

The background of the image is a photograph of the Washington D.C. skyline, featuring the Washington Monument on the left, the U.S. Capitol building in the center, and the Lincoln Memorial on the far left. The image is overlaid with a series of overlapping, semi-transparent blue triangles of various shades, creating a modern, geometric design. The text is positioned on the right side of the image, within the blue geometric area.

FORUM 500 CEO LEADERSHIP RETREAT

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ACLI
Financial Security...for Life.

Gimme Shelter:

Enhancing Portfolio Yield
and Stability in Uncertain Markets

Jennifer Quisenberry

Head of Structured Securities
New England Asset Management



Chad D. Zahner

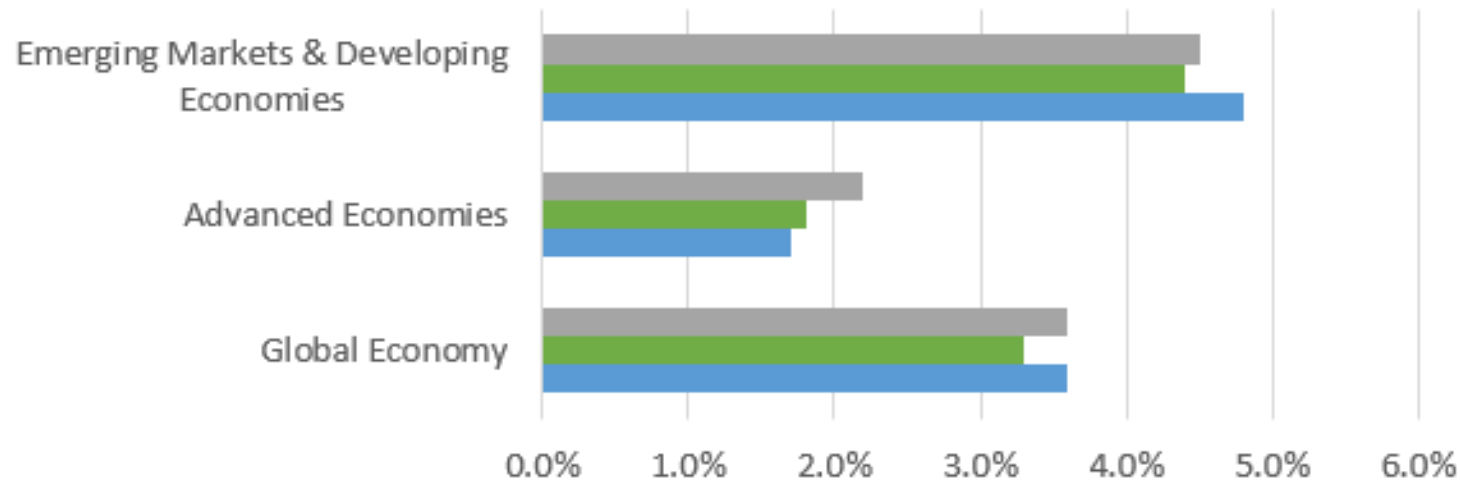
Senior Research Analyst
New England Asset Management



Macroeconomic Backdrop

Slowing Global Growth

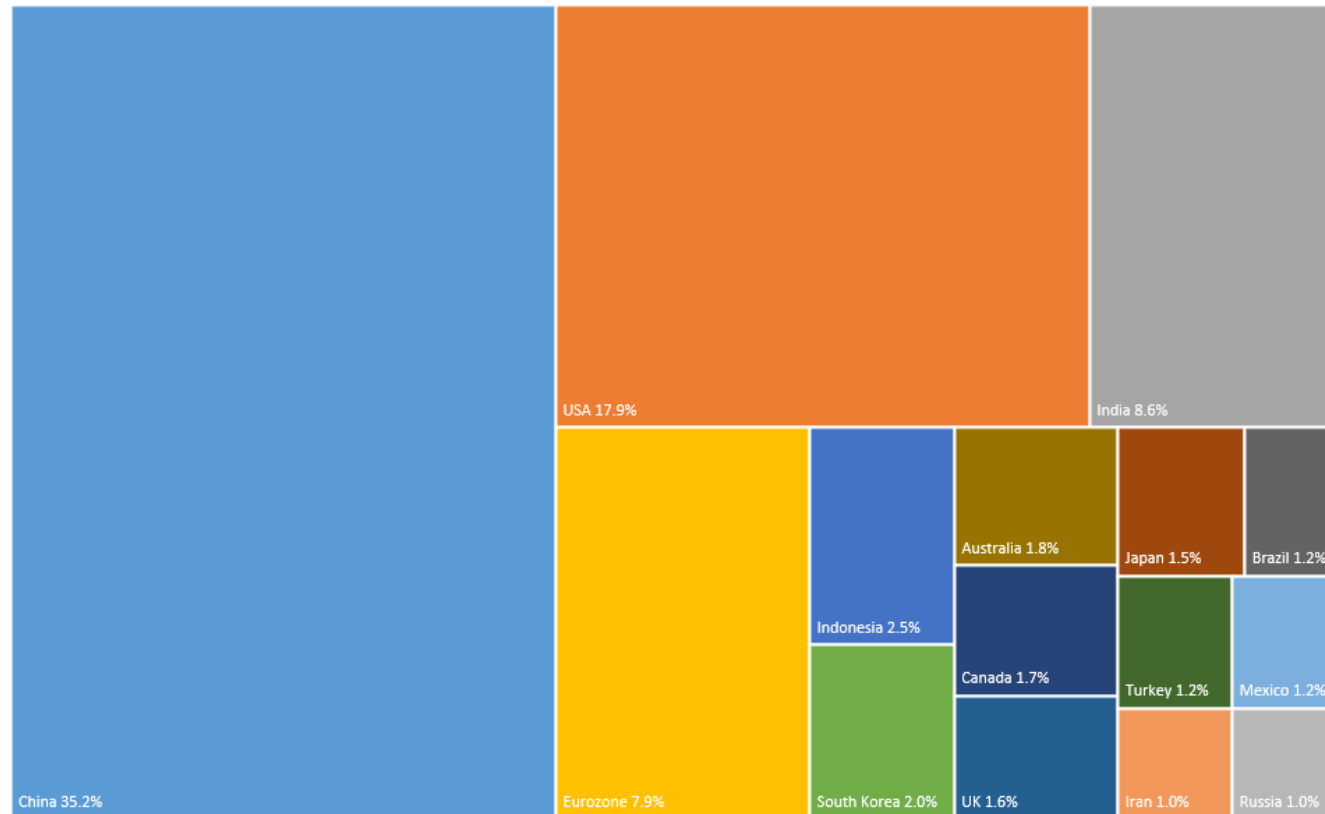
IMF Growth Projections



	Global Economy	Advanced Economies	Emerging Markets & Developing Economies
■ 2018	3.6%	2.2%	4.5%
■ 2019	3.3%	1.8%	4.4%
■ 2020	3.6%	1.7%	4.8%

Contribution to Global GDP

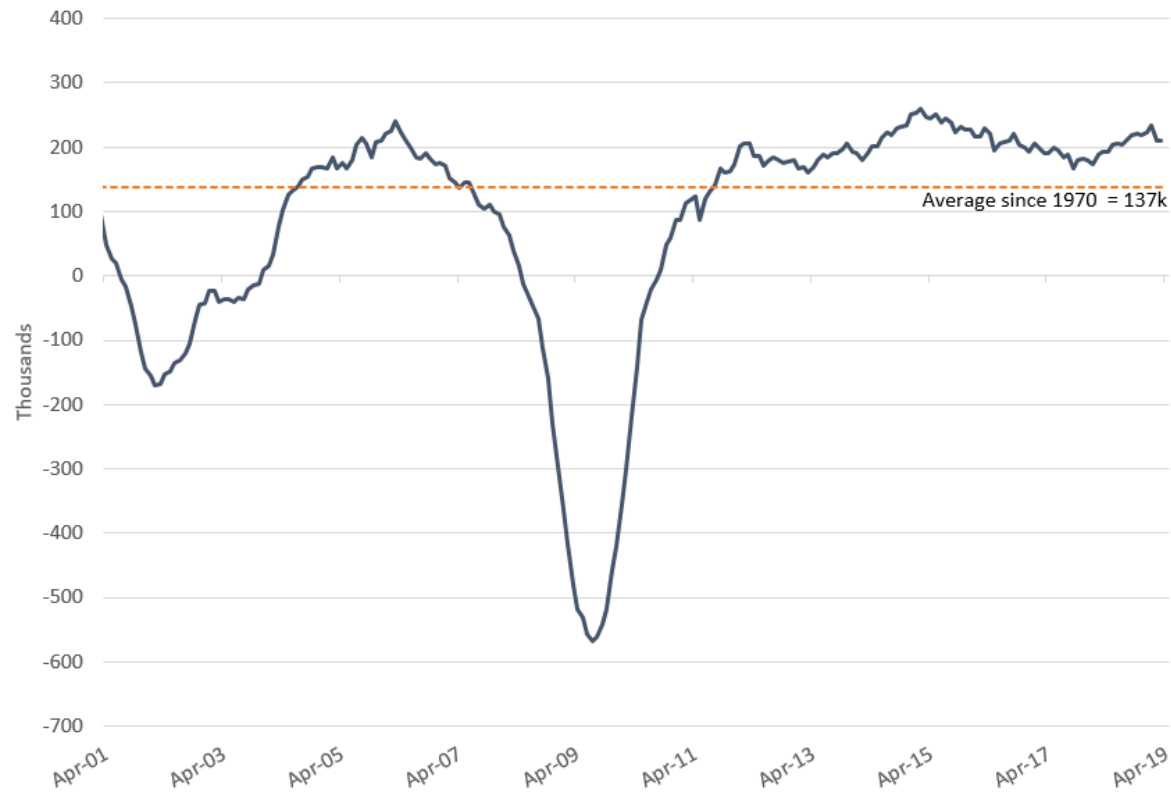
Percent of Estimated Global Growth (2017-2019) in Real GDP



