AAM

presentation to

FINREP

FINANCIAL REPORTING INSURANCE FORUM

Exploring Rates and Investment Strategies

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CALCULATE
AAM Risk Score

AAM Risk Score measures relative underwriting risk & leverage vs business line peers

CALIBRATE
Investment Risk

A higher Risk Score implies lower tolerance for investment risk, and vice versa

IDENTIFY
Strategic Asset Allocation

Combine investment risk tolerance with capital market expectations to generate optimized portfolio

Process is subject to change based on client circumstances. "AAM Risk Score" is derived from percentile scores on statistics shown relative to composite of 150 Personal Lines P&C insurers with invested assets from $10M-$5B, minimum 5yr operating history, and risk asset exposure >3% of surplus at 12/31/22.

Florida:

- Florida Peninsula
- HCI Group
- Heritage
- Tower Hill
- Universal

Ward's 50:

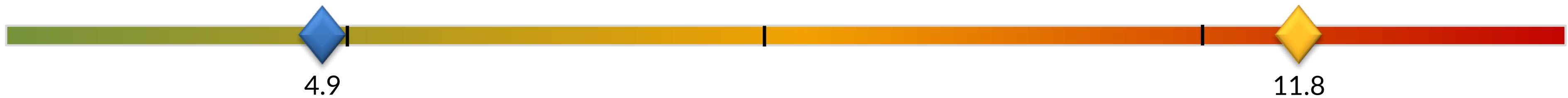
- Acuity
- Auto Owners Group
- Goodville Mutual
- Safety
- West Bend Mutual

"AAM Risk Score" is derived from percentile scores on statistics shown relative to composite of 150 Personal Lines P&C insurers with invested assets from $10M-$5B, minimum 5yr operating history, and risk asset exposure >3% of surplus at 12/31/22. Sample list of companies used. For illustrative purposes.

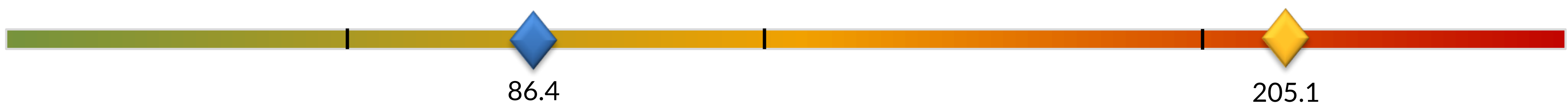
Calculate AAM Risk Score

Underwriting Profitability (5yr Trailing Avg Combined Ratio)

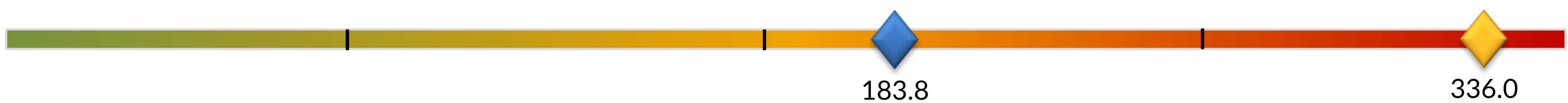
Underwriting Volatility (Std Dev of 5yr Trailing Combined Ratio)



Underwriting Leverage (NPW / Surplus)



Investment Leverage (Invested Assets / Surplus)



Source: S&P Capital IQ Pro. Data as of 12/31/22.
Yellow diamonds represent composite of FL Homeowners insurers, including Tower Hill, Universal Insurance, Heritage Insurance, Florida Peninsula, and HCI Group.
Blue diamonds represent composite of Personal & Commercial lines insurers, including Acuity, Auto-Owners Group, Goodville Mutual, Safety Insurance, and West Bend Mutual
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A high Risk Score relative to peers implies a low Investment Risk Tolerance, and vice versa

AAM Risk Score

24th percentile

85th percentile

Calibrated Investment Risk Tolerance

Target:
3.1%
(15th percentile)

Actual: 3.1%

Investment Risk is measured as 99.5% VaR, or "how much surplus would we lose in a 1-in-200 market stress case?"

Target:
12.3%
(76th percentile)

