

BUSINESS INSURANCE

WORLD

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General Track: Using Active and Passive Management in Captive Portfolios



Marvin Turner
Comercia Bank
MODERATOR



Jason Oswald
CIRCA Ltd.



Raghu
Ramachandran
S&P Global

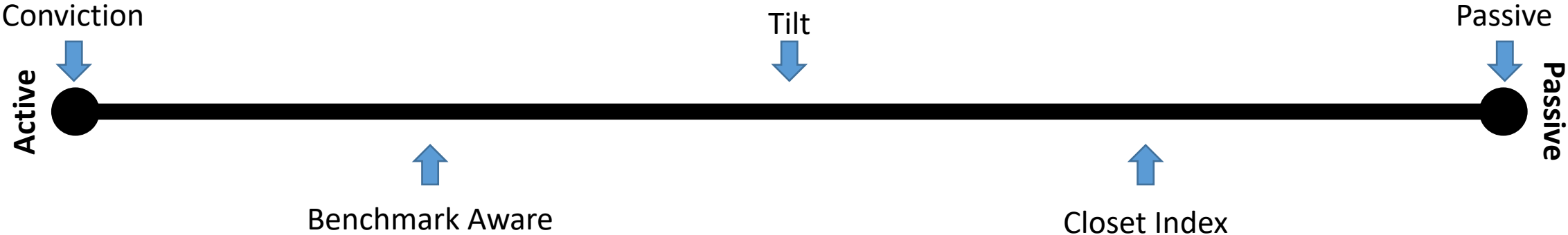


Carl Terzer
CapVisor
Associates, LLC

- What is Active Management?
- What is Passive Management?
- What is an ETF?
 - How is it different from a Mutual Fund?
- Advantages of Mutual Funds v. ETFs v. SMA
- Practical challenges



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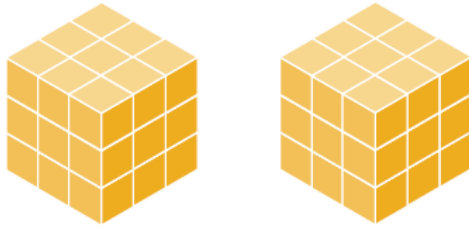
	Conviction	Benchmark Aware	Tilt	Closet Index	Passive
Hedge	✓✓✓✓				
SMA	✓	✓✓	✓✓✓	✓✓	✓
Mutual Fund	✓	✓	✓✓	✓✓	✓✓
ETF					✓✓✓



	ETFs	Mutual Funds
Registration	40 Act Fund	40 Act Fund
Trading	Brokerage firm	Fund company
Share price	Continually updated	Market Close
Transaction Costs	Commission & bid/ask	Depends of fund load
Avg Expense Ratio (Equity)	0.11%	0.26% - 0.80%
Security Ownership	Directly to underlying	N/A

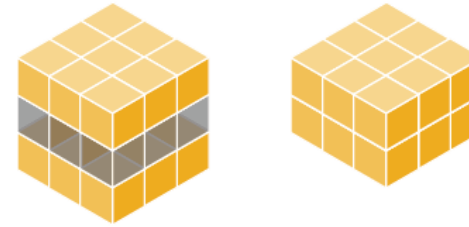
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Full replication



- Buying securities in the index according to their relative weight in the index.

