INVESTMENTS for
CAPTIVE INSURANCE COMPANIES
PLANNING FOR GREATER GOOD

The mission of Wellspring Financial Solutions of Raymond James, is to help people do well, so they can do more for their families. We help businesses do well, so they can do more for their clients. We help institutions do well, so they can do even more to meet the needs of the communities and causes they serve.
For years, owners of captive insurance companies have found themselves struggling to find a financial advisor with the knowledge, experience, and skills to effectively manage the investments of their captive.

Since the inception of Wellspring’s institutional group in 1995 we have served a nationwide insurance and institutional client base. We have successfully integrated proven investment principals with our robust knowledge of the captive insurance industry. Our perspective and experience using liability-driven investment solutions is a natural fit for captive insurance companies and RRGs.

Since every captive has unique liabilities and risk, every captive deserves a unique investment solution centered around the interest of that client. We employ a consistent and transparent process designed to optimize the construction of your investment portfolio.

Wellspring is well positioned to deliver the specialized solutions our captive insurance clients need. Our extensive experience extends well beyond domestic “pure” captives. So, whether you’re an 831B elected captive, an offshore 931D, an NCFC, or a protected cell group we have the capabilities, process, and experience that you need.
YOUR PURPOSE IS OUR FOCUS

Wellspring’s focus on liability-driven investment solutions means that our clients can sleep well with the confidence that their captive investment portfolios are constructed around their liquidity needs and insurance risk. Our “Wellpoint Process” blends the unique needs of your captive with proven investment principals to properly align risks and goals. We believe the following key elements are important for our captive clients.

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<th>Your money has a purpose</th>
<th>Limit the downside.</th>
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<td>Insurance companies don’t invest to simply beat a benchmark. They invest to pay policyholders claims and maintain stable surplus.</td>
<td>Absolute investment returns, principal protection and minimizing volatility are the keys to insurance portfolios.</td>
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<th>Simplicity, Liquidity &amp; Transparency</th>
<th>Communication and Education</th>
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<td>Generally captive owners rely heavily on other professionals to assist in their captive operations. We craft captive portfolios using tested insurance oriented investment principals.</td>
<td>Informed clients make better decisions and we are committed to communicating our thoughts and strategies to our clients.</td>
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Every Captive portfolio, regardless of size, is constructed using the same investment discipline. By utilizing a consistent and transparent process, we are well positioned to deliver the specialized solutions our captive clients need.

1. **Insurance Risk & Client Goals** - This process begins with an analysis of your insurance risk as well as your risk tolerance and goals. By understanding your insurance structure (i.e., frequency/severity, claims made / occurrence, etc), risk (including tail risk) and your actuarial inputs, we can determine an appropriate risk mitigation (cash flow matching, duration matching, etc) and develop baseline and adverse scenarios.

2. **Economic & Market Environment** - Next, we perform a robust analysis of macroeconomic and political events to develop a forward looking investment thesis. In addition to our analysis, we have engaged Mercer Investment Consulting to develop forward looking capital market assumptions and prospective risk for each asset class.

3. **Due Diligence** - Behind the scenes, our due diligence team digs deep identifying and monitoring the investment managers that may deliver results. Our due diligence process covers both the qualitative and quantitative aspects of managers.

4. **Portfolio Development** – Finally, we knit together your insurance risk, market risk, and due diligence to develop a portfolio that is custom designed to meet your specific goals and needs. This kind of liability driven approach is key to achieving risk managed results. Additionally, this approach provides a framework for regulators and the IRS to connect the investments to the insurance risk.

5. **Portfolio Stress Test** – Our final step is to stress test your portfolio. We live in a interconnected world where changing economic, political, and world events can impact your portfolio value. Our stress test anticipates how your portfolio may react as we simulate both domestic and global changes. This valuable tool lets us understand how developing events may affect your portfolio and determine an appropriate course of action.

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PORTFOLIO STRUCTURE FOR CAPTIVES

We draw on robust liability risk analytics to formulate and implement asset allocations in multiple portfolio sleeves. This multiple sleeve investment approach aligns the insurance risks with investments designed to mitigate those specific risks. Each sleeve performs an important role independently; and together they are designed and managed in a complementary fashion to balance the needs of providing cash flow, limiting volatility of funded status, maximizing investment income or returns, and mitigating overall risk.

**Total Portfolio**
Designed to curtail downside risk throughout the entire process.

- **Cash Flow Sleeve**
  Investments are cash and cash equivalent. Used to pay current claims and expenses.

- **Reserve Sleeve**
  (ULAE, ALAE, IBNR)
  Investments are structured (cash flow or duration matched) to hedge loss reserves and protect funded status.

- **Core Investment Sleeve**
  (Surplus)
  This sleeve focuses on optimizing longer term returns and minimizing the impact of inflation.

**PORTFOLIO STRESS TESTING**

A stress test is a simulation designed to determine how an investment portfolio may deal with an economic, political or market crisis. Instead of making financial projections based upon a “best estimate” Wellspring invests in a robust technology to perform scenario analysis. These analyses provide a means to test and monitor our clients’ portfolios against a changing economic landscape.

*Using a liability based core/satellite approach is a common investment strategy for commercial insurance companies. This strategy can be an important consideration for the IRS especially as it relates to 831B elected captives.*
STRESS TESTING (con’t)

Common Stress Tests we monitor:

1. Federal Reserves official scenarios (Baseline, Adverse, Severely Adverse)
2. US monetary policy changes (QE, US Dollar)
3. US fiscal policy changes (Debt, Budgets, Etc.)
4. US political actions (Obamacare, Debt Ceilings)
5. Headline risk (Ebola, Terrorist attacks)
6. Global growth changes (Euro, China, BRICS)
7. Global political changes (Middle East, Korea, Russia)
8. Commodity risk (Oil, Gold)
9. Historical market crashes (Financial Crisis, October 1987, Sept 11, 2001)
10. And many more

CAPTIVE INVESTMENT LIFECYCLE

Captives often move through a lifecycle of investment needs and it’s important to understand how your captive’s growth and development changes your risk profile and goals. Whether it’s simply growing surplus and reserves balances, increasing retentions on existing coverages, or adding new exposures, Wellspring can help you effectively navigate how your investment strategies should be adjusted for the growth of your captive.
Views expressed are not necessarily those of Raymond James and are subject to change without notice. Information contained in this report was received from sources believed to be reliable, but accuracy is not guaranteed. Past performance is not indicative of future results. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success. Diversification and strategic asset allocation do not ensure a profit or protect against a loss. Investments are subject to market risk, including possible loss of principal.

International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possibly political and economic instability. These risks are greater in emerging markets.

High-yield bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio.

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