

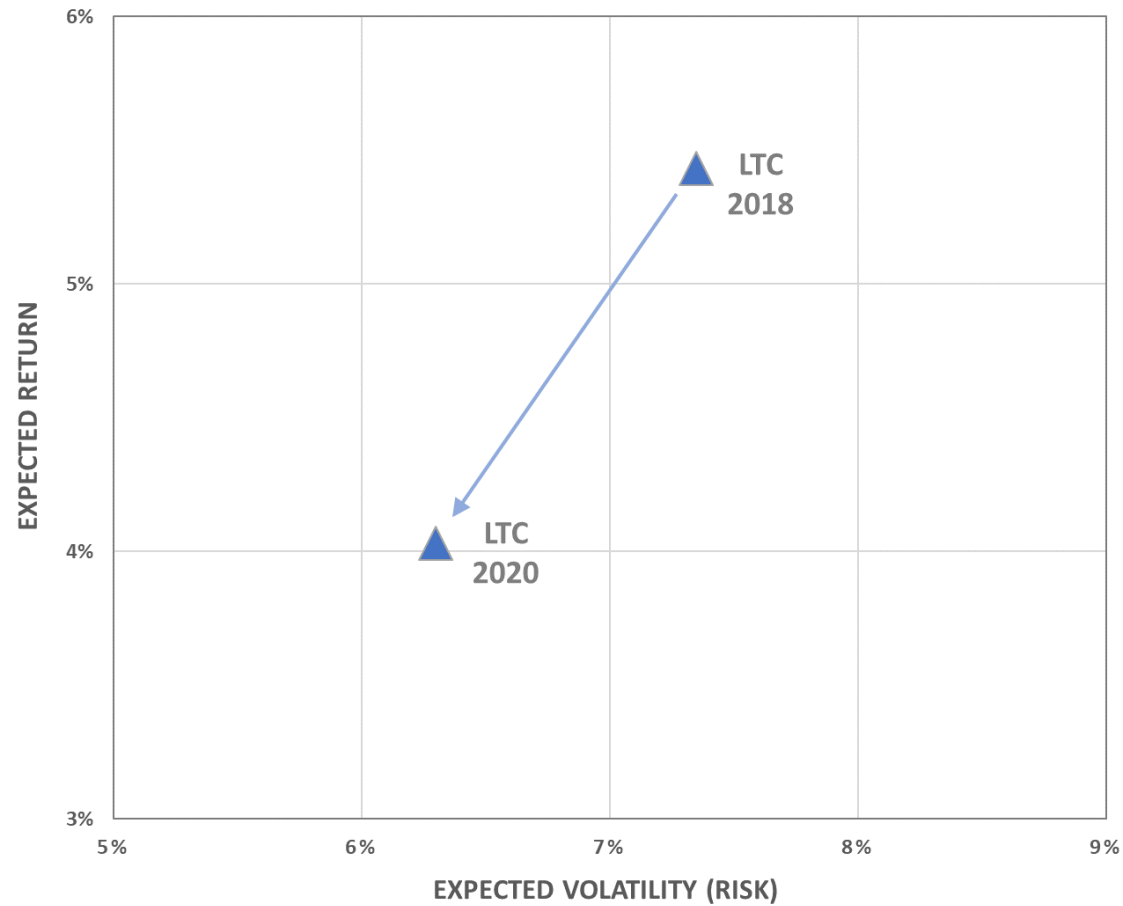
Long-Term Care: Asset Allocation and Discount Rate

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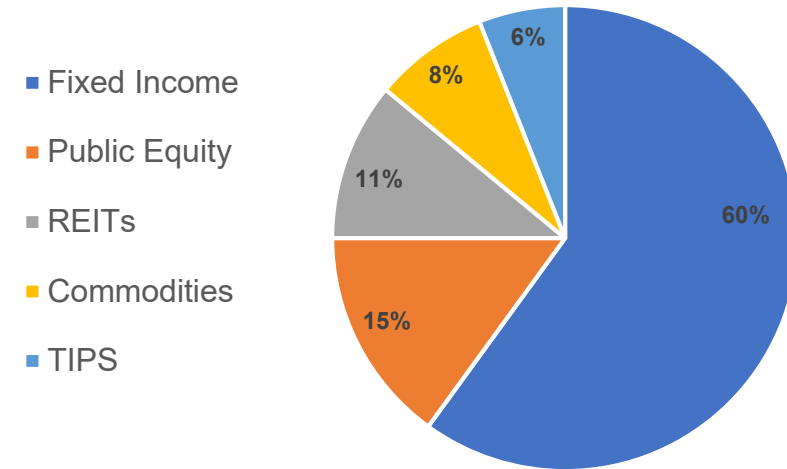
Investment Committee
November 16, 2020

