

# Viewpoint

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ASSET MANAGEMENT | WHITE PAPER

## Peer Analysis: An Opportunity to Enhance Investment Portfolio Value

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Insurers constantly assess their business to understand and enhance competitiveness but unfortunately evaluating the investment portfolio can sometimes be difficult. Conning’s peer analysis tool offers insight into competitors’ investment strategies, a process that can help insurers add value to their portfolios.

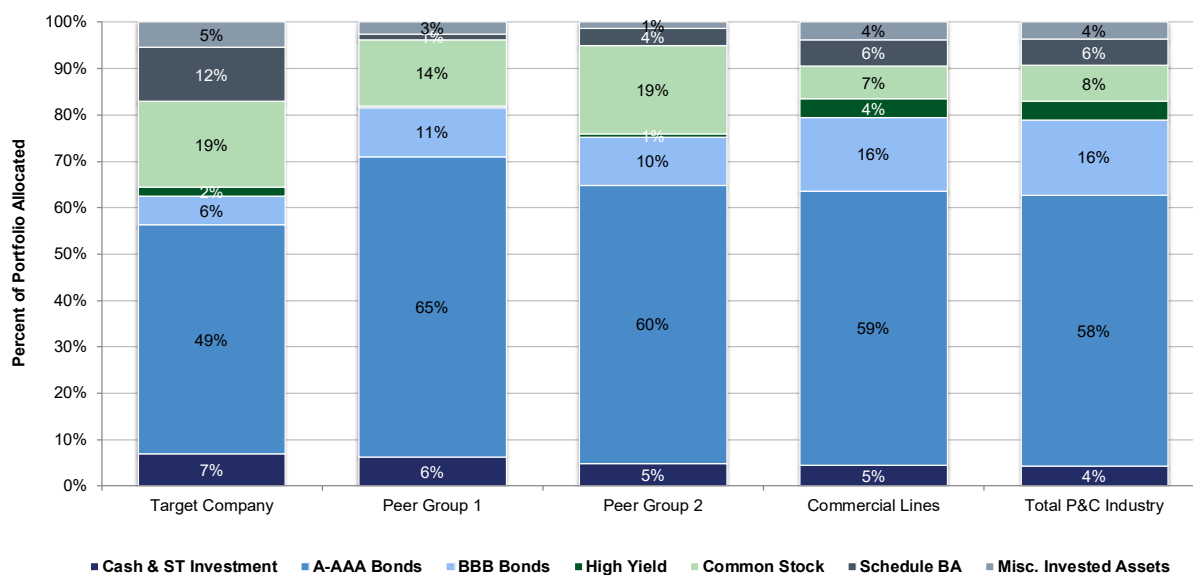
Each insurer needs to develop an investment strategy that meets its unique needs while staying within its risk tolerance. Insurers that are similar in size, market share and offerings may in fact have - and need - quite different investment profiles. The goal of a peer analysis is not to mimic a competitor’s strategies, but rather to inform clients about industry and competitor trends to help identify best practices, allowing a high degree of care when determining a tailored strategy.

### A Comprehensive Investment Review

A peer analysis compares an insurer’s key financial metrics, ratios, and indicators against those of similar companies in the same sector. Comprehensive peer analysis reports encompass crucial information regarding a client’s investment portfolio as well as financial, underwriting, and operational aspects. This tool provides an overview of an insurer’s current state and recent trends while calling attention to the state of peers and competitors.

Peer analysis provides an initial benchmark for assessing a company’s financial and investment performance. The peer analysis is not simply an academic exercise, but rather a key part of our strategic asset allocation (SAA) work. However, peer analysis can be discussed as a stand-alone item, in which case Conning can dedicate a presentation solely to highlighting the findings.

Figure 1 - Case Study Peer Analysis: Asset Allocation Comparison



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Some areas of our peer analysis focus include current views and trends of:

- Asset allocation
- Portfolio yield and total return
- Bond sector distribution
- Underwriting
- Credit quality and duration
- Profitability and balance sheet strength.

