The New Investment Environment: Challenges & Opportunities

Dan Mainolfi, Managing Director, Portfolio Management
October 10, 2017
Serving the Global Insurance Industry

- Global asset management firm founded in 1912
- Investing insurance company assets since 1983
- Offices in Hartford, Boston, New York, London, Cologne, Hong Kong and Tokyo
- 392 employees
- Managing $115.2 billion on behalf of clients in 177 separate accounts, 11 commingled funds, 21 CLOs and 59 mutual funds

Assets by Client Type

- $46.7 Life Insurers
- $39.5 Property/Casualty Insurers
- $11.3 Managed CLO Funds
- $6.3 Mutual Funds
- $5.3 Pension Plans
- $2.7 Other
- $1.7 Health Insurers
- $1.7 Banks

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(1) As of June 30, 2017, represents the combined global assets under management for the affiliated firms under Conning Holdings Limited, and Cathay Securities Investment Trust Co., Ltd. ("SITE"). SITE reports internally into Conning Asia Pacific Limited but is a separate legal entity under Cathay Financial Holding Co., Ltd. which is the ultimate controlling parent of all Conning entities.

(2) Includes SITE ILP Funds

(3) Excludes SITE

(4) Includes Sub-advised/Third-party Funds, Family Office/High Net Worth Investors, Asset Managers/Fund of Funds, Trusts, Foundations, and other investors

(5) Excludes commingled funds, managed CLO funds, and mutual funds
Quick Rise at End of 2016....Respite for Industry?

Constant Maturity Treasury Rates

- 5 Yr
- 10 Yr
- 20 Yr

Prepared by Conning, Inc. Source: Federal Reserve
## US Risk Free Rates

<table>
<thead>
<tr>
<th>Gross Yields</th>
<th>Dec-15</th>
<th>2016 Low</th>
<th>Dec-16</th>
<th>Sept-17</th>
<th>Increase From Low</th>
<th>2016 Change</th>
<th>2017 Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fed Funds*</td>
<td>0.24%</td>
<td>0.20%</td>
<td>0.65%</td>
<td>1.15%</td>
<td>+0.45%</td>
<td>+0.41%</td>
<td>+0.50%</td>
</tr>
<tr>
<td>2 Year</td>
<td>1.05%</td>
<td>0.55%</td>
<td>1.19%</td>
<td>1.47%</td>
<td>+0.64%</td>
<td>+0.14%</td>
<td>+0.28%</td>
</tr>
<tr>
<td>5 Year</td>
<td>1.76%</td>
<td>0.94%</td>
<td>1.93%</td>
<td>1.92%</td>
<td>+0.99%</td>
<td>+0.17%</td>
<td>-0.01%</td>
</tr>
<tr>
<td>10 Year</td>
<td>2.27%</td>
<td>1.36%</td>
<td>2.45%</td>
<td>2.33%</td>
<td>+1.09%</td>
<td>+0.18%</td>
<td>-0.12%</td>
</tr>
<tr>
<td>30 Year</td>
<td>3.02%</td>
<td>2.10%</td>
<td>3.07%</td>
<td>2.86%</td>
<td>+0.97%</td>
<td>+0.05%</td>
<td>-0.21%</td>
</tr>
</tbody>
</table>


*Effective Rate
Corporate Bond Spreads over Treasurys, 10 year bonds*

Prepared by Conning, Inc. Source: Bloomberg, Federal Reserve, Federal Reserve Bank of St. Louis (2017) and Source: ©2017 BofA Merrill Lynch, used with permission. BOFA MERRILL LYNCH IS LICENSING THE BOFA MERRILL LYNCH INDICES “AS-IS.” MAKES NO WARRANTIES REGARDING SAME, DOES NOT GUARANTEE THE SUITABILITY, QUALITY, ACCURACY, TIMELINESS, AND/OR COMPLETENESS OF THE BOFA MERRILL LYNCH INDICES OR ANY DATA INCLUDED IN, RELATED TO, OR DERIVED THEREFROM, ASSUMES NO LIABILITY IN CONNECTION WITH THEIR USE, AND DOES NOT SPONSOR, ENDORSE, OR RECOMMEND CONNING, INC., OR ANY OF ITS PRODUCTS OR SERVICES.