Source: World Economic Forum, NEAM

Strength in Employment Numbers

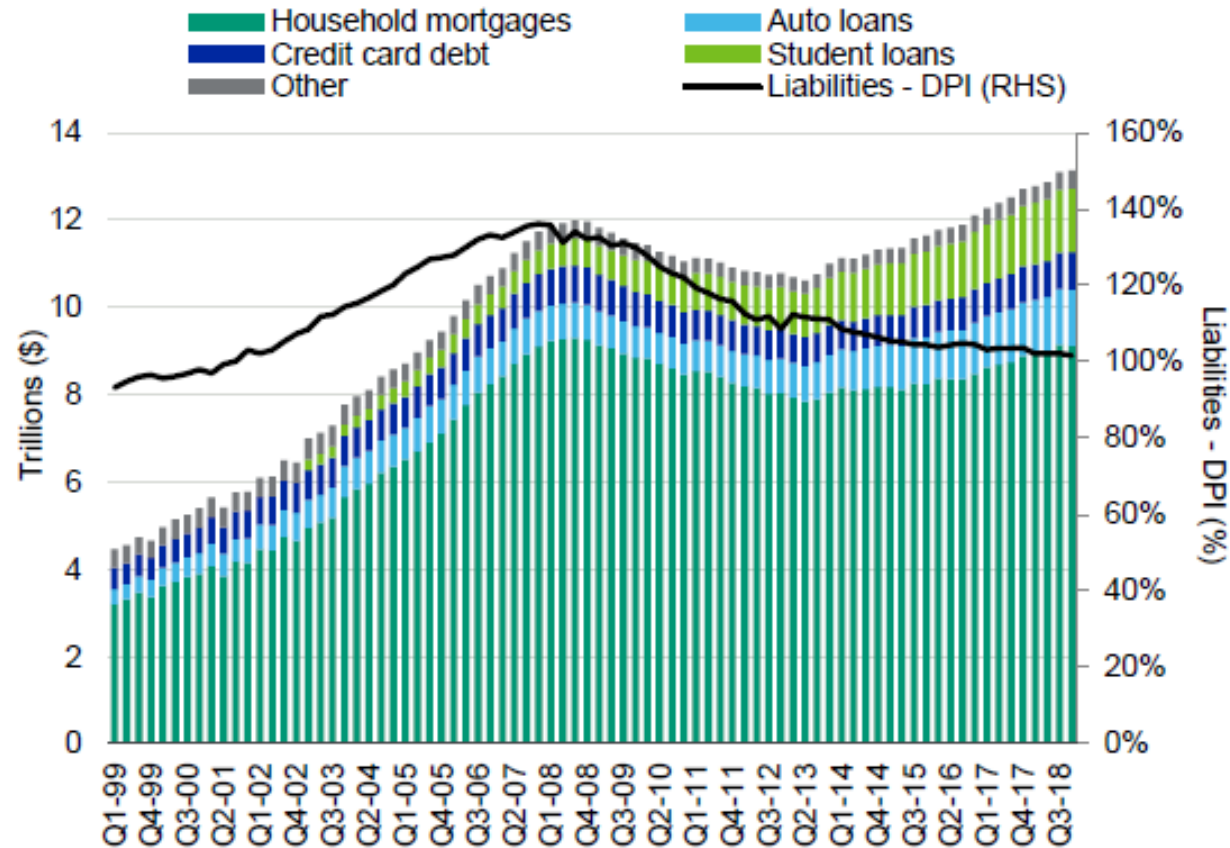
Nonfarm Payrolls (12 Month Moving Average)



Source: Bloomberg, NEAM

Consumer Debt Repairing

Household Debt Components



Source: Moody's

Positive Consumer Sentiment

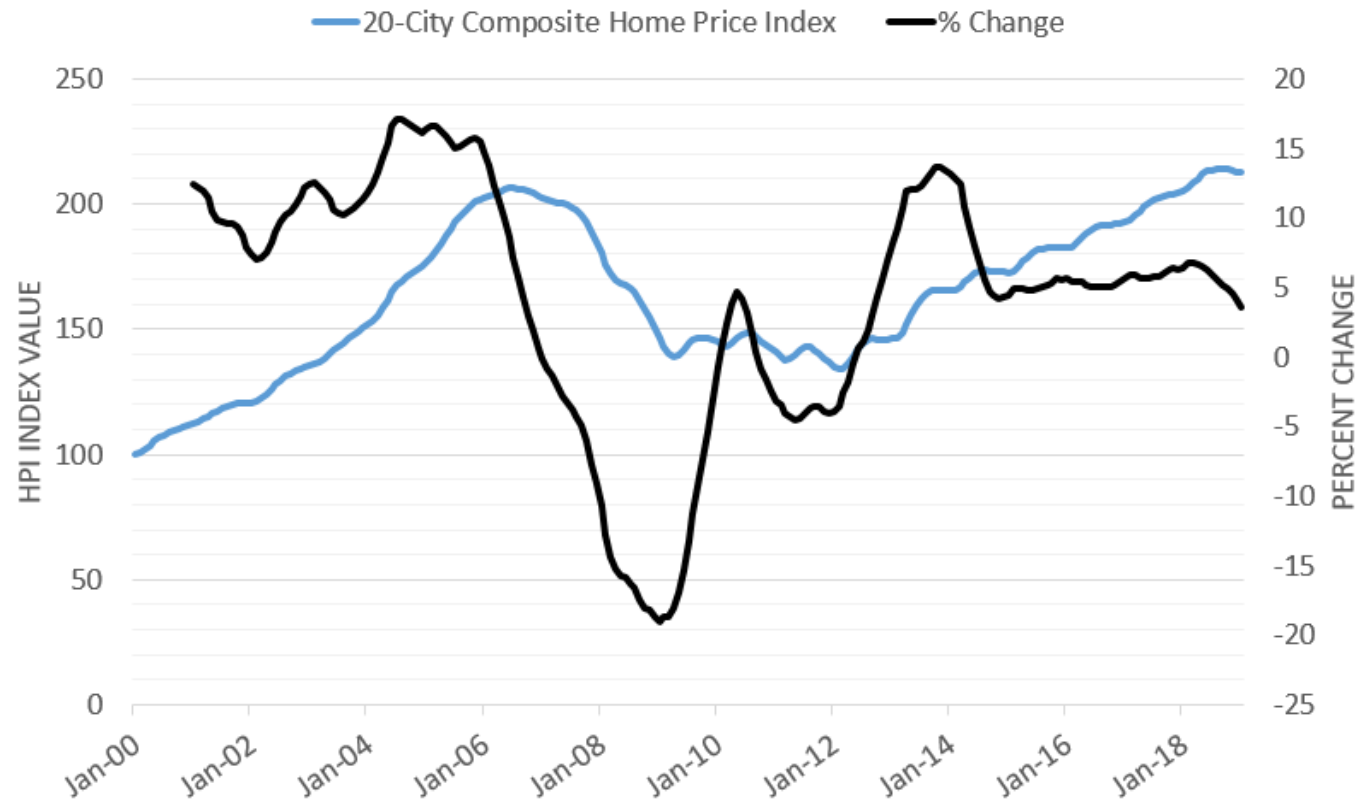
University of Michigan Consumer Sentiment Index