Actual 13.1%

Source: S&P Capital IQ Pro. Data as of 12/31/22.
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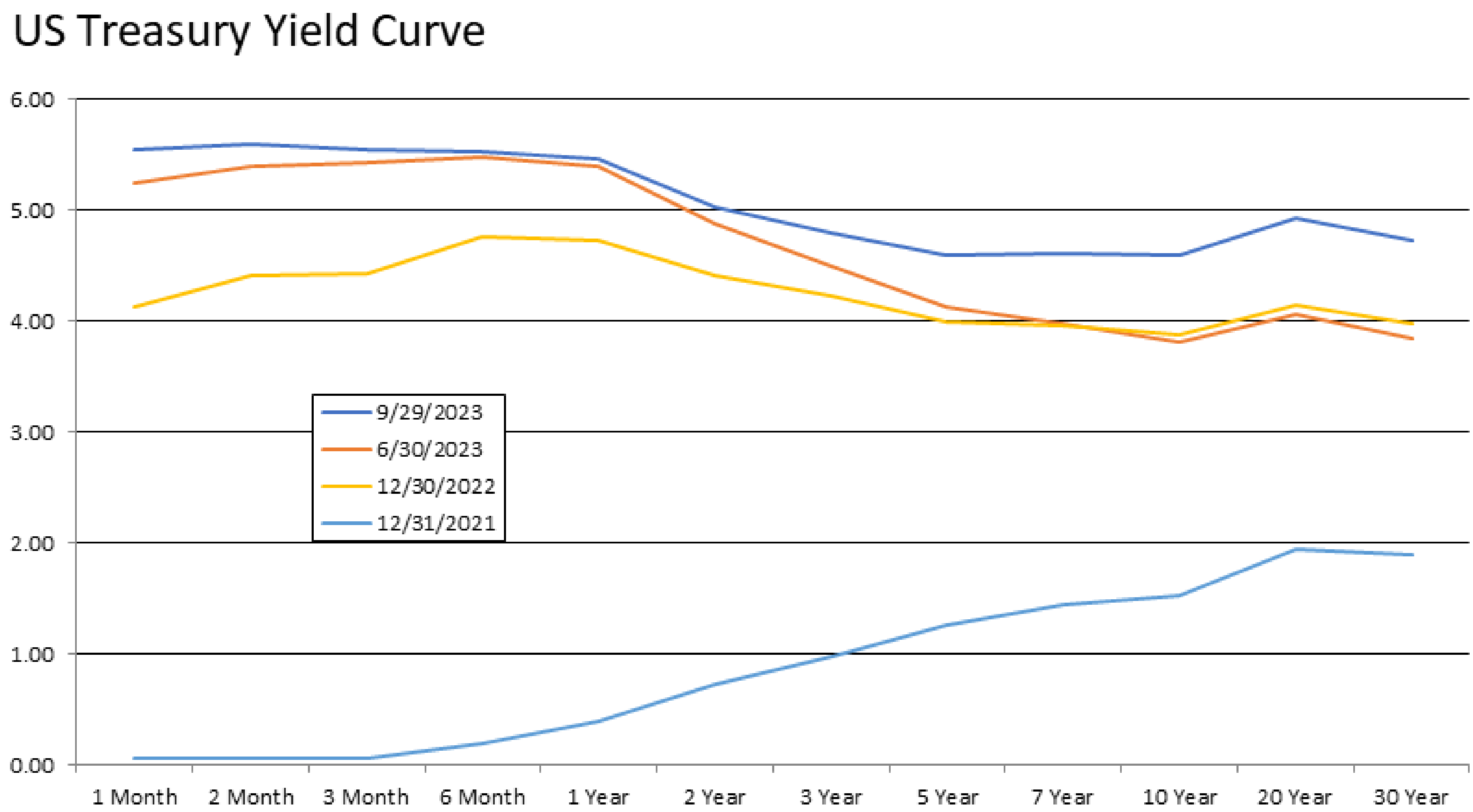
	FL	W50
Equity % / Surplus	1.7 % / 5%	17.4% / 30%
Bond Yield	2.2%	2.9%
Unrealized loss – bonds	5.6%	6.5%
Cash	31.4%	2.1%

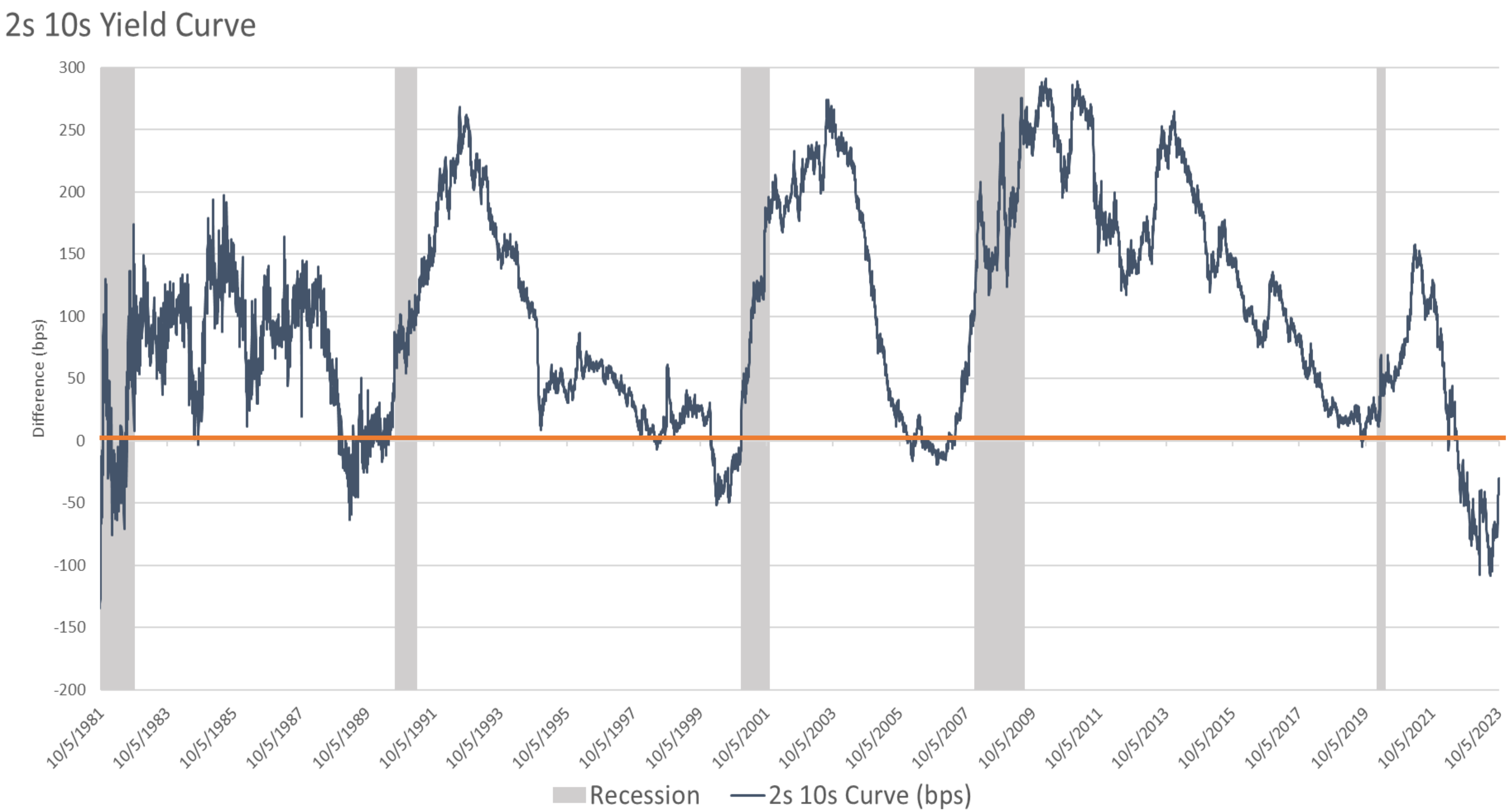
Source: S&P Capital IQ Pro. Data as of 12/31/2022.

- Treasury curve "steepened" in September as market extends view of how long Fed will maintain restrictive policy.



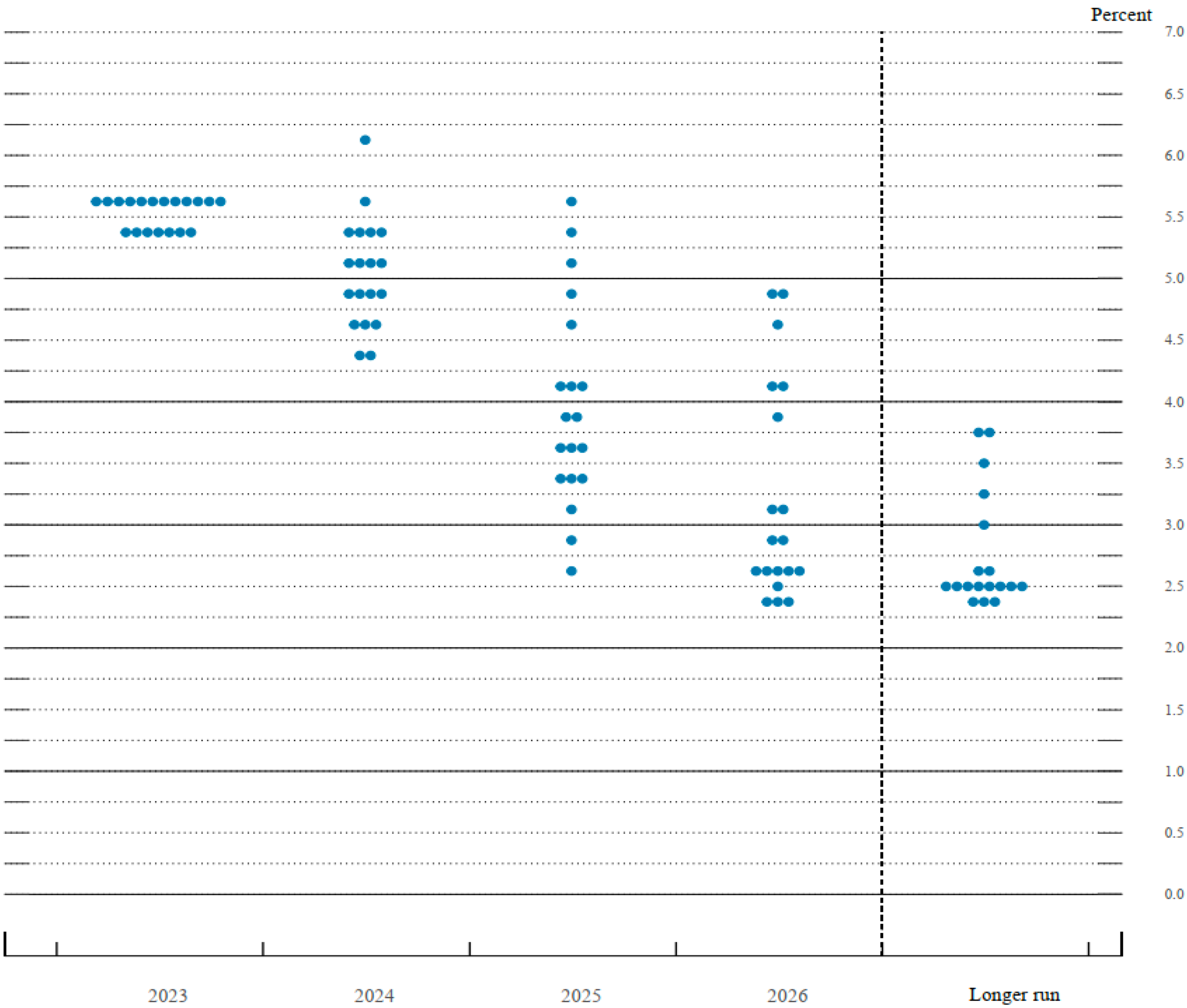
Source: Bloomberg, Bureau of Labor Statistics. AAM views and opinions as of September 2023, for illustrative purposes only and not to be construed as investment advice.

- An inverted yield curve has historically been a very good predictor of recessions.



Source: Bloomberg, US Treasury. AAM views and opinions as of October 10, 2023, for illustrative purposes only and not to be construed as investment advice.

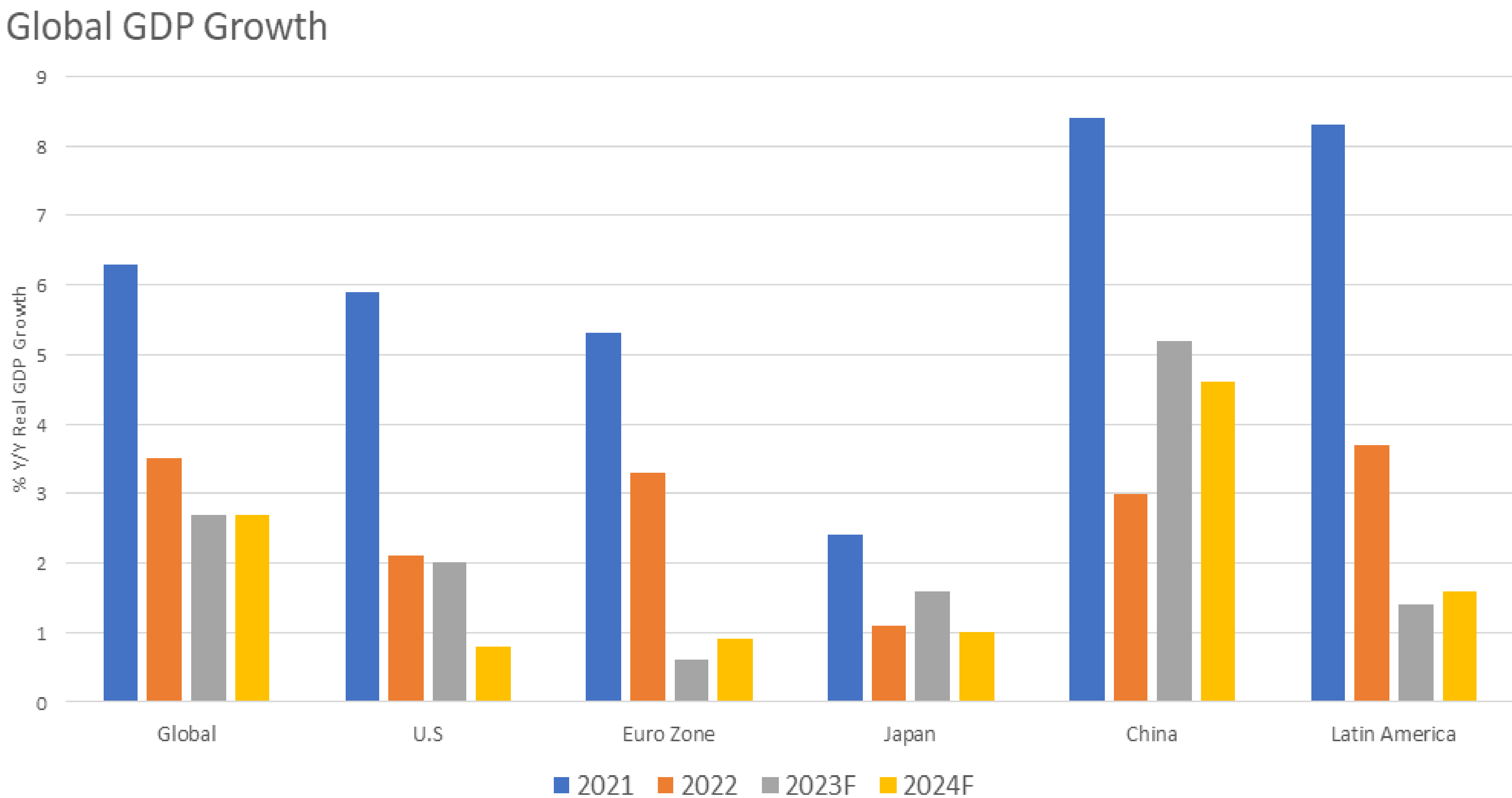
FOMC Participants' Assessments of Appropriate Monetary Policy: Midpoint of Target Range or Target Level for the Federal Funds Rate



Note: Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's judgment of the mid point of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. One participant did not submit longer-run projections for the federal funds rate.

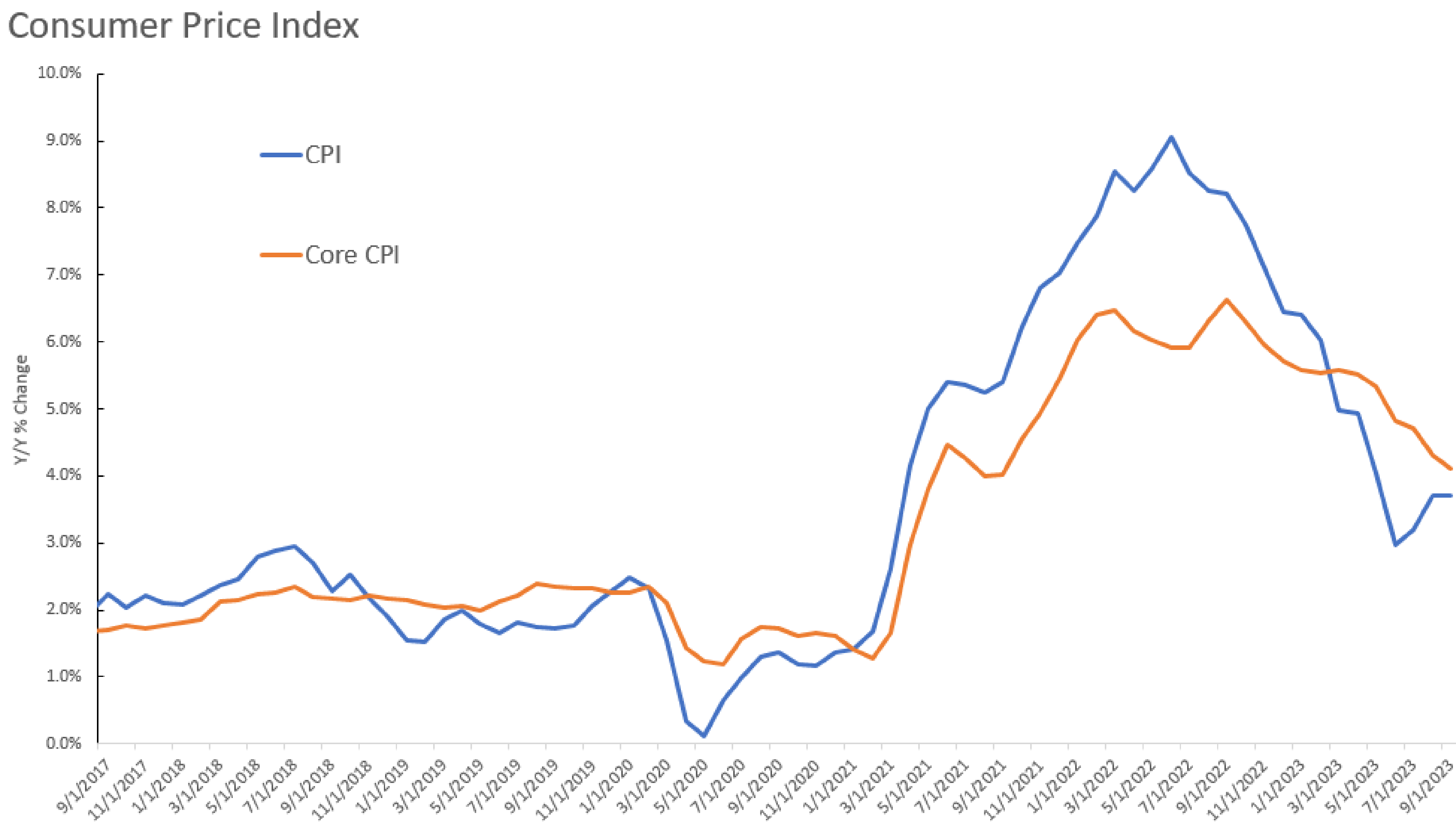
Source: Federal Reserve Board. Data as of 9/20/2023.

- A concerted effort by central banks to bring inflation lower has resulted in falling global growth forecasts.



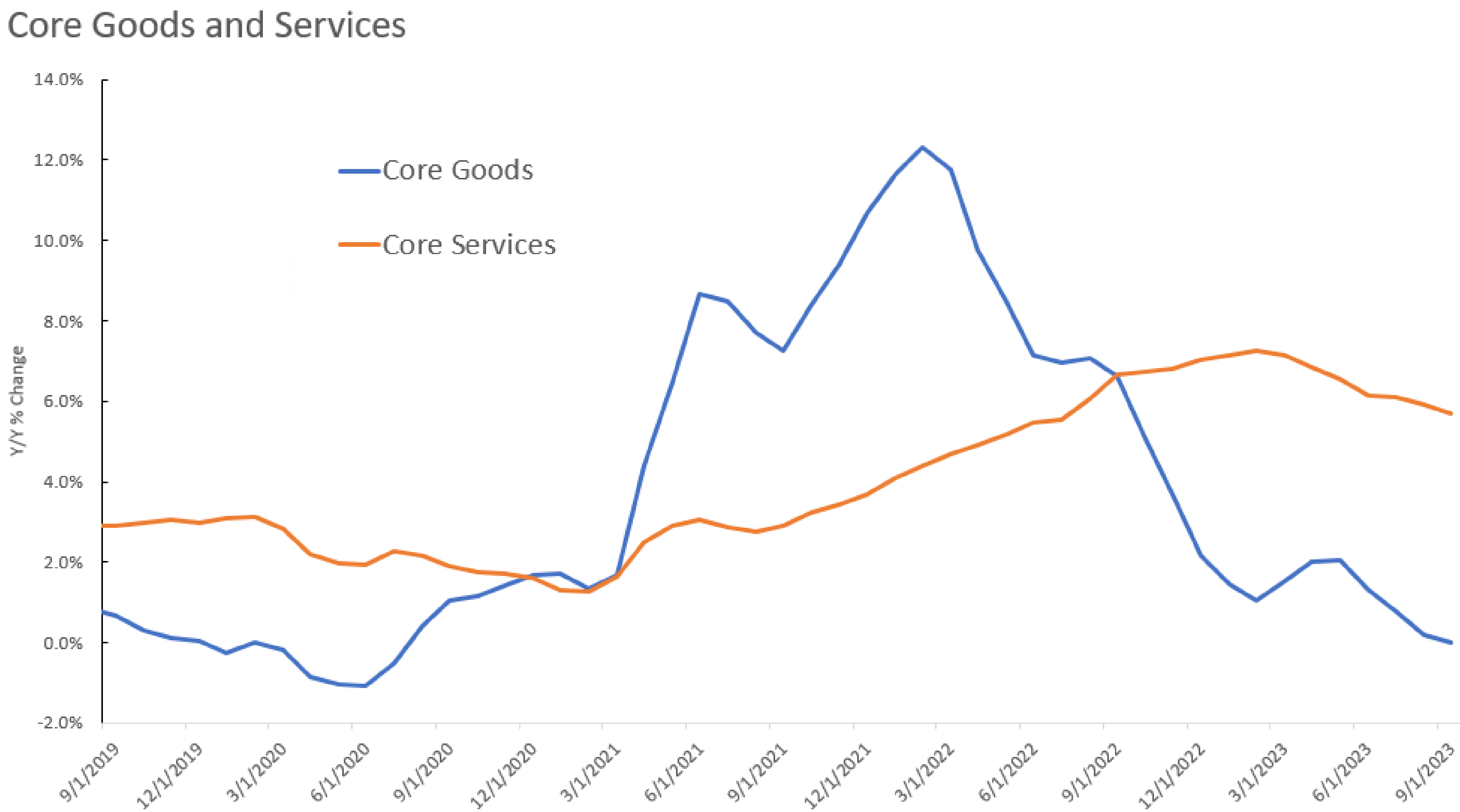
Source: Bloomberg Economic Forecasts as of 9/30/2023. AAM views and opinions as of September 2023, for illustrative purposes only and not to be construed as investment advice.

- Headline inflation has declined at a more rapid pace than core inflation.



Source: Bloomberg, Bureau of Labor Statistics. AAM views and opinions as of September 2023, for illustrative purposes only and not to be construed as investment advice.

- Services related inflation has been “sticky,” likely due to the strong wage growth.

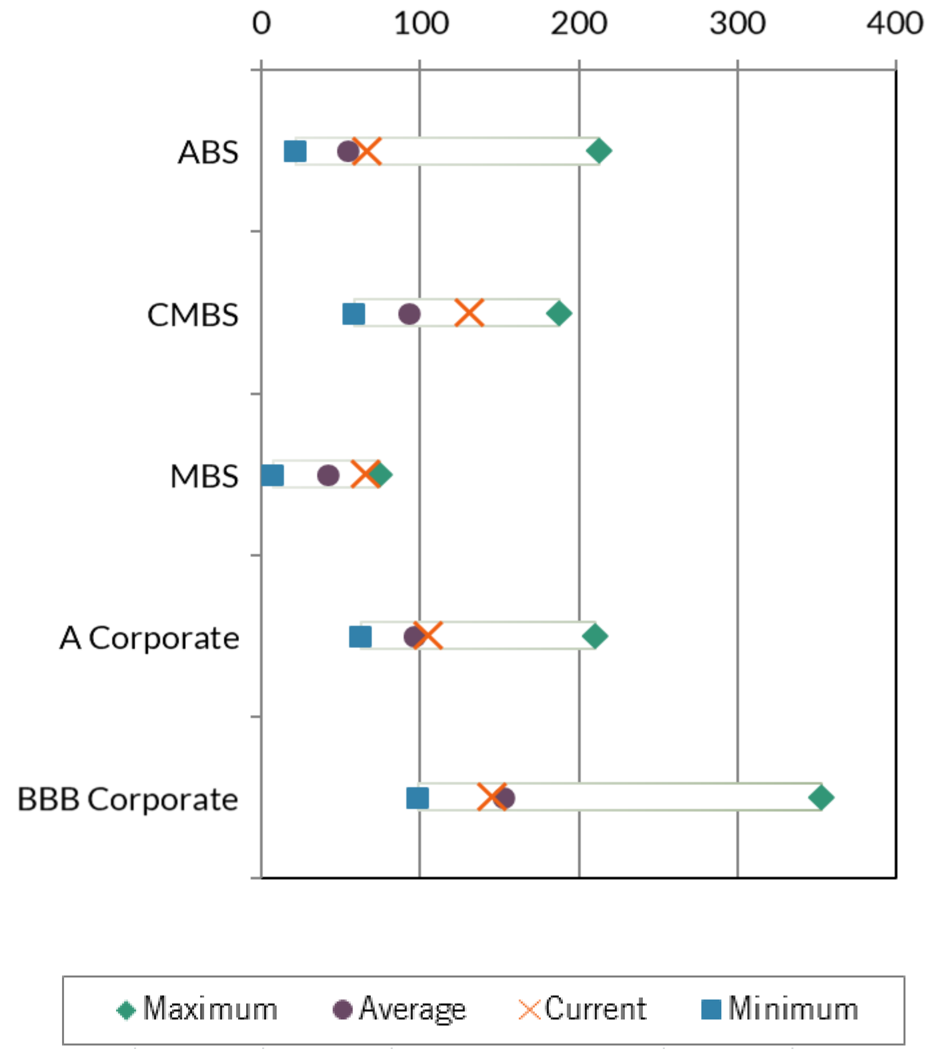


Source: Bloomberg, Bureau of Labor Statistics. AAM views and opinions as of September 2023, for illustrative purposes only and not to be construed as investment advice.

Investment Grade Excess Returns
(In BP)

	MBS	CMBS	ABS	Corporate
2017	52	158	92	346
2018	-59	-39	13	-315
2019	61	181	71	676
2020	-17	51	106	49
2021	-68	105	31	161
2022	-223	-120	-30	-125
YTD 2023	-58	45	84	237