*OAD on BB corporate bond spread is 4.3 years to fully reflect high yield universe

<table>
<thead>
<tr>
<th></th>
<th>Expansions</th>
<th>Contractions</th>
<th>Total</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>0.92</td>
<td>1.57</td>
<td>1.00</td>
<td>0.88</td>
</tr>
<tr>
<td>BBB</td>
<td>1.41</td>
<td>2.28</td>
<td>1.52</td>
<td>1.27</td>
</tr>
<tr>
<td>BB</td>
<td>3.53</td>
<td>4.69</td>
<td>3.81</td>
<td>2.53</td>
</tr>
</tbody>
</table>
## Spread Sector Investing

<table>
<thead>
<tr>
<th>Gross Yields</th>
<th>Dec-15</th>
<th>Dec-16</th>
<th>Sept-17</th>
<th>2016 Change</th>
<th>2017 Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Spread Sectors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Corporates</td>
<td>3.67%</td>
<td>3.37%</td>
<td>3.16%</td>
<td>-0.30%</td>
<td>-0.21%</td>
</tr>
<tr>
<td>High Yield (Ba/B)</td>
<td>7.28%</td>
<td>5.23%</td>
<td>4.65%</td>
<td>-2.05%</td>
<td>-0.58%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>5.98%</td>
<td>5.05%</td>
<td>4.53%</td>
<td>-0.93%</td>
<td>-0.52%</td>
</tr>
<tr>
<td>Securitized</td>
<td>2.77%</td>
<td>2.83%</td>
<td>2.79%</td>
<td>+0.06%</td>
<td>-0.04%</td>
</tr>
<tr>
<td><strong>Quality</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>3.19%</td>
<td>3.14%</td>
<td>2.93%</td>
<td>-0.05%</td>
<td>-0.21%</td>
</tr>
<tr>
<td>Baa</td>
<td>4.29%</td>
<td>3.72%</td>
<td>3.45%</td>
<td>-0.57%</td>
<td>-0.27%</td>
</tr>
<tr>
<td>Ba</td>
<td>6.14%</td>
<td>4.70%</td>
<td>4.03%</td>
<td>-1.44%</td>
<td>-0.67%</td>
</tr>
<tr>
<td>B</td>
<td>8.61%</td>
<td>5.86%</td>
<td>5.33%</td>
<td>-2.75%</td>
<td>-0.53%</td>
</tr>
</tbody>
</table>

Prepared by Conning, Inc. Source: Bloomberg Index Services Limited. Used with permission.
Rates Are Still Historically Low

Spot Constant Maturity Treasury Rates

Rising Rate Environment Does Not Mean Pain Is Over

Life Industry Portfolio Net Book Yield Under Three Rate Scenarios

Actual Book Yield
Rapid Rise Book Yield
Moderate Rise Scenario Book Yield
Remaining Low Scenario Book Yield

2008 Book Yield, 5.18%

Decreasing Yield And Increasing Spread Over Reference Rate

Gross Book Yields and Risk-Free Rates
(as % of underlying investable assets)

Prepared by Conning, Inc.

Source: ©A.M. Best Company—used with permission, Federal Reserve, Conning analysis
Life Insurer Stock Valuation Tracks Closely with Treasury Yields

10-Year Treasury Yield and Life Insurance Stock Price Index

What Levers Are Insurers Using to Search For Yield?

Extended duration
Lowered credit quality
Diversified asset classes
Increasing use of FHLB

High-Yield Bonds
CLOs and Leverage Loans
Master Limited Partnerships
Private Middle Market Debt

Emerging Market Debt
Commercial Mortgage Loans
Infrastructure
Private Placement Bonds
Asset Diversification Not Limited to Large Insurers…

Life-Annuity Insurer Investible Asset Allocation

Small Insurers: $100 million - $1 billion in assets

- 2011
- 2016

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>2011</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBB-rated bonds</td>
<td>0%</td>
<td>25%</td>
</tr>
<tr>
<td>Private placement</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgages</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Schedule BA</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Small Insurers: $100 million - $1 billion in assets