Source: Bloomberg, NEAM

Housing in an Adjusting Phase

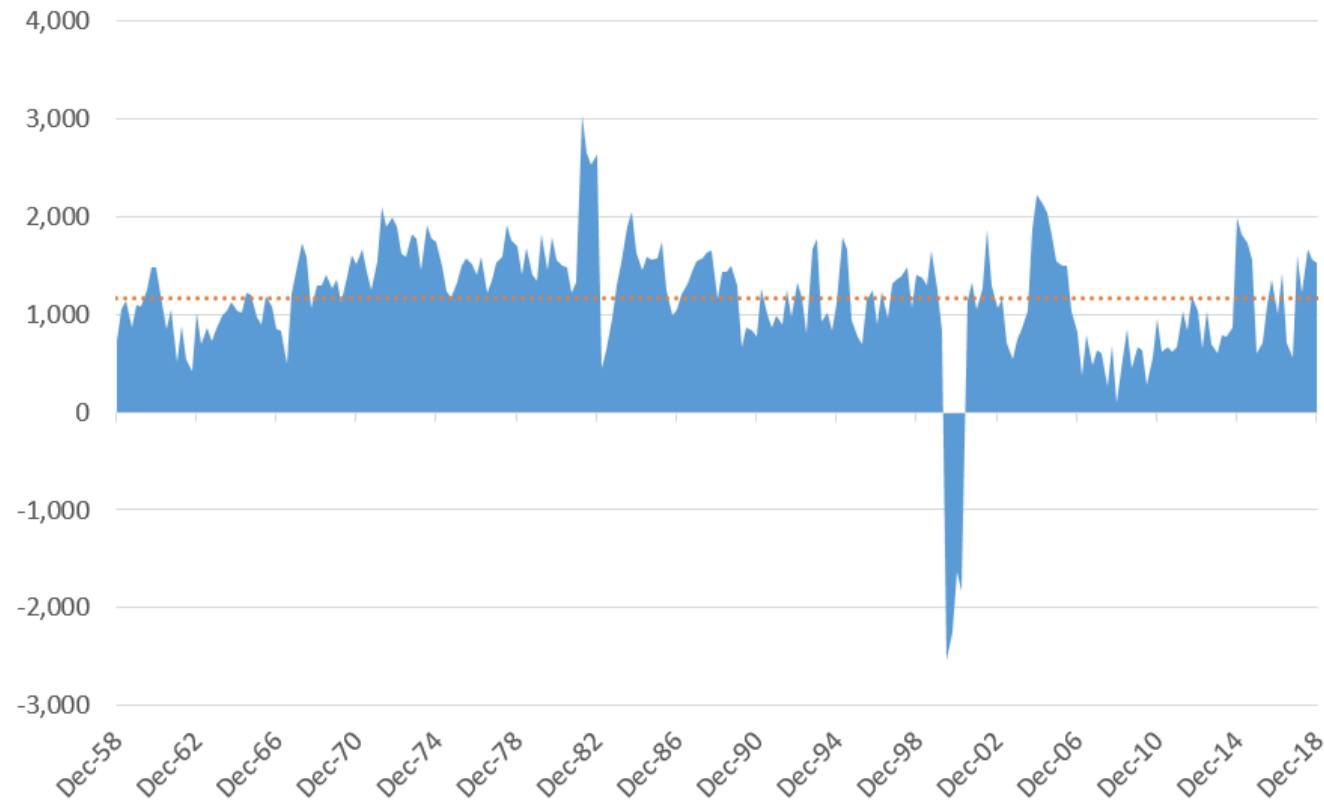
Home Price Index and Rate of Change



Source: Bloomberg, NEAM

Recovery in Household Formations

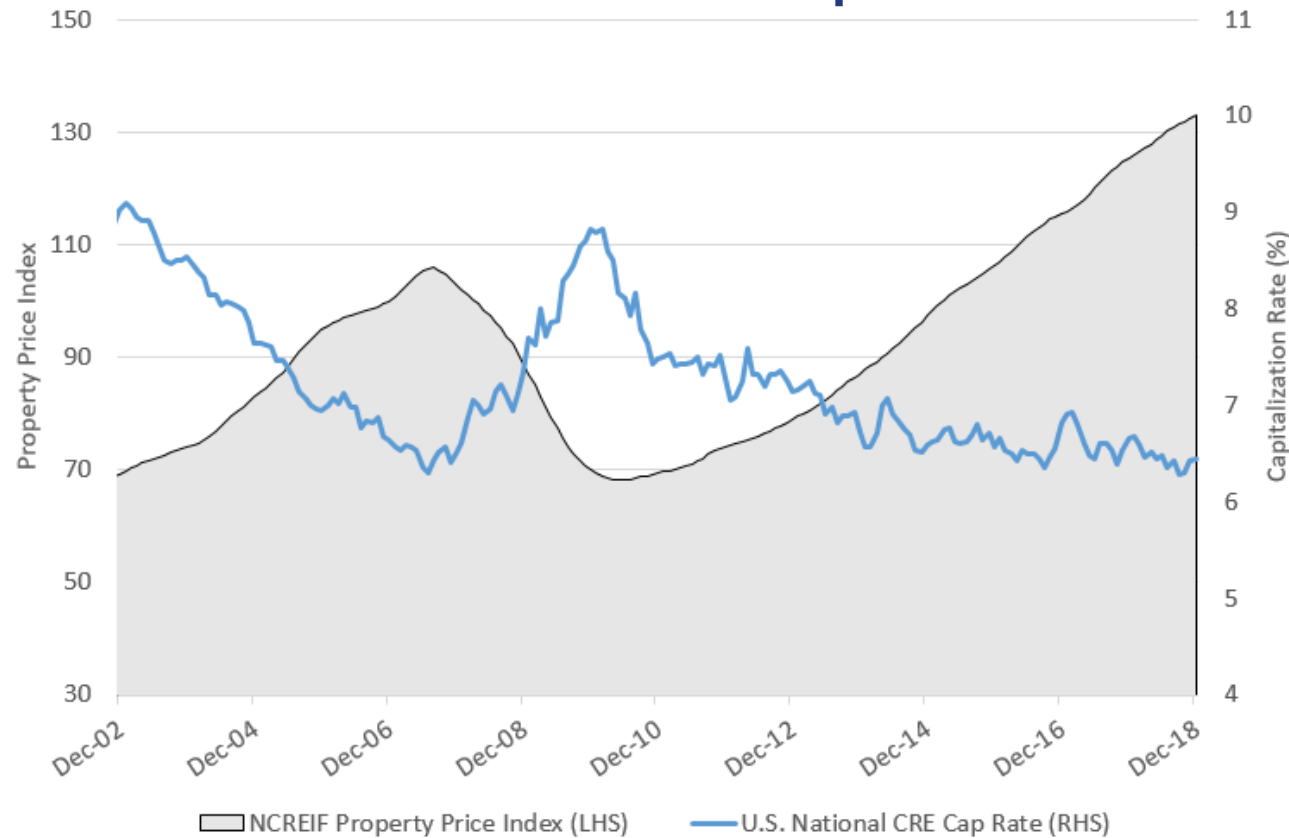
U.S. Household Formations Yearly Net Change ('000s)



