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Risk Asset Portfolio Recommendations

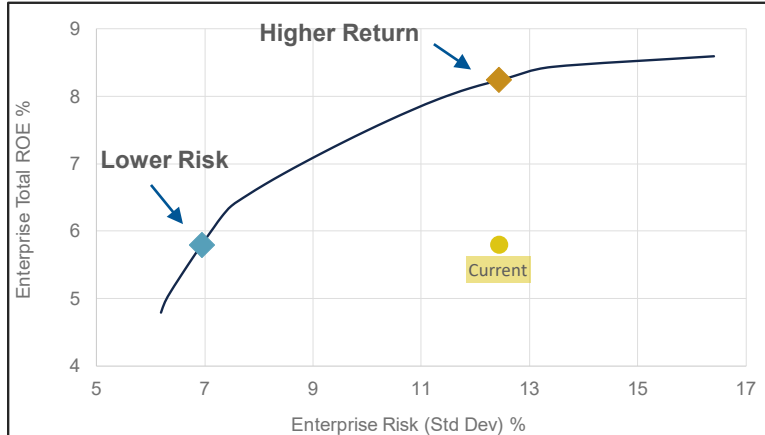


January 2020

LICOA's EBAA Results



Enterprise Efficient Frontier



Key Observations (Higher Return vs. Current):

1. NAIC RBC CAL ratio* reduced from 886% to 709%
2. BCAR 99.6 ratio** reduced from 58% to 50%
3. Pre-tax total return (\$) improved by \$1MM (\$4.7MM to \$5.7MM)
4. Book yield pick-up of 49 bps (4.21% to 4.70%)
5. Fixed income duration capped at 8 years; average credit rating down 1 notch, with BBB replaced by <BBB (BIG)
6. Incremental income returns driven by:
 - High yield
 - Equity

Results	Current	Lower Risk	Higher Return	Higher Return vs Current
Enterprise Statistics				
Total Return on Equity	5.80	5.80	8.24	
Earnings Risk (Std Dev)	12.43	6.95	12.43	
99.50 VAR % Capital	29.75	14.49	27.67	
Total Return on Assets	4.21	4.21	5.10	0.89
Investment Leverage	2.75	2.75	2.75	
Product Leverage	1.90	1.90	1.90	
Product Margin	(3.05)	(3.05)	(3.05)	
Add. Return/Risk Metrics				
Estimated RBC CAL %*	886%	859%	709%	-178%
Estimated BCAR 99.6 %**	58%	57%	50%	-8%
Total Return on Assets(\$)	4.7	4.7	5.7	1.0
Income Return on Assets(\$)	4.7	4.7	5.0	0.4
Book Yield	4.21	4.21	4.70	0.49
Market Yield (OAY)	3.68	3.68	4.11	0.43
Duration (OAD)	7.0	7.5	7.6	0.6
Default Loss (\$)	0.22	0.26	0.35	0.13
Average Rating	A	A+	A-	1 Notch Down
BBB (%)	49.6	32.8	40.0	(9.6)
<BBB (%)	0.0	3.0	5.0	5.0
Non-FI (%)	0.0	0.0	10.0	10.0
Sector Distribution				
Short Term	1.9	1.9	1.9	0.0
US Govt_Agency	2.0	13.8	7.7	5.7
Municipal	9.3	3.0	2.7	(6.5)
Muni-Tax	6.7	0.0	0.0	(6.7)
Invest Grd US Corp	54.2	42.4	49.8	(4.4)
Structured Sec.	21.9	31.9	18.8	(3.1)
High Yield	0.0	3.0	5.0	5.0
Preferred (DRD)	4.0	4.0	4.0	0.0
Equity(US&Intl)	0.0	0.0	10.0	10.0
Total	100.0	100.0	100.0	0.0
Risk Asset % of Surplus	0.0	8.1	41.3	41.3

* RBC CAL % based on Q3 2019 RBC report provided by LICOA

** BCAR 99.6 % estimated AM Best BCAR 2018YE report provided by LICOA

Source: NEAM

Recommended Risk Asset Funds – Details



	DDJ Opportunistic High Yield Fund	iShares Select Dividend ETF	WisdomTree Europe Hedged Equity Fund
Ticker	DDJIX	DVY	HEDJ
CUSIP	02110A696	464287168	97717X701
Fund Type	Mutual Fund	Exchange Traded Fund	Exchange Traded Fund
Yield	11.48%	3.62%	1.82%
Fund Management Fee	0.70%	0.39%	0.58%
Accounting Treatment	Schedule D22	Schedule D22	Schedule D22
Fund Benchmark	ICE BofAML US High Yield Index (H0A0)	Dow Jones US Select Dividend (DJDVY)	Europe Hedged Equity Total Return (WTEHIT)

EBAA Recommended Allocation for LICOA

% of Portfolio	5.0%	7.0%	3.0%
% of Surplus*	14.3%	20.1%	8.6%
\$ Investment	\$5.75mm	\$8.10mm	\$3.45mm

Data as of 9/30/2019 fund fact sheets.

* Based on LICOA's 3/31/2019 surplus of \$40.3mm.

Guideline Modifications for Consideration



- **Section III. Asset Allocation & Risk Management Guidelines** – Modify the duration target in Table A to the following based on the EBAA results:

	Current	Proposed
Duration Target	7.0 years	7.6 years
Duration Range	6 to 8 years	No change

- **Section III. Asset Allocation & Risk Management Guidelines** – Add a new subsection at the end titled “Risk Asset Portfolio” with the following table to address guidelines related to risk assets:

Risk Asset Portfolio Restrictions
<ul style="list-style-type: none"> • The target allocation to risk assets is 15% of LICOA’s total portfolio. The risk asset portfolio may grow to 17.5% of assets due to price appreciation. • The risk asset portfolio shall not exceed 50% of LICOA’s most recently available surplus. • Rebalancing will occur as needed due to changing market conditions.

- **Section V. Investment Performance & Reporting** – Add reference that the benchmarks for the risk asset portfolio shall be the respective benchmarks of the funds held:

Risk Asset Fund	Fund Benchmark
DDJ Opportunistic High Yield Fund (DDJIX)	ICE BofAML US High Yield Index (H0A0)
iShares Select Dividend ETF (DVY)	Dow Jones US Select Dividend (DJDVY)
WisdomTree Europe Hedged Equity Fund (HEDJ)	Europe Hedged Equity Total Return (WTEHIT)