Prepared by Conning, Inc. Source: ©2017 A.M. Best Company—used by permission
Asset Diversification Not Limited to Large Insurers…

Life-Annuiti...
Asset Diversification Not Limited to Large Insurers…

Life-Annuity Insurer Investible Asset Allocation

Large Insurers: $10 billion+ in assets

- **BBB-rated bonds**
- **Private placement bonds**
- **Mortgages**
- **Schedule BA**

Prepared by Conning, Inc. Source: ©2017 A.M. Best Company—used by permission
Changes in Capital Charges on the Horizon

<table>
<thead>
<tr>
<th>Current NAIC Risk Class</th>
<th>Equivalent Ratings, Moody’s</th>
<th>Current C-1 Risk Charge Applied to Amortized Cost (Book Value)</th>
<th>Recommended C-1 Risk Charge, August 2017</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAIC 1</td>
<td>Aaa</td>
<td>0.40%</td>
<td>0.28%</td>
<td>-0.12%</td>
</tr>
<tr>
<td>NAIC 1</td>
<td>Aa1</td>
<td>0.40%</td>
<td>0.43%</td>
<td>0.03%</td>
</tr>
<tr>
<td>NAIC 1</td>
<td>Aa2</td>
<td>0.40%</td>
<td>0.63%</td>
<td>0.23%</td>
</tr>
<tr>
<td>NAIC 1</td>
<td>Aa3</td>
<td>0.40%</td>
<td>0.79%</td>
<td>0.39%</td>
</tr>
<tr>
<td>NAIC 1</td>
<td>A1</td>
<td>0.40%</td>
<td>0.96%</td>
<td>0.56%</td>
</tr>
<tr>
<td>NAIC 1</td>
<td>A2</td>
<td>0.40%</td>
<td>1.13%</td>
<td>0.73%</td>
</tr>
<tr>
<td>NAIC 1</td>
<td>A3</td>
<td>0.40%</td>
<td>1.30%</td>
<td>0.90%</td>
</tr>
<tr>
<td>NAIC 2</td>
<td>Baa1</td>
<td>1.30%</td>
<td>1.49%</td>
<td>0.19%</td>
</tr>
<tr>
<td>NAIC 2</td>
<td>Baa2</td>
<td>1.30%</td>
<td>1.68%</td>
<td>0.38%</td>
</tr>
<tr>
<td>NAIC 3</td>
<td>Ba1</td>
<td>4.60%</td>
<td>3.55%</td>
<td>-1.05%</td>
</tr>
<tr>
<td>NAIC 3</td>
<td>Ba2</td>
<td>4.60%</td>
<td>4.39%</td>
<td>-0.21%</td>
</tr>
<tr>
<td>NAIC 3</td>
<td>Ba3</td>
<td>4.60%</td>
<td>5.62%</td>
<td>1.02%</td>
</tr>
<tr>
<td>NAIC 4</td>
<td>B1</td>
<td>10.00%</td>
<td>5.99%</td>
<td>-4.01%</td>
</tr>
<tr>
<td>NAIC 4</td>
<td>B2</td>
<td>10.00%</td>
<td>7.86%</td>
<td>-2.14%</td>
</tr>
<tr>
<td>NAIC 4</td>
<td>B3</td>
<td>10.00%</td>
<td>10.31%</td>
<td>0.31%</td>
</tr>
<tr>
<td>NAIC 5</td>
<td>Caa1</td>
<td>23.00%</td>
<td>14.45%</td>
<td>-8.55%</td>
</tr>
<tr>
<td>NAIC 5</td>
<td>Caa2</td>
<td>23.00%</td>
<td>19.85%</td>
<td>-3.15%</td>
</tr>
<tr>
<td>NAIC 5</td>
<td>Caa3</td>
<td>23.00%</td>
<td>29.82%</td>
<td>6.82%</td>
</tr>
<tr>
<td>NAIC 6</td>
<td>D-Ca (default)</td>
<td>30.00%</td>
<td>30.00%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

