WHAT'S YOUR DREAM JOB?

BEING OPEN TO OPPORTUNITIES AND KNOWING WHAT YOU WANT CAN LEAD YOU TO THE JOB OF YOUR DREAMS. BY JOEL SALOMON

If someone asked me 20 years ago what my dream job was, I would have answered "hedge fund manager." At the time, I was working as an actuary, having just completed my exams to become a fellow of the Society of Actuaries. After working in a number of departments, including the asset-liability management (ALM) area, for New York Life Insurance Co. (NYL) and taking some courses that today would be part of the investment risk management and financial reporting modules, I realized where my true passion lay.

In the ALM area, I used Bloomberg to access forward curves, or future yield, for modeling the annuity and universal life lines of business and to look up the financial security codes, CUSIPs, for the bonds that NYL had invested in. But the real fun was when I talked to my manager about stocks. She was enamored with Berkshire Hathaway and we debated the merits of the investment (with no "Baby Berkshire" shares at the time, she advised me to scratch together $11,000 and buy a share).

So the key question in 1993 for me was how to align my hobby and career. I talked to a number of actuaries who worked at rating agencies and Wall Street firms. The response was nearly unanimous. If you want to move to the buy side (that is, invest in fixed income or equities securities, especially insurers), the best place to learn is a rating agency. Both Moody's Investors Service and Standard and Poor's Rating Service were touted as great training grounds. The guys on Wall Street gave three majors points for moving to a rating agency, where you would be able to:

- Utilize your actuarial skills to analyze statutory and GAAP (generally accepted accounting principles) statements
- Get access to many insurers' cash flow testing and reserve adequacy analysis
- Determine the creditworthiness of many insurers.

Not only that, they said, but you would have the opportunity to upgrade or downgrade companies, assign initial ratings to debt securities, write up special reports on important industry issues and create research reports on individual companies. And you would be able to travel around the country. Well, the analysis aspects sounded awesome, but my second biggest passion was traveling, and I was hooked.

What to do next? A marketing friend of mine suggested sending a Federal Express package to the head of the insurance division at Moody's with the message: "If you give me two minutes of your time, I will show you I am the best candidate for the senior analyst job." That got me the interview. Unfortunately, it was clear I was not quite ready for a senior analyst role, but I did manage to secure a junior analyst role. Getting in the door was the goal, of course, so I took it.

MOODY'S: A STEP IN THE RIGHT DIRECTION

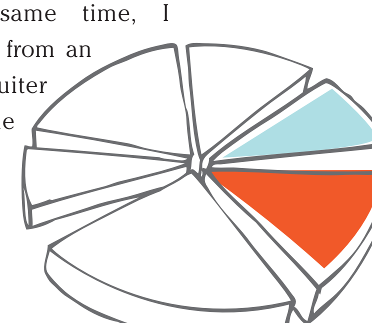
My experience at NYL proved invaluable in my initial days at Moody's. Having the experience working on statutory statements as an actuary helped me know exactly where to look to find the important disclosures, the key reserve interest rate assumptions by product type and, of course, being able to spot the most important scenarios in the insurer's cash flow testing (asset adequacy) reports.

My initial job was to write up research reports on various asset classes, conduct ALM and help the senior analysts. Eventually, I was promoted and was responsible for my own portfolio of companies, analyzing each page of those statutory statements and writing up research on those insurers. And I traveled the country!

After almost four years of getting excellent experience and knowledge across various product types, reserve methodologies and, of course, company cultures, I realized my learning curve was leveling off and I was one step closer to my dream job.