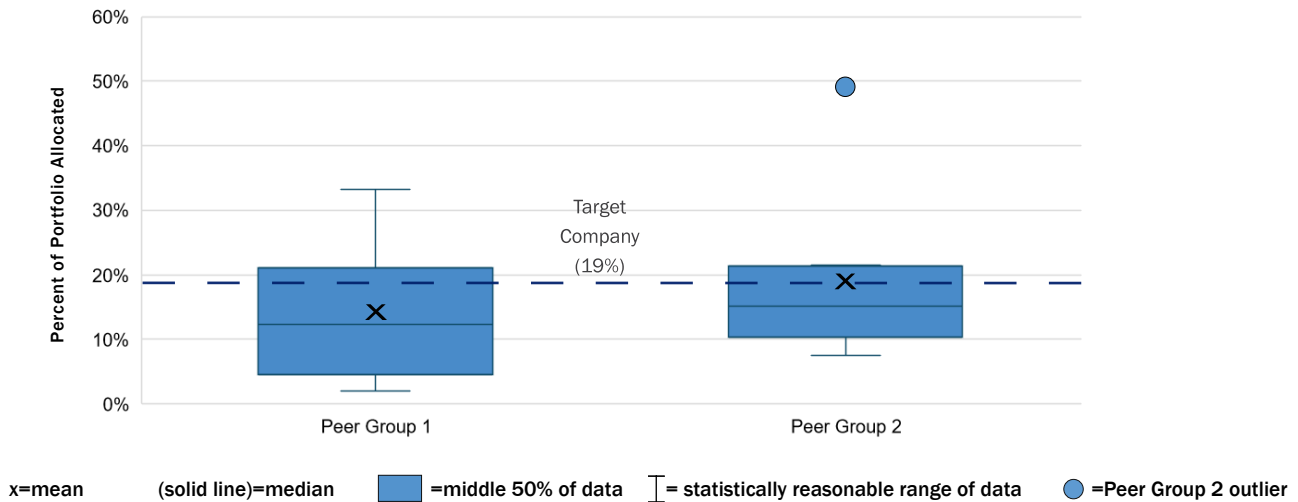
Peer groups can range from a single competitor to groups of companies with similar characteristics. We work with insurers to develop appropriate peer groups that can be comprised of insurers with different lines of business, by net written premium or some other criteria. We often will incorporate a composite or two of a broader slice of the industry such as the complete P&C or life industry and subsets such as workers' compensation insurers.

### Case Study: Data-Driven Evaluations

The best way to illustrate the impact of a peer analysis is by drawing from one of the many of Conning's experiences. In the analysis below, the "Target Company" in the accompanying graphics is a diversified commercial lines writer operating across the U.S.

Figure 1 highlights the Target Company's noticeably lower allocation to A-AAA bonds versus peer groups. The Target Company's allocation to common stock is higher than the other comparison groups and on par with Peer Group 2's average. When looking at the distribution of equity allocations (see Figure 2), one insurer in Peer Group 2 had a common stock allocation of 50%, most likely skewing the average higher.

