

**BUSINESS INSURANCE<sup>®</sup>**

**WORLD**

**CAPTIVE FORUM**

Investments: Not Your  
Grandfather's Portfolio

*#WorldCaptiveForum*

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**JANUARY 30 – FEBRUARY 1, 2019**

Classified - Confidential

# Our Panel

Philippe Combescot, Managing Director, BNP Paribas

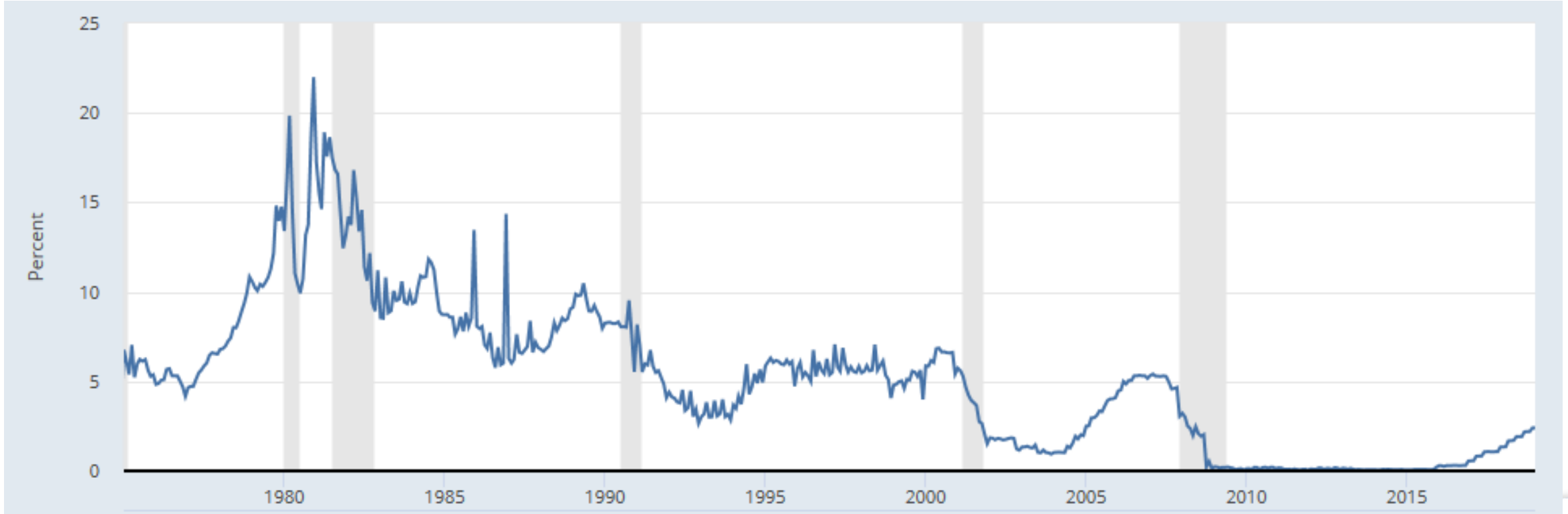
[philippe.combescot@us.bnpparibas.com](mailto:philippe.combescot@us.bnpparibas.com)

Arthur Koritzinsky, Managing Director, Marsh

[arthur.g.koritzinsky@marsh.com](mailto:arthur.g.koritzinsky@marsh.com)

Josh Savage, Financial Risk & Investments Manager, The Coca-Cola  
Company

# Historical Federal Funds Rate



*Shaded areas indicate U.S. recessions*

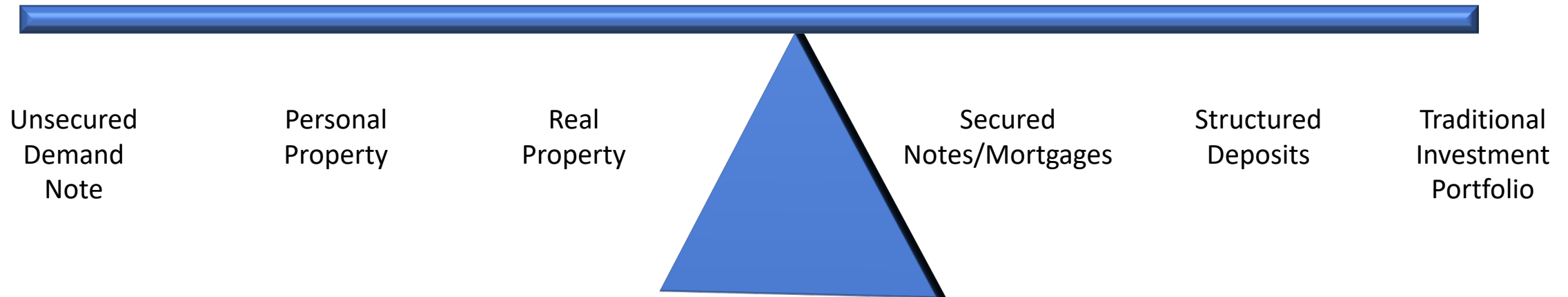
Source: Board of Governors of the Federal Reserve System (US)

# Session Framework

- Alternative Investment Strategies
- Liquidity, Security and Returns
- Regulatory Impact
- Fronting Company Collateral