Current Portfolio

Expected Risk/Return



Asset Allocation



Portfolio Evaluation

Current

- Market evolution has reduced yield and future return expectations dramatically
- Risk profile in 2018 ALM 7.35% volatility
- Shorter duration than liabilities
- Publicly traded asset classes, institutional commingled funds

Opportunities

- Search for external expertise with LTC programs
- Liability profile may support increase in risk
- Potential for some private asset inclusion
- Low leverage may warrant some utilization

External Management Value

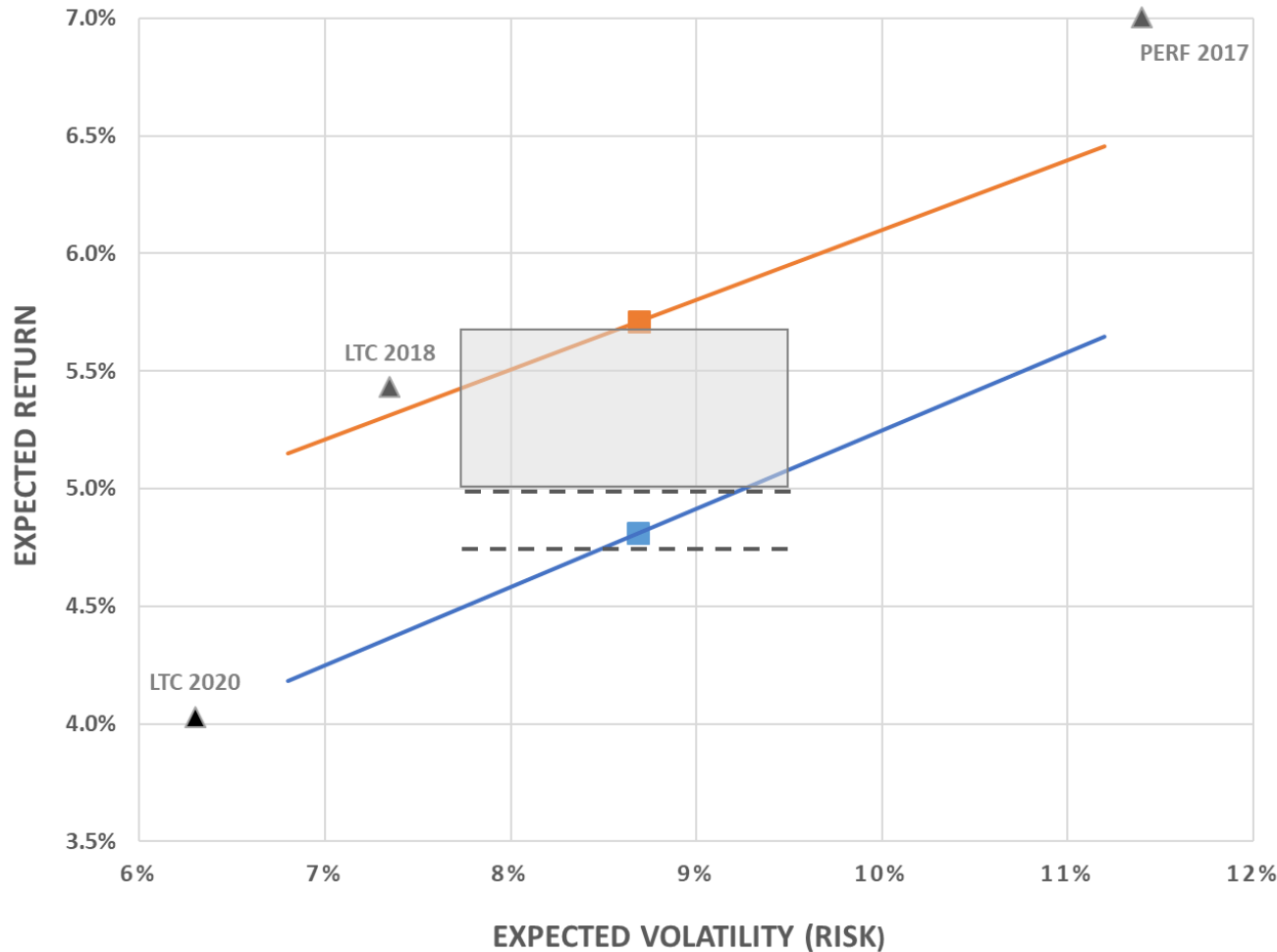
Expertise

- Working with wide array of client types and objectives adds perspective
- Long-Term Care and insurance-related risk management experience
- Actuarial staff with broad insurance experience
- Development of cash flow and de-risking glidepaths are core capabilities