Source: Bloomberg, NEAM

Economic Growth Supportive of CRE

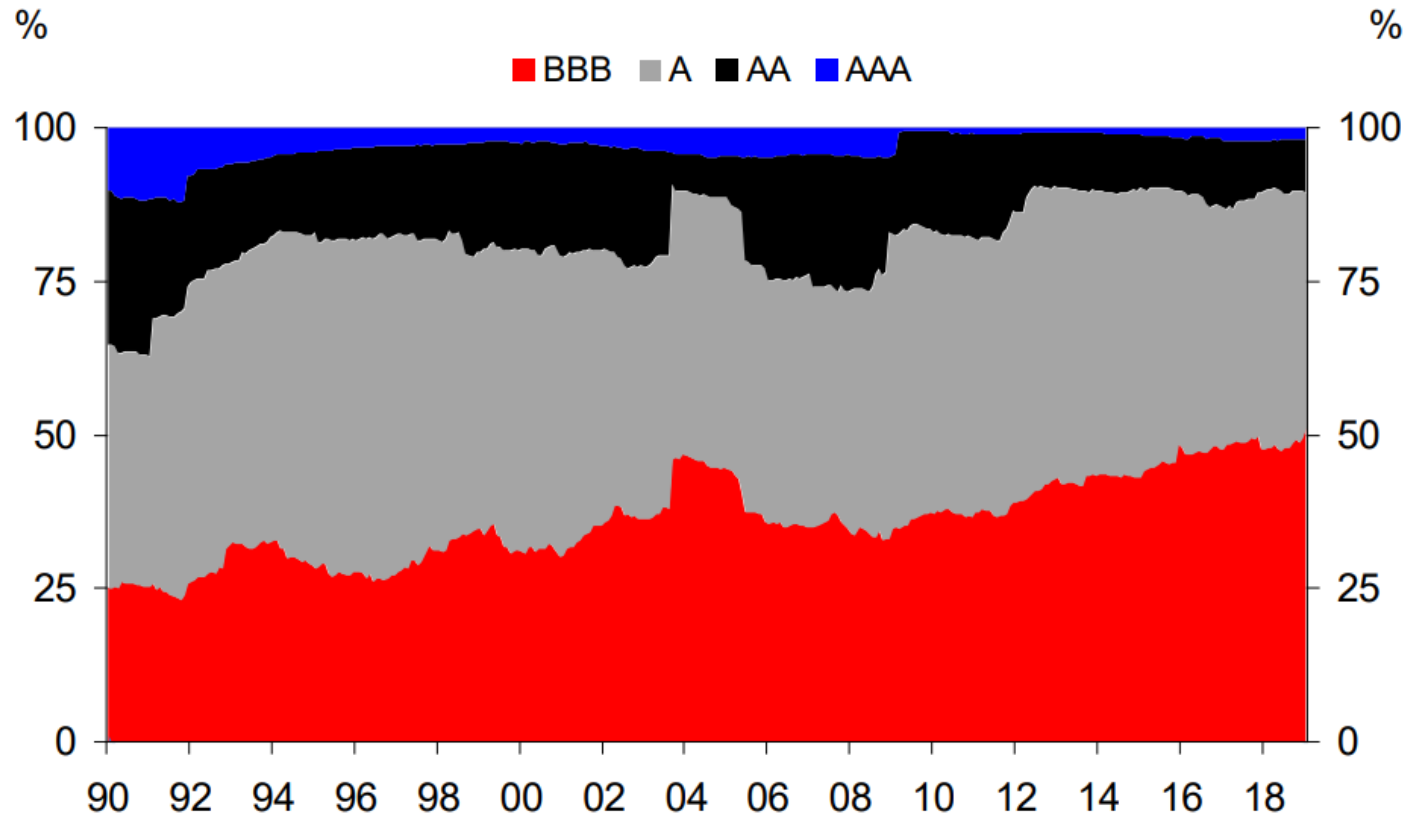
Commercial Real Estate Broad Price Index and Cap Rates



Source: Bloomberg, NEAM

Corporate Credit Migration

Market Value Share in Bloomberg Barclays USD IG



Source: Deutsche Bank, Bloomberg

Leveraged Loans in the News

Wall Street Loves These Risky Loans. The Rest of Us Should Be Wary.

The Leveraged Loan Ticking Time Bomb

Wall Street's Riskiest Loans Flash Dangers as Watchdogs Muzzled

Large Investors Dive Into Risky Loan Securities

Major Canadian pension plan investing \$285 million in latest collateralized loan obligation purchase

Carney Likens Leveraged Loan Growth to Subprime Before Crisis

The Unseen Risk in the Booming Loan Market

Low yields led investors to dive into loans but there are signs that the generalists are stepping away.

When Diversification Doesn't Spread Your Risks

A lesson from 2008 that's relevant again: Things go wrong when everyone diversifies in the same way

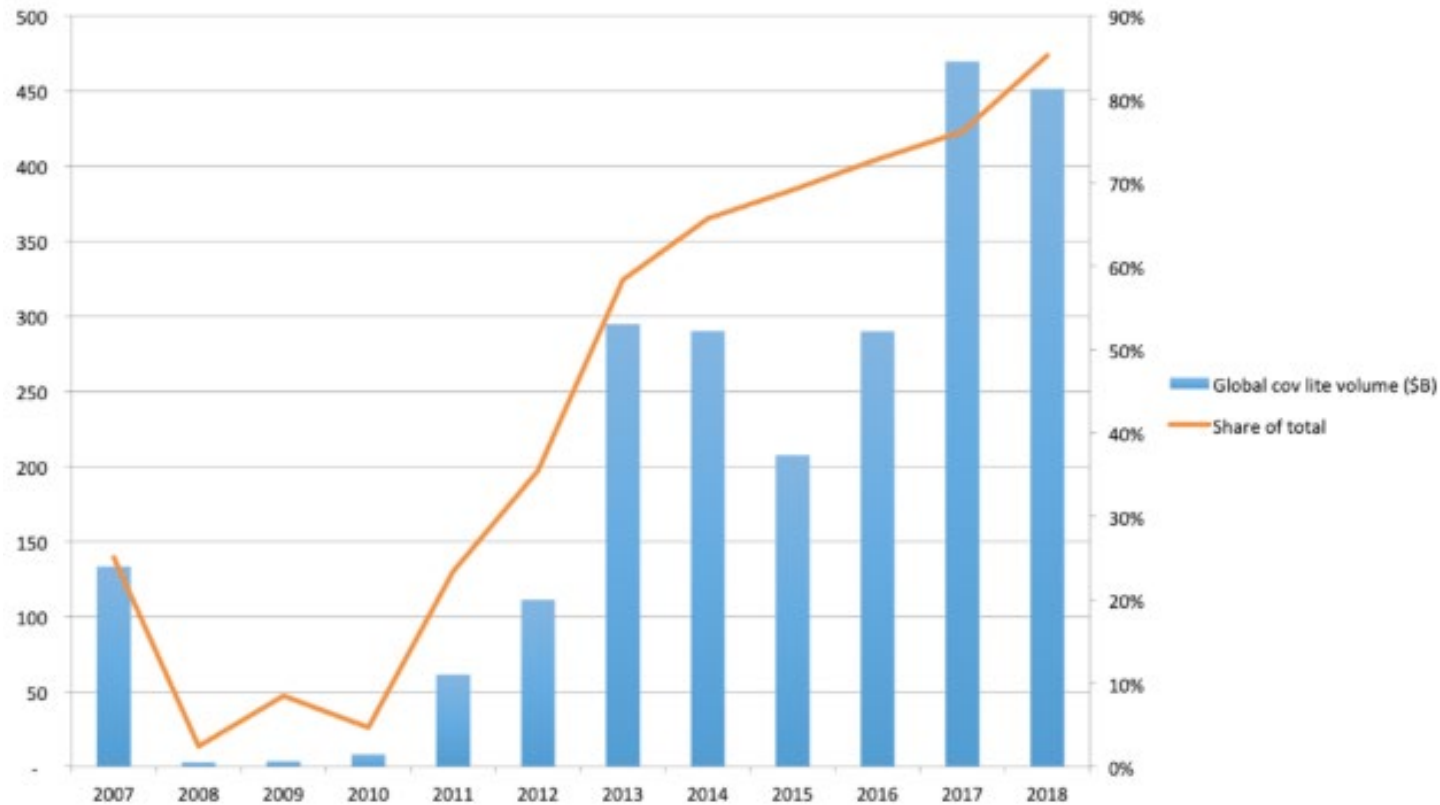
Convergence of bonds and loans sets stage for worse recoveries in the next downturn

Leveraged Loans Not as Safe as They Once Were

A rapid deterioration in the quality of junk-rated corporate loans means holders would recover far less in an economic downturn than they historically have