# Investment Portfolio Spectrum



# Sample Captive Investment Policy

Category of Assets	Target	Minimum	Maximum
Cash & short term investments in securities	10%	5%	100%
Longer term investments in fixed income securities (2 to 10 years)	5%	0%	10%
Unsecured loans to parent and its affiliates	5%	0%	25%
Secured loans to parent and its affiliates (e.g. mortgages)	45%	0%	50%
Equity in Parent Properties Inc.	10%	0%	25%
Investments in parent & affiliates			
- Real Estate	20%	0%	50%
- Accounts Receivable	5%	0%	10%
	100%		



**BNP PARIBAS**

**Philippe Combescot  
Managing Director, Financial  
Institutions Solutions  
BNP Paribas**

**World Captive Forum  
February 2019**

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# STRUCTURED TERM DEPOSIT

## What is a Structured Deposit ?

A Term Deposit with interest linked to the performance of a crediting strategy.

Combines :

- features of a traditional bank term deposit like return of principal at maturity
- opportunity to participate in the potential upside performance of a Crediting Index.
- Can be used as efficient collateral for a LoC or Credit Facility.

## Potential Investors

Structured term deposits may be of interest to investors who:



**Are seeking potentially higher returns compared to traditional deposits.**



**Are looking for diversification and/or markets not usually available through bank deposits.**



**Are seeking principal protection if the structured term deposit is held until maturity.**

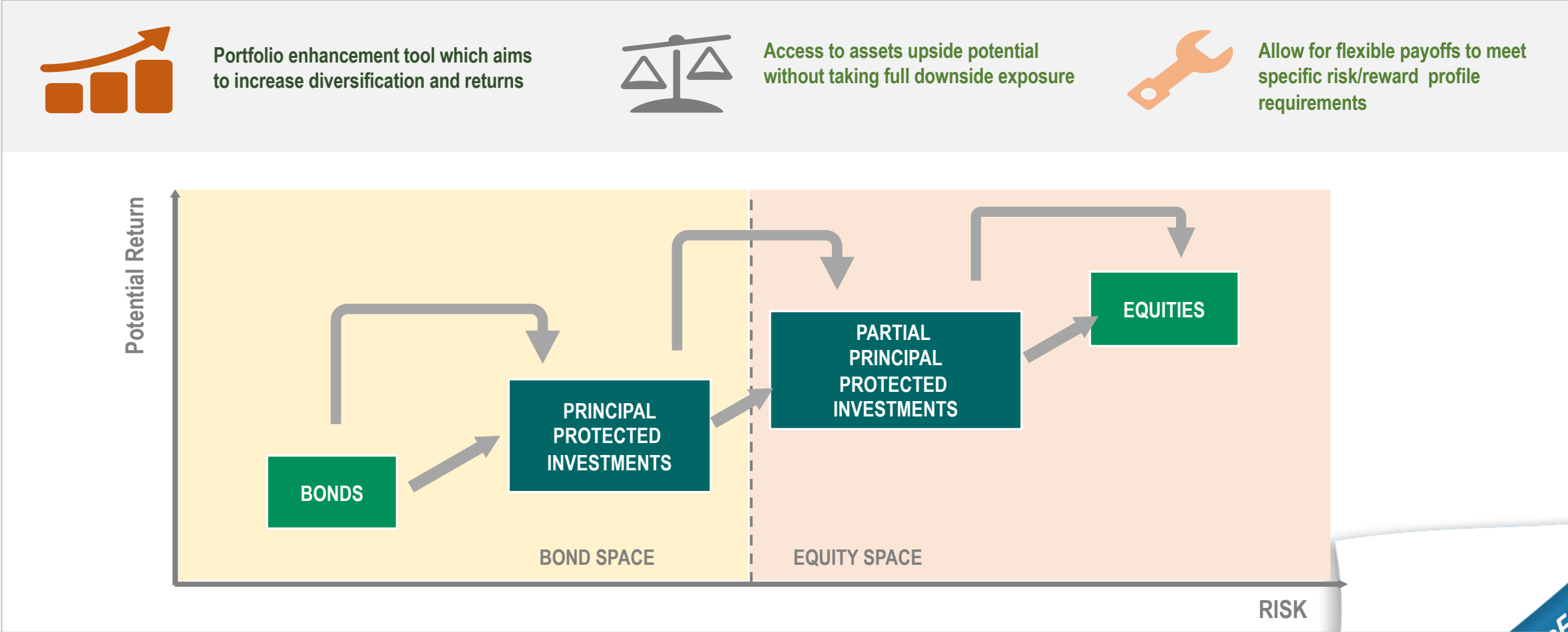


**Are seeking to potentially enhance the expected returns of their LoC or Credit Facility collateral.**

(1) subject to the credit worthiness of BNP Paribas. **No FDIC guarantee.**

# POSITIONING STRUCTURED INVESTMENTS

Structured Investments allow the investor to **tweak the Risk/Return profile of traditional assets**