Prepared by Conning, Inc. Data Source: ©2017 National Association of Insurance Commissioners (NAIC) – Used with permission
Fiscal Policy

U.S. Corporate Tax Rates Vs. OECD Average

Prepared by Conning, Inc. Source: The Organisation for Economic Co-operation and Development (the “OECD”)
Monetary Policy

Federal Funds Rate Compared to Federal Reserve Balance Sheet

Focus of the Federal Reserve

Labor Market Conditions Index (LMCI) Compared to Consumer Price Index

-50 -40 -30 -20 -10 0 10 20 30 40 50

Labor Market Conditions Index (LMCI) (Left)  Consumer Price Index (Right)

The Cost of U.S. Regulation

USA: $16,155
China: $8,462
Japan: $5,957
US Regulations: $4,000
Germany: $3,542
France: $2,683
UK: $2,624
Brazil: $2,412
Italy: $2,076
Russia: $2,016
India: $1,836

Prepared by Conning, Inc. Source: http://regdata.org/what-if-the-us-regulatory-burden-were-its-own-country/ - Used with permission

¹GDP, in nominal 2012 dollars (Billion USD)
MBS remain supported by low volatility, range-bound rates and current corporate spread levels

Better value continues to exist in spread sectors

High yield fundamentals continue to be strong, however pricing remains unattractive

Tax reform remains a concern while municipal ratios are rich across the curve

Prepared by Conning, Inc.
Where Are We in the Credit Cycle?

Corporates Outperform

Financials
Utilities

Corporate Market Perform

Industrials

Leverage Falling

Energy/Basics

Leverage Rising

Leverage Rising

Leverage Falling

Corporates Outperform

Repair

Meet

Decline

High
Growth

Low
Growth

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Overview of Private Placement Market

- Year-to-date market activity remains very strong
- New issue supply for the first nine months is up 35% to roughly $49 billion
- Average deal size is approximately $290 MM, up from $265 MM last year
- The robust market activity is expected to continue through the fourth quarter

Private Placement Volume 2005 – 2017
(in billions)


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Overview of Private Placement Market

- Domestic issuance continues to outpace cross border supply
- For the first nine months, domestic borrowers accounted for approximately 70% of total volume
- General Industrial and Utility comprise majority of issuance

YTD 2017 Total Domestic versus Cross-Border Issuance
(By Dollars Raised)

- U.S. 66%
- AUS / NZ 12%
- UK 8%
- Canada 1%
- Other 1%
- Europe 11%

YTD 2017 Issuance by Sector
(By Industry Category)

- Industrial 65%
- Utility 21%
- Financial 4%
- Non-Corporate 10%
- Other 1%

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Overview of Private Placement Market

- More than 50% of new deals are issued with final maturities of 10 years or longer
- Credit quality is almost entirely investment grade
- National Association of Insurance Commissioners (NAIC)
  - A- or Better = NAIC-1
  - BBB+ to BBB- = NAIC-2
  - BB+ or Lower = NAIC-3

Analysis of Final Maturities
(Based on Number of Deals – by Tranche)

- 2015 Avg. Maturity: 13.8 Years
  - 5 yrs: 20%
  - +5 to 9.9 yrs: 28%
  - 10 yrs: 4%
  - +10 to <20 yrs: 27%
  - +20 yrs: 3%

- 2016 Avg. Maturity: 13.4 Years
  - 5 yrs: 17%
  - +5 to 9.9 yrs: 36%
  - 10 yrs: 3%
  - +10 to <20 yrs: 28%
  - +20 yrs: 2%

- YTD 2017 Avg. Maturity: 12.3 yrs
  - 5 yrs: 13%
  - +5 to 9.9 yrs: 29%
  - 10 yrs: 6%
  - +10 to <20 yrs: 31%
  - +20 yrs: 20%

Tracking of Credit Quality – Based on Dollars Raised

- NAIC-1 (A- or better)
- NAIC-2 (BBB+ to BBB-)
- NAIC-3 and below (BB+ or lower)

Overview of Commercial Mortgage Loans (CMLs)

