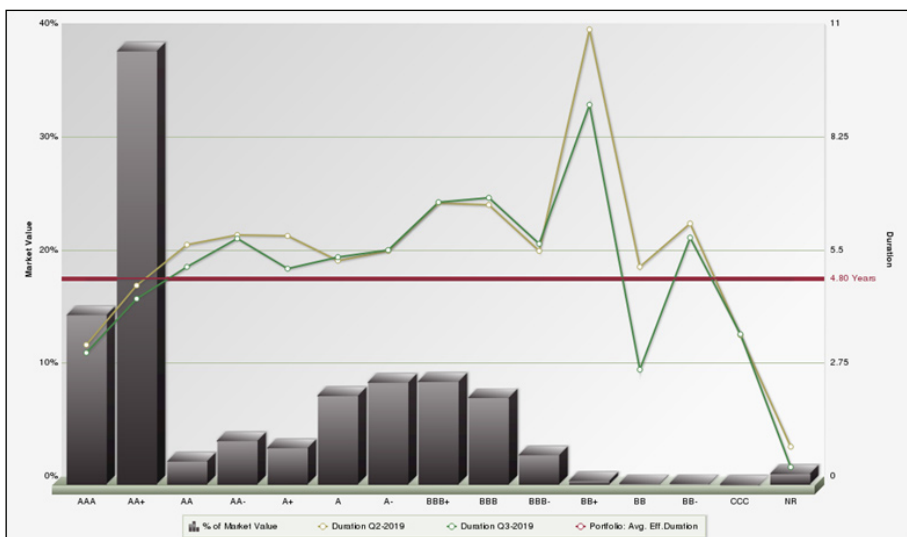


# Your Investment Manager - Important Questions to Ask

As your insurance company or government risk pool reviews the investment portfolio with your investment manager, asking key questions can help your staff, Board and Investment Committee better understand the overall process.

For many of the reports and charts that investment managers provide during the quarterly reporting process, these questions will be important to ask as they can drive more effective decision-making.

## Credit Duration



[View Sample >>](#)

### Questions to Ask:

- Are you combining credit and interest rate risk within a given credit rating?
- If so, why is this the case?
- Have you considered the risks inherent with that strategy and are we being compensated for taking that risk? How?

## Average Credit Rating

### Average Credit Ratings

Portfolio: Consolidated FI  
Quarter: 4th Q, 08

		Hoody	Detailed	Summarized	RBC
4th Q, 08	Factor Average	1.57%	5.84	3.48	1.18%
	Average Credit Rating	A-	A+	AA	A
3rd Q, 08	Factor Average	1.56%	5.58	3.37	1.15%
	Average Credit Rating	A-	A+	AA	A+
2nd Q, 08	Factor Average	1.50%	5.48	3.36	1.12%
	Average Credit Rating	A-	AA-	AA	A+
1st Q, 08	Factor Average	1.43%	5.30	3.27	1.09%
	Average Credit Rating	A	AA-	AA	A+
4th Q, 07	Factor Average	1.43%	5.30	3.28	1.09%
	Average Credit Rating	A	AA-	AA	A+

### Average Credit Ratings

Portfolio: Consolidated FI  
Quarter: 4th Q, 08

	Summarized	Detailed	Hoody
4th Q, 08	AA	A+	A-
3rd Q, 08	AA	A+	A-
2nd Q, 08	AA	AA-	A-
1st Q, 08	AA	AA-	A
4th Q, 07	AA	AA-	A

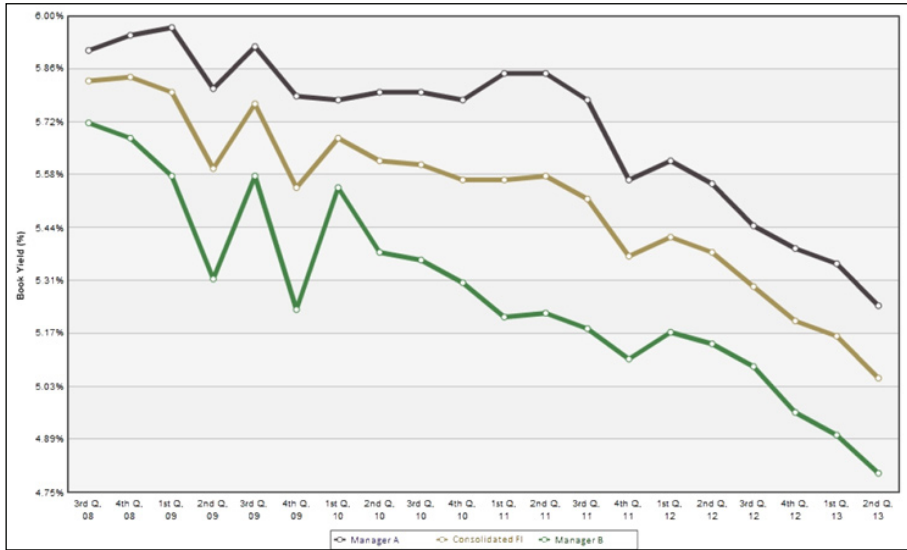
### Questions to Ask:

- Given that our Moody's default factor is x.xx% for our portfolio, do you think we are being compensated for the portfolio credit risk we are taking? Why?
- Why has our Moody's expected default factor increased (or decreased) over time?