Portfolio enhancement tool which aims to increase diversification and returns



Access to assets upside potential without taking full downside exposure



Allow for flexible payoffs to meet specific risk/reward profile requirements

# STRUCTURED TERM DEPOSIT : INDICATIVE TERMS<sup>1</sup>

DEPOSIT BANK	BNP Paribas, acting through its NY Branch : “BNPP NYB”
FORMAT	Structured Term Deposit (NOT FDIC INSURED)
MATURITY	5 years from deposit date
CURRENCY	USD
DEPOSIT NOTIONAL	[xxx] USD
CREDITING INDEX	[ xxx Index ]
GUARANTEED <sup>(1)</sup> RETURN AT MATURITY <sup>(2)</sup>	[1%] per annum, paid at maturity (i.e. [5%] at maturity).
PAYOFF <sup>(1)</sup> AT MATURITY <sup>(2)</sup> IN % OF DEPOSIT NOTIONAL	100% <b>plus</b> the greater of <ul style="list-style-type: none"> <li>[1%] per annum (i.e. [5%] at maturity) or</li> <li>the performance of the Crediting Index over the deposit period</li> </ul>

## STRUCTURED TERM DEPOSIT PAYOFF

If Crediting Index Performance  
**above** 5%

Principal invested  
plus Index Performance

Deposit Payoff

If Crediting Index Performance  
**below** 5%

Principal invested  
plus the 5% interest  
payment at maturity

This material contains indicative terms as of April 12<sup>th</sup> 2018 for discussion purposes only and there is no assurance that a transaction will be entered into on such indicative terms. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument.

(1) subject to the credit worthiness of BNP Paribas. **No FDIC guarantee.**

(2) Upon early withdrawal principal might be subject to a penalty and depositor may receive less than 100% of principal.

# STRUCTURED TERM DEPOSIT as COLLATERAL ENHANCER

Post financial crisis and changes in bank regulation,

- Letters of Credit are significantly more expensive
- Current expected yield on cash or Treasuries collateral is low
- Haircut on non cash or Treasuries collateral can be punitive

BNPP NY Branch can provide a **Credit** or **Letter of Credit** facility **collateralized by the Deposit**<sup>(3)</sup>.

- Avoids redeeming the Deposit in case of a temporary liquidity need
- 5 years facility maturity equal to the Deposit
- Total LoC issuance or Credit Facility up to [85%] of Deposit notional
- Strong LoC issuer rating to limit fronting insurer capital charge
- No collateral management as investment strategy is embedded in the Deposit

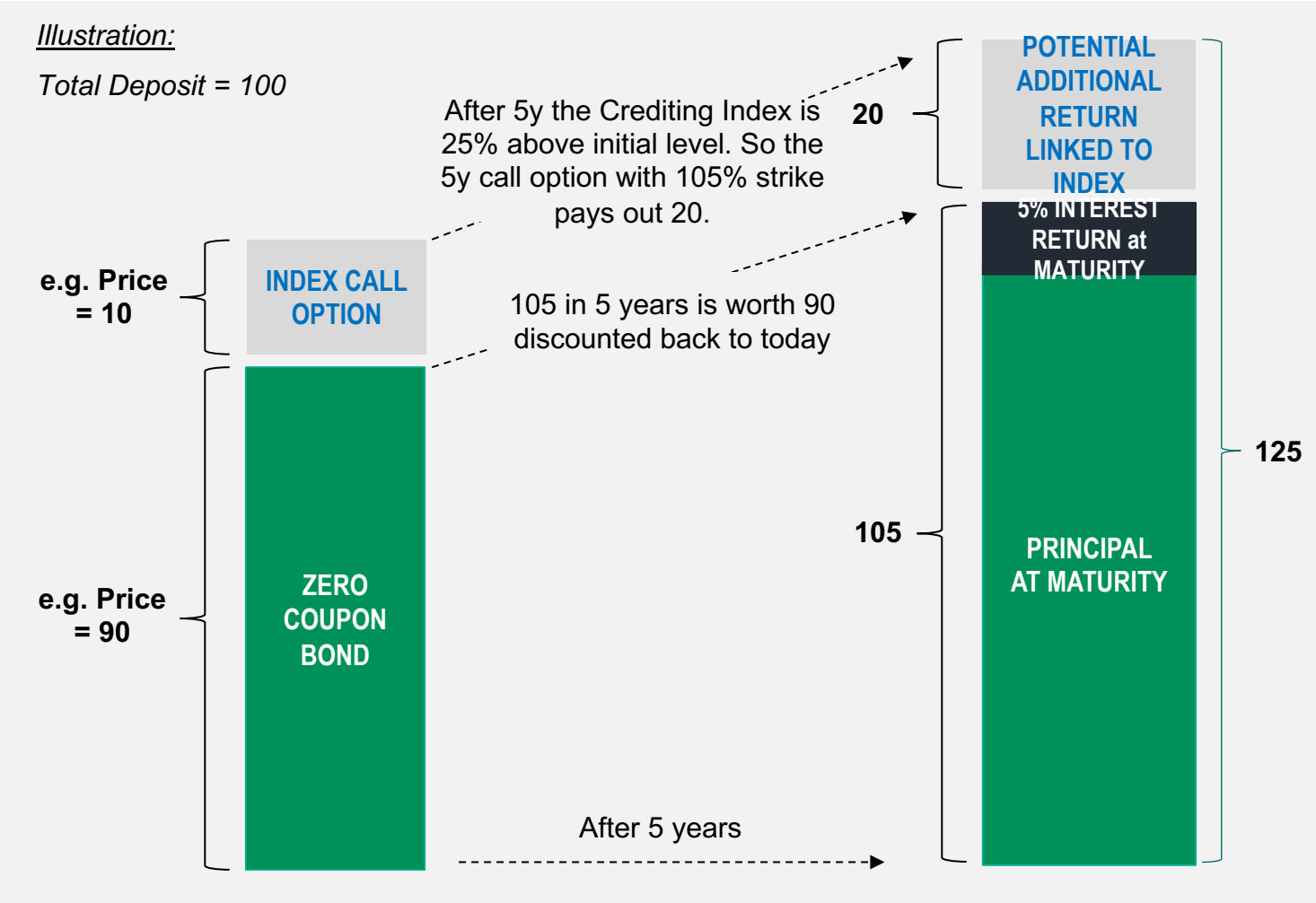
(3) Terms subject to BNP Paribas Credit approval.