**Figure 2 - Case Study Peer Analysis: Equity Allocation Comparison**

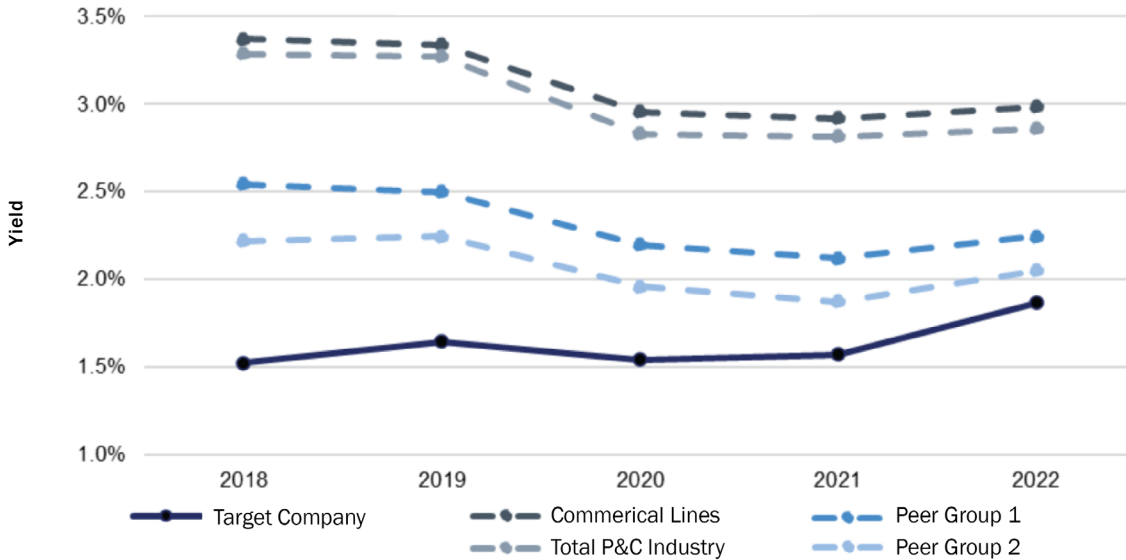


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The Target Company also has the highest allocation to Schedule BA and miscellaneous assets. This includes allocations to investments in private equity, hedge funds and other alternatives, derivatives, real estate, and others. (For segments of the market where these allocations are larger, we will often look at more detailed analyses into real estate exposures or alternatives.)

Comparing our Target Company's asset allocation to that of its peers helps inform our asset allocation targets and constraints in our SAA work. Our asset allocation suggestion may differ based on how we interpret the comparison, one option being to maintain the current equity allocation or reallocating some of those funds to other areas, such as highly rated structured securities or commercial real estate, to further diversify the portfolio holdings.

**Figure 3 - Case Study Peer Analysis: Estimated Net Investment Yield Comparison**

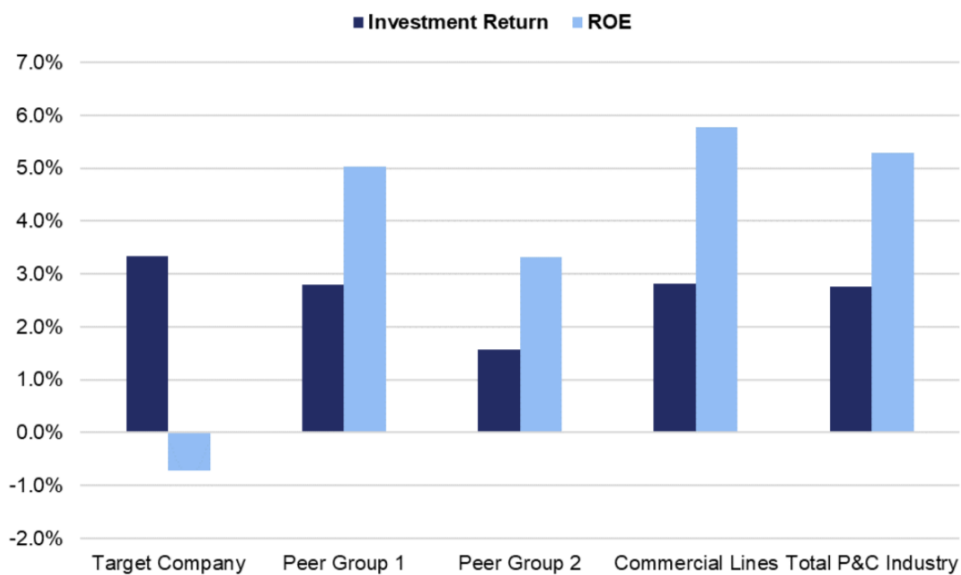


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While allocations are important, performance is key. Figure 3 showcases estimated net investment yield for our Target Company and comparison groups over a five-year time horizon. From this visual, we may infer that while our Target Company has a considerable portion of its portfolio allocated to market-valued assets, as noted in Figure 1, the estimated net investment yield has been underperforming versus both peer and composite groups during the past five years. However, the slope of the lines for each group from 2021 to 2022 indicates that the Target Company's estimated net investment yield appears to be increasing at a faster rate than the other groups.

Looking further into the Target Company's and comparison groups' investment metrics, we can analyze the investment averages, specifically investment return and return-on-equity (ROE) investments (see Figure 4).