# Your Investment Manager - Important Questions to Ask

## Book Yield Trend

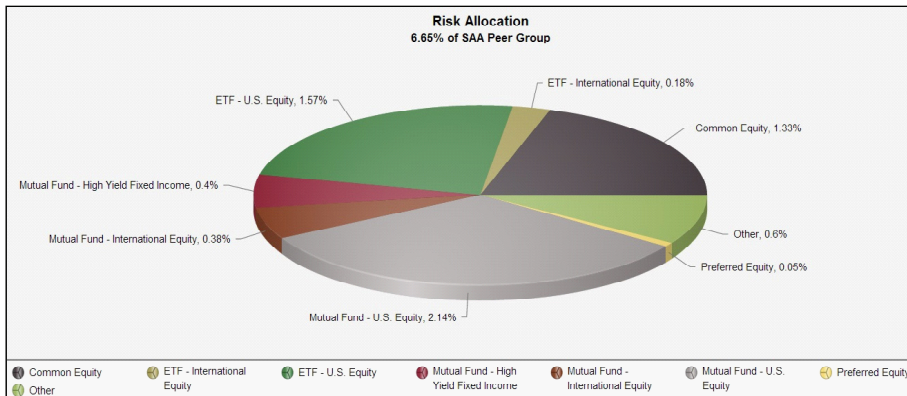


[View Sample >>](#)

### Questions to Ask:

- Why did our book yield trend in the manner shown on the chart?
- How do you expect this chart would look like if we projected it over the next few years? (*assuming no change in rates and/or rates moving up/down by x basis points*)
- If the expected trend in book yield is insufficient, how can we prudently 'bend the curve' to a better than projected result?

## Risk Allocation



[View Sample >>](#)

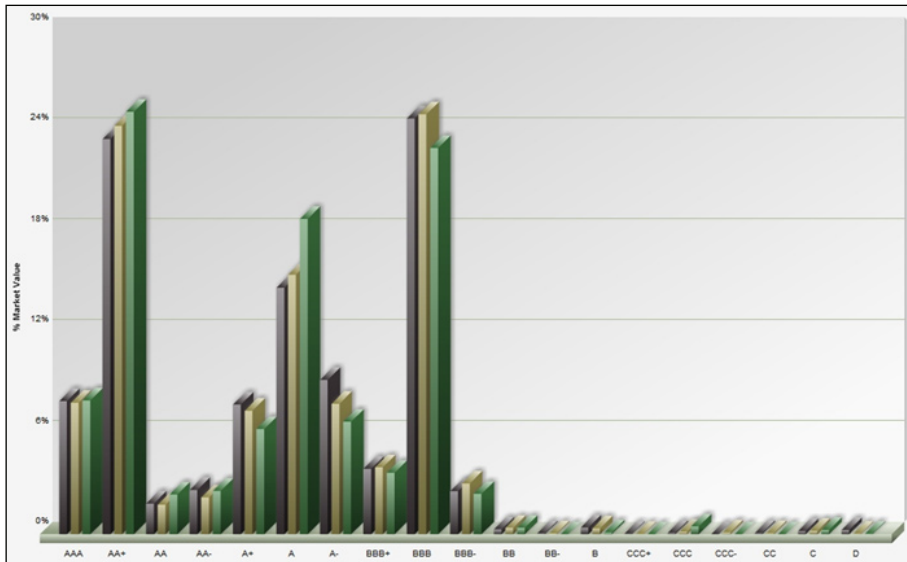
### Questions to Ask:

- Why does the risk asset portfolio have this mix?
- Does this current allocation match still meet our initial expected long-run return for this risk asset portfolio?
- In a 'worst case' scenario, how will our surplus be would this impact relevant ratios?



# Your Investment Manager - Important Questions to Ask

## Credit Rating Detail



[View Sample >>](#)

### Questions to Ask:

- Why was there an increase in certain credit rating categories?
- Was this due to a purposeful strategy on your part? Or were upgrades/downgrades by the rating agencies a primary reason? To what extent?
- Specifically, what securities are on your credit 'watch' list and why?
- Why should we continue to hold or sell these securities?

## Duration Profile



### Questions to Ask:

- What is your strategy for taking interest rate risk?
- Are you trying to over/under-weight duration versus the benchmark? Why?
- How would movements in the yield curve effect our portfolio?



