

# Risk Management in Volatile Markets

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## Agenda

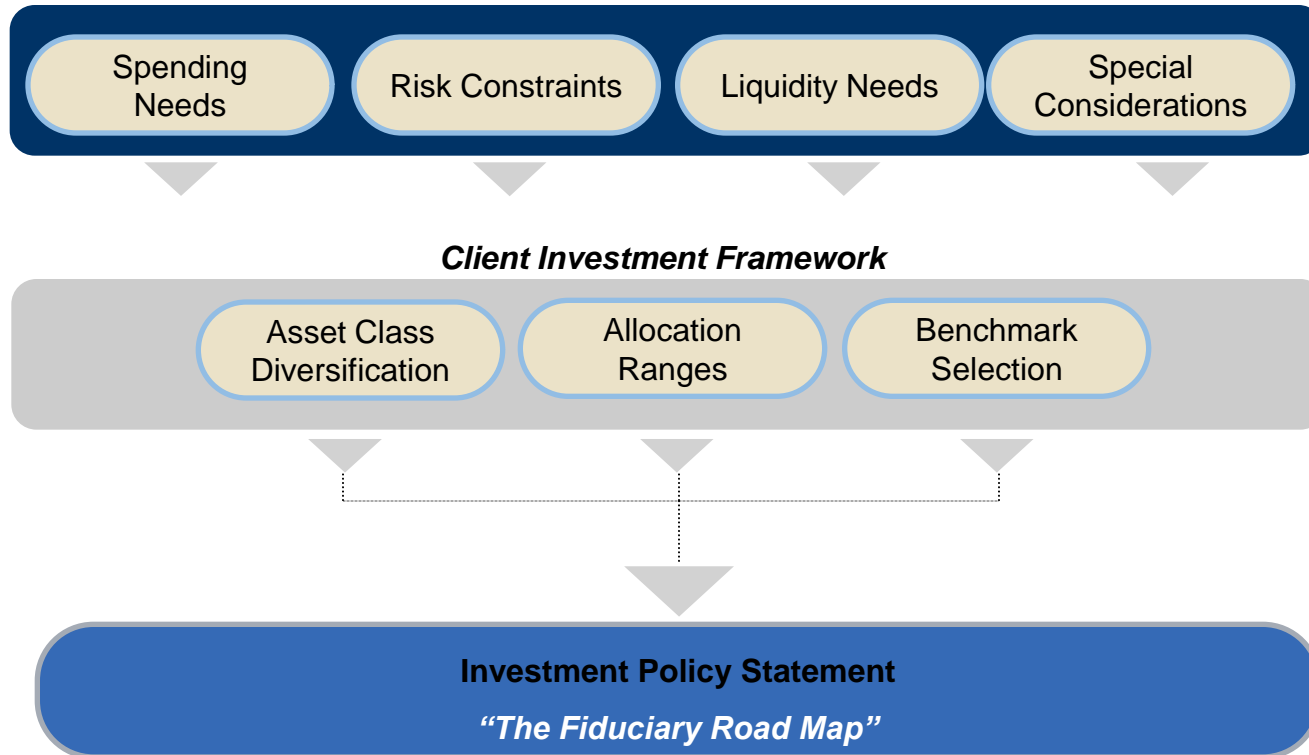
- Investment risk management process
  
- Creation and Utilization of the Investment policy statement
  
- Panel Discussion: Two case studies
  - Independent Insurance Agents and Brokers of America
  - The Vision Council
  
- Questions, Answers and other Considerations

## An Often Used Investment Management Approach

- **Discover Investment Objectives:**  
An insightful dialogue is the first step toward discovering the mission, objectives and risk parameters that will drive your organization's investment needs.
- **Develop Investment Policy and Strategy:**  
Once your organization's specific objectives are discovered, an appropriate investment policy and strategy can effectively be determined by using your advisor's investment advice.
- **Determine Investment Solution:**  
The right strategy will vary by organization and should take into consideration benchmark awareness, expenses and general preferences.
- **Report and Communicate:**  
An important part of the process is reporting on results and communicating with your advisor regularly to discuss changes in investment objectives that may need to be reflected in their portfolio.



# Investment Policy: Your Fiduciary Road Map



## Our Esteemed Panel

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## Active vs. Passive Investing

### Actively Managed Portfolios

Seek to capitalize on market conditions and beat applicable benchmarks

- Involve higher fund level fees in addition to advisory fee thus increasing total investment cost
- Offer analysis and research on individual managers
- Can provide risk-adjusted returns over time that fail to meet established benchmark returns
- Have potential to add value in less efficient markets
- Offer the ability to react to market conditions; take defensive measures as needed
- Offer flexibility to replace underperforming managers

### Passively Managed Portfolios

Seek to replicate the performance of a benchmark

- Are low cost and efficient
- Do not alleviate the need for professional guidance as it pertains to asset allocation
- Eliminate performance returns that fail to meet established benchmarks
- Reflect market efficiencies
- Offer the ability to react to market conditions; take defensive measures as needed
- Offer a level of style consistency