Weaker Leveraged Loan Trends

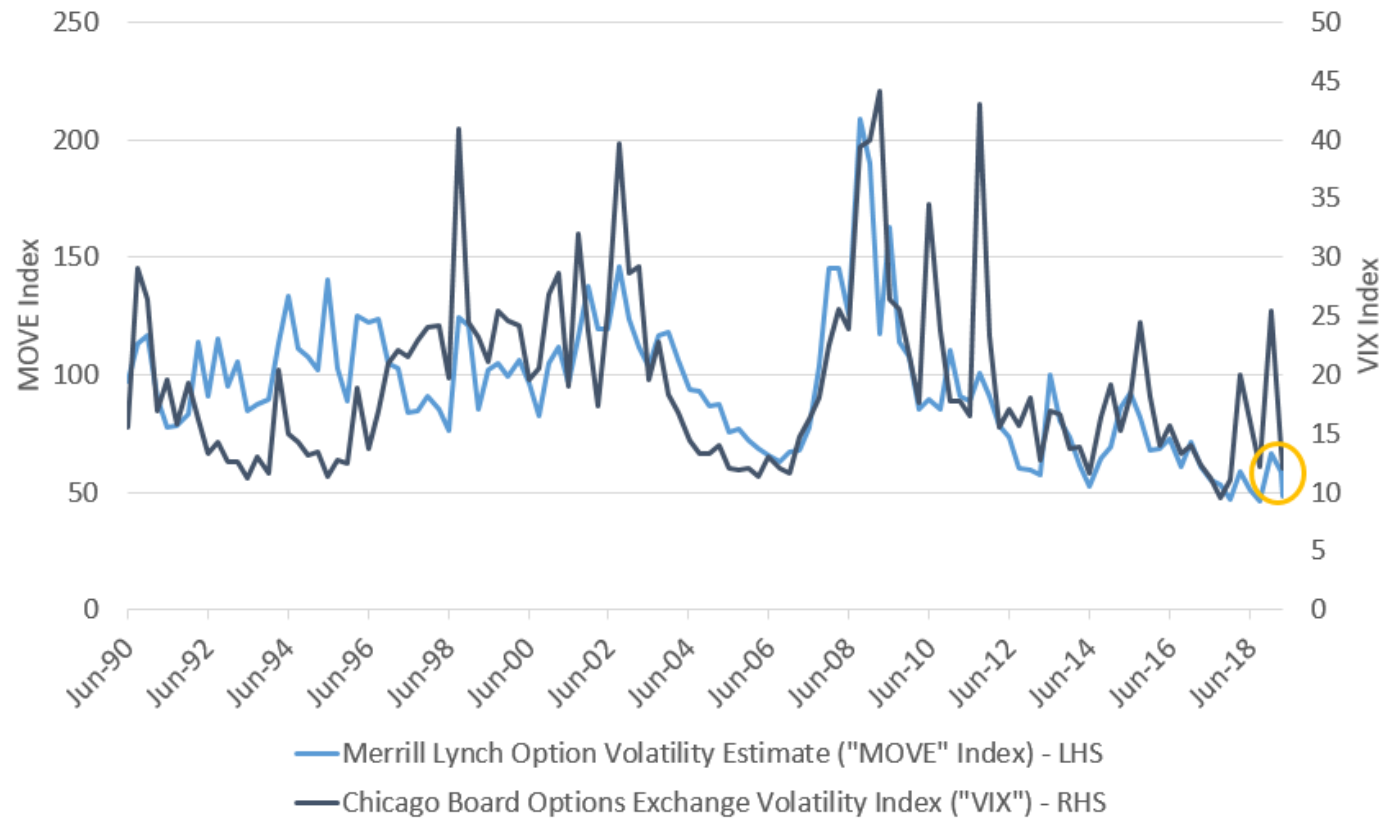
Global Volume of “Cov-Lite” Loans (\$ Billions)



Source: Standard & Poor's

Low Market Volatility

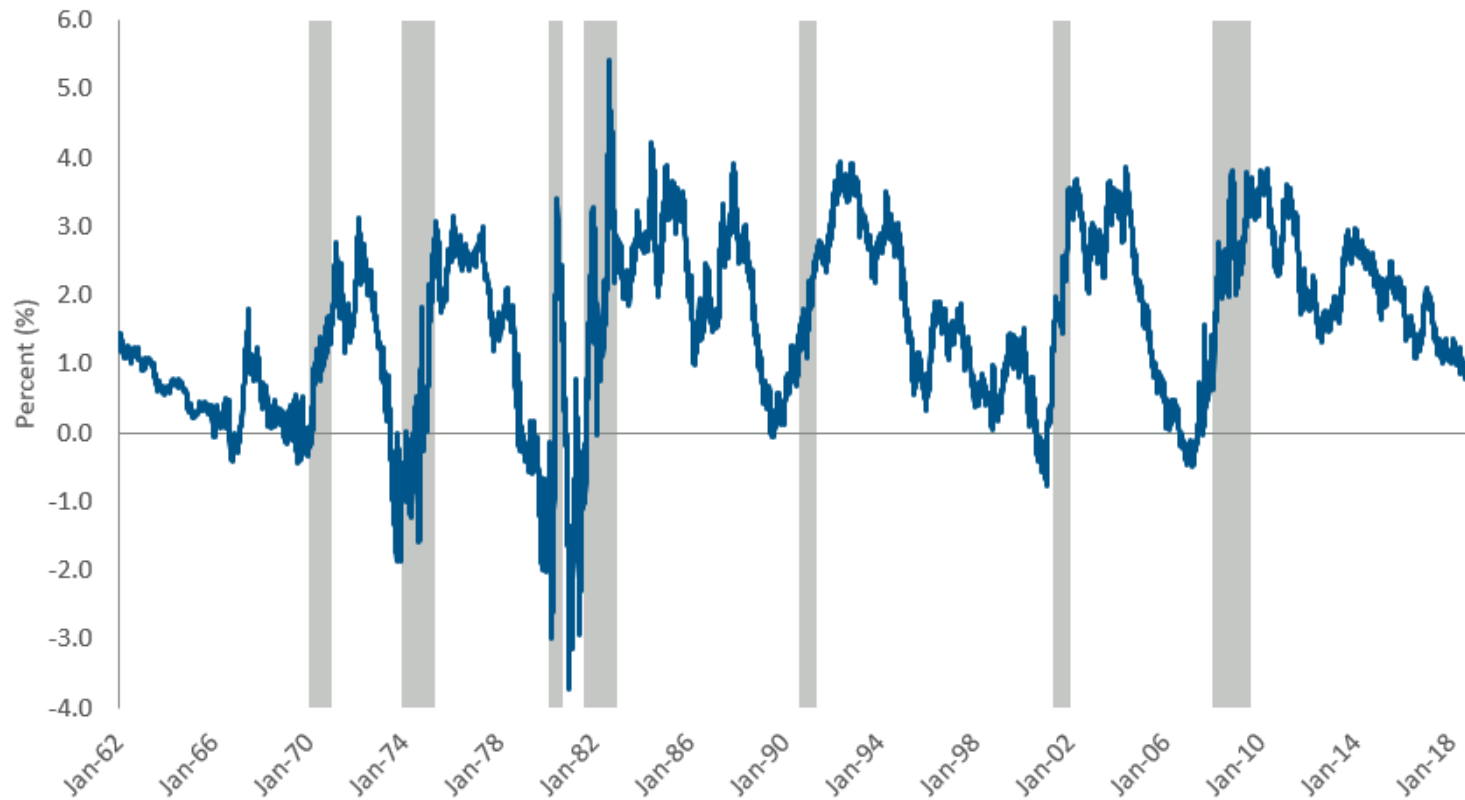
MOVE and VIX Volatility Indices



Source: Bloomberg, NEAM

Yield Curve Inversion

U.S. 10 Yr. – 3 Month Treasury Bill Yield Differential



Source: Haver, NEAM

Word of the Day

patience /'peɪjəns/

1 : the quality of being patient: such as

a : the ability to wait for a long time without becoming annoyed or upset

b : the ability to remain calm and not become annoyed when dealing with problems or with difficult people

Source: Merriam-Webster Dictionary

Macro Summary Points

- Around the world, major engines of growth have been slowing, as the downside of global interdependency manifests itself.
- In the U.S., fundamentals within the consumer, housing and commercial real estate segments are stable and supportive.
- The Fed has telegraphed a “wait and see” approach, as inflation remains muted and growth is expected to moderate.
- In spite of low measures of market volatility, risk and uncertainties stemming from tariffs and trade, Brexit, and the overall late cycle environment persist.

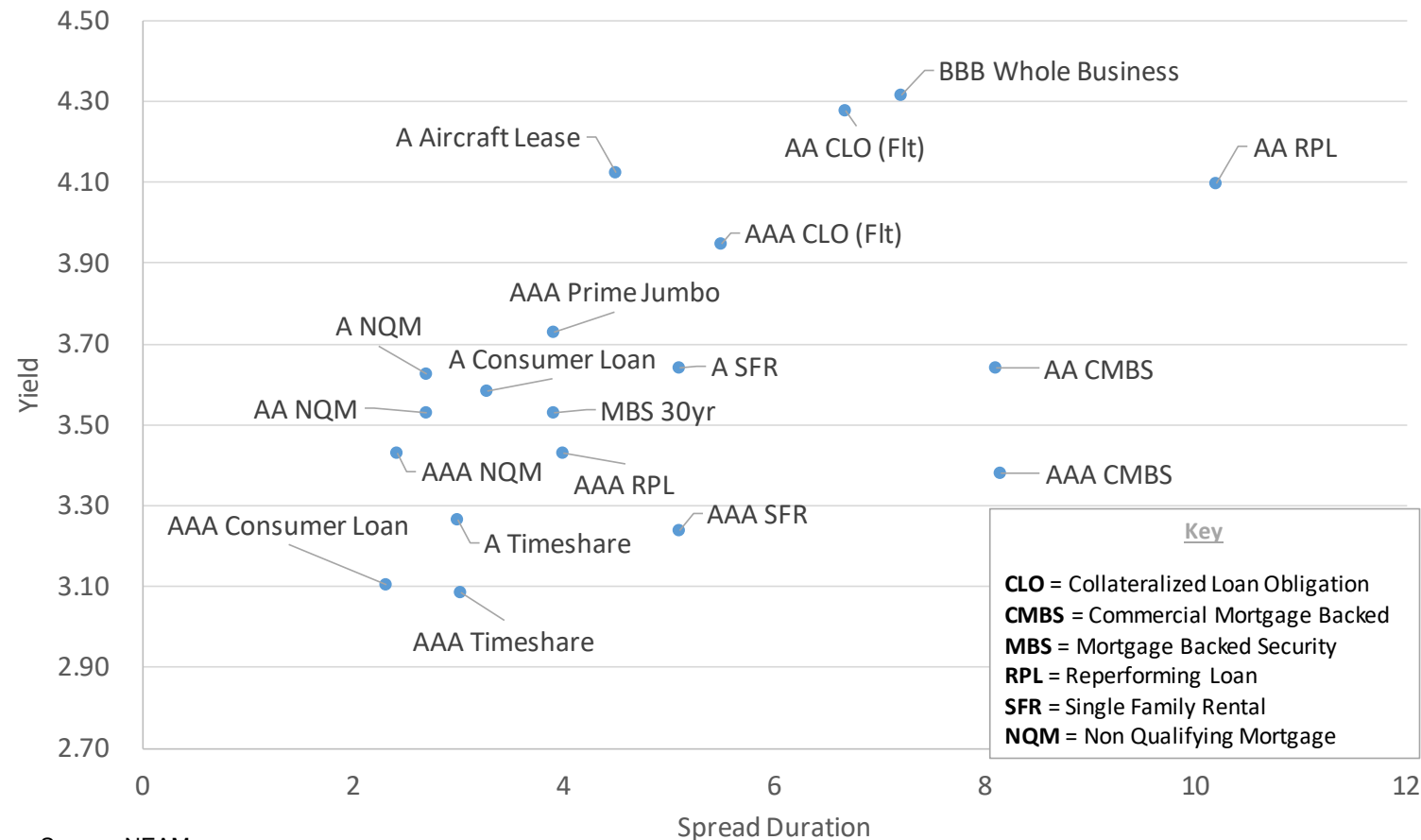
Structured Securities Views and Opportunities