## BNPP NEW YORK BRANCH

- ✓ Wholesale Branch of BNP Paribas licensed by the State of New York
- ✓ Regulated jointly by the New York State Department of Financial Services and the Federal Reserve Bank of New York
- ✓ Full credit of BNP Paribas, rated A/Aa3/A+ by S&P/Moody's/Fitch
- ✓ BNP Paribas : Largest bank of the Eurozone by assets. 200k employees, EUR 43 bln revenue, EUR 7.8bln net income (2017)

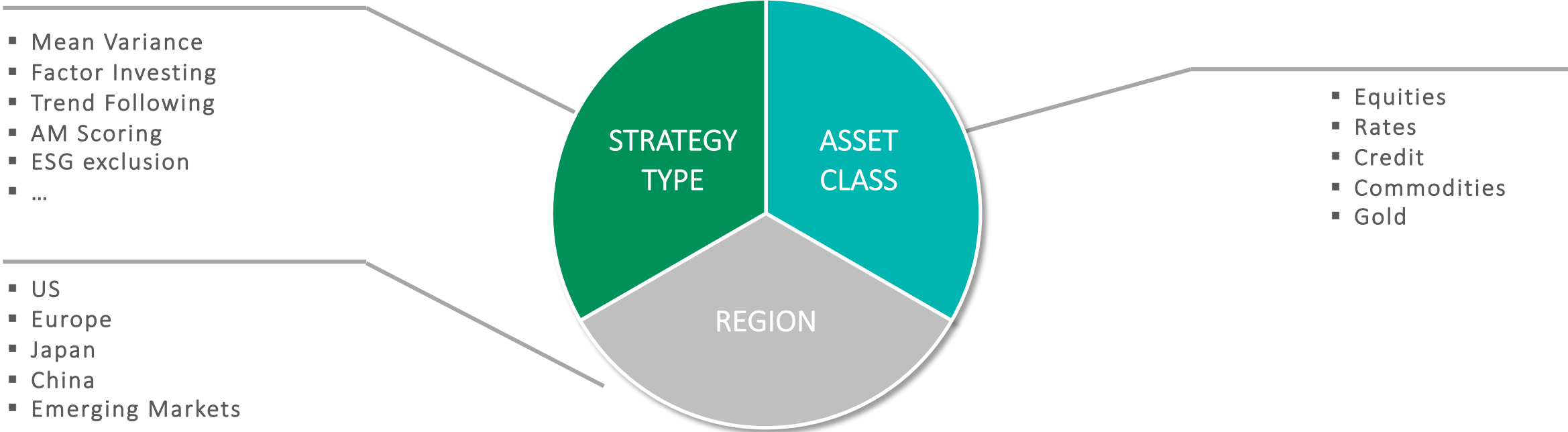


# DECONSTRUCTING STRUCTURED DEPOSITS



For Illustrative Purposes Only.

# Large Universe of Crediting Strategies



EXAMPLES	BNP MAD 8 (BNPID8UF)	S&P Sector Rotation (SPXSRF6E)	Morningstar Stock Pickers (MSDIUSP7)	S&P 500 Risk Control 8% (SPX8UE2)
SHORT DESCRIPTION	Multi Asset Diversified (assets & geographies) absolute return strategy allocating on the “efficient frontier” Daily vol control at 8%	Allocate to the best US equity sectors based on a Value & Momentum criteria Daily vol control at 6%	US stocks selection based on the top Value picks of Morningstar best managers Daily vol control at 7%	Allocation between S&P 500 and US treasuries based on target volatility Daily vol control at 8%

# *The Coca-Cola Company*

## **Pension Capital**

**Josh Savage**  
**Financial Risk & Investments Manager**  
**The Coca-Cola Company**

**World Captive Forum**  
**February 2019**

# Coca-Cola AT A GLANCE

The Coca-Cola Company (NYSE: KO) is the world's largest beverage company, refreshing consumers with more than 500 sparkling and still brands.