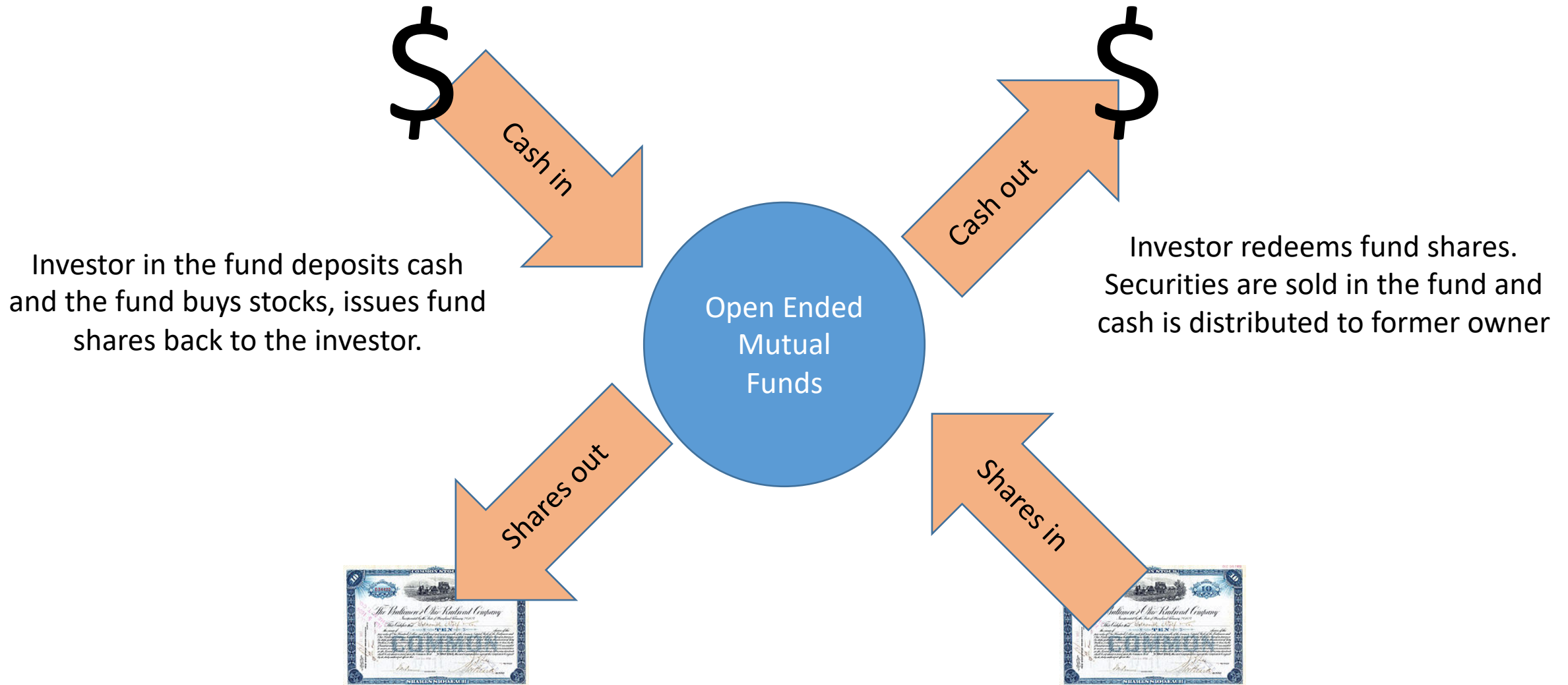
Sampling



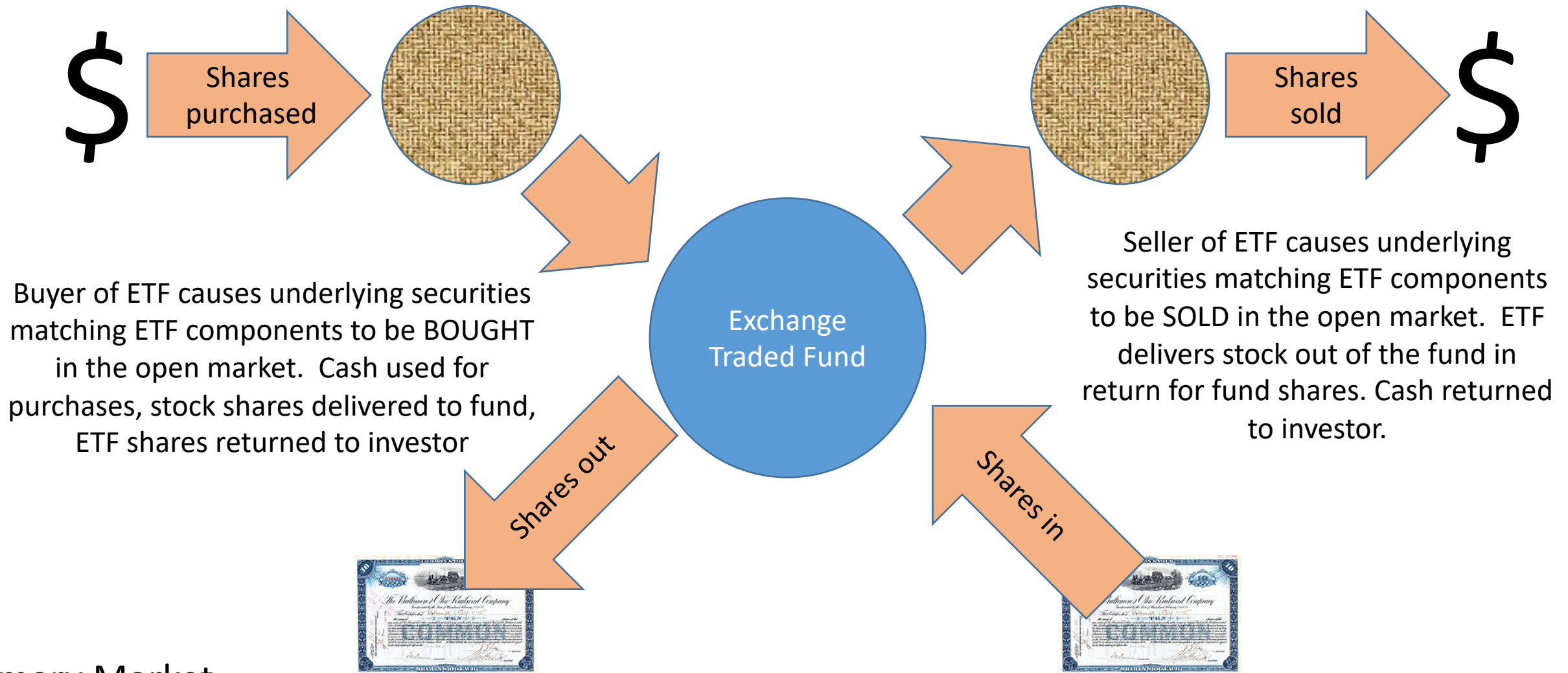
- A representative sample of securities that make up the index.
- Most bond indexes take this approach.