Structured Securities Key Points

- Structured products offer diversification from corporate event risk with a wide range of opportunities across various sectors, duration and risk profiles.
- Certain sectors have demonstrated superior risk adjusted (volatility adjusted) returns.
- Securitization has evolved since the crisis to include new asset classes and simpler transaction structures that can withstand higher levels of stress.
- AAA rated structured securities may be more attractive from a capital standpoint under the proposed NAIC C1 Bond Base Factors.

Broad Range of Yield Opportunities

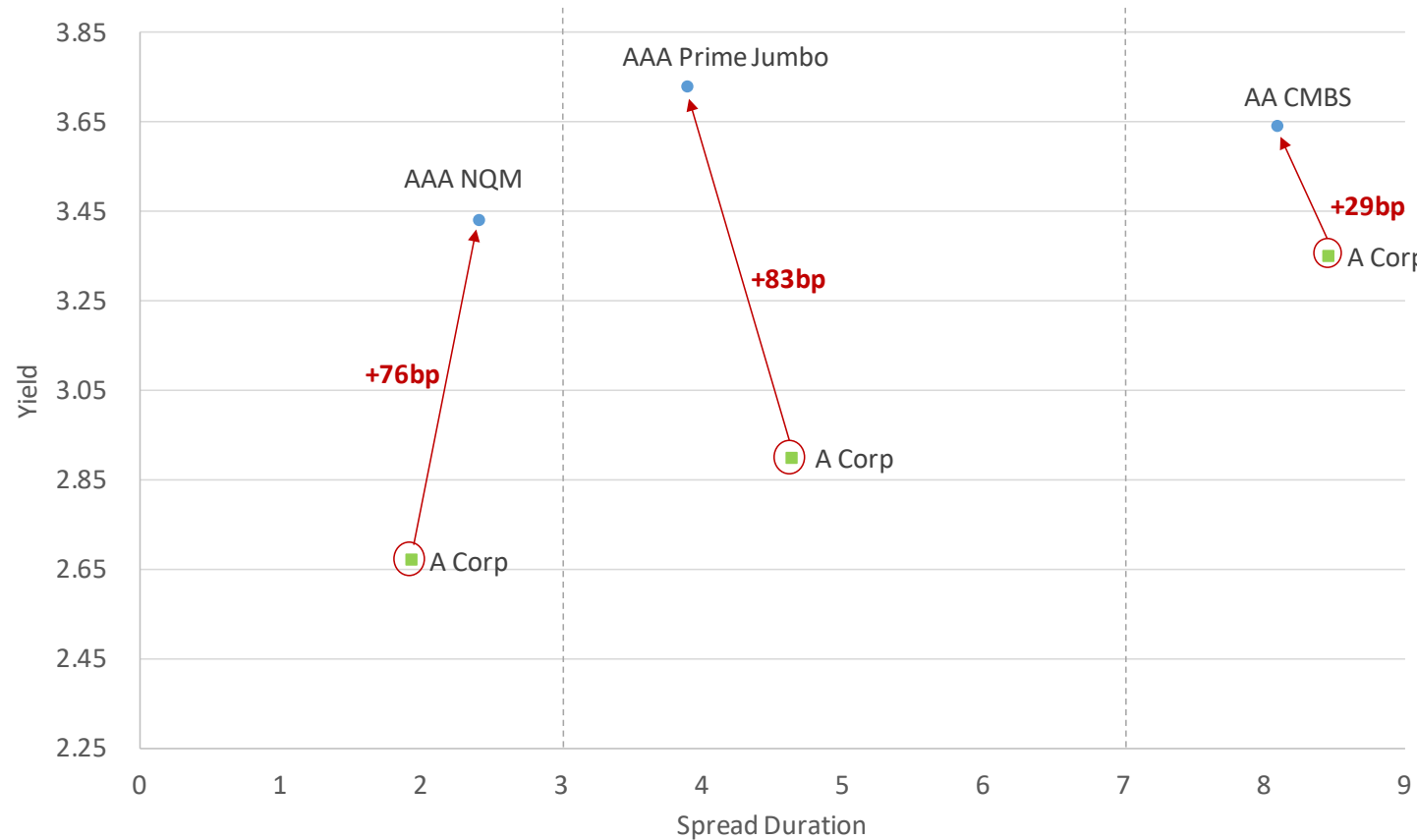
Structured Yield Opportunity Set as of 4/23/2019



Source: NEAM

Yield Comparison to Corporates

Comparative Yields for Structured vs. Corporates as of 4/23/2019



Superior Risk Adjusted Returns in Agency MBS

Trailing 12M Excess Return Summary (1997 - 2019)

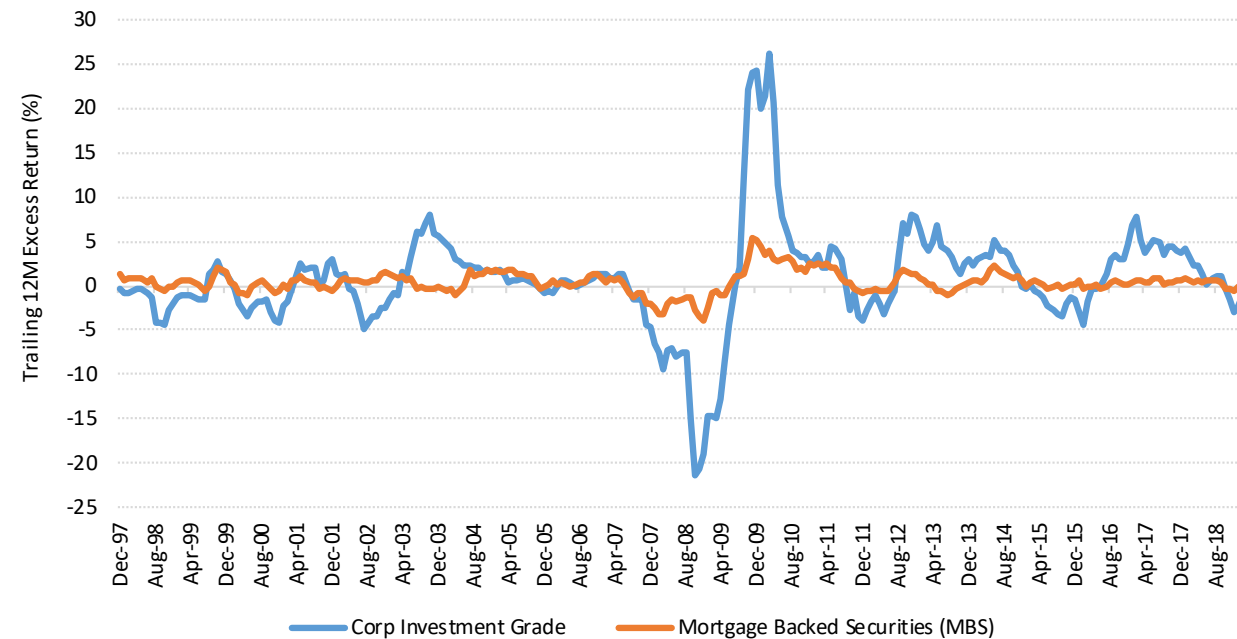
Asset Class	Average	Standard Deviation	Return per Unit Risk (bps)
Mortgage Backed Secs (MBS)	0.41%	1.24%	33
Corporate Investment Grade	0.76%	5.83%	13