REFRESHING  
CONSUMERS



GLOBAL HQ  
ATLANTA, GA



PRODUCTS SOLD IN  
200+ COUNTRIES



RECORD  
DAILY SERVINGS



## PROFIT

**\$41.9B**

NET OPERATING REVENUES  
(2016, AS REPORTED)

**\$6.5B**

NET INCOME  
(2016, AS REPORTED)

**\$8.4B**

RETURNED TO SHAREOWNERS  
IN DIVIDENDS & NET SHARE  
REPURCHASES IN 2016

**\$177.8B**

MARKET CAPITALIZATION  
(AS OF 12/31/2016)

**55 YEARS**

OF CONSECUTIVE ANNUAL  
DIVIDEND INCREASES  
(AS OF FEBRUARY 2017)

## WORLDWIDE UNIT CASE VOLUME GEOGRAPHIC MIX (2016)

NORTH AMERICA  
**20%**

LATIN AMERICA  
**28%**

EUROPE, MIDDLE  
EAST & AFRICA  
**29%**

ASIA PACIFIC  
**23%**

**BUSINESS  
INSURANCE**

 **PORTFOLIO**



OUR COMPANY'S  
FLAGSHIP PRODUCT  
HAS BEEN PROUDLY  
SERVED SINCE MAY 8,  
**1886**



RANKED BY INTERBRAND  
AS THE WORLD'S THIRD  
MOST VALUABLE BRAND,  
WITH 2016 VALUE OF  
**\$73.1B**



OUR BRANDS CAPTURE APPROXIMATELY  
**\$1 OUT OF EVERY \$4** CONSUMERS SPEND  
ON NONALCOHOLIC READY-TO-DRINK  
BEVERAGES WORLDWIDE.



**~3,900**  
**PRODUCTS**  
**WORLDWIDE**



- SPARKLING BEVERAGES
- STILL BEVERAGES
- READY-TO-DRINK JUICE AND JUICE DRINKS
- READY-TO-DRINK COFFEE

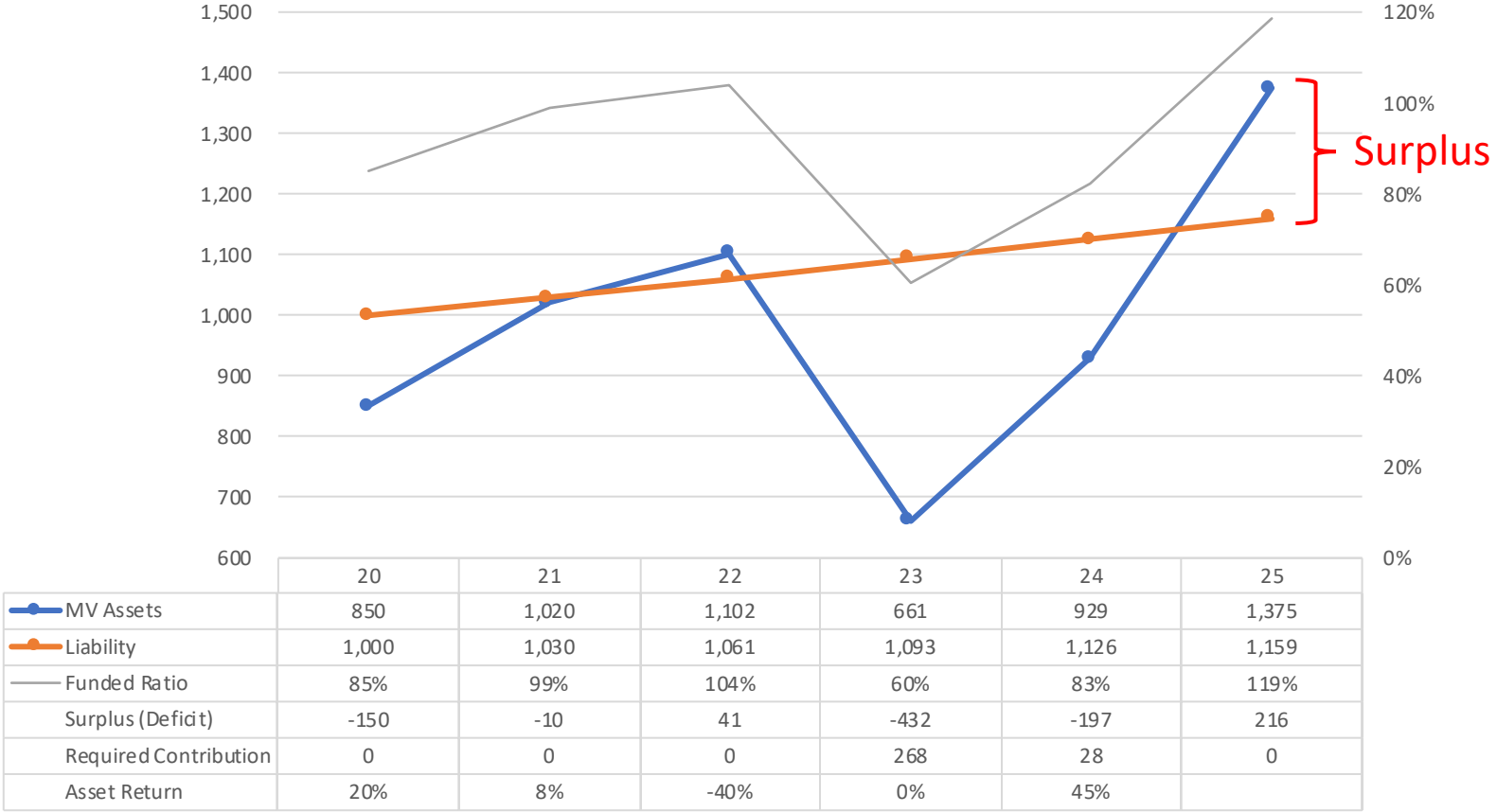


**19** OF OUR  
**BILLION-DOLLAR**  
**BRANDS**  
HAVE A LOW- OR NO-CALORIE ALTERNATIVE  
OR ARE LOW- OR NO-CALORIE

Our portfolio includes **21** billion-dollar brands:



# Traditional DB Pension Scheme



- Usually a minimum funding requirement
- Usually no mechanism to distribute surplus assets
- So how do we mitigate risk of trapped surplus?
  - De-risk assets
  - Pension captive

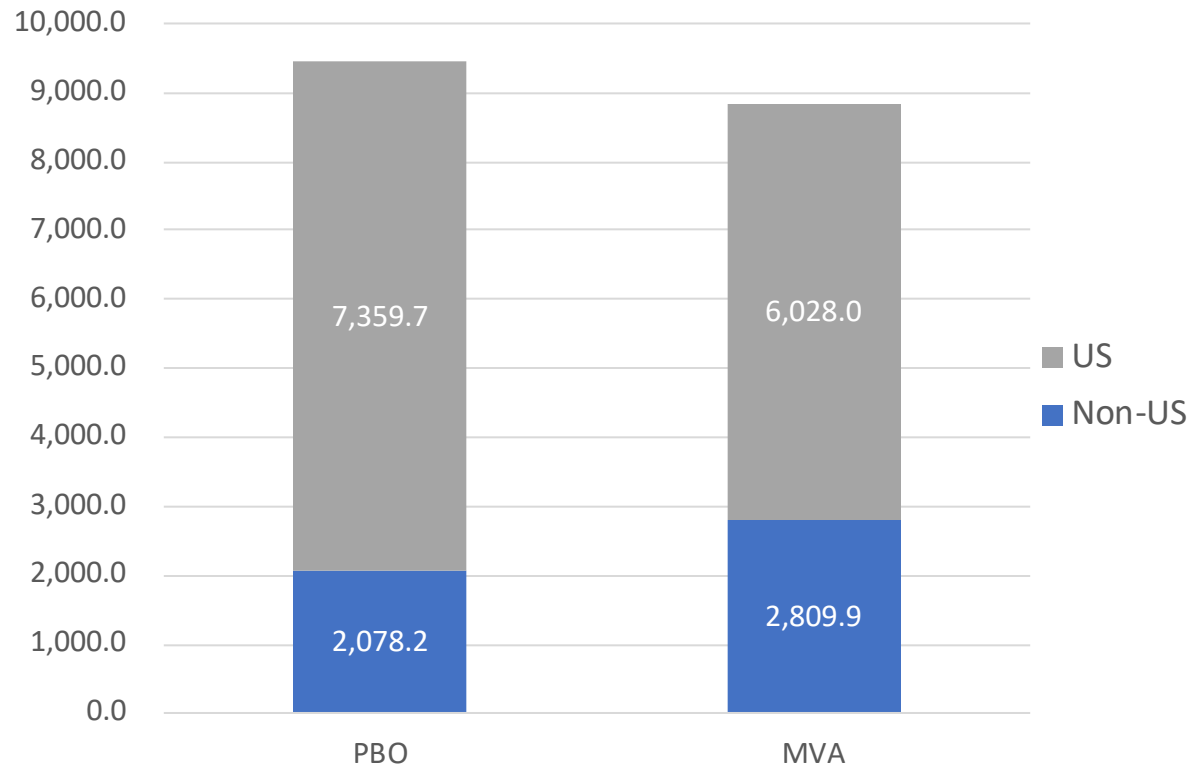
# Problem Statement

- 67 DB plans in 34 countries, which leads to
- Decentralized investment decisions, which leads to
- RISK:
  - Utilizing underperforming investment managers (opportunity cost – could be getting “more bang for buck”)
    - Poor investment returns relative to liability returns resulting in required contributions
  - Taking inappropriate market risk relative to plan characteristics
    - Taking too much risk, whereby portfolio volatility could lead to required contributions
  - TRAPPED SURPLUS
- Impact on Free Cash Flow and P&L



