Fixed Income Vehicles: Separate Account vs. Funds

As most insurance companies will allocate their investment portfolio towards investment-grade fixed income, it is important to understand exactly how the investment portfolio is invested in the asset class.

Typically, insurers either utilize "Separately Managed Accounts" or "Fund Vehicles" *(i.e. Exchange-Traded Funds (ETFs) or Bond Mutual Funds)* to allocate the portfolio to fixed income securities.

Depending on the insurance company's portfolio size, company objectives, etc., the use of these strategies can help insurance company's meet their investment goals.

Overview	Separately Managed Account	Bond ETFs & Mutual Funds
Description	• Individual bonds are directly bought and sold to makeup the investment portfolio • While this can be performed by executive staff, typically insurers utilize a third-party investment manager	• A collection of bonds that are traded as one unit; acting as a 'ready-made' portfolio • Insurers contribute towards a management firm's Bond ETF or Mutual Fund with other investors • Unlike Mutual Funds, ETFs are traded on the stock exchange
Potential Benefits	• Allows for customization necessary for insurers • Greater transparency and control • Typically provides greater cost-effectiveness as the portfolio grows >$25M	• Can be an efficient method for portfolio diversification • Accessibility and simplicity for all levels of investment expertise • Variety to match desired insurer's target allocations
Typical Fee Ranges* *bps = basis points* *1 basis point = 0.01%* *Fee = bps x portfolio size*	• Investment management fees: 9 bps to 20 bps	• Bond ETF Expense Ratio: 6 bps to 17 bps • Bond Mutual Funds are actively managed, so fees are typically higher than ETFs
Considerations	• An independent review of your current or potential investment manager's fit and performance . • Custodians (entity responsible for safekeeping portfolio assets)	• Independent investment consultant to assist with fund selection • Cost-effectiveness maximized for portfolios <$25M

**For insurers/pools - other institutional investors typically see larger fees for core fixed income*