MBS - Historical Correlations **

Asset Class	Average
US Governments	0.84
Corporate Investment Grade	0.67

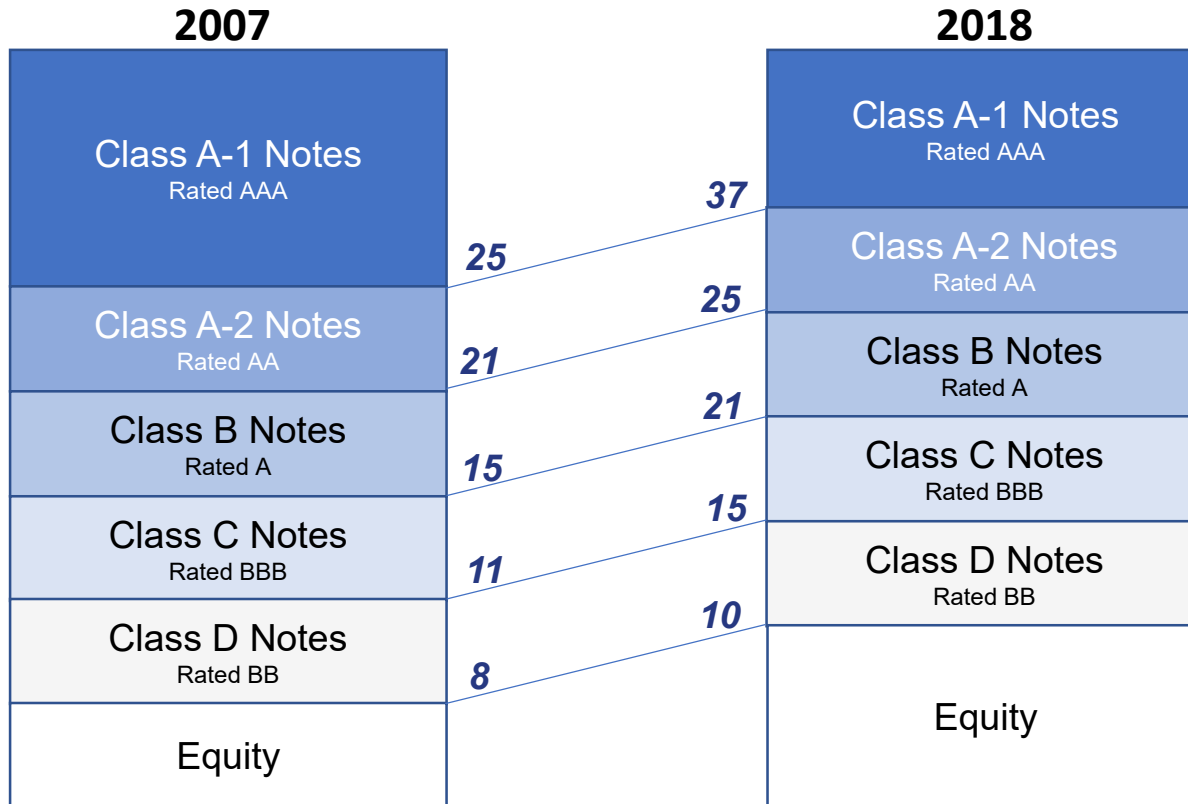
** Using Monthly Total Returns (Jan 1997 - Mar 2019)

MBS and Corp Investment Grade –
Trailing 12M Excess Returns
(Dec 1997 – Mar 2019)



Changes to CLO Structures Post-Crisis

Typical Subordination / Attachment %

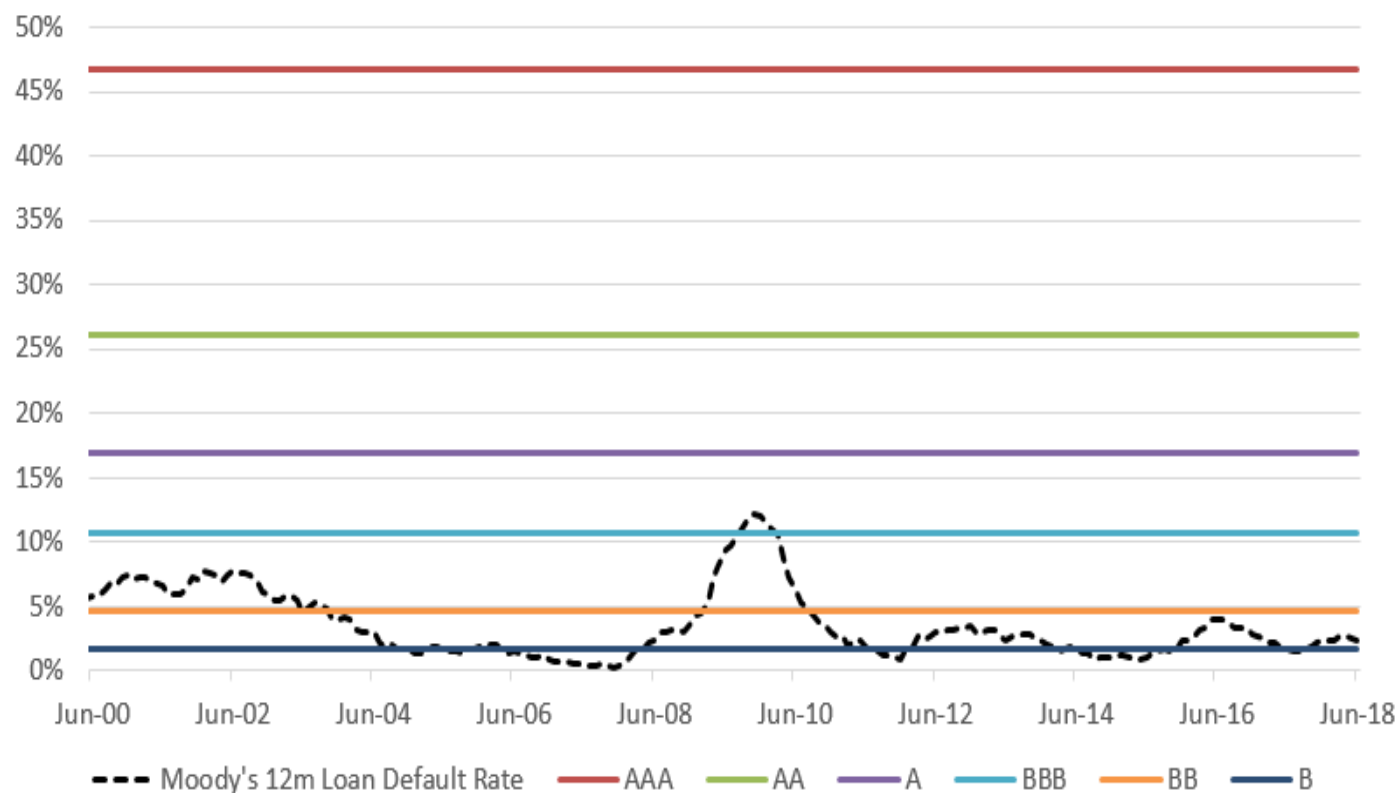


Source: Intex, NEAM

Deal Term	Pre-Crisis (2007)	Current
Reinvestment Period	6-7 years	4-5 years
Non-Call Period	3-5 years	2-3 years
Min. First Lien	80-85%	90%
Max. Non-First Lien	10-20%	<10%
Max. Caa/CCC %	10-15%	7.50%
Max. High Yield %	10-20%	0%
Max. Structured Products %	35%	0%