Source: Vanguard

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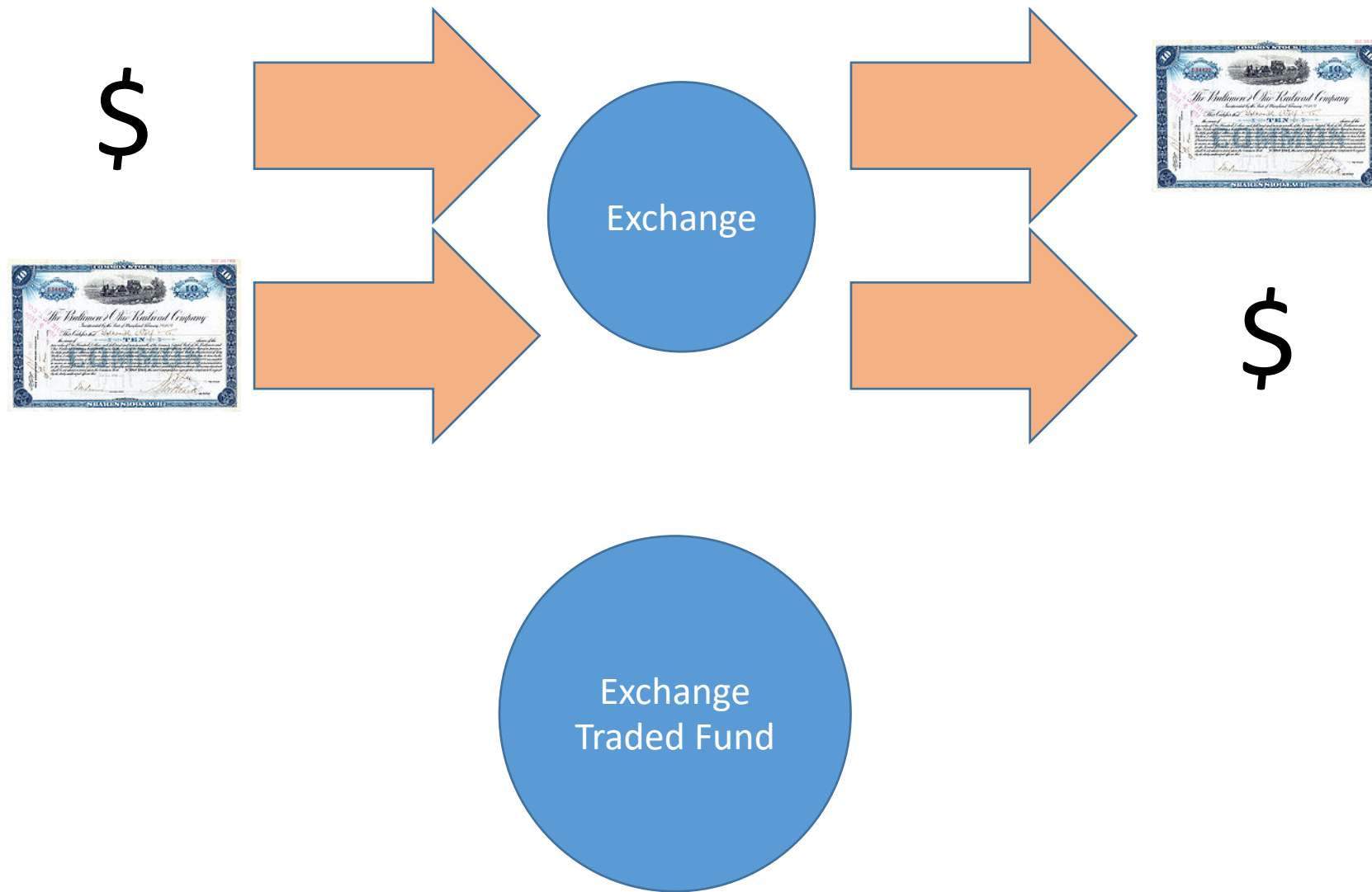
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Primary Market



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Secondary Market



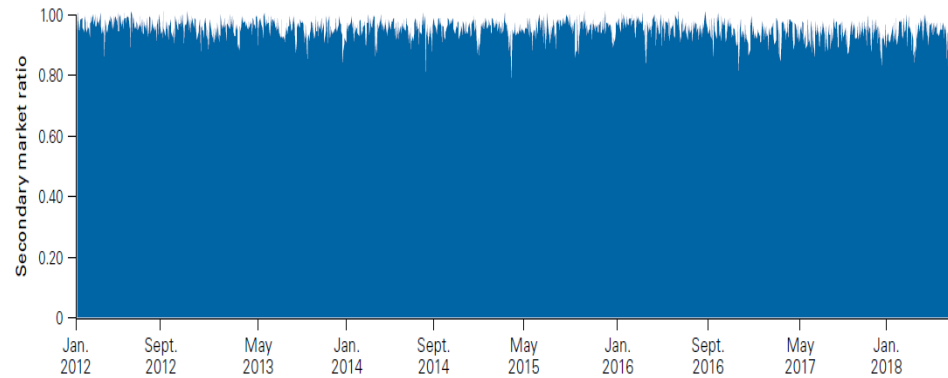
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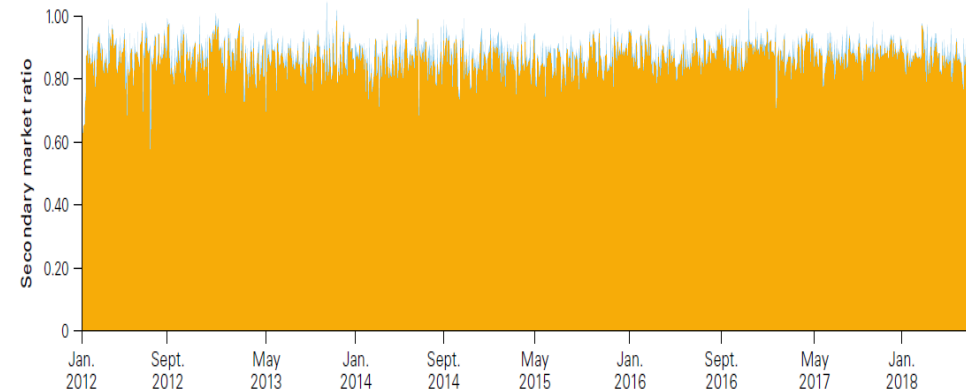
ETF secondary market ratio

Secondary-market activity divided by the sum of primary-market and secondary-market activity