Market Access

- Structuring investments for taxable and tax-exempt clients
- Experience with leverage and access to management tools
- Inclusion of private assets for smaller funds
- Sourcing private assets and managing liquidity

External Manager Portfolio Evaluation

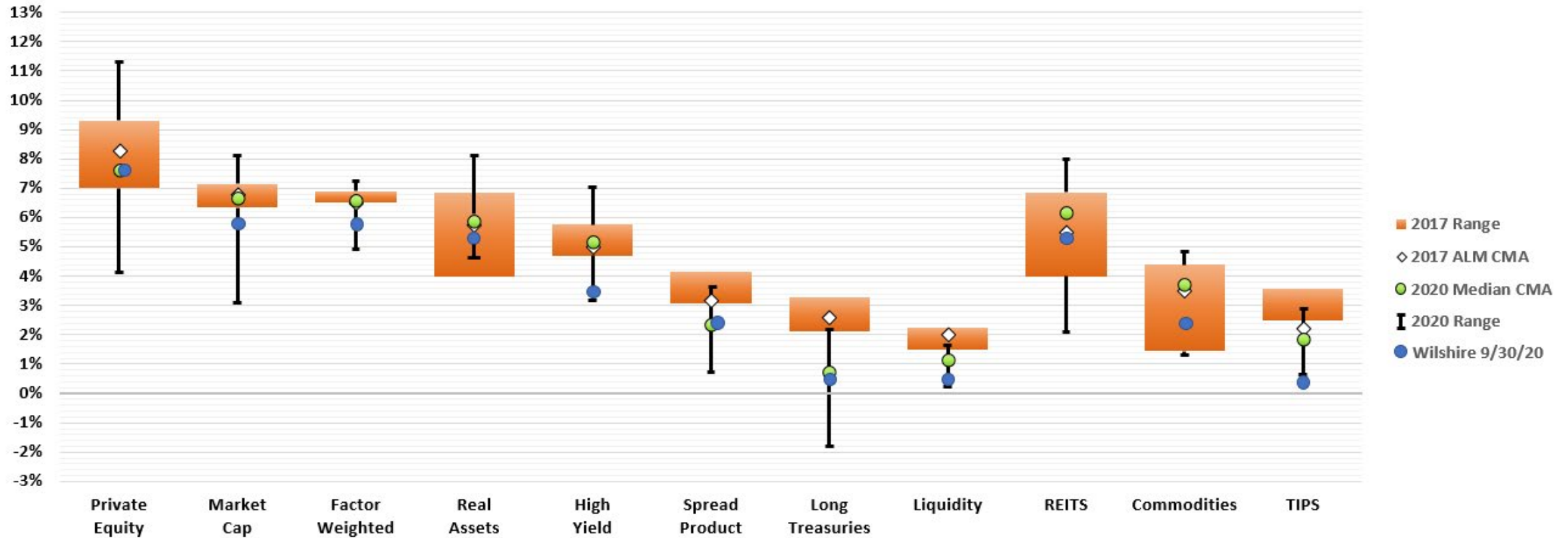


- Several portfolios cluster in an area at or above 5.0% return and below a proposed threshold of 9.5% volatility.
- Increasing risk by up to 30% looks to be supportive of a discount rate in the range of 4.75% to 5.0%.

Legend

- Portfolio 20-year expectations
- Portfolio 10-year expectations
- 20-year average expectations
- 10-year average expectations
- Portfolios with >5% return, <9.5% risk
- Proposed discount rate range 4.75%-5.0%

Capital Market Assumptions



Asset Allocation Timeline

Milestone	2020									2021						
	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J
Evaluate Current Portfolio	█	█	█													
Conduct Research			█	█												
Draft & Release RFP					█	█										
Receive Proposals							█									
Evaluate Proposals							█	█	█							
Approve Discount Rate (Nov IC)								█								
Prepare Allocation Recommendation										█						
Approve Allocation (Feb IC)											█					
Contracting & Planning												█	█	█		
Implement Allocation															█	█

Recommendation & Next Steps

Recommendation

1. Long-Term Care discount rate between 4.75% to 5.0% (specific recommendation to be discussed during the Investment Committee meeting)
2. Portfolio risk upper threshold of 9.50%
3. Inclusion of private assets and leverage, to the extent necessary

Next Steps

1. Complete the full strategic asset allocation review
2. Bring asset allocation options and recommendation to IC in February