# Your Investment Manager - Important Questions to Ask

## Credit Exposure

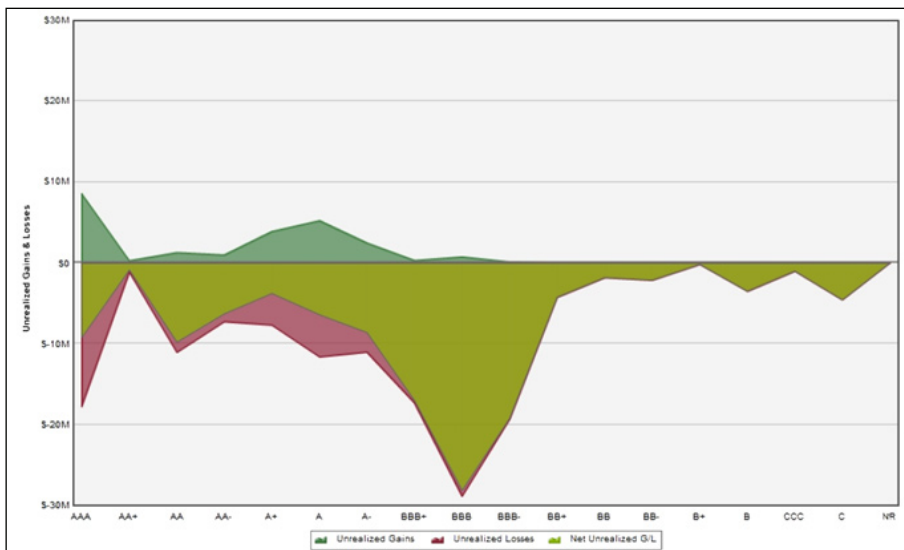
Bond #	Cusip	AssetType	Issuer	Par	Market Value	% of Port PIV	Book Value	CR	Duration	Maturity	
1	209111EV	Corporate	CONS EDISON CO OF NY	11,500,000	12,322,101	1.04%	11,926,726	A-	7.460	12/01/2018	
2	45905CAA	Corporate	INTL BK RECON & DEVELOP	10,000,000	11,653,500	0.99%	9,851,289	AAA	15.543	02/15/2035	
3	69351CAC	Corporate	FDIC GTD TLGP PNC FUNDING CORP	10,000,000	10,099,800	0.85%	9,988,381	AAA	3.325	06/22/2012	
4	298785DV	Corporate	EUROPEAN INVESTMENT BANK	9,000,000	9,919,890	0.84%	8,997,351	AAA	15.324	02/15/2036	
5	79575DXB	Municipal	SALT RIVER PROJ ARIZ AGRIC IMP	8,000,000	8,046,080	0.68%	7,689,939	AA	7.011	01/01/2026	
6	8371473G	Municipal	SOUTH CAROLINA ST PUB SVC AUTH	7,500,000	7,511,400	0.64%	7,235,804	AA-	7.549	01/01/2038	
7	36962G3P	Corporate	GENERAL ELEC CAP CORP	7,700,000	7,428,366	0.63%	7,359,313	AAA	13.270	-	
8	14912L4D	Corporate	CATERPILLAR FINANCIAL SERVICES	7,000,000	7,402,976	0.63%	7,284,284	A	7.280	-	
9	20030NAK	Corporate	COMCAST CORP	7,000,000	6,923,473	0.59%	6,819,014	BBB	12.550	11/15/2035	
10	92343VAQ	Corporate	VERIZON COMMUNICATIONS INC	6,000,000	6,897,810	0.58%	6,778,229	A-	7.030	03/14/2015	
Top 10					88,205,396	7.46% of MV					
Consolidated FT					1,181,695,588						

[View Sample >>](#)

### Questions to Ask:

- Please explain the rationale behind owning some of these largest positions.
- If there is an unusual large position or positions, what is your reasoning for holding this security?
- What are the risks? How are we being compensated for that risk?

## Unrealized Gains and Losses



[View Sample >>](#)