CLO Breakeven Stress Analysis by Rating

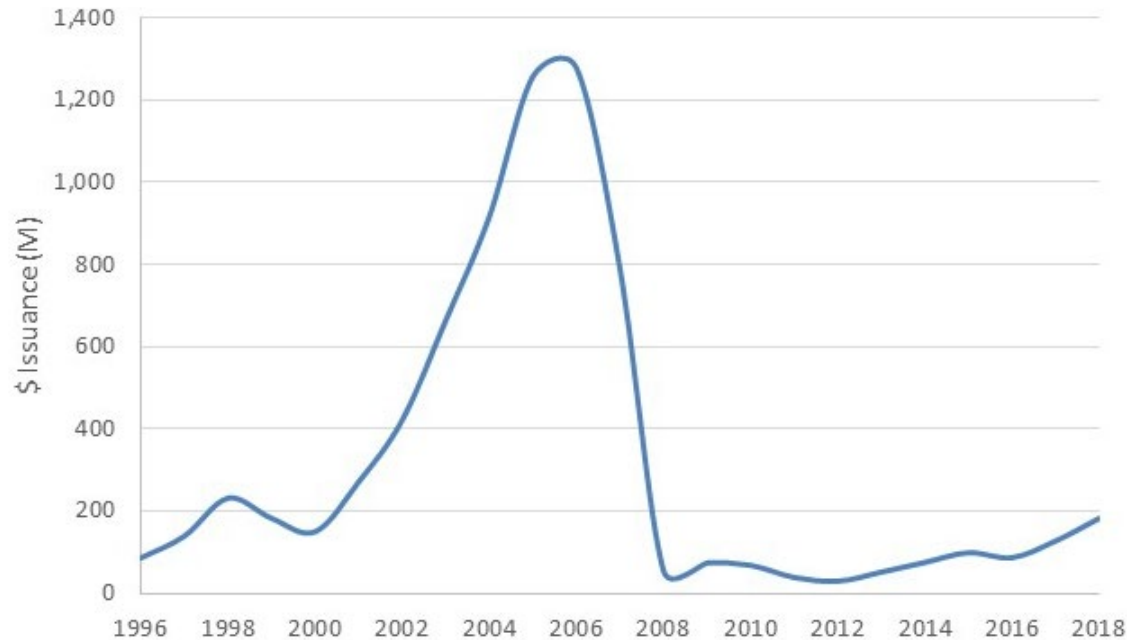
**CLO Breakeven Default Rate by Rating Level
(Assumes 50% Loss Severity/20% CPR)**



Source: Intex, NEAM

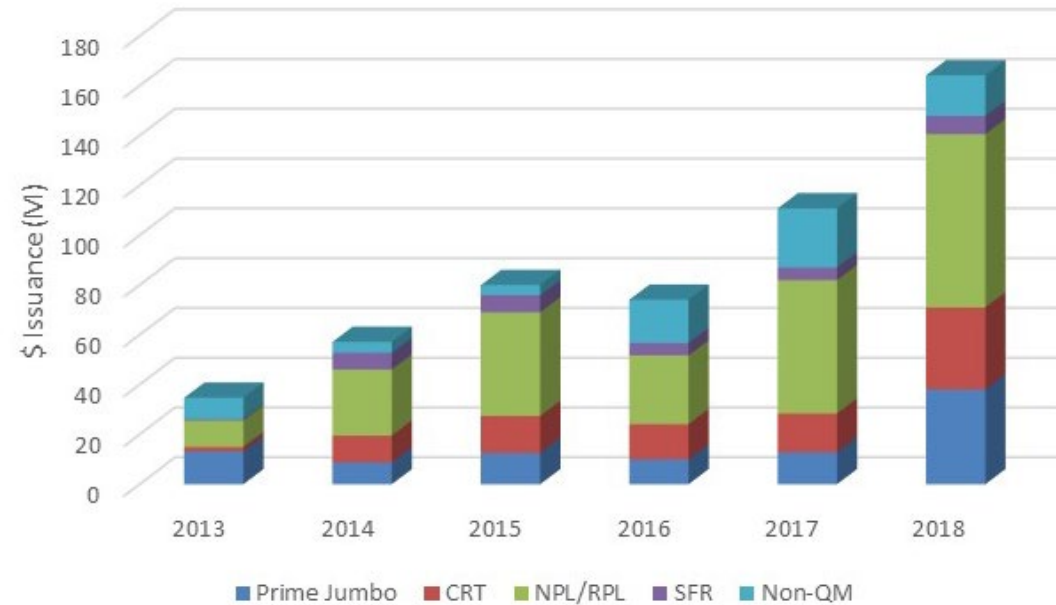
Non-Agency RMBS Rebounding

Gross Non-Agency RMBS Issuance



Source: SIFMA, NEAM

Gross Non-Agency RMBS Issuance by Sector



Emerging Housing Sector: Single Family Rental

U.S. Homeownership Rate



Source: Haver Analytics, NEAM

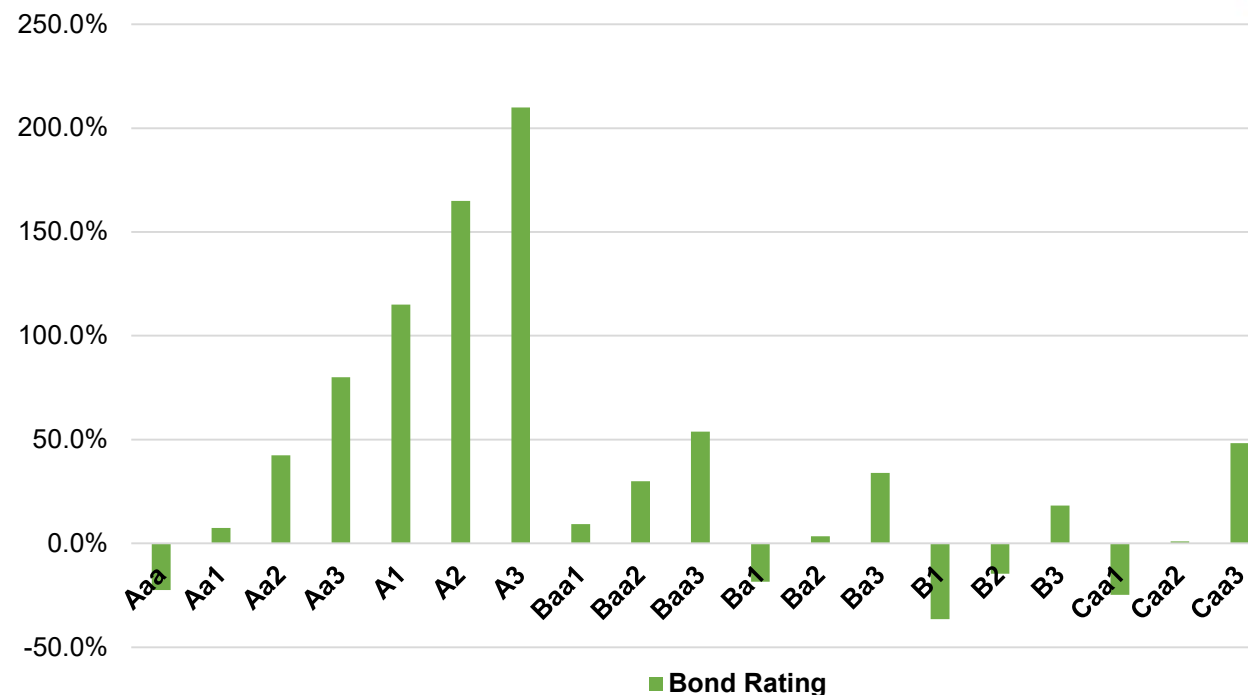
Change in Housing Occupancy by Type



NAIC's Life Proposed C1 Bond Base Factors

Bond Rating	Current Category	Proposed Category	Current	Proposed
Aaa	NAIC1	1.A	0.40%	0.31%
Aa1	NAIC1	1.B	0.40%	0.43%
Aa2	NAIC1	1.C	0.40%	0.57%
Aa3	NAIC1	1.D	0.40%	0.72%
A1	NAIC1	1.E	0.40%	0.86%
A2	NAIC1	1.F	0.40%	1.06%
A3	NAIC1	1.G	0.40%	1.24%
Baa1	NAIC2	2.A	1.30%	1.42%
Baa2	NAIC2	2.B	1.30%	1.69%
Baa3	NAIC2	2.C	1.30%	2.00%
Ba1	NAIC3	3.A	4.60%	3.75%
Ba2	NAIC3	3.B	4.60%	4.76%
Ba3	NAIC3	3.C	4.60%	6.16%
B1	NAIC4	4.A	10.00%	6.35%
B2	NAIC4	4.B	10.00%	8.54%
B3	NAIC4	4.C	10.00%	11.82%
Caa1	NAIC5	5.A	23.00%	17.31%
Caa2	NAIC5	5.B	23.00%	23.22%
Caa3	NAIC5	5.C	23.00%	30.00%

Proposed Sept. 2017 vs.
Current % Difference



Structured Securities Conclusions

- The case for structured securities remains constructive:
 - Portfolio diversification
 - Potential to generate incremental yield vs corporate bonds at a higher quality rating category
 - Insulated from corporate event risk
- Ability to target higher quality and more liquid asset types (i.e. MBS, CMOs, Credit Card, Auto Loans) as well as non-traditional asset types for yield enhancement
- Structures designed to withstand stress scenarios; improvement in credit enhancement and more straightforward capital structures post-crisis
- Increased data available for underwriting and surveillance