Equity ETFs

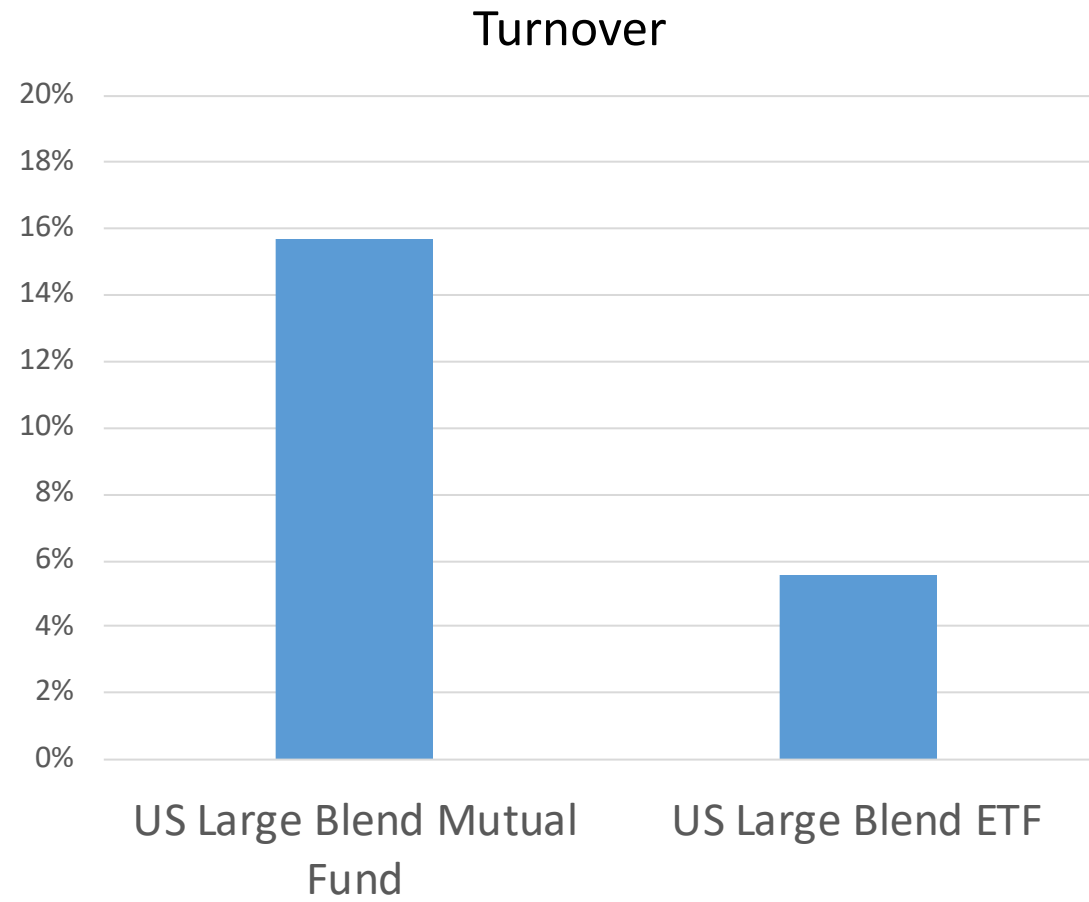


Bond ETFs



Source: Vanguard

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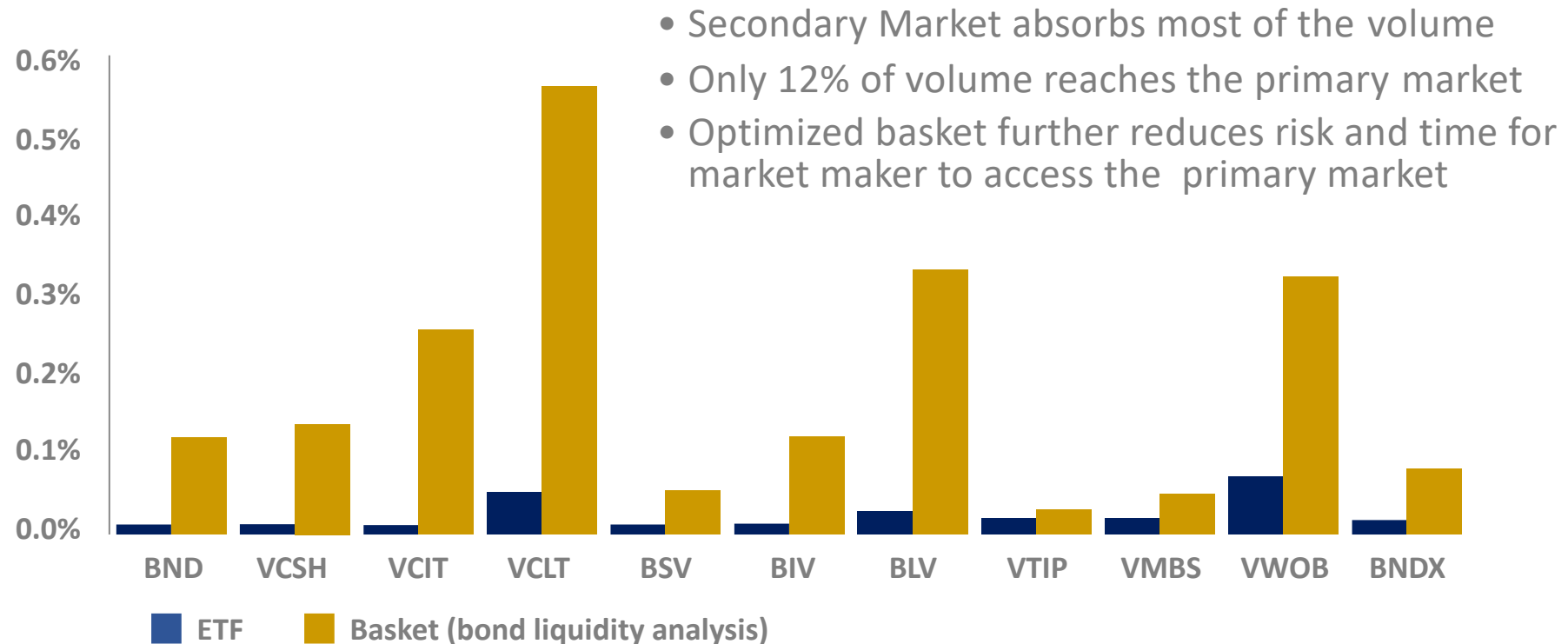


