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# Correspondent's Report from the SOA 2015 Investment Symposium

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The SOA Investment Symposium returned to Philadelphia last March, the location of the inaugural SOA Investment Actuaries Symposium back in November 2000. The city itself seemed largely unchanged during our absence. Yet the challenges facing actuaries today were no less daunting than they were 14 years ago in the wake of the Russian default and Asian contagion—and on the brink of the tech wreck. Sidebar conversations in the corridors and over cups focused on when (not if) the Federal Reserve would raise interest rates, hopefully sometime soon. The admonition of a founding father who knew colonial Philadelphia well, one Benjamin Franklin, came to mind: "He that lives on hope will die fasting." [FG]

## TOOLS FOR EVALUATING INSURANCE PORTFOLIO INVESTMENT PERFORMANCE (SESSION 18)

Most of us agree—the performance of an investment portfolio is best evaluated by its total return relative to a benchmark. On the other hand, our industry's performance is often reported and judged by book value accounting where investment income is largely independent of mark-to-market performance, at least in the short run. During the "Tools for Evaluating Insurance Portfolio Investment Performance" session, David Braun and Peter Miller, both from PIMCO, explained that they use a series of three reports to help clients understand quarterly performance in terms of total return, risk and book yield.

How could a decline in portfolio book yield be decomposed into a component explained by today's low rate environment, and another explained by active management of the portfolio? This session focused on that question, and delivered an answer facilitated by a novel approach to the construction of a benchmark for book yield. The guiding principle? Make the benchmark reflect the yield that would be expected if the manager was truly passive. Cash inflows are assumed to be immediately invested in a neutral portfolio; outflows are funded with pro rata sales. To avoid this calculation escalating into an onerous accounting exercise (in David's parlance, to avoid "trying to boil the ocean"), at the beginning of each period the benchmark is assumed to match the existing portfolio. The result? A practical, understandable tool to help life companies better understand how their investment manager's active decisions have influenced their portfolio's yield. [KS]

## CIO/CRO PANEL (SESSION 19)

The last session of Day 1 was a panel of chief investment and chief risk officers. The panel was composed of investment experts working in various areas of the financial services industry: Ellen Cooper from Lincoln Financial, Sadiq Adatia from Sun Life Global Investments, Jeff Hussey from Russell Investments and Lori Evangel from Genworth. The session was moderated by Martin Bélanger, director, Investments at Western University.

The panelists fielded a wide range of questions, including explaining their investment strategy, discussing how they integrate environmental, social and governance factors into their investment process, how they deal with the current low interest rate environment, describing the new products and strategies they've added to their portfolios, how they manage risk, and what is their overview of the market.

The panelists agreed that a good risk management framework is essential. Risk cannot be avoided when pursuing investment objectives, and consequently each investment risk must be identified, quantified, reported and managed. Overall, the panel generally shared a positive market outlook, although some asset classes are getting expensive and the consensus about interest rates was that they will, eventually, go up. [MB]

Can You Tell the Difference? – Following the "Currency, Did You Miss the Boat?" session (Session #21) on the morning of the second day of the 2015 Investment Symposium, one of the panelists, Mark Abbott (left) greets his namesake, Mark Abbott (right). (Photo credit Frank Grossman.)

## INVESTMENT STRATEGY & OPTIMIZATION: TREND AND CASE STUDY (SESSION 23)

Larry Zhao moderated this session in which Mary Pat Campbell examined the current trend of insurers' investment strategies, and Ming Chiu discussed two applied asset portfolio optimization case studies.

Mary Pat Campbell of Conning lead off with an overview of the investment portfolio compositions of life, pension, health, and property & casualty insurers. The key results from the 2nd Annual ACLI-Conning CEO Poll showed that increasing investment yield and capital management were of top importance to CEO's in a changing yield environment in the period from year-end 2013 to year-end 2014. As older assets matured, portfolio yields have fallen prompting companies to seek yield outside their core holdings by diversifying beyond traditional fixed income assets, reducing liquidity, lengthening duration, and lowering credit quality. Mary described allocations by asset classes, life industry bond sector allocations, and the trend in credit quality shifts toward more BBB rated bonds and less below investment grade. A closer look at investment returns showed a wide range of investment results across industry with gross book yields ranging from 3 percent to 8 percent in 2014. Mary went on to describe the differences of average gross book yields, and allocation to BBB and below investment grade bonds, by quartile groups. CEO's opinions on which asset classes they thought would maintain or increase yield were ranked. In conclusion, projected book yields under gradually rising interest rate scenario from 2014 to 2023 were presented.

Ming Chiu of AIG then demonstrated a top-down approach to the allocation of assets to various P&C LOBs in three steps via a case study. The first step was to allocate fixed income assets to back P&C LOB statutory reserves. Pseudo code was examined for the Genetic Algorithm used to optimize the fixed income allocation to LOB by minimizing duration mismatch between assets and liabilities. In step two, the S&P capital model was used to calculate the total capital requirement for each LOB, and remaining assets were allocated in proportion to the S&P capital. Step three allocated excess assets to each LOB on a pro-rata basis. A second case study dealt with a high level overview of a risk factor based Strategic Asset Allocation framework for a large international P&C asset portfolio.

The session attendees posed questions to Mary regarding details in trend analysis of the investment portfolios. Ming answered questions regarding the Genetic Algorithm's implementation using Matlab and the advancement of risk factor modeling techniques in a strategic asset allocation framework. [MC] ■


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