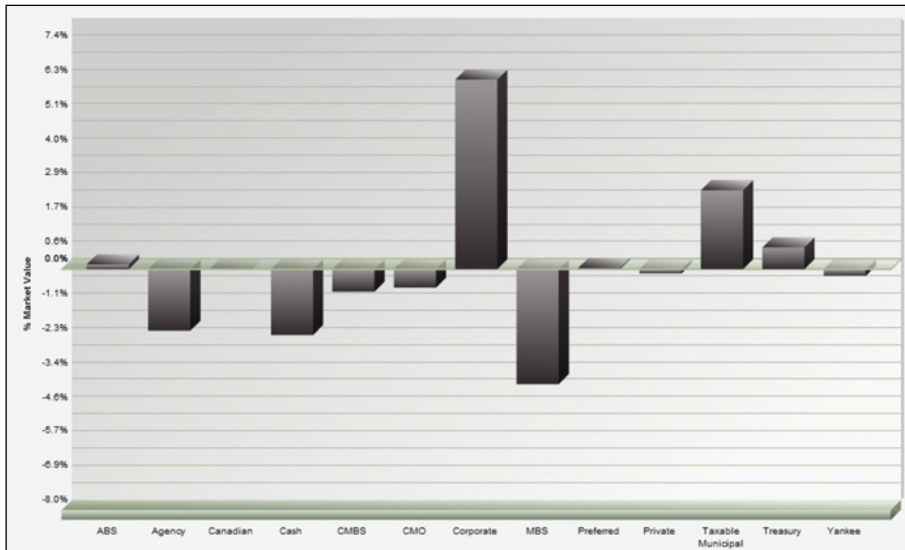
### Questions to Ask:

- Please explain why our unrealized gain/loss is unusually high for certain credit ratings.
- Given our company's policy to limit realized losses (if applicable), how much flexibility do you have in managing the portfolio?
- Is our flexibility sufficient or should we consider loosening any restrictions for realized losses? Why?



# Your Investment Manager - Important Questions to Ask

## Implied Portfolio Liquidity



[View Sample >>](#)

### Questions to Ask:

- Are we taking on too much or too little liquidity risk?
- Do you think our portfolio is sufficiently liquid?
- Are there any allowable asset classes we should consider where we can be compensated for taking on liquidity risk?

## Potential Impairment Report (OTTI)

OTTI (Watch List <= 90%)

Consolidated Fixed Income

2nd Q, 11

Cusip	Issuer	AssetType	Quantity	Book Value	Market Value	MV/BV	Unrealized G/L	Duration	Book Yield	CR
921796LA	VMF 2001-A B2	ABS	1,108,424	1,260,386	929,145	73.7%	-331,241	2.66	8.00	BBB
12628KAK	CSAB 2006-3 ASA	ABS	2,641,825	2,639,953	1,947,625	73.8%	-692,328	5.39	6.21	AA-
12668XAF	CWL 2006-SB A6	ABS	2,222,109	2,235,432	1,660,460	74.3%	-574,972	2.39	5.53	B-
76098SWY	RAHP 2003-RSS A15	ABS	393,582	393,170	332,698	84.6%	-60,472	4.01	4.87	B
921796JF	VMF 2000-A ID2	ABS	148,132	167,285	145,144	86.8%	-22,141	3.61	8.15	000+
32051GLK	FHASI 2005-2 B2	CMO	870,422	118,273	88,659	75.0%	-29,613	0.81	5.72	CC
31392GWD	FINW 2003-WI M	CMO	372,972	374,508	309,693	82.7%	-64,815	3.29	5.70	AA
12545EAF	CWHL 2007-32 2A5	Non-Agency CMO	1,661,145	1,666,291	1,092,634	65.6%	-573,657	4.06	5.91	CC
93935PAA	WPIAL 2007-1 1A1	Non-Agency CMO	3,347,858	3,373,142	2,613,145	77.5%	-759,997	6.58	5.92	CCC-
32051GJW	FHAMS 2005-FA2 B2	Non-Agency CMO	446,410	17,633	14,190	80.5%	-3,444	0.57	5.58	CC
46629SAE	JPHMT 2006-54 A5	Non-Agency CMO	3,500,000	3,501,664	2,927,152	83.6%	-574,513	11.20	5.99	C
36186YAF	HICKAM AIR FORCE HOUSING TRUST 07-HCKH	Non-Agency CMO	3,750,000	3,727,420	3,210,188	86.1%	-517,232	10.16	6.15	AAA
126694JT	CWHL 2005-24 A3	Non-Agency CMO	3,323,473	3,272,995	2,821,565	86.2%	-451,429	9.01	5.81	BB
05948XDS	BOAMS 2003-D 2A1	Non-Agency CMO	55,010	60,074	53,015	88.3%	-7,059	1.08	2.88	BBB
02148AAE	CWALT 2006-34 A5	Non-Agency CMO	2,987,254	2,195,393	1,952,660	88.9%	-242,732	17.85	6.15	C
598329AC	MIDWEST FAMILY HOUSING	Taxable Municipal	1,000,000	1,000,000	682,830	68.3%	-317,170	11.50	5.53	BB-
<b>Grand Total:</b>	<b>16</b>		<b>27,828,596</b>	<b>26,003,619</b>	<b>20,780,803</b>		<b>(\$5,222,815)</b>			

% of Portfolio @ BV 5.73%  
% of Portfolio @ MV 4.38%

[View Sample >>](#)

### Questions to Ask:

- Which of these securities are you most concerned with? How come?
- Are there any securities not on this list that are on your 'credit watch' list?
- Why are they on your watch list?