Source: Goldman Sachs



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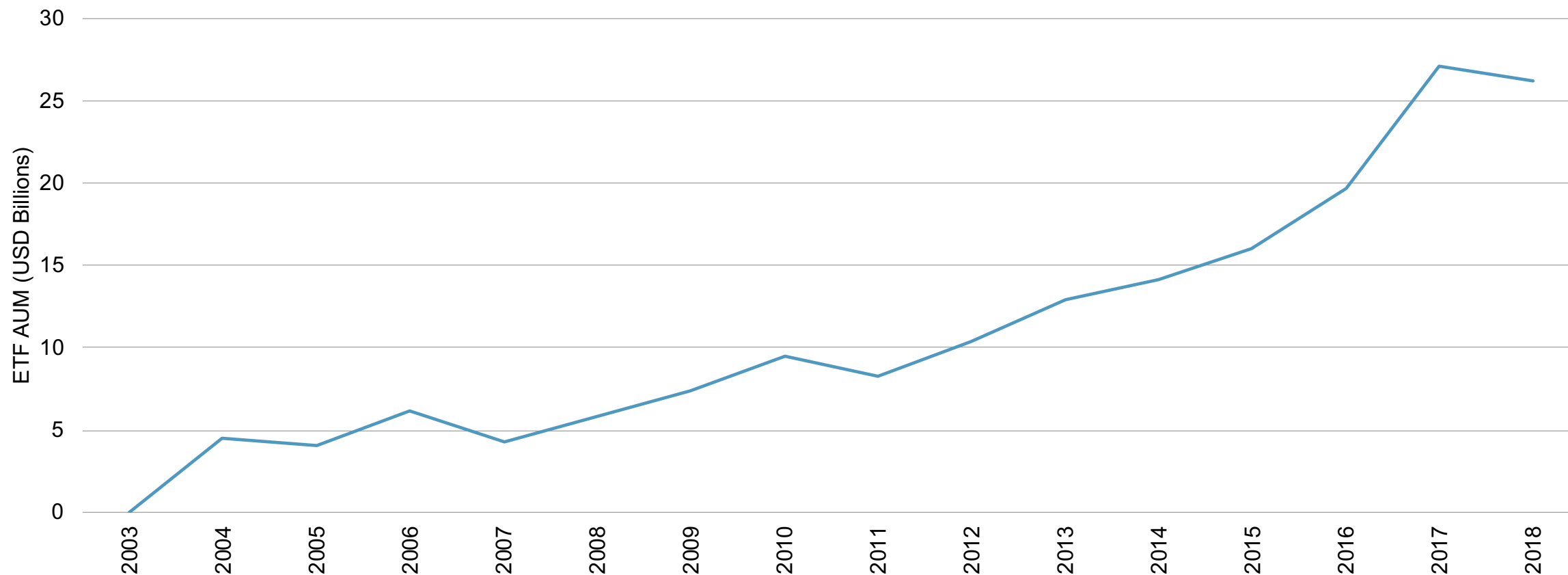
ETF spread versus estimated basket spread



Source: Vanguard

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ETF AUM

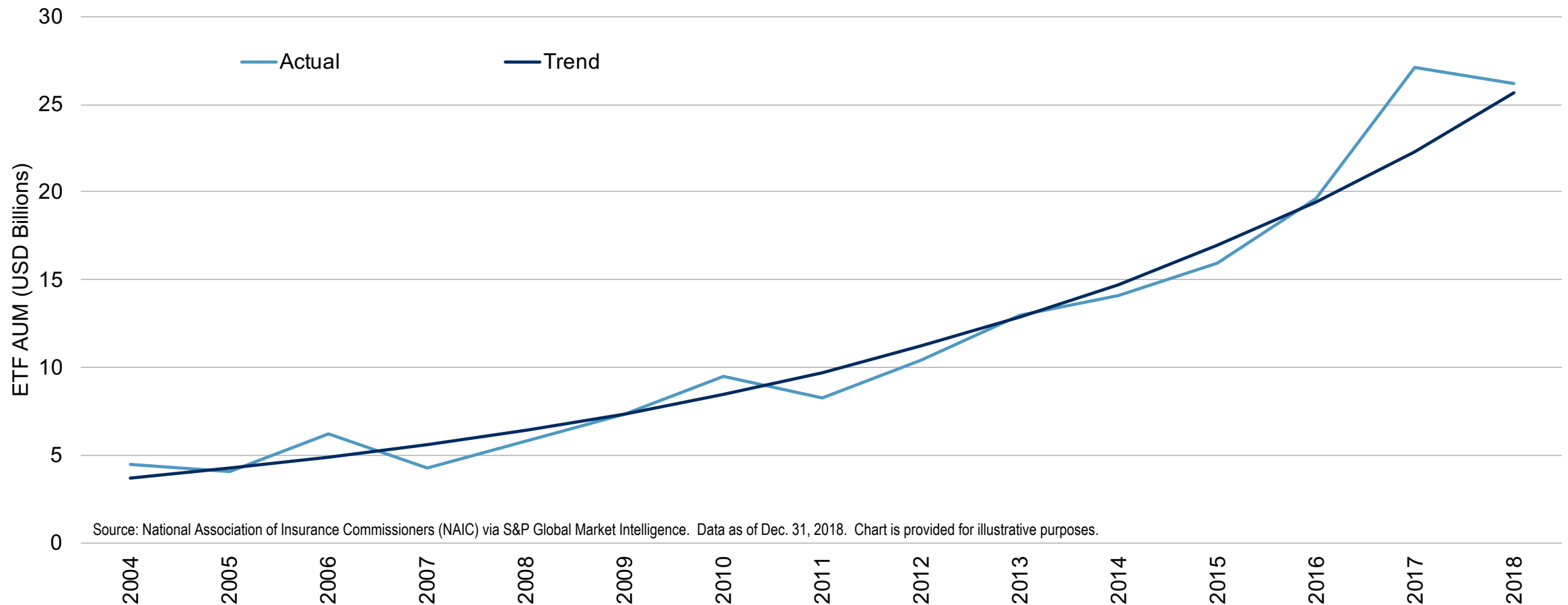


Source: National Association of Insurance Commissioners (NAIC) via S&P Global Market Intelligence. Data as of Dec. 31, 2018. Chart is provided for illustrative purposes.