<table>
<thead>
<tr>
<th>INVESTMENT CATEGORY</th>
<th>YIELD</th>
<th>AVG LIFE (YEARS)</th>
<th>COLLATERAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Mortgage Loan (A/BBB Equivalent)</td>
<td>4.60%</td>
<td>9.6</td>
<td>Secured</td>
</tr>
<tr>
<td>A or better Corporate</td>
<td>3.16%</td>
<td>8.6</td>
<td>Unsecured</td>
</tr>
<tr>
<td>BBB Corporate</td>
<td>3.70%</td>
<td>8.5</td>
<td>Unsecured</td>
</tr>
<tr>
<td>BB Corporate</td>
<td>4.82%</td>
<td>8.1</td>
<td>Unsecured</td>
</tr>
<tr>
<td>B Corporate</td>
<td>6.53%</td>
<td>7.9</td>
<td>Unsecured</td>
</tr>
<tr>
<td>A or better CMBS</td>
<td>3.11%</td>
<td>8.3</td>
<td>Structure</td>
</tr>
</tbody>
</table>

*Bond equivalent yield (ICA interpolated spread based on lending rates); as of June 30, 2017 Prepared by Conning, Inc. Source: Barclays Indices, POINT ©2005-2017 Barclays Risk Analytics and Index Solutions Limited. Used with permission. Barclays and POINT are registered trademarks of Barclays Risk Analytics and Index Solutions Limited or its affiliates.
Overview of Commercial Mortgage Loans (CMLs)

Positives
- Investment portfolio diversification
- Attractive yield
- Rigorous loan underwriting standards
- Structural protection
- Schedule B accounting treatment
- Favorable capital charge framework
- Treasury make whole call protection

Negatives
- No secondary market liquidity
- Commercial real estate cyclicality
Overview of Commercial Mortgage Loans (CMLs)

Risk Charges: Bonds vs. CMLs

<table>
<thead>
<tr>
<th>NAIC</th>
<th>CML</th>
<th>RBC</th>
<th>DESCRIPTION*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.96%-1.30%</td>
<td>A+ to A-</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>0.90%</td>
<td>DSC=&gt;1.50X and LTV&lt;85%</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>1.49%-2.01%</td>
<td>BBB+ to BBB-</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>1.75%</td>
<td>0.95 &lt;= DSC &lt; 1.50X / LTV&lt;75%</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>3.55%-5.62%</td>
<td>BB+ to BB-</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>3.00%</td>
<td>DSC&lt;0.95X and LTV&lt;85%</td>
<td></td>
</tr>
</tbody>
</table>

*LTV and DSC metrics covers the office, retail, apartments, and industrial property types
*This Description is a summary of the detailed classification criteria in the NAIC RBC formation and is shown for illustration.
The detail in the RBC instructions should be referenced for making any determinations of classification.
Prepared by Conning, Inc. Source: American Counsel of Life Insurers (ACLI) using publicly available information.
Overview of Collateralized Loan Obligations (CLOs)

CLOs offer attractive yields relative to similarly rated corporate credits as well as other structured investments

Average Comparative Yield of U.S. CLOs and Equivalently Rated U.S. Corporate Bonds

Comparative AAA Asset Class Spreads (3-5 Yr) (bps)

<table>
<thead>
<tr>
<th>Credit Rating</th>
<th>Primary CLOs</th>
<th>Corporate Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>2.46%</td>
<td>2.92%</td>
</tr>
<tr>
<td>AA</td>
<td>2.14%</td>
<td>2.35%</td>
</tr>
<tr>
<td>A</td>
<td>2.51%</td>
<td>2.89%</td>
</tr>
<tr>
<td>BBB</td>
<td>5.03%</td>
<td></td>
</tr>
</tbody>
</table>

AAA Spreads (3-5 Yr) (bps)

<table>
<thead>
<tr>
<th></th>
<th>CLO 1</th>
<th>Student Loans</th>
<th>Credit Card (floating)</th>
<th>CMBS</th>
<th>Credit Card (fixed)</th>
<th>Prime Auto</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>127</td>
<td>45</td>
<td>35</td>
<td>50</td>
<td>34</td>
<td>20</td>
</tr>
</tbody>
</table>

Prepared by Conning, Inc. Source: Octagon Credit Investors, LLC. Past performance is not indicative of future results.