# Global Picture, 2017

2017 US GAAP PBO and Assets  
(USD MM)



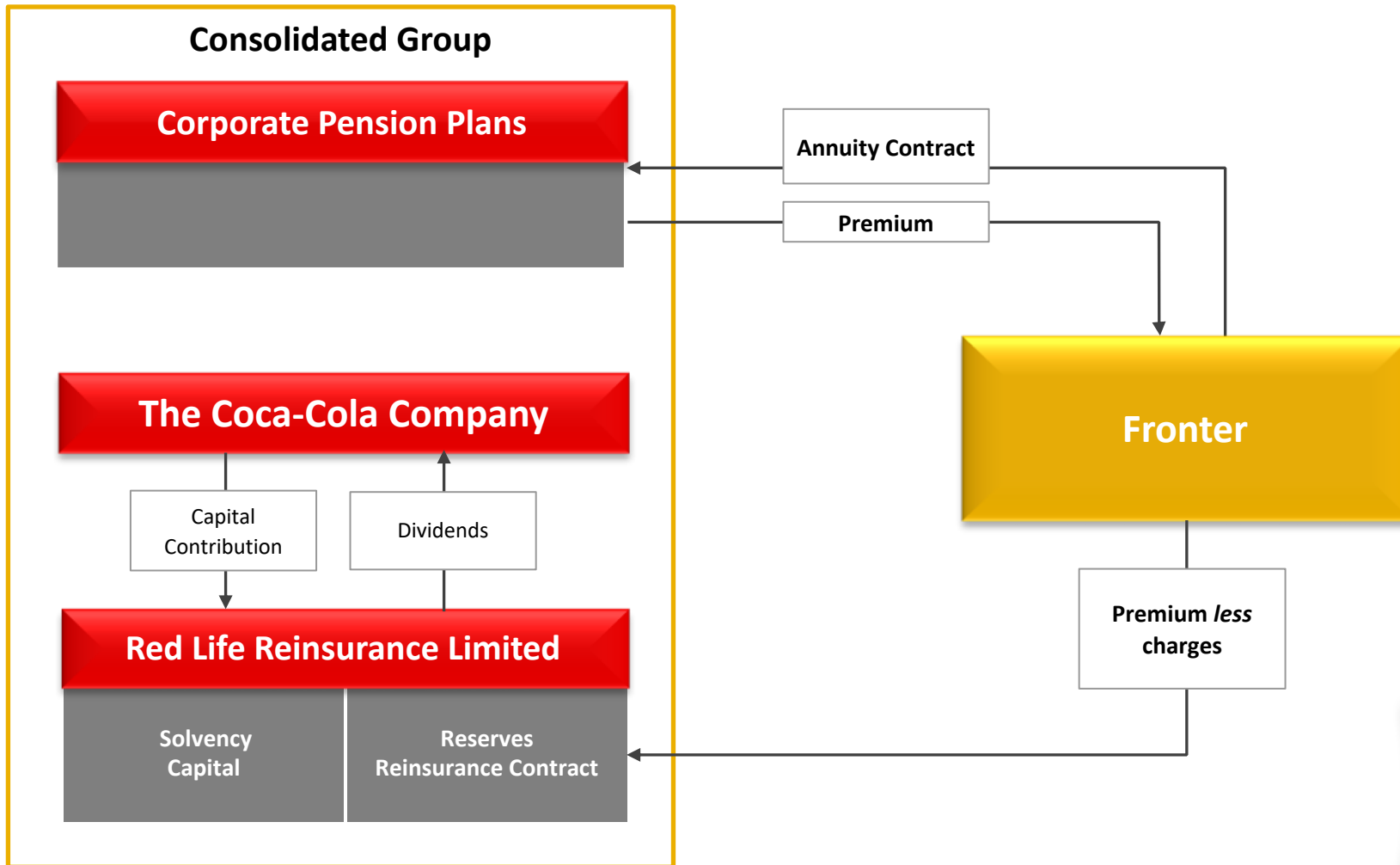
**Key Observations:**

- 34 countries
- 67 plans
- Total FYE17 PBO: **USD 9.4B**
  - US: **78%**
  - Non-US: **22%**
- Total FYE17 MVA: **USD 8.8B**
  - US: **68%**
  - Non-US: **32%**
- US plans plus those in pension captive account for **93%** of global plan assets