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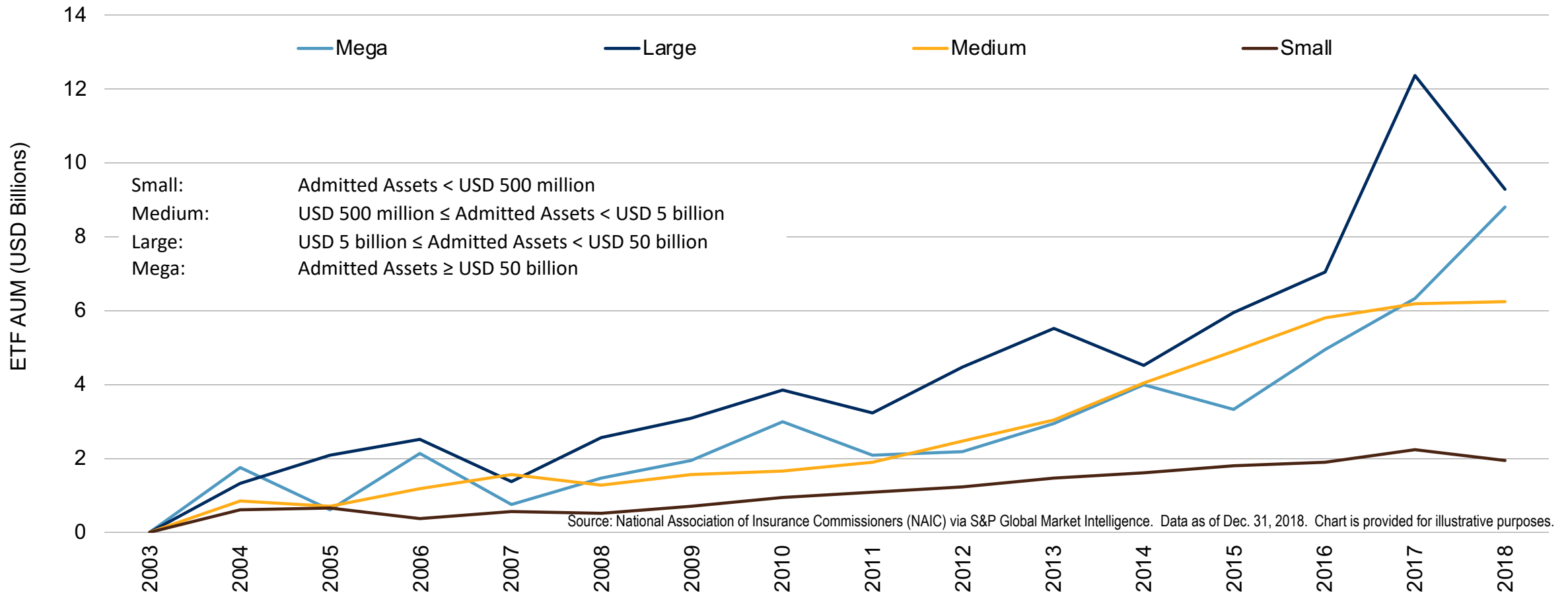
ETF AUM Growth Trend



Source: National Association of Insurance Commissioners (NAIC) via S&P Global Market Intelligence. Data as of Dec. 31, 2018. Chart is provided for illustrative purposes.

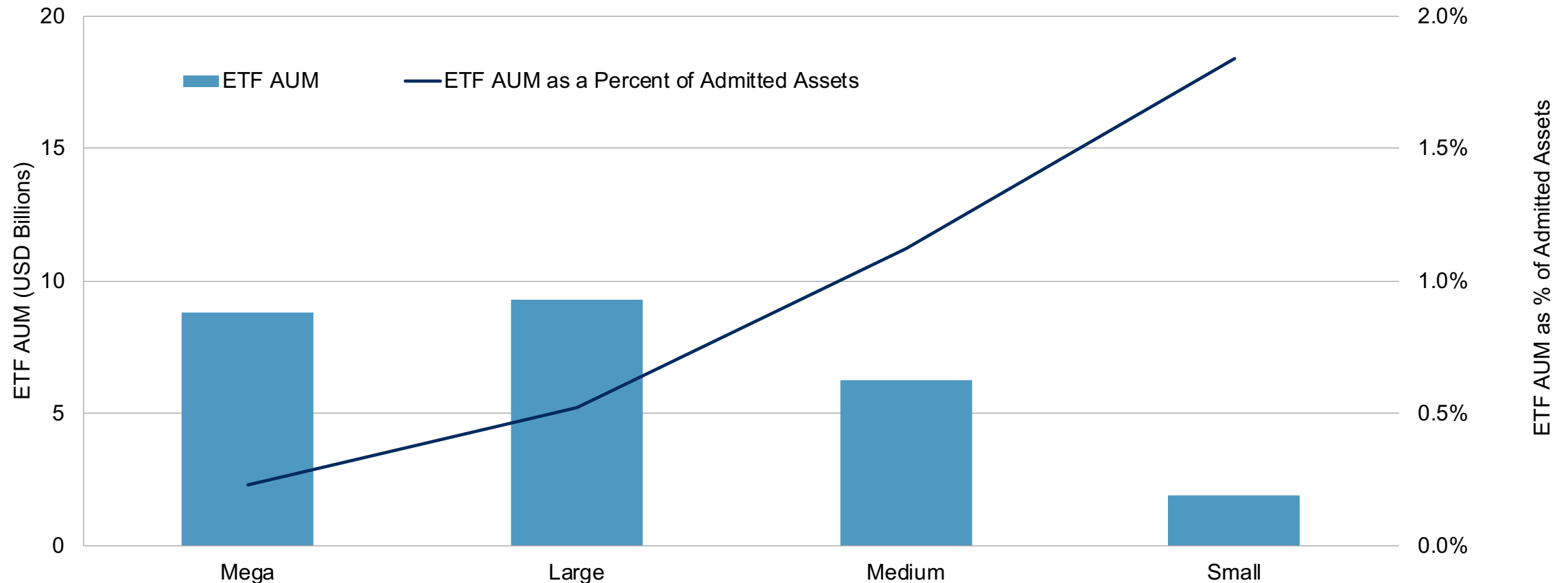
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ETF Usage by Size of Insurance Company



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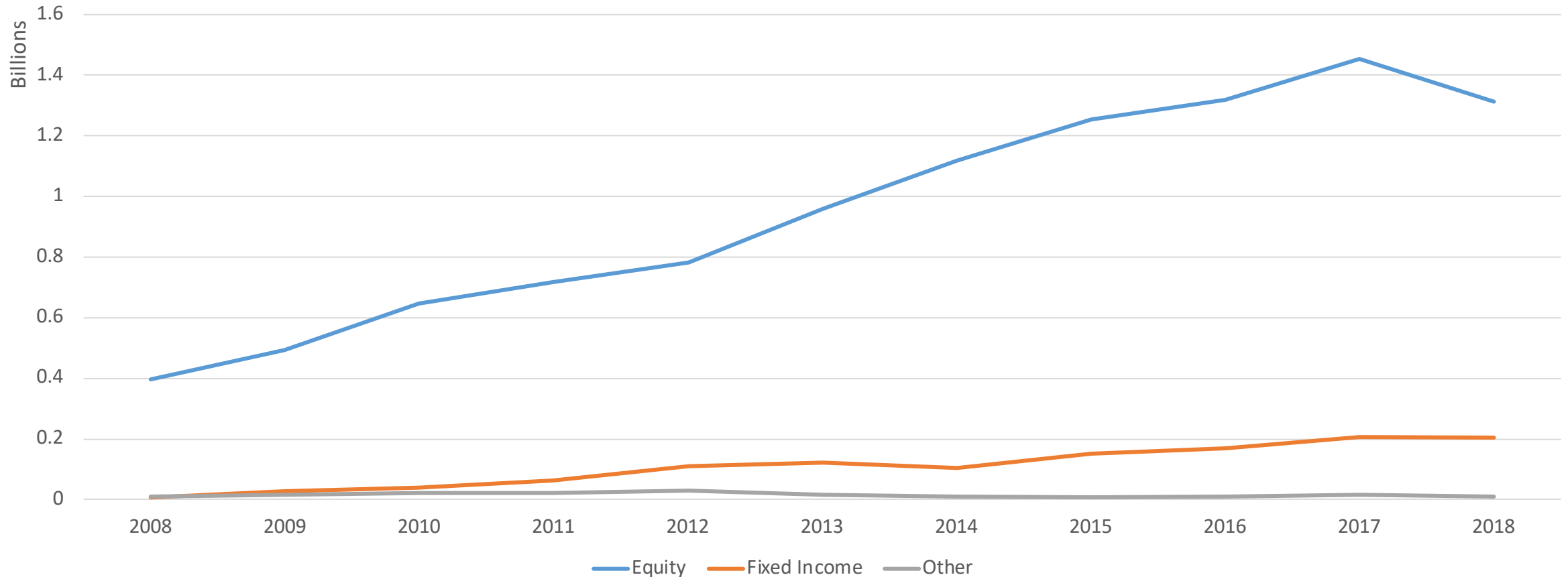
ETF AUM and ETFs as % of Admitted Assets



Source: National Association of Insurance Commissioners (NAIC) via S&P Global Market Intelligence. Data as of Dec. 31, 2018. Chart is provided for illustrative purposes.

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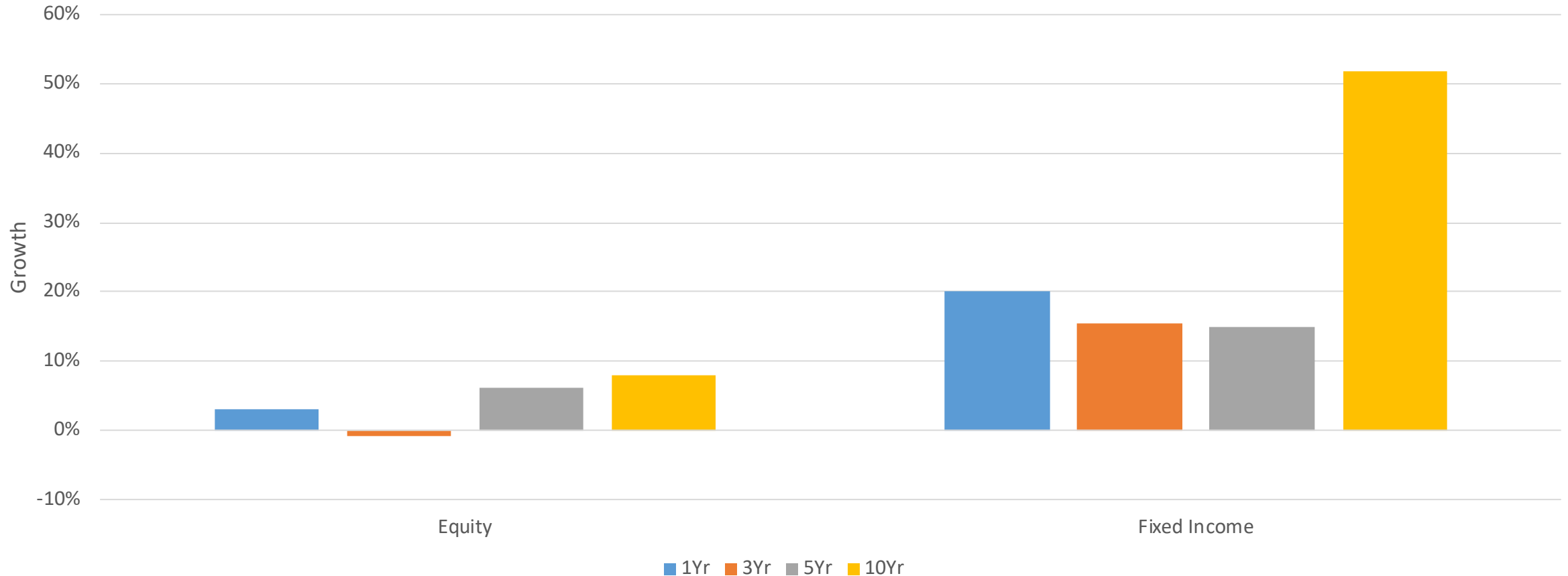
Small P&C ETF Investment



Source: National Association of Insurance Commissioners (NAIC) via S&P Global Market Intelligence. Data as of Dec. 31, 2018. Chart is provided for illustrative purposes.