**Figure 4 - Case Study Peer Analysis: Five-Year Investment Averages Comparison**



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As illustrated, the Target Company's returns from investments over the previous five years were higher than those of the comparison groups. However, its ROE was negative. On the other hand, the other comparison groups all had lower investment returns but higher ROE metrics. This provides us the perspective that even though investment performance has helped with the Target Company's performance it has not been enough to outweigh the drag of underwriting and financial performance.

After discussing the peer analysis with the Target Company's representatives and understanding their desire to decrease their current risk exposure, we suggested decreasing their allocation to market-valued assets and reallocating those funds to highly rated assets (A and above). More specifically, we recommended decreasing their allocation to cash short-term investments and common stock. We believed reallocating some of these funds into highly rated and higher-yielding structured securities would increase the Target Company's portfolio duration, diversification and average bond rating. In this scenario, peer analysis would be used to support our comprehensive enterprise-driven recommendations for the company.

### Valuable Input for Investment Strategies

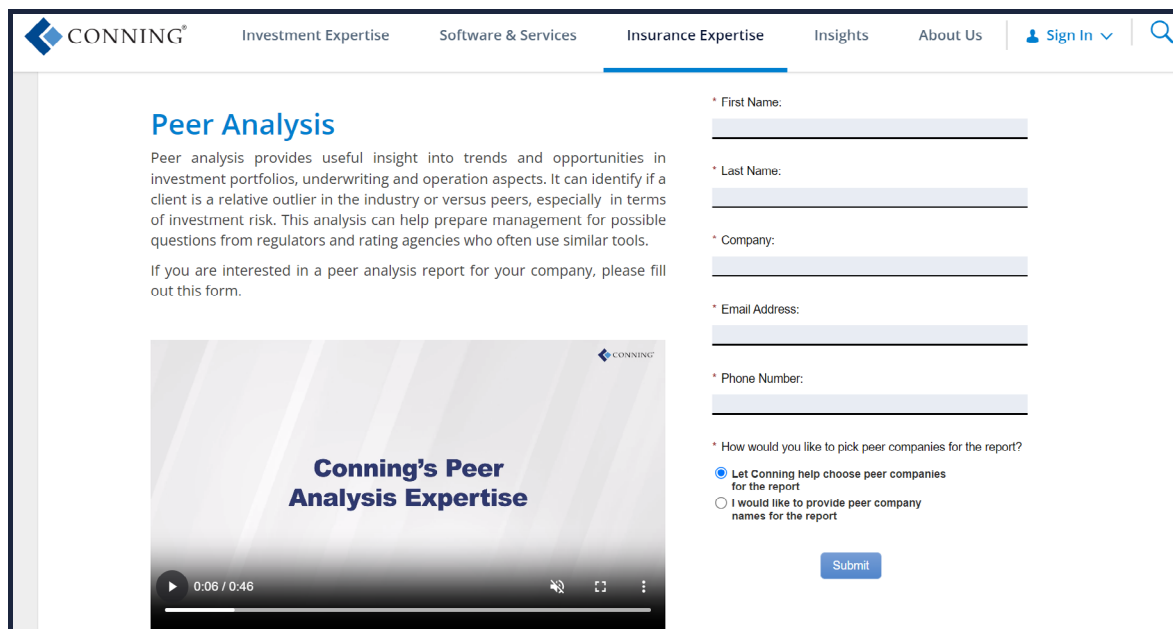
As noted, a peer analysis does not provide specific instructions but rather provides insurers with valuable insights on how their portfolios stack up to peers and the industry. As always, insurers should develop investment strategies designed to meet their business needs and that fit within their risk tolerance. The value of the peer analysis, however, is the broad view of the potential opportunities that may add value to an insurer's investment strategy.

Conning's peer analysis presents a comprehensive evaluation of a client's portfolio in comparison to competitors across a litany of financial metrics. Insurance companies can either provide a list of peers using the form on our website or utilize Conning's insurance expertise to curate a suitable selection.

Our analysis delivers insightful and significant findings to insurance companies as they contemplate future investment strategies, empowering them with informed decision-making. Peer analysis is leveraged in our SAA process, giving us the capability to deliver customized investment strategies that address the unique objectives and risk tolerance of our clients.

### Reach Out to Conning for a Free Peer Analysis

Visit our [website](#) to learn more and request a free peer analysis by Conning's Insurance Solutions team.





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#### About Conning

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