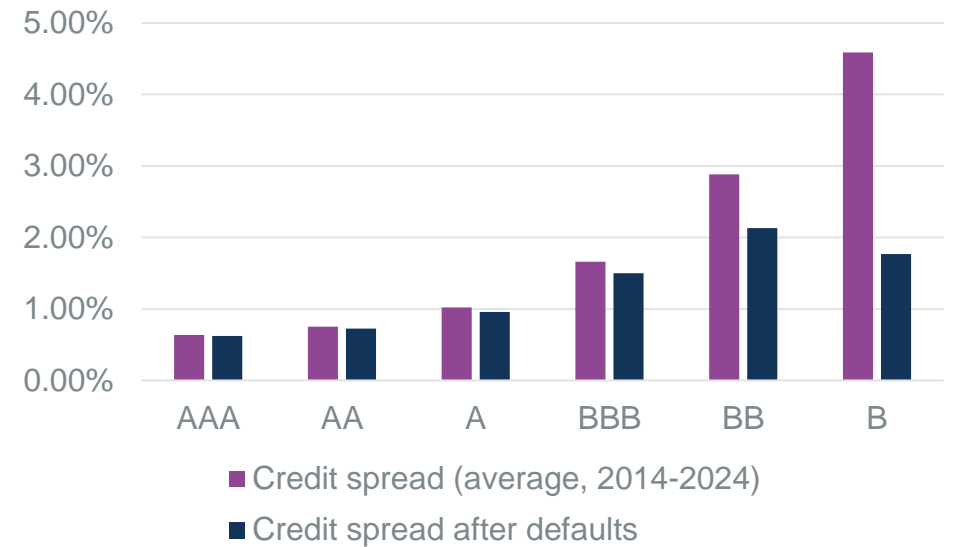
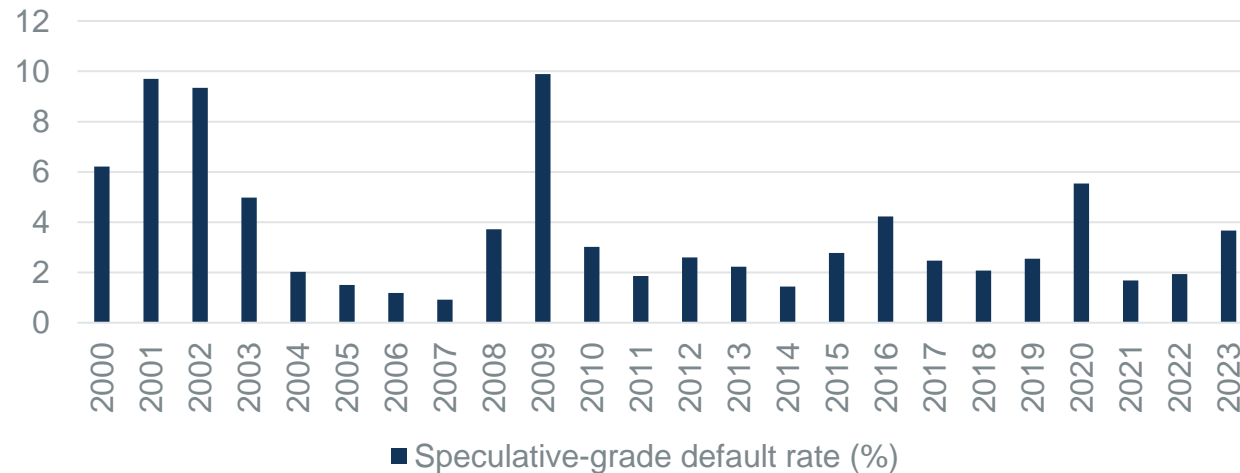
- Interest rates remain volatile
- Implications for Book Yield, Total Return & full Mark to Market investors



Source: Bloomberg OIS swap rates

Credit – additional yield

- Investment Grade vs High Yield
- Strategy choice
- Diversification
- Credit cycle
- Securitised – floating rate diversifier?