SWISS RE: A LITTLE BIT CLOSER NOW

Around the same time, I received a call from an actuarial recruiter who told me that a reinsurer was making



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DREAM JOB VOCAB

Catastrophe bonds (CAT bonds)
Securities that are risk linked and high yield and transfer from the sponsor to the investor a set of risks usually associated with catastrophes and natural disasters

CDOs (collateralized debt obligations)
Individual loans such as auto loans, credit card debt and mortgages pooled together and sold to investors; the individual loans are the collateral for the CDOs, with the payments passed on to various classes of owner, or tranches

CLOs (collateralized loan obligations)
A type of CDO, often backed by corporate loans with the payments passed on to various classes of owner, or tranches

Contingent capital
Debt that converts into equity when a specific contingency, such as a natural disaster or a maximum for raw materials, is met

Credit default swaps (CDS)
Considered insurance against nonpayment, the CDS seller agrees to compensate the buyer if the loan goes into default

Dodd-Frank Act (aka, Dodd-Frank Wall Street Reform and Consumer Protection Act)
Federal law, enacted in July 2010, as a response to the Great Recession with the aim to stop significant financial crises with financial regulatory processes at all federal financial regulatory agencies

Finite reinsurance
A form of reinsurance more focused on capital management than on risk transfer, where there is a cap on the reinsurer's exposure

Private equity
Equity capital not publicly traded on a stock exchange

Shorting (short selling; going short)
Sale of securities or other financial instruments not owned by the seller, and subsequently repurchasing them

Statutory statement (statutory insurance statement)
Prepared with insurance companies' statutory accounting principles; the basis for state regulation of insurance company solvency

Volcker Rule
Section 619 of the Dodd-Frank Act, to restrict U.S. banks from making certain kinds of investments that supposedly do not benefit their customers

private equity (PE) investments and was looking for a PE analyst. I jumped at the chance to interview, and realized on the interview that the job was much more than a PE analyst. This group was on the cutting edge of financial markets. They were structuring credit enhancements for individual insurance blocks of business (and trying to do the same for whole companies). They were working with other areas of the reinsurer that hedged insurers' variable annuities, and they were managing the existing PE portfolio. I realized this wasn't public securities but I also realized it was getting me one step closer to my dream job. I took the job.

My experience at Moody's provided me with an excellent perspective for this department. I was able to jump right in and understand the importance of rating agencies in credit enhancement transactions and how to structure the transaction to achieve the highest ratings. It was also quite helpful to have worked on analyzing insurers from a credit perspective since the private equity analysis was a long-term investment from another point of view.

However, less than a year after joining Swiss Reinsurance Co.'s life and health division, they decided to purchase Life Reinsurance Co. Some may look back and view it as a "take-under" given the forthcoming changes in management and strategy. It was clear from the announcement to one particular PE analyst that his division was not "core," as Moody's used to say.

Swiss Re, at the time, was entering into various contingent and direct credit risks around the globe through financial and finite reinsurance transactions without actually having a credit analyst dedicated to analyzing the insurance company counterparties. Knowing there was a PE analyst about to be a free agent, an actuary in Swiss Re New Markets hounded the Credit Risk Department to interview me. Though it wasn't the reason I joined Swiss Re, I realized it was an excellent position to learn about credit from the ones actually doing the transactions. And what transactions they were! High-yield and high-grade collateralized loan obligations

(CLOs), collateralized debt obligations (CDOs), credit default swaps (CDS), finite reinsurance, contingent capital transaction, catastrophe (CAT) bonds, etc. And did I mention they wanted me to analyze these insurers from Zurich? It was supposed to be three months, but don't ask a passionate traveler to spend just three months in the center of Europe. After getting a taste of Zurich (and Schruns) in January 1999, 15 months seemed way too short a visit for someone who felt disappointed *only* getting to 46 countries.

After returning to New York City having been recently named a managing director, I was still learning a lot about the ever-changing world of credit products. But when I found an analyst role at a small hedge fund that also structured CDOs and made private equity investments in both banks and insurers, it sounded like the "perfect" job for someone who enjoyed equity investing and had experience in the other businesses.

As a passionate investor, having someone whose sole responsibility is the business side eases concerns of existing and potential investors.