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3. Yield calculated by adding spread to 3-month LIBOR and 3-month LIBOR for the respective tranche for primary (i.e. new issue) USD CLOs.

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Overview of Collateralized Loan Obligations (CLOs)

- Protective covenants and portfolio tests that favor debt investors
  - Portfolio quality
  - Interest coverage
  - Overcollateralization
- Structural and legal protections have resulted in minimal defaults

Cumulative U.S. CLO Defaults & Losses by S&P Ratings Over 20 Years (1994-2013)¹

<table>
<thead>
<tr>
<th>Original S&amp;P Rating</th>
<th>Total Tranches</th>
<th>Defaulted Tranches</th>
<th>Default Rate</th>
<th>Loss Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>1,992</td>
<td>0</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>AA</td>
<td>1,005</td>
<td>0</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>A</td>
<td>1,119</td>
<td>5</td>
<td>0.45%</td>
<td>0.08%</td>
</tr>
<tr>
<td>BBB</td>
<td>1,069</td>
<td>3</td>
<td>0.28%</td>
<td>0.21%</td>
</tr>
<tr>
<td>BB</td>
<td>841</td>
<td>14</td>
<td>1.66%</td>
<td>0.78%</td>
</tr>
<tr>
<td>B</td>
<td>115</td>
<td>3</td>
<td>2.61%</td>
<td>1.13%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,141</strong></td>
<td><strong>25</strong></td>
<td><strong>0.41%</strong></td>
<td><strong>0.04%</strong></td>
</tr>
</tbody>
</table>

¹ Includes all US cash flow CLO tranches ever rated by Standard & Poor’s as of year-end 2013. Default rate is calculated as the number of rated tranches that had ratings lowered to D divided by total number of rated tranches. Loss rate is calculated as the sum of losses divided by the sum of issuance amounts. When necessary, market values from trustee reports were used to estimate tranche losses. Source: Standard & Poor’s RatingsDirect “Twenty Years Strong: A Look Back at US CLO Ratings Performance From 1994 Through 2013” (January 31, 2014). Please note this is the latest information available from S&P. Past default rates are not indicative/a guarantee of future default rates.
Overview of Collaterlized Loan Obligations (CLOs)

### Negative or Reduced Correlation to Major Asset Classes

#### Illustrative Comparison of CLO Returns to Other Asset Classes

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Levered Loans</td>
<td>100%</td>
<td>91%</td>
<td>-40%</td>
<td>65%</td>
<td>44%</td>
<td>-3%</td>
<td></td>
<td>32%</td>
<td>44%</td>
<td>40%</td>
<td>43%</td>
</tr>
<tr>
<td>U.S. Corporate High Yield</td>
<td>-</td>
<td>100%</td>
<td>-24%</td>
<td>74%</td>
<td>63%</td>
<td>-4%</td>
<td></td>
<td>42%</td>
<td>48%</td>
<td>40%</td>
<td>44%</td>
</tr>
<tr>
<td>Long Treasury</td>
<td>-</td>
<td>-</td>
<td>100%</td>
<td>-31%</td>
<td>43%</td>
<td>-11%</td>
<td>13%</td>
<td>-4%</td>
<td>-3%</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100%</td>
<td>36%</td>
<td>12%</td>
<td>26%</td>
<td>39%</td>
<td>37%</td>
<td>43%</td>
<td></td>
</tr>
<tr>
<td>U.S. Investment-Grade Corporate</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100%</td>
<td>-12%</td>
<td>53%</td>
<td>43%</td>
<td>35%</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>U.S. T-Bills</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100%</td>
<td>1%</td>
<td>-1%</td>
<td>-3%</td>
<td>-2%</td>
<td></td>
</tr>
<tr>
<td>AAA</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td>100%</td>
<td>45%</td>
<td>42%</td>
<td>58%</td>
</tr>
<tr>
<td>AA</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100%</td>
<td>92%</td>
<td>64%</td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td>77%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBB</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

Based on available data, CLOs appear to exhibit low correlations to other major asset classes – and correlations can be lower than those of the underlying leveraged loan collateral.