Source: S&P, FRED, Bank of England

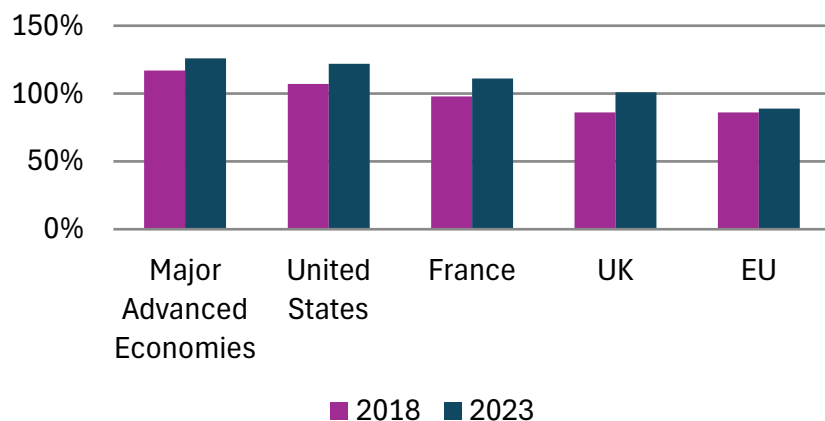
Dynamic approach to risk taking



Rise of Private Capital and Value for Asset Allocator

- Main Types of Private Capital: Private Credit, Private Equity, Real Estate Equity, Infra Equity
- The demand for Private Capital remains outsized given challenges faced by governments to support future economic growth
- Additional source of return: illiquidity premium
- Portfolio resilience and diversification benefits from private investments can be valuable.

Advanced Economies Government Debt as a % of GDP



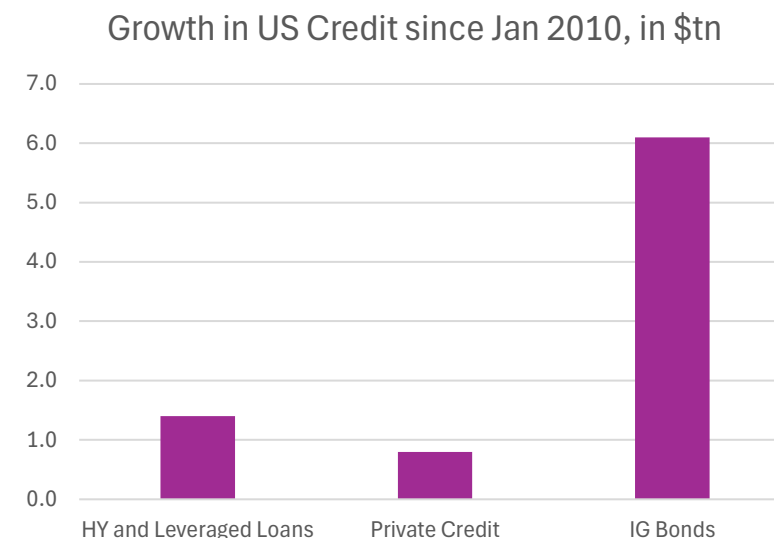
Source: Bloomberg

Correlation Matrix	US IG Credit	Public Equities	Private Equity	Private Credit
US IG Credit	100%			
Public Equities	50%	100%		
Private Equity	29%	84%	100%	
Private Credit	7%	78%	76%	100%

Source: Cambridge Associates, JP Morgan, Bloomberg, KKR Global Marco & Asset Allocation analysis

Private Credit - Bigger Role for Strategic Asset Allocation

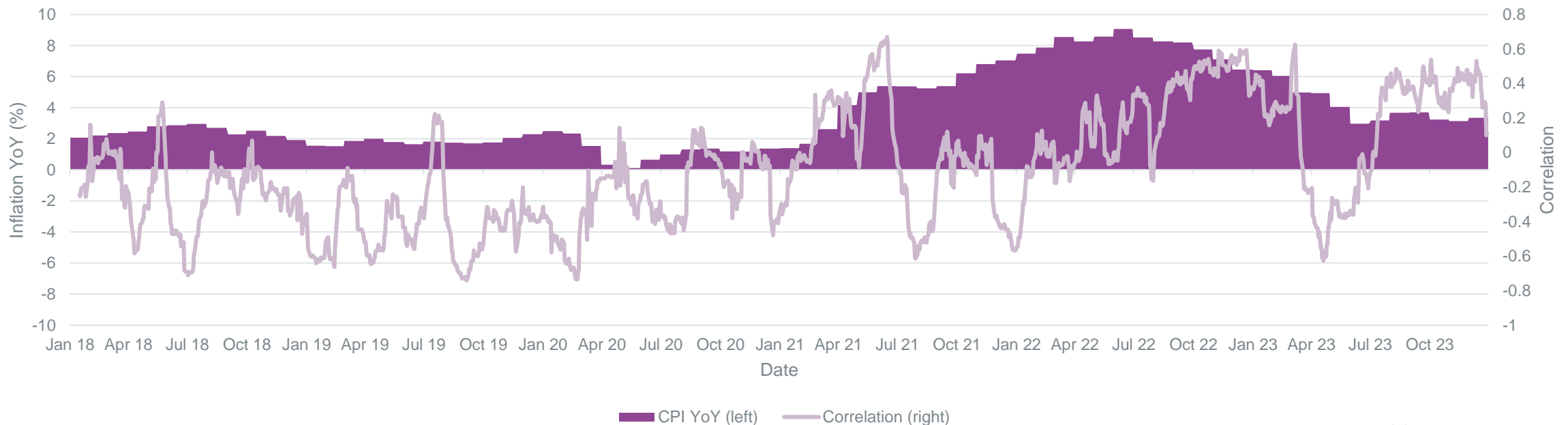
- The US IG market has grown much faster than private credit
- The financial system is changing with Private Credit asset class expected to play a more important role:
 - Banks are changing due to balance sheet deleveraging and ongoing changes to market liquidity and market making;
 - Firms and consumers borrowing is changing due to an increased realisation that long-term assets should be matched with long-term liabilities.
- Investment thesis for this asset class vs IG Credit:
 - Illiquidity premium
 - Diversification benefit
 - Enhanced covenants and credit protection
 - ESG