FINANCIAL STOCKS INC. & CITIGROUP: ALMOST THERE

In October 2004, I started at Financial Stocks Inc. (now known as FSI Group LLC.). And if someone wanted to analyze insurers, you certainly got your chance there. First, they were structuring one of the first trust preferred security CDOs that included banks and insurers in one pool. Second, they were evaluating every private insurer raising money in 2004 and 2005 (remember the "Class of 2005" after hurricanes Katrina, Rita and Wilma?). And finally, though the hedge fund had invested in insurers in the past, the opportunity to grow the portion into a sizable piece of the portfolio was just what I wanted.

From there, it was just a matter of time before Citigroup came calling with my "almost" dream job: managing a portfolio on the proprietary desk of the equities division. I would have responsibility for deciding which insurers to buy or sell or short. I also would be responsible for sizing the positions, and have responsibility for deciding whether the portfolio overall was long or short. Was I up to the task? Well, it was the end of 2007. Can anyone say "financial crisis"? Luckily, years of analyzing credit risk helped this actuary know that ultimately an insurer and other financial institutions are dependent on access to the credit (and equity) markets for their viability. That helped me make money in 2008—when it was not clear to many if *any* financial institutions were creditworthy—and again in 2009 when it was clear the bond market was "healing." After another two years at Citi, the Dodd-Frank Act passed along with the Volcker Rule, which—though to this day is not yet fully written—required almost every U.S. bulge bracket firm to fire their proprietary desk portfolio managers.

SALAURMOR: A DREAM COME TRUE

Happily, this led me—finally, some may say—to my dream job. In 2013, SaLaurMor Capital opened its doors. SaLaurMor, named after my daughters, Lauren, 10, and Morgan, 8, is a long/short equity and credit hedge fund focused on financial institutions with a specific bent on—you guessed it—insurance companies.

As a new fund, SaLaurMor is quite lean with three—soon to be four—employees. Currently, there are two investment professionals and a chief financial officer/chief operating officer. As many of you know, service providers are a key element to any hedge fund in this post-Madoff world. Each fund has a prime broker, fund administrator, auditor, law firm and the obligatory compliance firm. So, one of the key challenges to a start-up hedge fund is ensuring the correct controls are in place to run the business properly. As a passionate investor, having someone whose sole responsibility is the business side eases concerns of existing and potential investors. It has been said that today no one can start a hedge fund in a garage with a Bloomberg machine. So, clearly start-up (and ongoing) costs are higher. Registering with the Securities and Exchange Commission (SEC) when the fund has $150 million in "regulated assets under management" is something that didn't exist 10 years ago.

So, how do I differentiate myself from other financial-sector-focused portfolio managers out there? Well, here are a few ways.

1. I focus on the balance sheet, especially analyzing reserves, and take a credit point of view to equity investments.
2. My goal is to establish

an economic fair value of the equity security and look at various economic and interest rate scenarios to determine excess capital and fair value.

3. I tend to be a long-term investor. At Citi, the average holding period was 15 months, and I suspect it might be longer at SaLaurMor. Furthermore, monthly turnover was just 5 to 7 percent at Citi.
4. I spend a lot of time analyzing the rating agencies point of view of the insurer. What is the likelihood of an upgrade or downgrade? What does Moody's think the excess capital position is of the insurer? As many of you know, the rating agencies are the ultimate arbiter for capital management at insurers.
5. I'm a risk manager first and a portfolio manager second.

To conclude, being an actuary lends a unique perspective to analyzing an insurer from both a credit and equity point of view. While some may be focused on the next quarterly earnings reports, and whether they will be a penny above or below expectations, I tend to consider the value of the insurance company over the next one to three years. Actuaries tend to have a unique perspective, and I know there are many more today who are interested in the buy side. I have interacted with a few who are CEOs of insurers or employed in the asset management division of insurers or buy-side firms. Twenty years ago, these positions were extremely rare. I believe there will be more and more room for actuaries in nontraditional roles. Would you like to be a hedge fund manager? What is YOUR dream job? A

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