## Balancing Risk with Expected Return

						Portfolio Allocations and Statistics		
		ANNUALIZED HISTORICAL RETURN (%) <sup>3</sup>	10-YR FWD EST RETURN (%) <sup>3</sup>	10-YR FWD EST STD DEV (%) <sup>3</sup>	10-YR FWD EST CORREL TO S&P 500 <sup>3</sup>	Target Allocation	Growth Portfolio	Growth with Income Portfolio
<b>Asset Class: Fixed Income</b>	<b>Fixed Income Benchmark</b>					<b>20.0</b>	<b>7.0</b>	<b>23.0</b>
Core Fixed	Barclays US Aggregate Bond	7.24	2.00	3.5	-0.21	20.0		
Government Bonds	Barclays US Government	6.95	1.00	4.9	-0.52			3.0
TIPS	BofAML US Trsy Infl Linked 1-5 YR	5.19	1.75	3.6	0.20			2.0
Mortgages	Barclays US MBS	7.20	2.50	2.5	-0.43			7.0
Corporates	Barclays US Corporate IG	7.91	2.75	6.4	0.32			2.0
International Bonds Unhedged	Citi WGBI NonUSD USD	6.47	2.50	9.3	0.14			
Leveraged Loans	Credit Suisse Leveraged Loan	5.96	5.00	13.0	0.61			2.5
High Yield	BofAML Hi-Yld Master	9.07	5.50	16.2	0.63		3.0	2.5
EM Debt	JPM GBI-EM Global	12.93	6.25	13.7	0.75		4.0	4.0
Short-Term Munis	Barclays 3-Year Municipal Bond	4.68	2.00	1.8	-0.37			
Intermediate-Term Munis	Barclays 5-Year Municipal Bond	5.73	2.00	2.7	-0.21			
HY Munis	Barclays HY Municipal Bond	6.15	5.00	10.8	0.56			
<b>Asset Class: Equities</b>	<b>Equity Benchmark</b>					<b>55.0</b>	<b>80.0</b>	<b>60.0</b>
Large Cap Core	S&P 500	9.71	7.50	18.1	1.00	30.0	46.0	35.5
Preferred Stock	S&P Preferred Stock	5.31	5.75	21.6	0.54			
Multi-Cap Core	Russell 3000	9.84	7.75	18.8	1.00			
Large-Cap Growth	Russell 1000 Growth	9.11	7.50	18.5	0.97			
Large-Cap Value	Russell 1000 Value	10.22	7.50	18.5	0.98			
Mid-Cap Core	Russell Mid Cap	11.62	8.00	22.2	0.97		5.0	2.5
Mid-Cap Growth	Russell Mid Cap Growth	10.27	8.00	22.6	0.95			
Mid-Cap Value	Russell Mid Cap Value	11.97	8.00	22.6	0.97			
Smid-Cap Core	Russell 2500	11.14	8.00	23.2	0.96	5.0		
Small-Cap Core	Russell 2000	9.74	8.00	23.8	0.95		5.0	2.5
Small-Cap Growth	Russell 2000 Growth	7.72	8.00	24.5	0.94			
Small-Cap Value	Russell 2000 Value	11.28	8.00	23.9	0.92			
REITs	FTSE NAREIT-Equity	10.97	6.75	24.0	0.79	5.0		
International Dev & EM	MSCI AC World x US	6.17	7.50	24.3	0.92			
Global Dev & EM	MSCI AC World	7.39	7.75	21.0	0.97			
International Developed	MSCI EAFE	5.49	7.25	23.4	0.92	10.0	15.0	12.5
International Emerging	MSCI Emerging Markets	12.73	10.00	30.7	0.84	5.0	9.0	7.0
<b>Asset Class: Alternatives</b>	<b>Alternative Benchmark</b>					<b>25.0</b>	<b>10.0</b>	<b>14.0</b>
Commodities	DJ-UBS Commodity	4.79	4.00	21.6	0.52	5.0		
Diversified Hedge	HFRI Fund of Funds Diversified	6.85	5.75	9.0	0.68	10.0		5.0
Hedged Equity	HFRI Fund of Funds Strategic	9.51	6.75	11.0	0.74	10.0	10.0	9.0
Managed Futures	DJ Credit Suisse Managed Futures	5.51	6.50	11.3	0.01			
<b>Asset Class: Cash</b>	<b>Cash Benchmark</b>					<b>0.0</b>	<b>3.0</b>	<b>3.0</b>
Cash Equivalent	BofAML U.S. 3 mo Tbill	3.94	1.25	0.9	-0.07		3.0	3.0
<b>TOTALS</b>						<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Expected Return (%)<sup>3</sup></b>						<b>6.06</b>	<b>7.37</b>	<b>6.41</b>
<b>Expected Standard Deviation (%)<sup>3</sup></b>						<b>12.88</b>	<b>17.98</b>	<b>14.24</b>
<b>Expected Sharpe Ratio (R<sub>F</sub> = 1.25%)</b>						<b>0.37</b>	<b>0.34</b>	<b>0.36</b>

Please see appendix for disclosures