Bond Spreads
(In BP) - 5 Year History



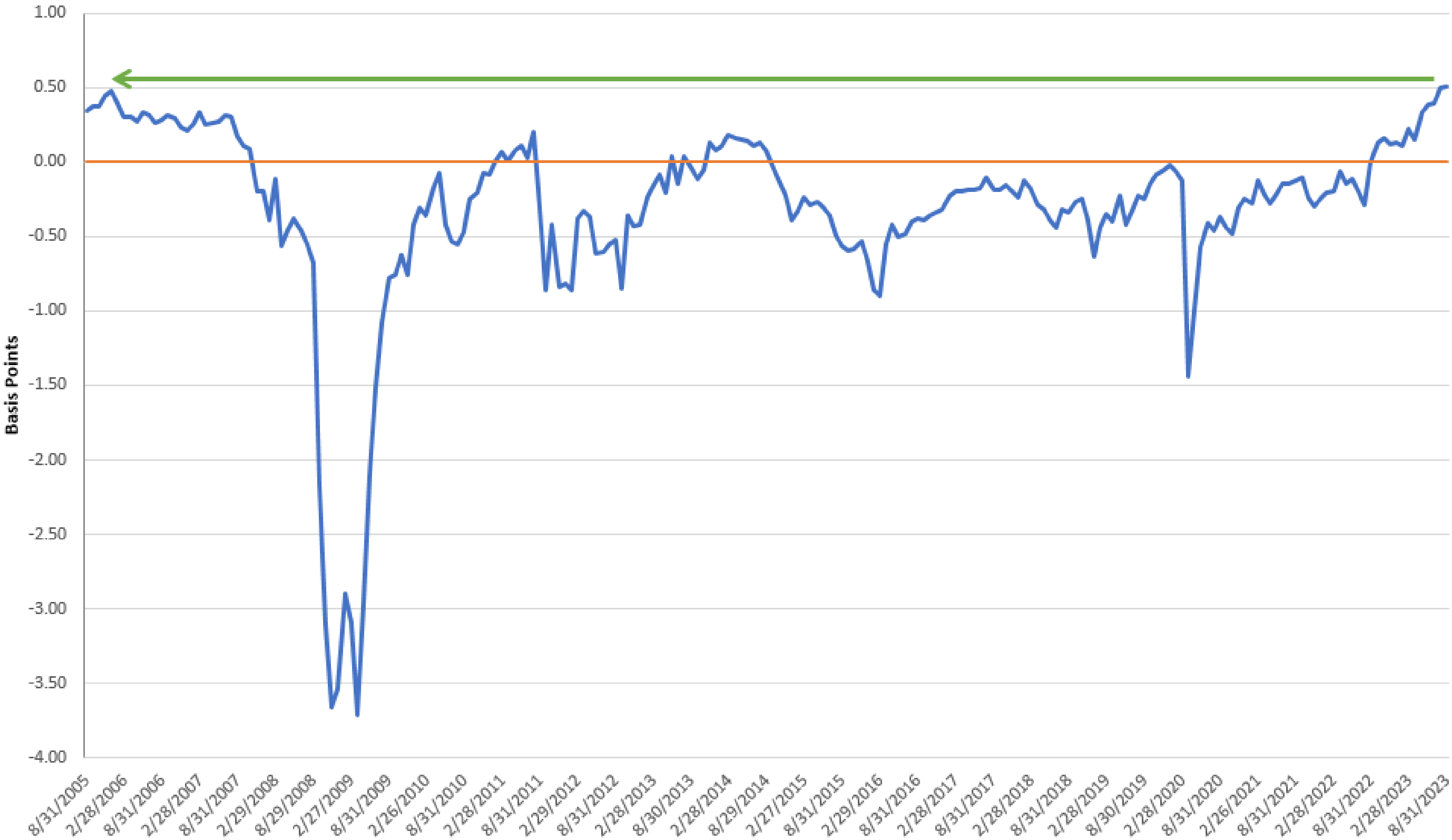
Spread Data
(In BP)

5 Year Trailing Spread Data (in bp)						
	ABS	CMBS	MBS	A Corporate	BBB Corporate	High Yield Corporate
Maximum	213	188	75	211	353	880
Average	55	94	43	97	153	418
Current	66	131	66	105	146	395
Minimum	22	59	8	63	99	267

Source: Bloomberg Barclays, Spread shown is Option Adjusted Spread as of 9/30/23

- Mortgage spreads have widened due to several factors.

Gap Between MBS and Corporate Widest in 17 Years



Source: Bloomberg, FMNA 30 year current coupon spread to treasuries minus corporate bond spreads. AAM views and opinions as of September 2023, for illustrative purposes only and not to be construed as investment advice.

- Risks to economic growth in the U.S. have become more balanced in the near-term.
- A recession occurring in the U.S. within the next 12 months remains likely.
- Expect a "mild" economic slowdown to occur in 2024.
- Inflation should continue to come down but remain above the Fed's 2% target due to continued strength in the labor market.
- Expect Fed to hold rates steady for rest of 2023 with first rate cut coming mid-year in 2024.

AAM views and opinions as of September 2023, for illustrative purposes only and not to be construed as investment advice. Views and opinions are subject to change should conditions warrant.

Questions ?

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