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Small P&C ETF Investment



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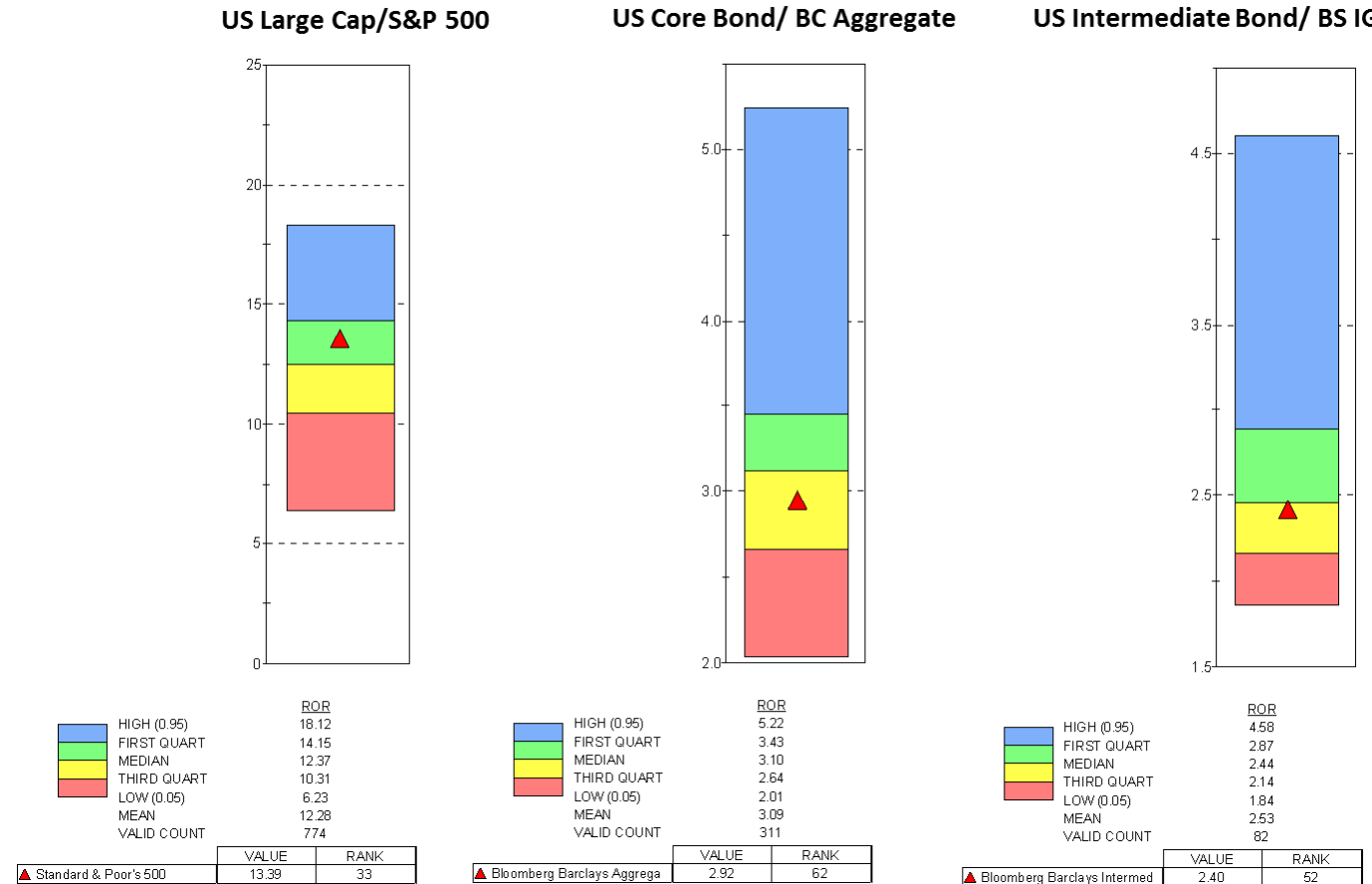
There are some potential drawbacks to ETFs...

- Can't manage gain/loss position
- They do not adjust for market/economic conditions
- Investors do not understand the underlying index
- Investors are confused by the vast array of “similar” ETF choices
- No opportunity to outperform
- They may cause investors to be overly focused on fees rather than performance or “value”



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Index v Active – Composite Performance

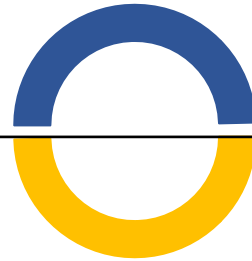


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Low costs, low manager risk,
consistent returns relative to
the targeted market



Can provide
a happy medium



Opportunity for
outperformance but
higher relative risk

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Case Study: CIRCA

ETFs allow us to invest in asset allocation at low dollar amount and at low cost

Portfolio Segment

REG. 114 Trust/
Reserve Assets

Unencumbered
Surplus Assets

Stage 1

Passive Equity ETF

Passive Equity &
Bond ETF Portfolio

Stage 2

Active Equity
Management

Active and Passive
Portfolio



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