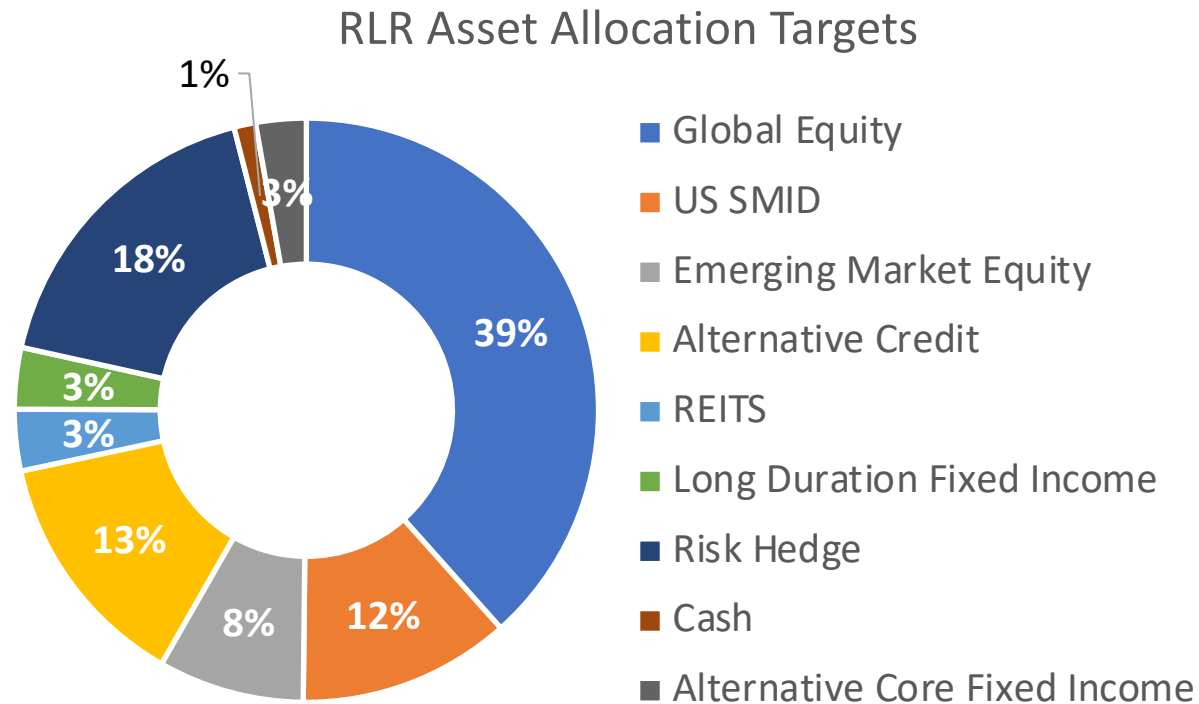
# Coca-Cola's Captives

	Red Re Captive Insurance		Red Life Reinsurance	
Domiciled	Georgia		Bermuda	
License	Life	P&C	Life	P&C
Established	2008	2006	2013	2017
Type	Reinsurance	Direct	Reinsurance	Direct / Reinsurance
GWP	\$50 M	\$66 M	\$28 M	\$18 M
Reserves	\$59 M	\$290 M	\$1,917 M	\$75 M
Assets	\$ 477 M		\$3,293 M	\$161 M
Lines of Coverage	<ul style="list-style-type: none"> <li>- US Life</li> <li>- International</li> <li>- Employee Benefit</li> </ul>	<ul style="list-style-type: none"> <li>- US Casualty / Work Comp</li> <li>- US Property</li> <li>- Product Recall</li> <li>- Executive Risk</li> <li>- Terrorism</li> <li>- Cyber</li> <li>- Political Risk</li> <li>- TV Wrap</li> </ul>	<ul style="list-style-type: none"> <li>- Pensions: Canada</li> <li>- Germany</li> <li>- Ireland</li> <li>- UK</li> </ul>	<ul style="list-style-type: none"> <li>- International Property</li> <li>- International Casualty</li> </ul>

# PenCap Reinsurance Structure



# Portfolio that looks like this



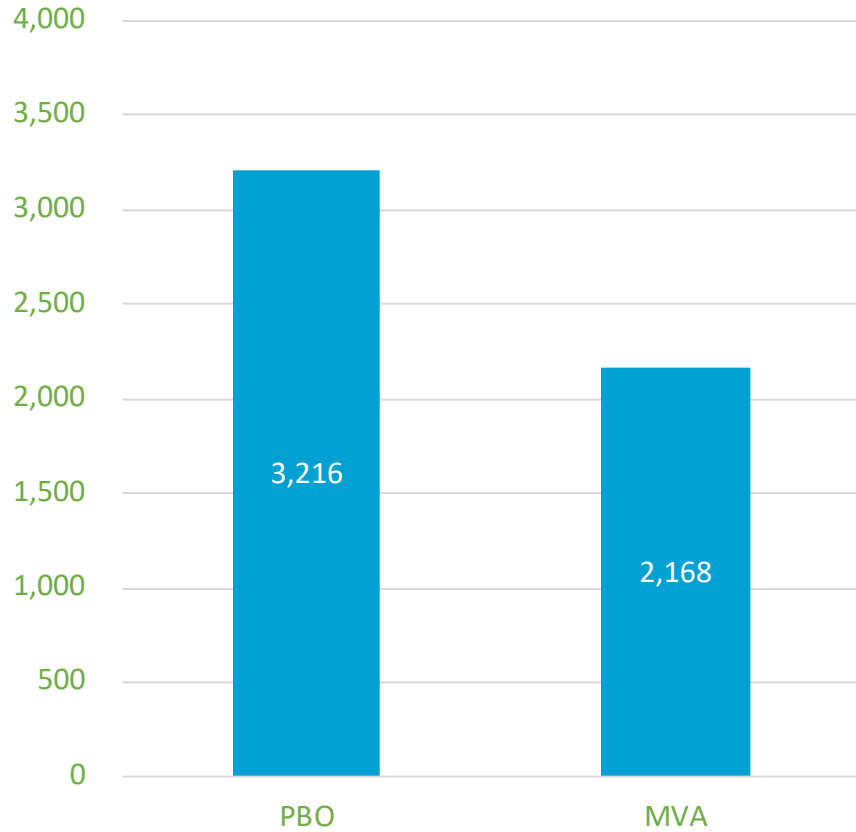
# Capital Requirements in a PenCap Structure

- Liabilities must be 100% funded on an insurance basis
- Liability measures and capital charges are more sensitive to changes in market conditions than traditionally-funded pensions



# A Tale of Two Cities

2018 US GAAP PBO and Assets ex-large plans and RLR Surplus (USD MM)



2018 US GAAP PBO and Total Assets ex-large plans (USD MM)



# So what now?

- We are at a global de-risking point. But how do we accomplish this?
- Trade-off:
  - De-risk in local plans: massive project, poor access to high-conviction investment managers, lose economies of scale
  - De-risk in RLR: lose opportunity to leverage investment expertise for excess asset returns
- Challenge:
  - Optimize de-risking activity across all asset pools, prioritizing critical plans
  - Use “conventional” methods to de-risk large, well-funded plans
  - Give local trusts access to high-conviction managers at preferred fees
  - Fund smaller, less well-funded plans using RLR surplus capital