Prepared by Conning, Inc.

Past performance is not indicative of future results.

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Overview of High Dividend Equity (HDE)

Dividends Contribute Significantly to Equity Market Returns

- Cumulative Price Return
- Cumulative Dividend Return

S&P Total Returns

- 1930s
- 1940s
- 1950s
- 1960s
- 1970s
- 1980s
- 1990s
- 2000s
- 2010-2016

Overview of High Dividend Equity (HDE)

Credit Quality & Dividends Matter

S&P 500 Total Returns (01/2007 – 01/2017)

Past performance is not indicative of future results
See GIPS Composite Disclosure at end of presentation
Almost one in every three insurers invests some GA assets in ETFs

81% of U.S. insurers have increased ETF use over the last 3 years

52% expect to increase usage over the next year
Overview of Fixed Income Exchange Traded Funds (ETFs)

How are insurers using ETFs?

- Hedging: 15%
- Completion: 22%
- Access: 30%
- Overlay: 44%
- Rebalancing: 44%
- Passive…: 52%
- Tactical: 59%
- Liquidity: 59%
- Transition: 67%

*As of February 2017
Prepared by Conning, Inc.

Source: Greenwich Associates, LLC. – "Institutional Investors Embrace Bond ETFs, September 21, 2016. - Used with Permission
Overview of Fixed Income Exchange Traded Funds (ETFs)

Accounting Implications:

Effective 01/1/2018, SVO-approved bond ETFs will be reported at fair market or systematic value.

- Currently reported at original cost
- Clients will need to elect fair market or systematic value for each CUSIP by 12/31/2017
- Systematic value – Sponsor will provide cash flows for all underlying securities, to be used to calculate updated book value. All changes reported through amortization/accretion.
- Fair market value – Changes in fair market value reported through unrealized gain/loss (surplus OCI).
Federal Home Loan Bank Utilization

FHLB Lending Program Insurance Company Advances

Data Source: Federal Home Loan Bank – Used with permission. Prepared by Conning, Inc.
QUESTIONS?
Risks of Investing

CLO

- Structure - CLOs often involve risks that differ from those associated with other types of debt instruments. The complex structure of the security may produce unexpected investment results not based on default or recovery statistics. Ratings agencies may downgrade their original ratings of CLO debt tranches. Majority equity holders retain the right to call or refinance/reprice a CLO, creating cash flow variability for minority equity and debt holders.

- Liquidity - CLOs may be difficult to value and may constitute illiquid investments. Valuation of structured credit products are provided by third parties, based on models, indicative quotes, and estimates of value, in addition to historical trades. There is inherent difficulty in valuing these assets, and there can be no assurances the assets can be disposed of or liquidated at the valuations established, or that published returns will be achieved.

- Default - During periods of economic uncertainty and recession, the incidence of modifications and restructurings of investments may increase, resulting in impairments to the underlying asset value and reduced “subordination” to the CLO liabilities.


- General Market and Economic Conditions - Changing economic, political, regulatory or market conditions, interest rates, general levels of economic activity, the price of securities and debt instruments and participation by other investors in financial markets may affect the value of CLOs and all other asset classes.

- Investment Guidelines - Insurers should review applicability under existing guidelines and, if not permitted, investment committee approval may be required prior to investing in the asset class. For example, investment guidelines may have broad limitations on securitized asset classes, or limitations applicable to foreign country allocations.

High Dividend Equities (HDE)

- Market Risk - Market, or systematic, risk is the risk that individual stock returns may be correlated with general market downturns regardless of the particular business conditions and outlook for the individual stocks

- Inflation Risk - Inflation erodes the purchasing power of future cash flows from investments. In times of high inflation the value of securities may be reduced

- Liquidity Risk - Liquidity risk can occur when market conditions do not allow transactions to be made in a quick and orderly fashion in relation to indicative market prices

Private Placements

- Increase in corporate bond defaults

- Poor underwriting may result in higher default and loss experience

- Lack of liquidity

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