Source: ICE BofA, PitchBook, Preqin, Bloomberg, Apollo Chief Economist

Equities – Source of Capital Growth

- Investment thesis: source of capital growth whilst providing portfolio diversification
- Consideration for General Insurance Balance Sheet to Allocate into Equities:
 - Volatility against uncertainty in Liability Profile
 - Regulatory Capital Charge and Efficiency
 - Correlation can be variable dependent on market regime
- Deployment Channels: Segregated Funds, Pool Funds or ETF

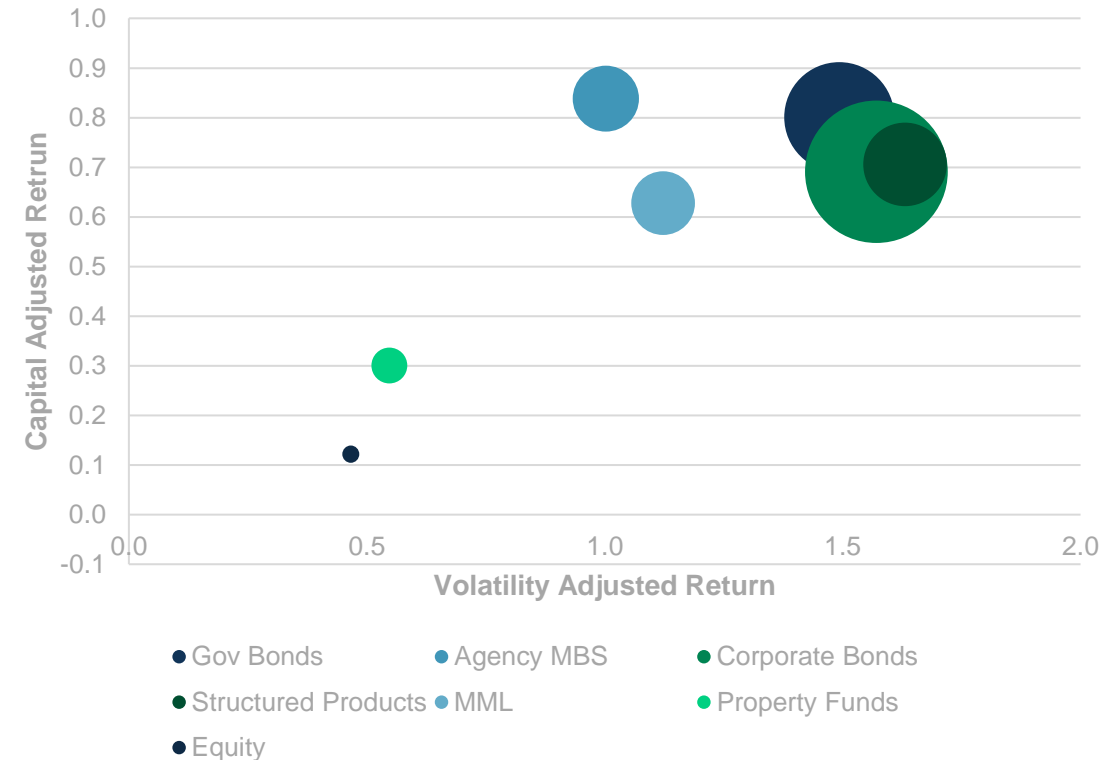


Source: Bloomberg. Note: Equity is S&P 500 Index, bonds are the Bloomberg US Agg Index, inflation is US CPI. Correlation is calculated using a 30-day period study

Capital, liquidity & rating agency considerations

- RoE impact
 - “run-off” vs “going concern”
- Considerations for Asset Allocators:
 - Business Strategy and Liability Profile
 - Macroeconomic outlook
 - Risk and ALM
 - Regulatory and Rating Agency Capital Efficiencies
 - Accounting Implications
 - Environment, Social and Governance

Asset Class Efficiency by Representative Rating Agency



Source: Aspen Internal

Underwriting overlap

- Investments whose risk can be highly correlated with underwriting exposure
 - Financial Professional Line
 - Mortgage Reinsurance
 - Credit and Political Risk
- Direct or indirect real estate exposure:
 - Physical and transition risk
 - Underwriting contract term vs investment duration

Key messages

- Investment risk offers diversification
- Credit can be return enhancing
 - Private credit & alternatives
- Frameworks matter
- Take the organisation with you

Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenters.