



Investing for Life Insurers

The New Frontier

2015 ACHS Spring Meeting

Overview

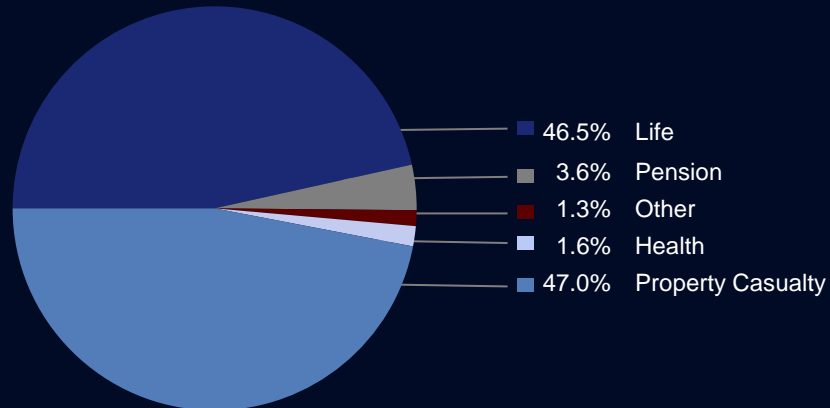
- ◆ Continued declines in bond yields presenting significant challenges for life insurance companies
- ◆ Companies investing more heavily in lower-rated corporate bonds
- ◆ Top-performing portfolios in recent years are those that assumed most credit risk
- ◆ Excess returns provided by lower-rated corporate bonds likely to diminish
- ◆ Need to diversify sources of asset risk, consider other asset classes

CONNING OVERVIEW

Conning Overview

- ◆ Founded in 1912; insurance specialists for more than 50 years; investing insurance assets for nearly three decades
- ◆ Managing \$94.4 billion for 148 clients*
- ◆ 288 employees with locations in Hartford, New York, London, Cologne, and Hong Kong*

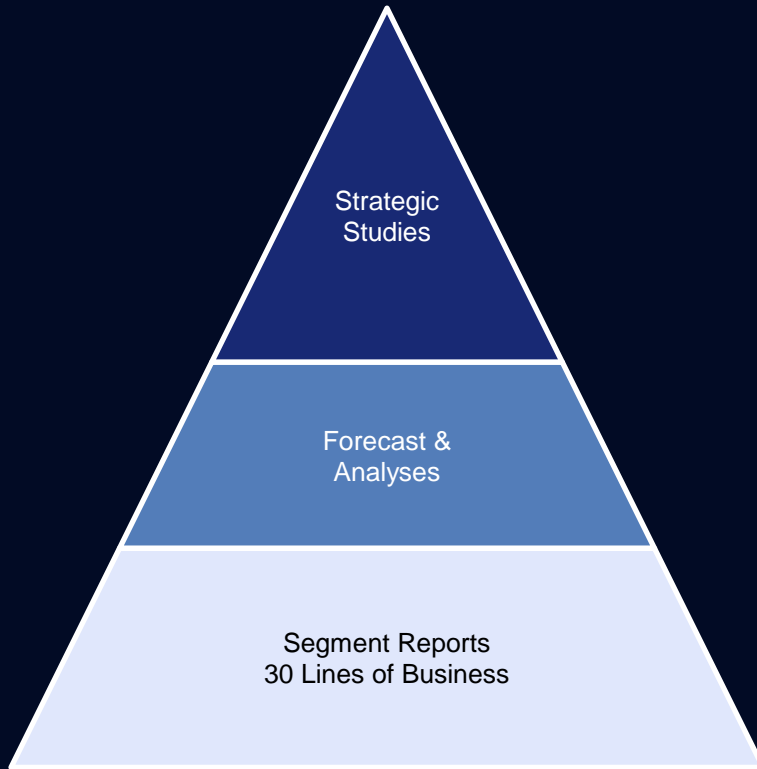
Assets by Client Type*



*As of 3/31/2014 Includes Conning, Inc., Conning Asset Management Limited, Cathay Conning Asset Management Limited, Goodwin Capital Advisers, Inc., and Conning Investment Products, Inc.

Insurance Research Overview

Publications and Services



2015 Conning Life-Annuity Strategic Studies

- ◆ Life Insurance Industry Investments
- ◆ The High Net Worth Life-Annuity Insurance Market
- ◆ Life-Annuity Distribution & Marketing Annual
- ◆ Successful Individual Life-Annuity Specialists
- ◆ Life-Annuity Consumer Markets Annual
- ◆ Life Settlements Market Review



2nd Annual ACLI-Conning CEO Poll:

FOCUS ON INVESTMENTS

Different Yield Environment When Surveys Answered

Constant Maturity Treasury Rates

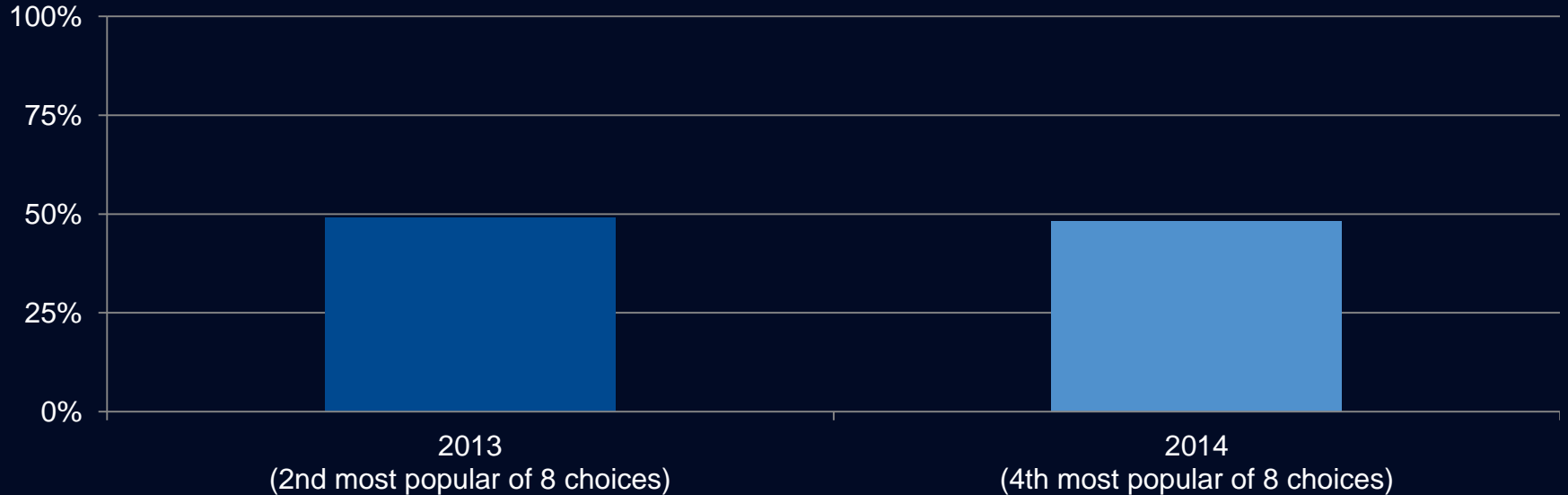
■ ACLI Survey given — 5 Yr — 10 Yr — 20 Yr



Source: Data compiled by Conning & Company from US Federal Reserve primarily <http://www.federalreserve.gov/bankinforeg/default.htm>, Chart © 2015 Conning & Company. All Rights Reserved.

Increasing Investment Yield Important for Profitability

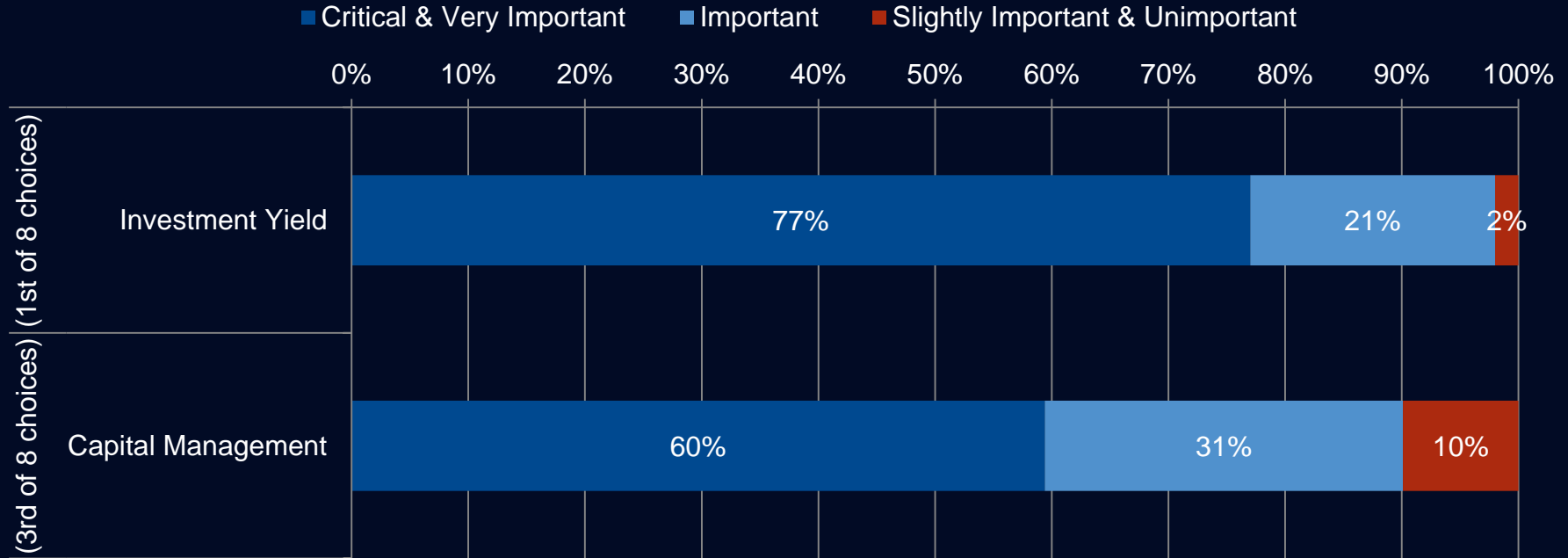
**Are you considering increasing investment yield to increase or maintain profitability?
(% answering “Yes”)**



Source: Conning-ACLI CEO Survey, 2014

In November 2014, Conning and ACLI conducted their second annual survey with U.S. life insurance company CEOs about their priorities and concerns going into 2015. There were 53 survey respondents in 2013 and 52 in 2014.

Yield and Capital Management Still Top Importance

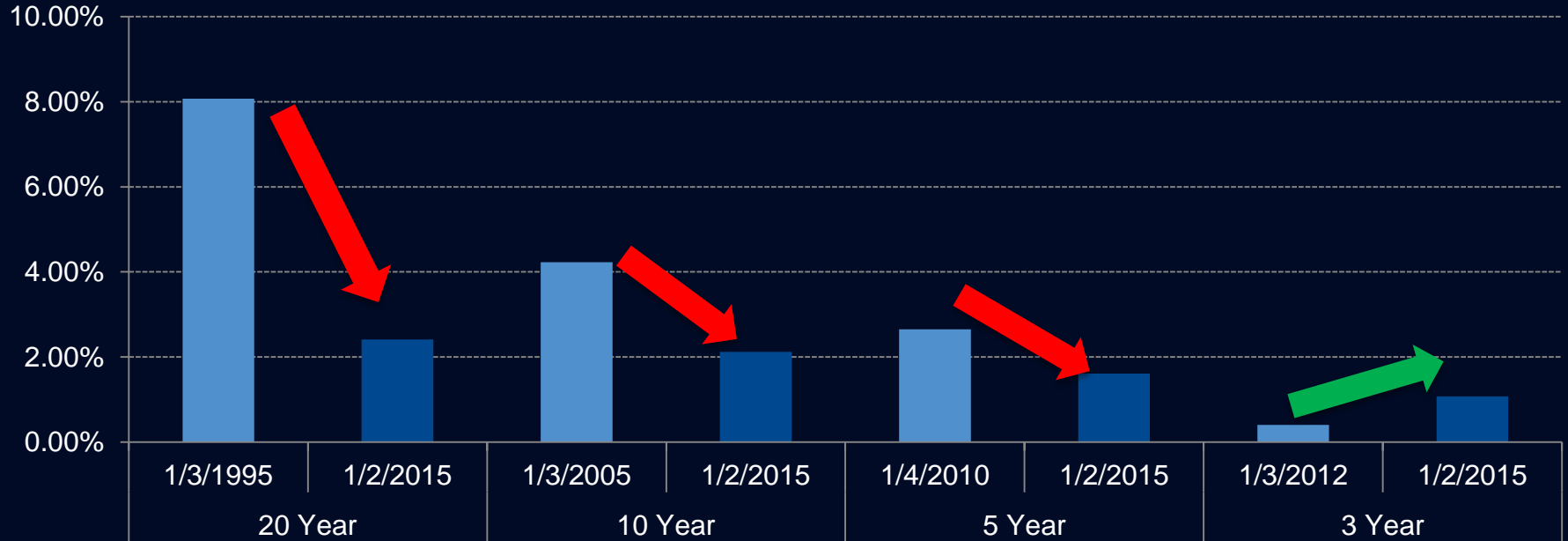


Source: Conning-ACLI CEO Survey, 2014

In November 2014, Conning and ACLI conducted their second annual survey with U.S. life insurance company CEOs about their priorities and concerns going into 2015. There were 53 survey respondents in 2013 and 52 in 2014.

As Older Assets Mature, Portfolio Yield Falls

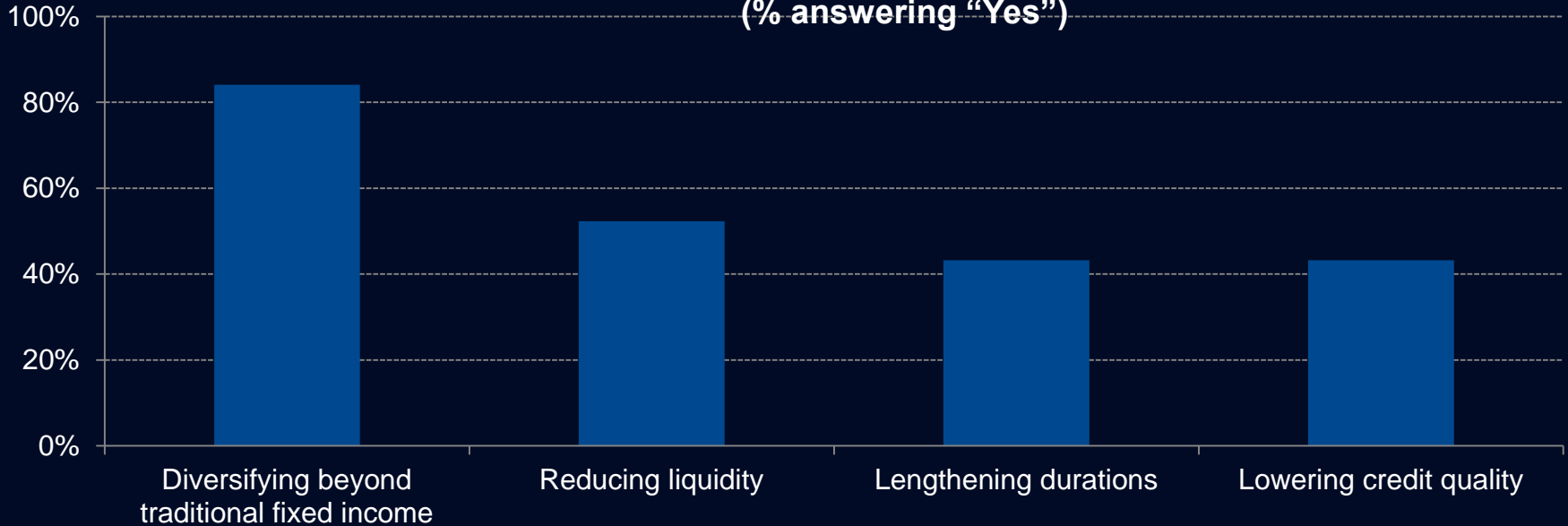
Spot Constant Maturity Treasury Rates



Source: Data compiled by Conning & Company from US Federal Reserve primarily <http://www.federalreserve.gov/bankinforeg/default.htm>, Chart © 2015 Conning & Company. All Rights Reserved.

Looking for Yield Outside the Core

What strategies are your company using to address its investment yield and returns?
(% answering "Yes")



Source: Conning-ACLI CEO Survey, 2014

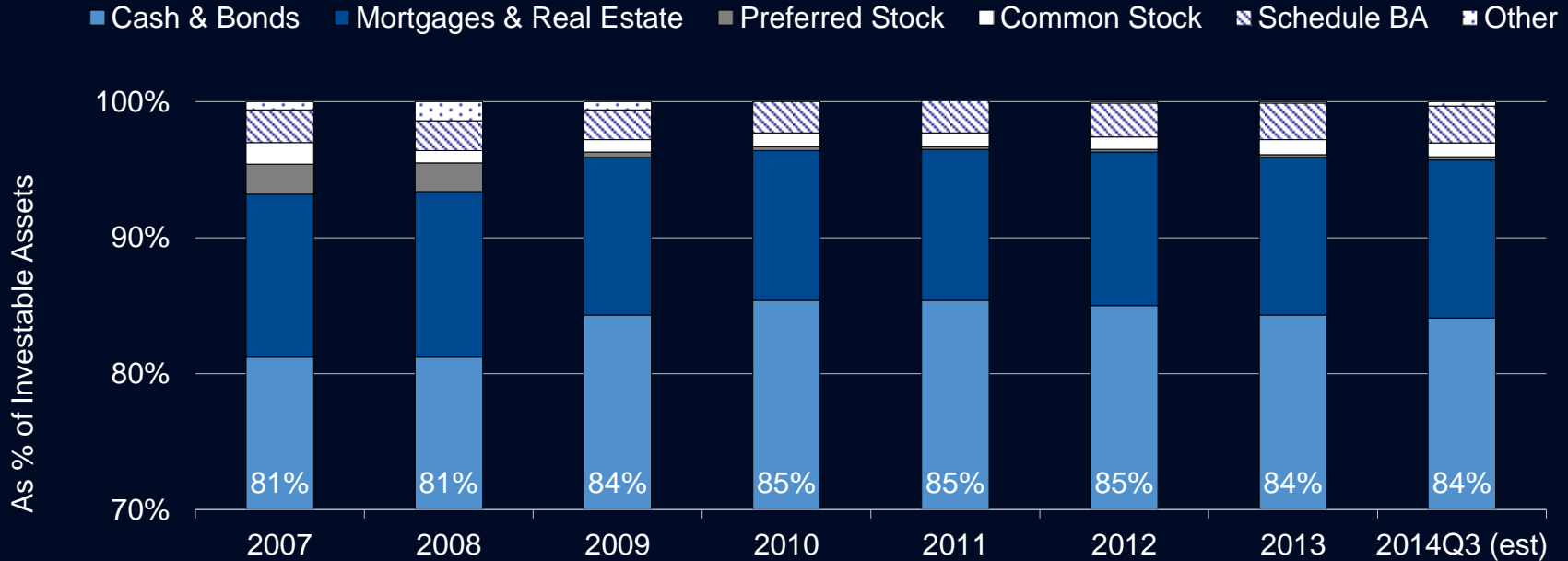
In November 2014, Conning and ACLI conducted their second annual survey with U.S. life insurance company CEOs about their priorities and concerns going into 2015. There were 53 survey respondents in 2013 and 52 in 2014.

Industry Trends:

ASSET ALLOCATIONS

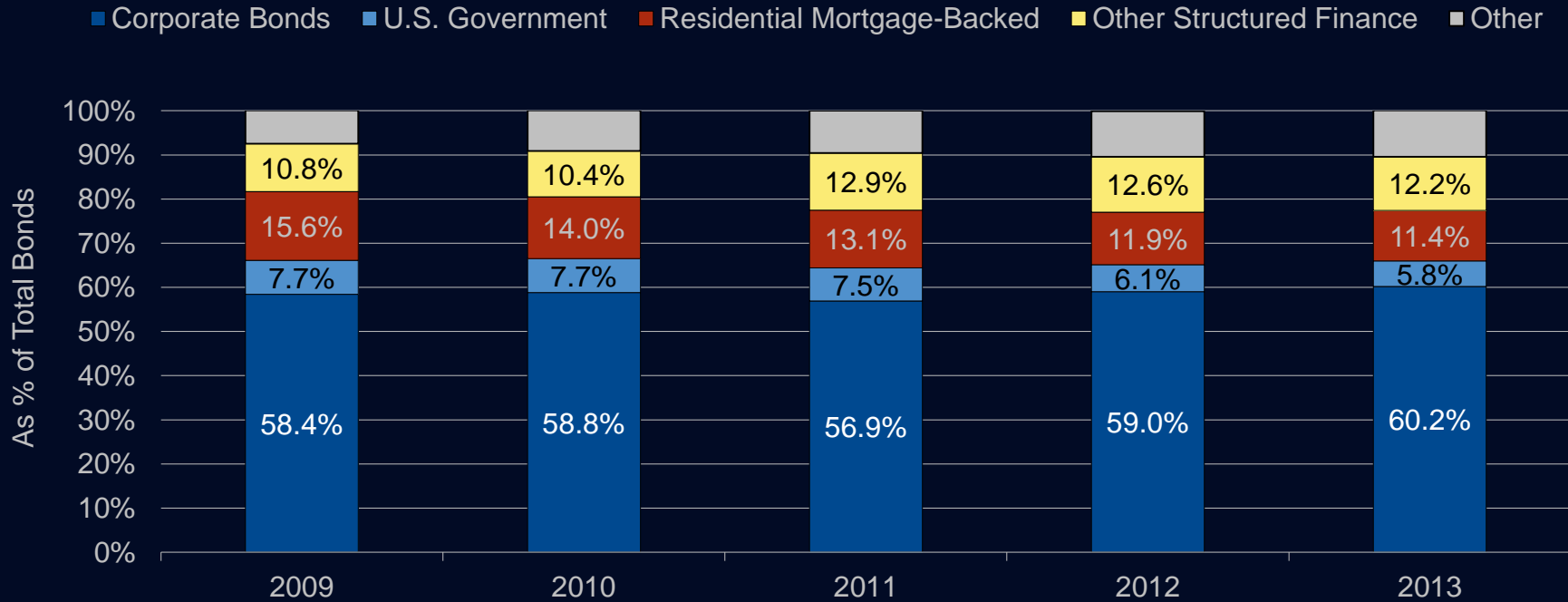
Broad Allocations by Major Asset Class Vary Little

Allocation by Asset Class



Source: ©A.M. Best Company—used by permission, Conning analysis

Bond Sector Allocations-Life Industry



Source: ©A.M. Best Company—used by permission, Conning analysis

Average Bond Maturity (Years)

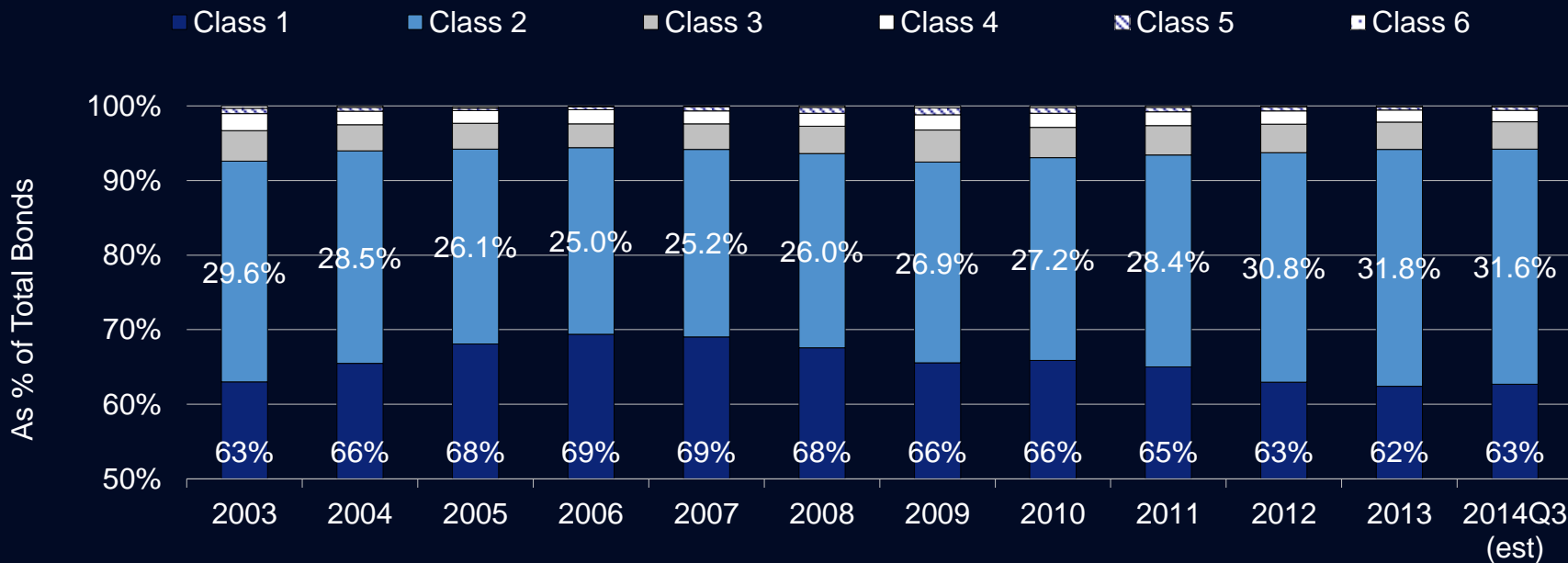
| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------------------|------|------|------|------|------|
| Public | 10.0 | 10.4 | 10.6 | 10.6 | 11.0 |
| Private, including 144(a) | 8.8 | 8.9 | 8.8 | 8.5 | 8.5 |
| Combined | 9.7 | 10.0 | 10.1 | 10.1 | 10.3 |

Source: ©A.M. Best Company—used by permission, Conning analysis

Average maturity of bonds are an estimate based on statutory data, including short-term bonds (less than one year maturity), and excluding bonds of parents, subsidiaries, or affiliates.

Credit Quality Shifts: Less BIG, More BBB-Rated Bonds

Bond Quality Distribution



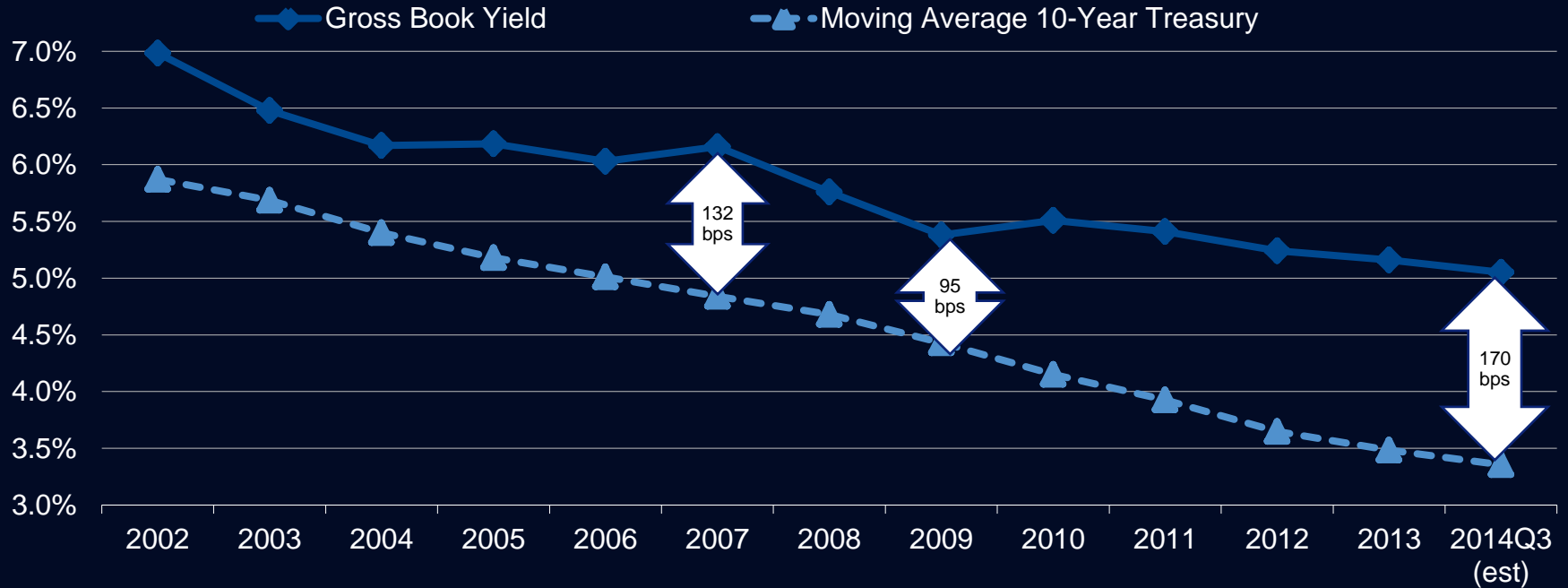
Source: ©A.M. Best Company—used by permission, Conning analysis

Industry Trends:

INVESTMENT RETURNS

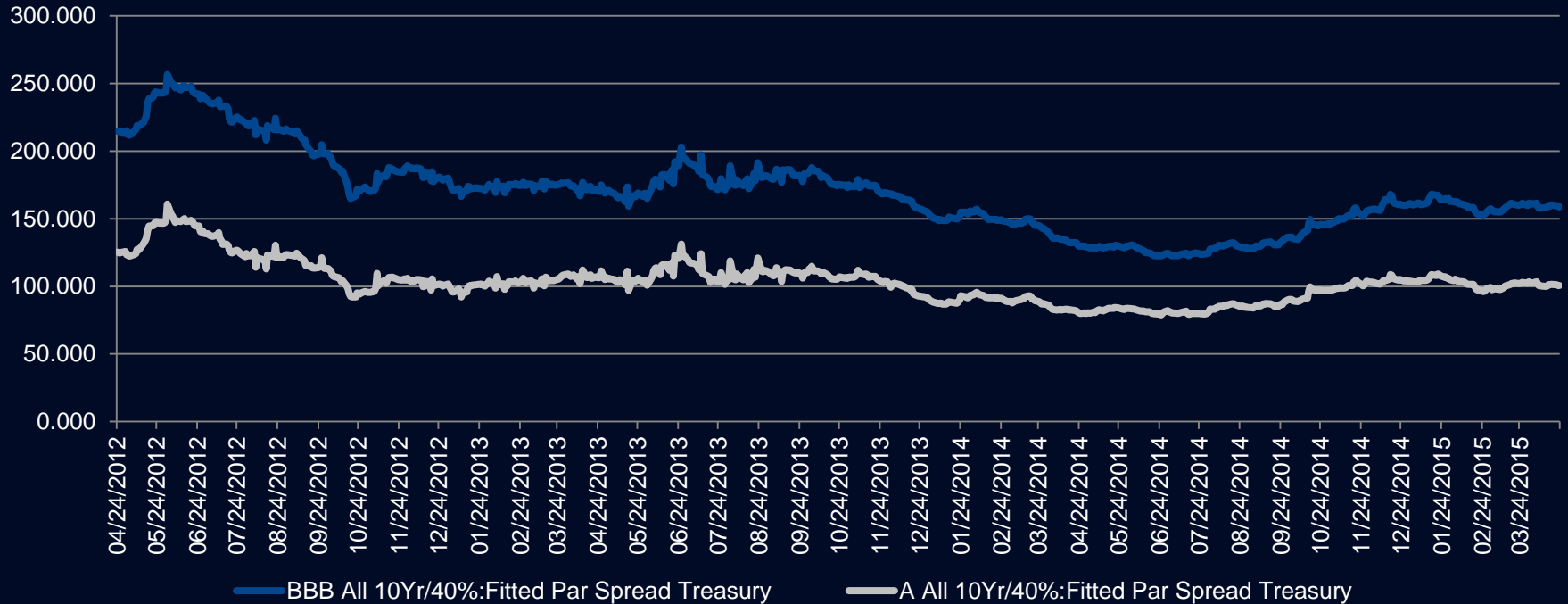
Decreasing Yield But Increasing Spread

Gross Book Yields and Risk-Free Rates
(as % of underlying investable assets)



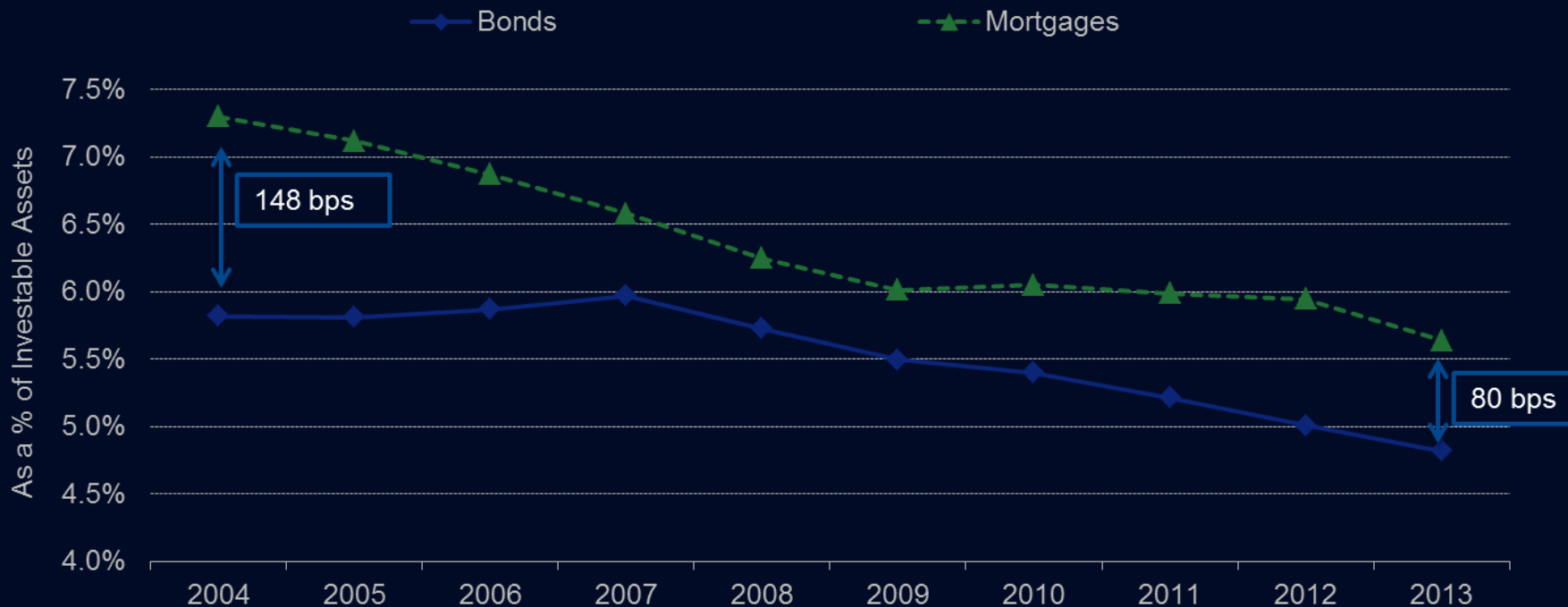
Source: ©A.M. Best Company—used with permission, Federal Reserve, Conning analysis

Are Insurers Being Compensated for Credit Risk?



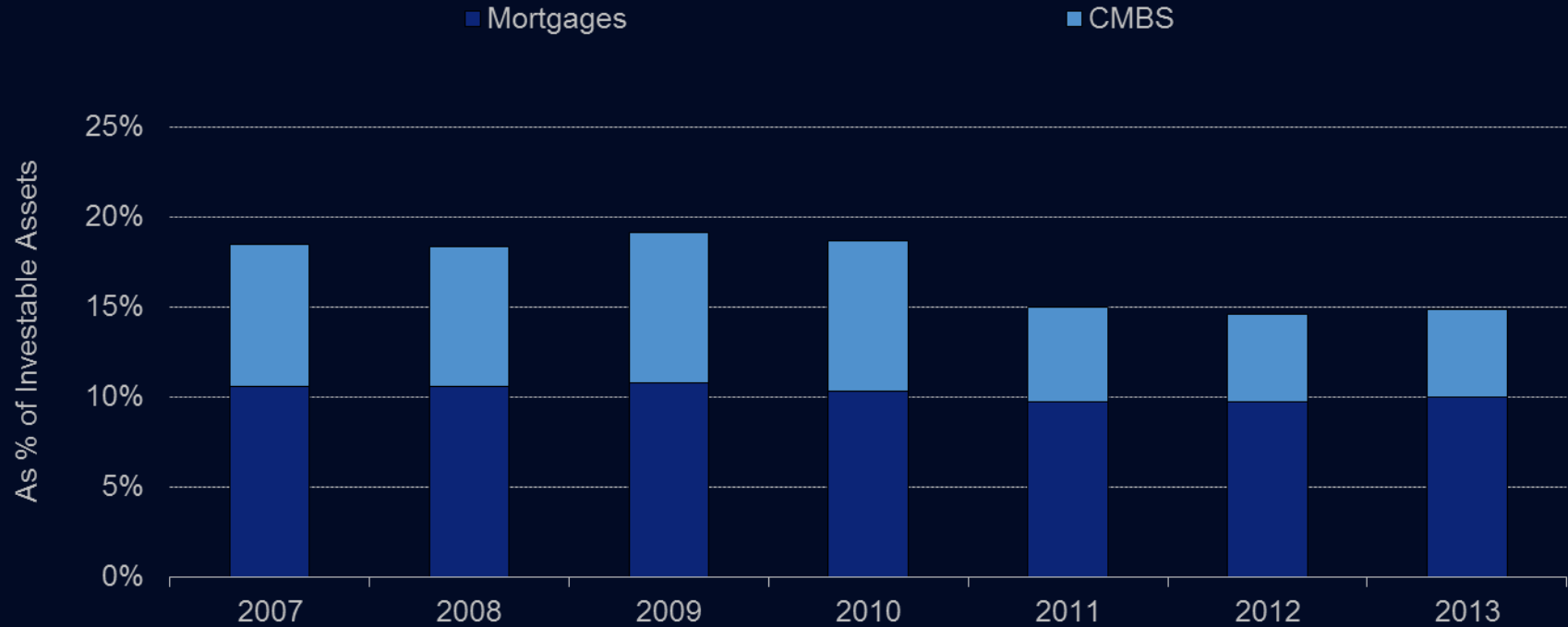
Source: Conning Analysis and Barclays Indices, POINT ©2015 Barclays Risk Analytics and Index Solutions Limited. Used with permission.

Life Industry Book Yield-Bonds vs. Mortgages



Source: ©A.M. Best Company—used by permission, Conning analysis

Commercial Mortgage Exposure-Life Companies



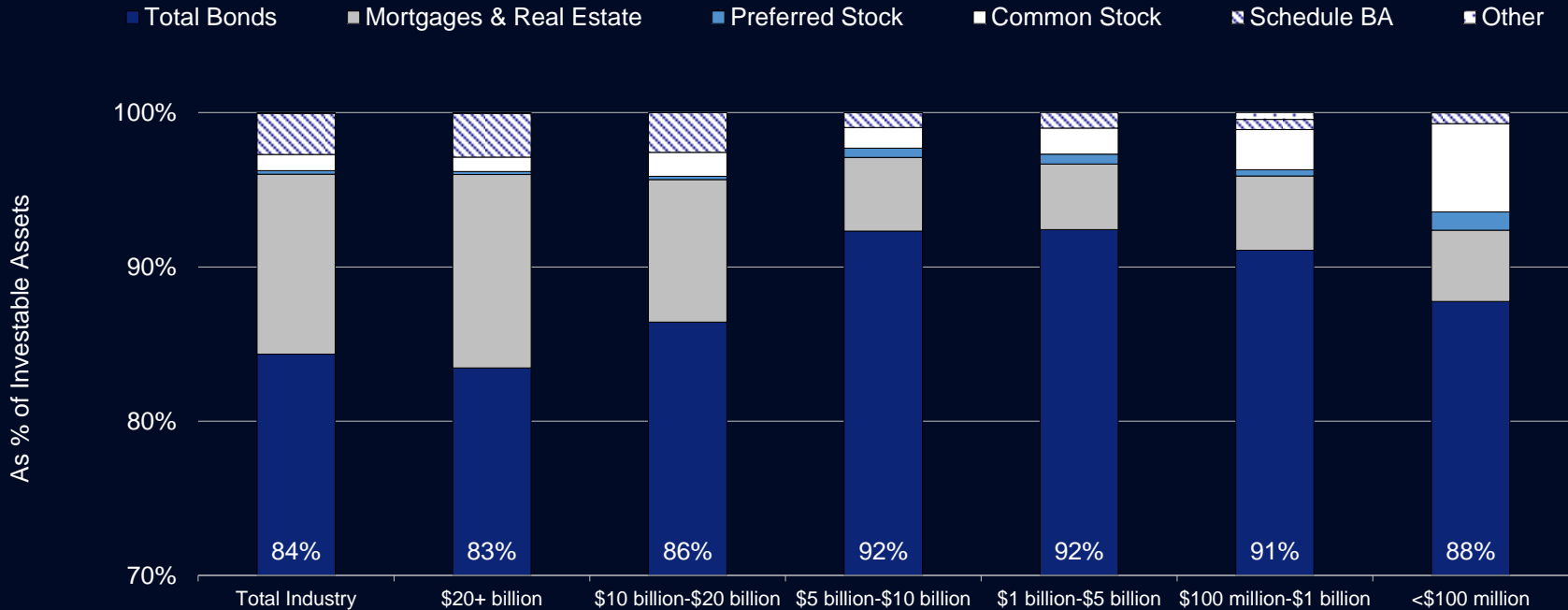
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Industry Trends:

A DIFFERENT LOOK AT ASSET ALLOCATIONS

Size of Insurer Has Large Effect on Allocations

Allocations to Major Asset Classes in 2013 for Total Industry and by Insurer Size



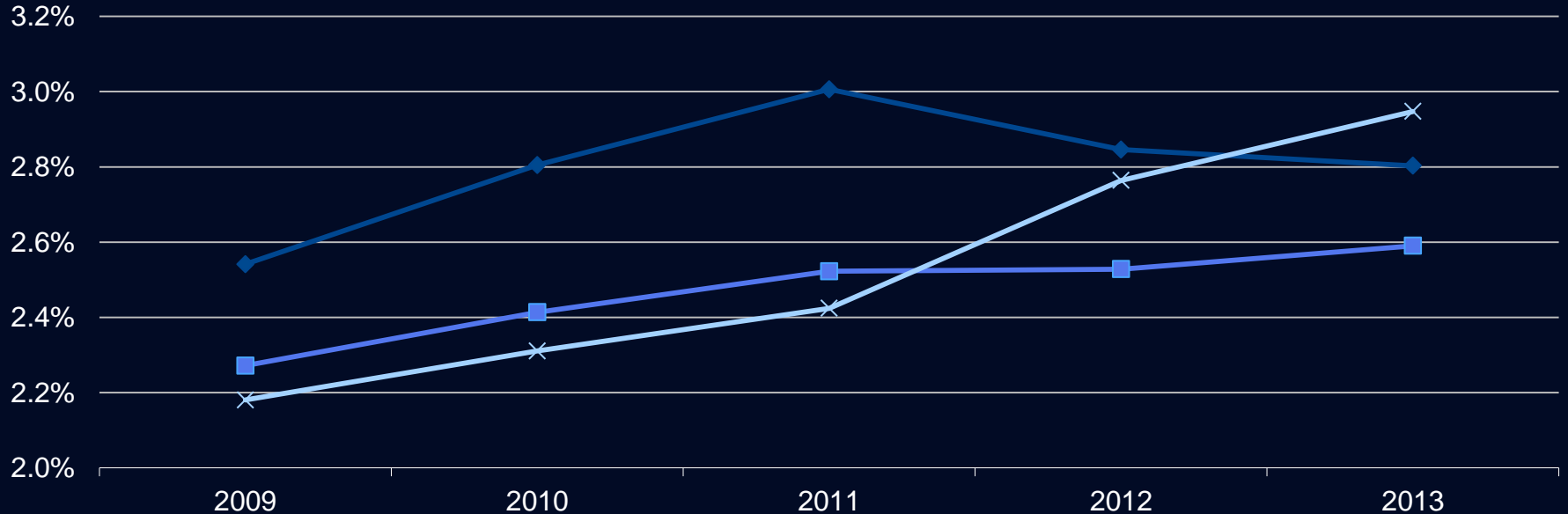
Source: ©A.M. Best Company—used by permission, Conning analysis

Schedule BA Assets Increasingly Used

Average Holdings in Schedule BA Assets by Business Focus

(as a % of investable assets)

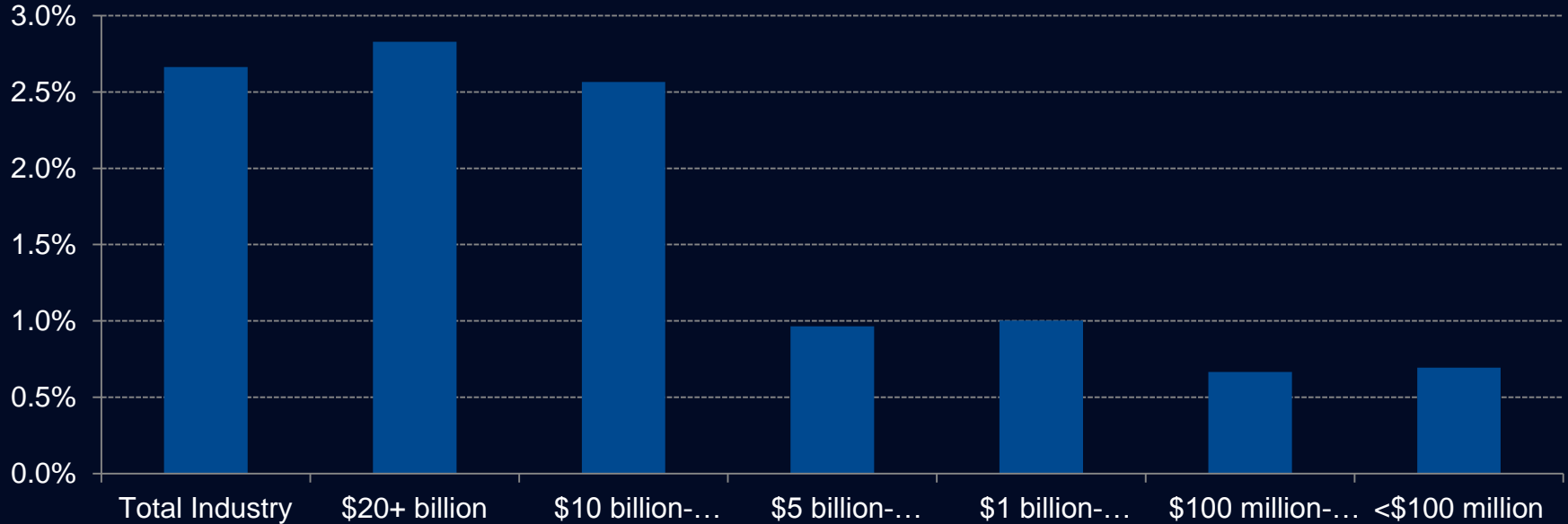
◆ Life ■ Annuity × Mixed



Source: ©A.M. Best Company—used with permission, Conning analysis

But Primarily By Largest Insurers

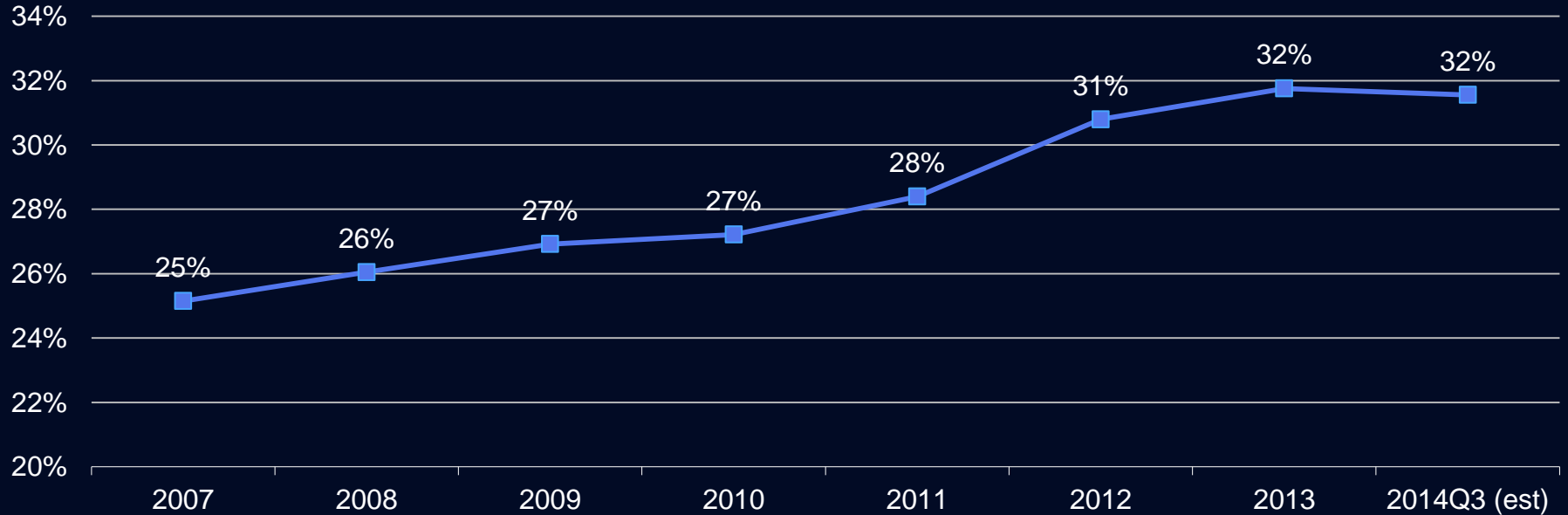
2013 Allocation of Investable Assets to Schedule BA Assets by Insurer Size in Investable Assets



Source: ©A.M. Best Company—used with permission, Conning analysis

Credit Quality Shifts: More BBB-Rated Bonds

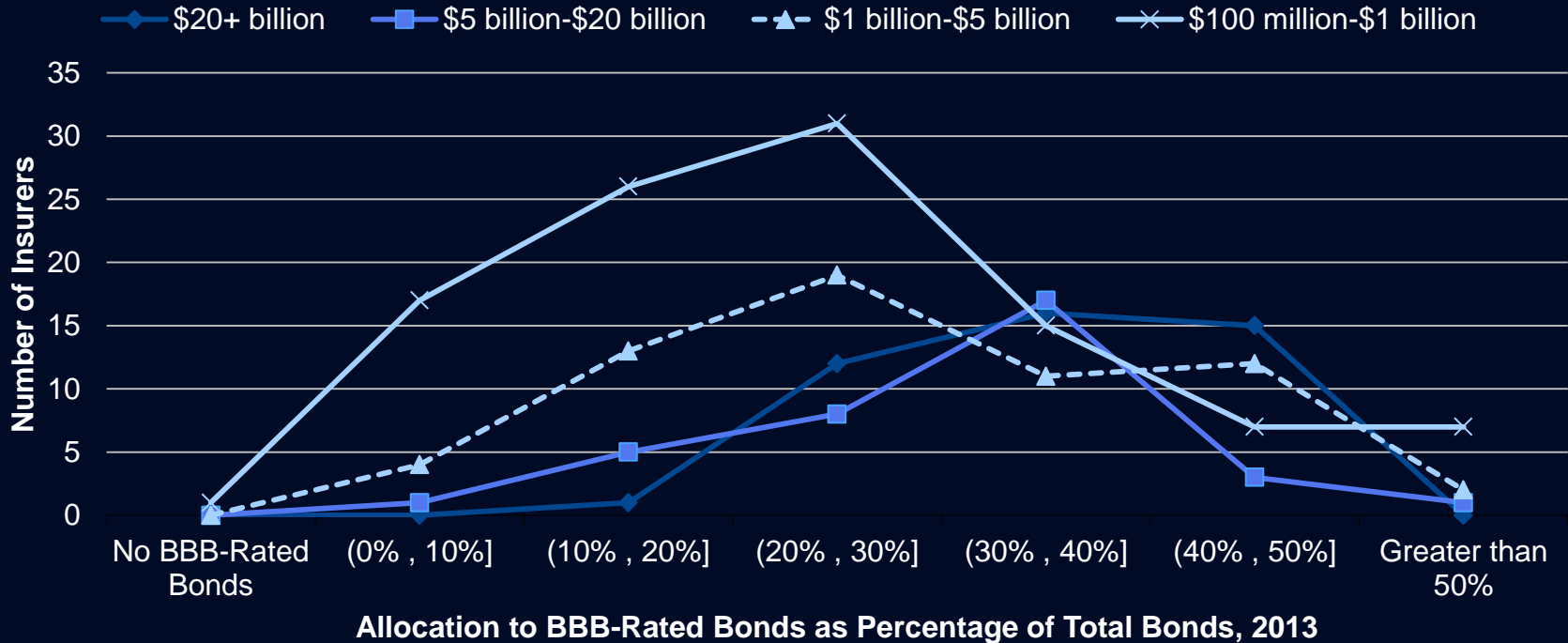
NAIC Class 2 Bonds as Percentage of Bond Portfolio



Source: ©A.M. Best Company—used with permission, Conning analysis

BBB-Rated Bonds Used at All Size Classes

Distribution of Allocation to BBB-Rated Bonds by Size Class

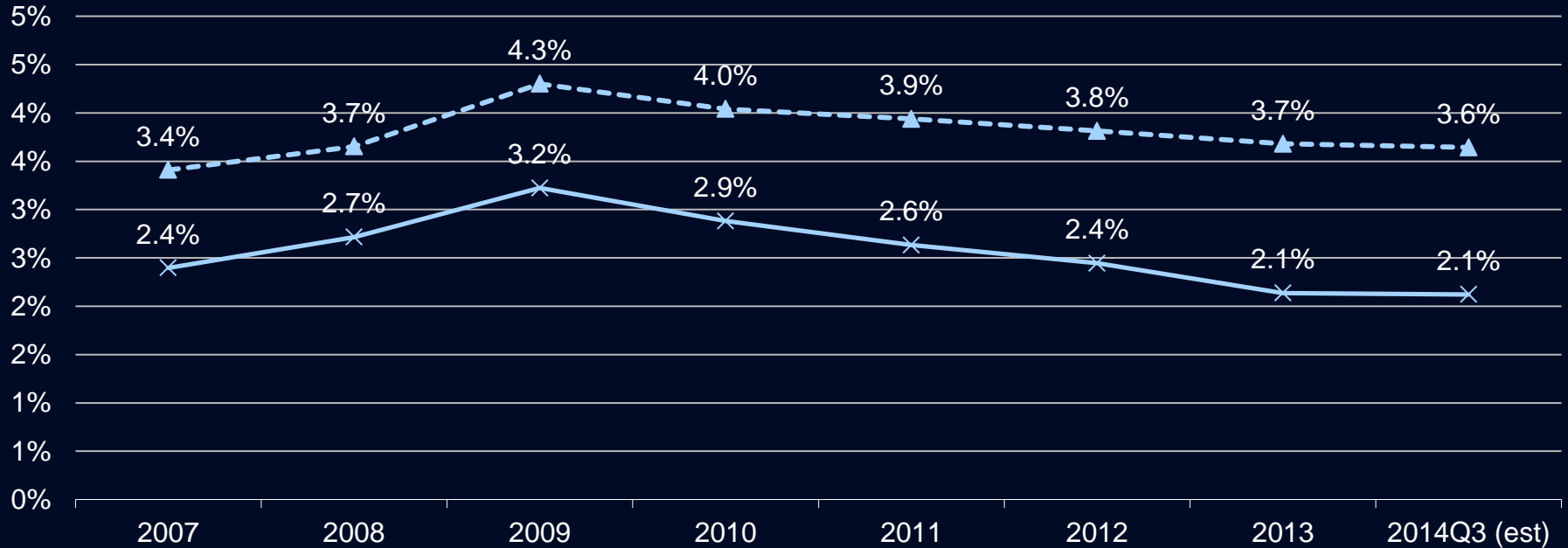


Source: ©A.M. Best Company—used by permission, Conning analysis

Credit Quality Shifts: Less BIG Bonds

Bond Quality Distribution (Percentage of Bond Portfolio)

--▲-- NAIC 3 --×-- NAIC 4 - 6



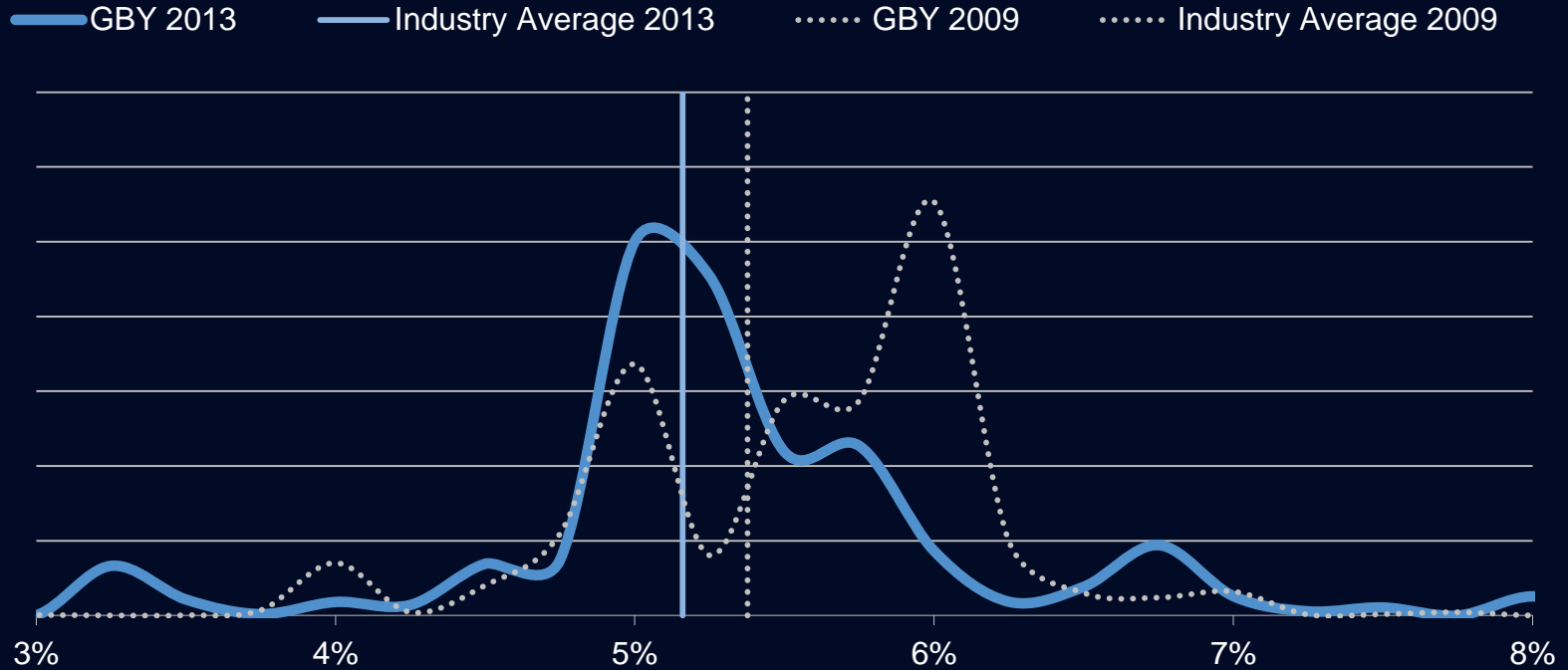
Source: ©A.M. Best Company—used with permission, Conning analysis

Industry Trends:

A CLOSER LOOK AT INVESTMENT RETURNS

Wide Range of Investment Results Across Industry

Distribution of Gross Book Yield on Average Investable Assets

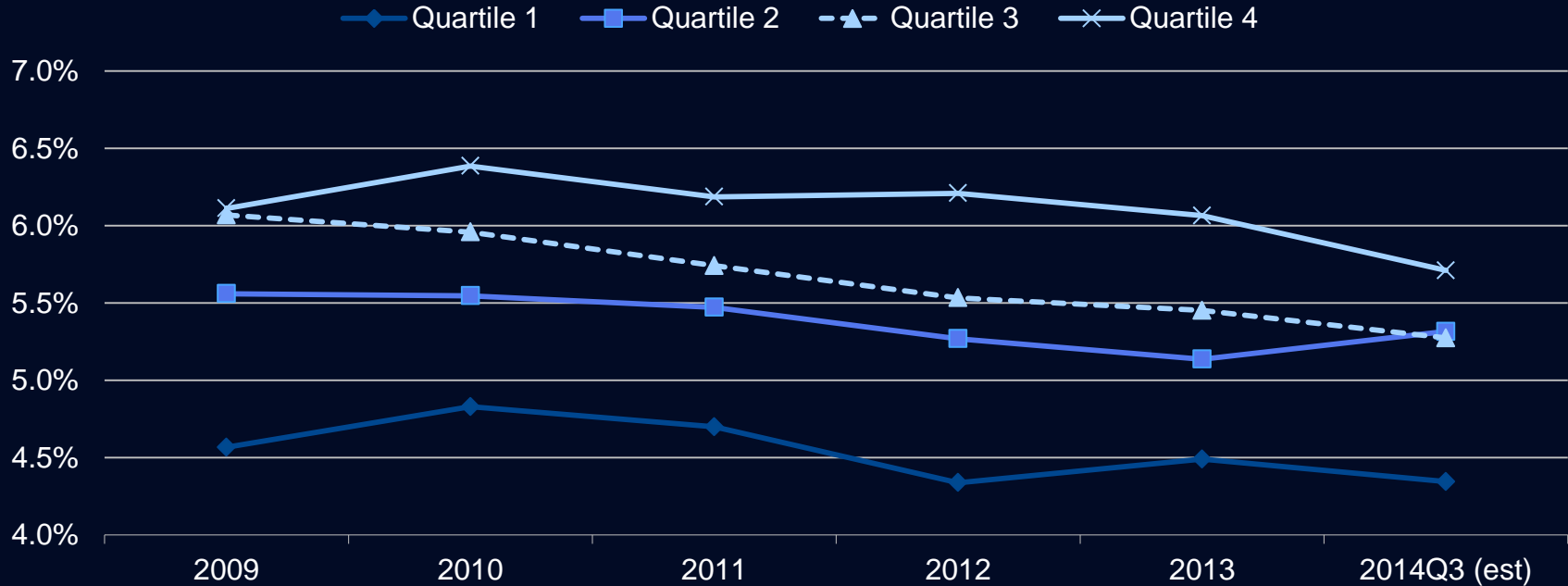


Source: ©A.M. Best Company—used by permission, Conning analysis

Clear Ranking of Insurers by Results, at Extremes

Average Gross Book Yield by Quartile Groups

(as a % of average investable assets)

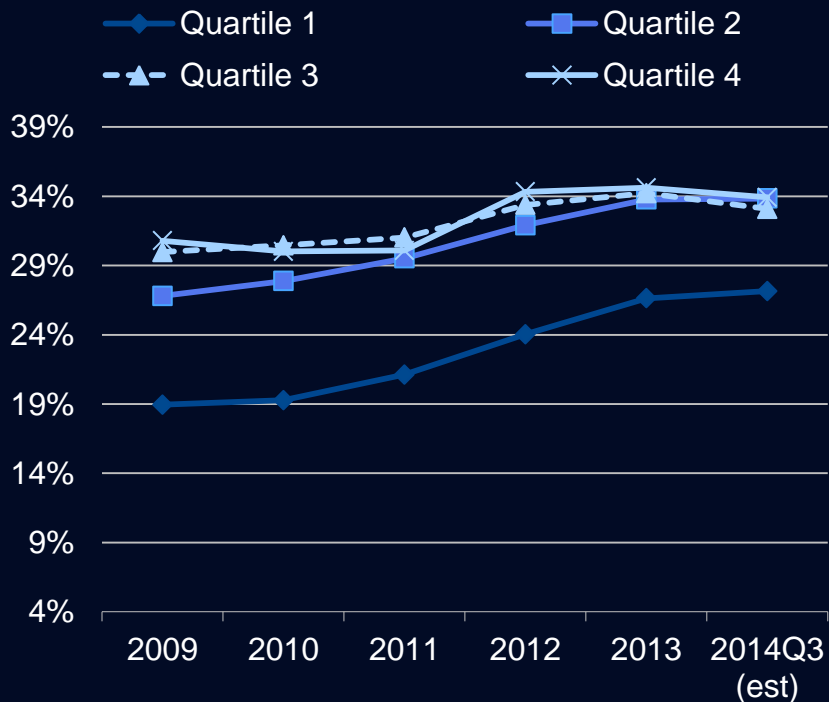


Source: ©A.M. Best Company—used by permission, Conning analysis

Differences in Bond Credit Quality

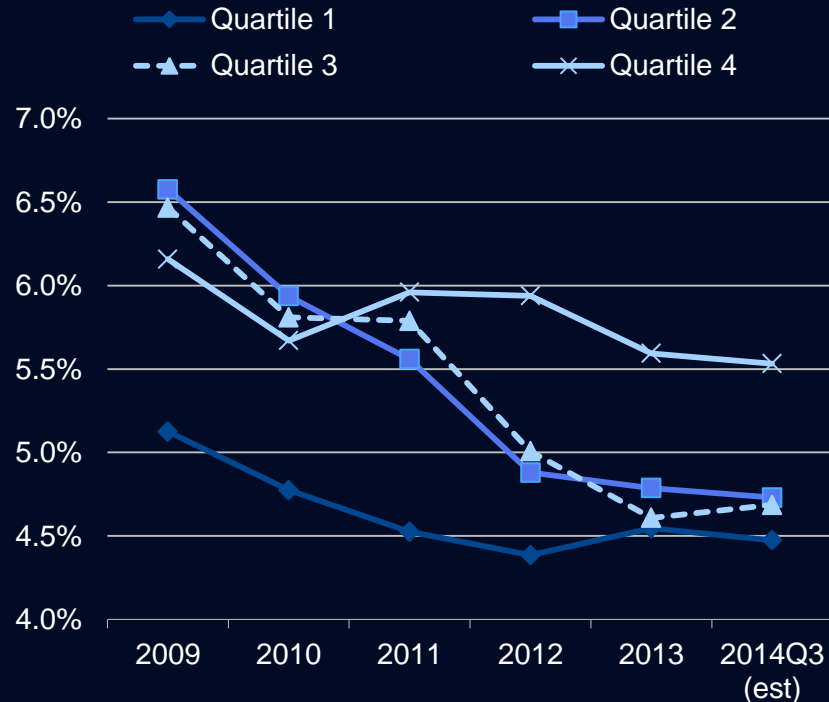
Allocation to BBB-rated Bonds

(as % of total bonds)



Allocation to Below Investment Grade Bonds

(as % of total bonds)

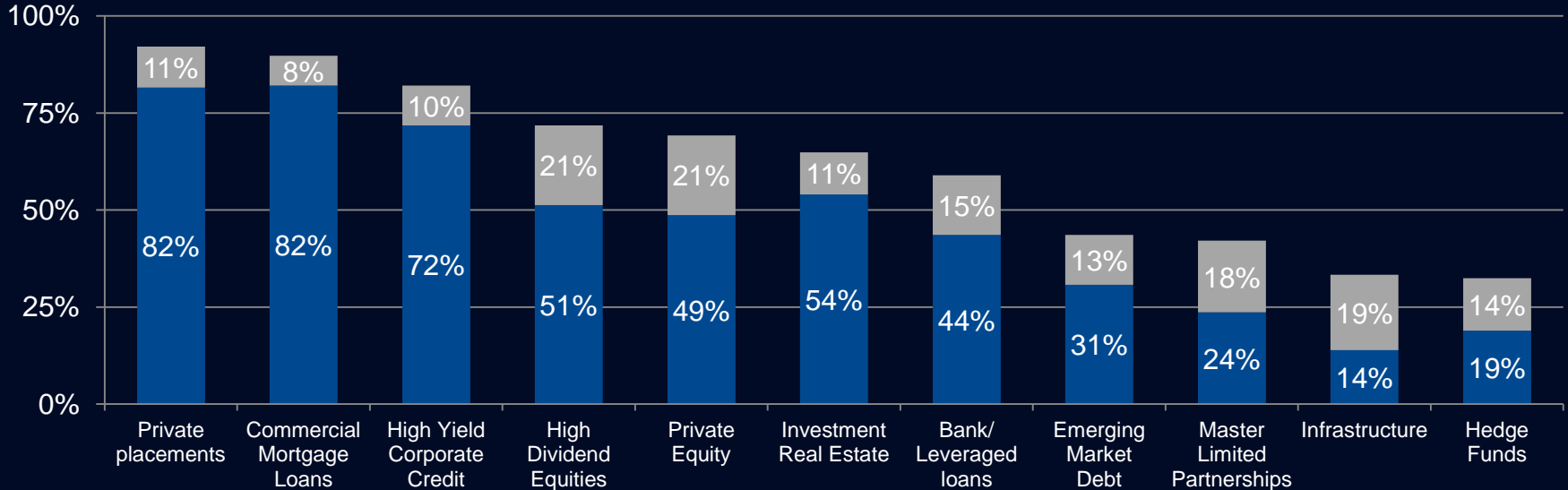


Source: ©A.M. Best Company—used by permission, Conning analysis

Wide Array of Asset Classes Used to Boost Yield

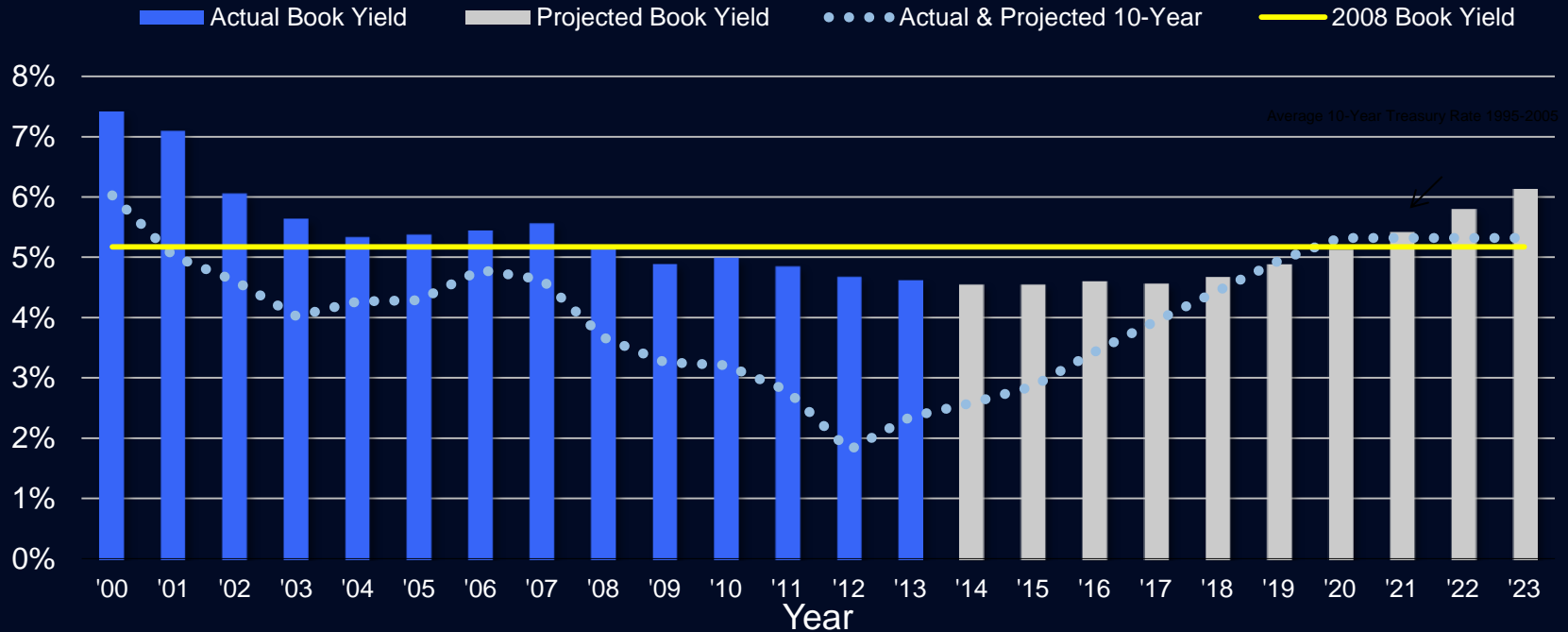
What asset classes are you using to maintain or increase yield?

■ Use Now - Will Continue ■ Considering Using



Source: Conning-ACLI CEO Survey, 2014

Projected Book Yield Under Gradually Rising Rate Scenario



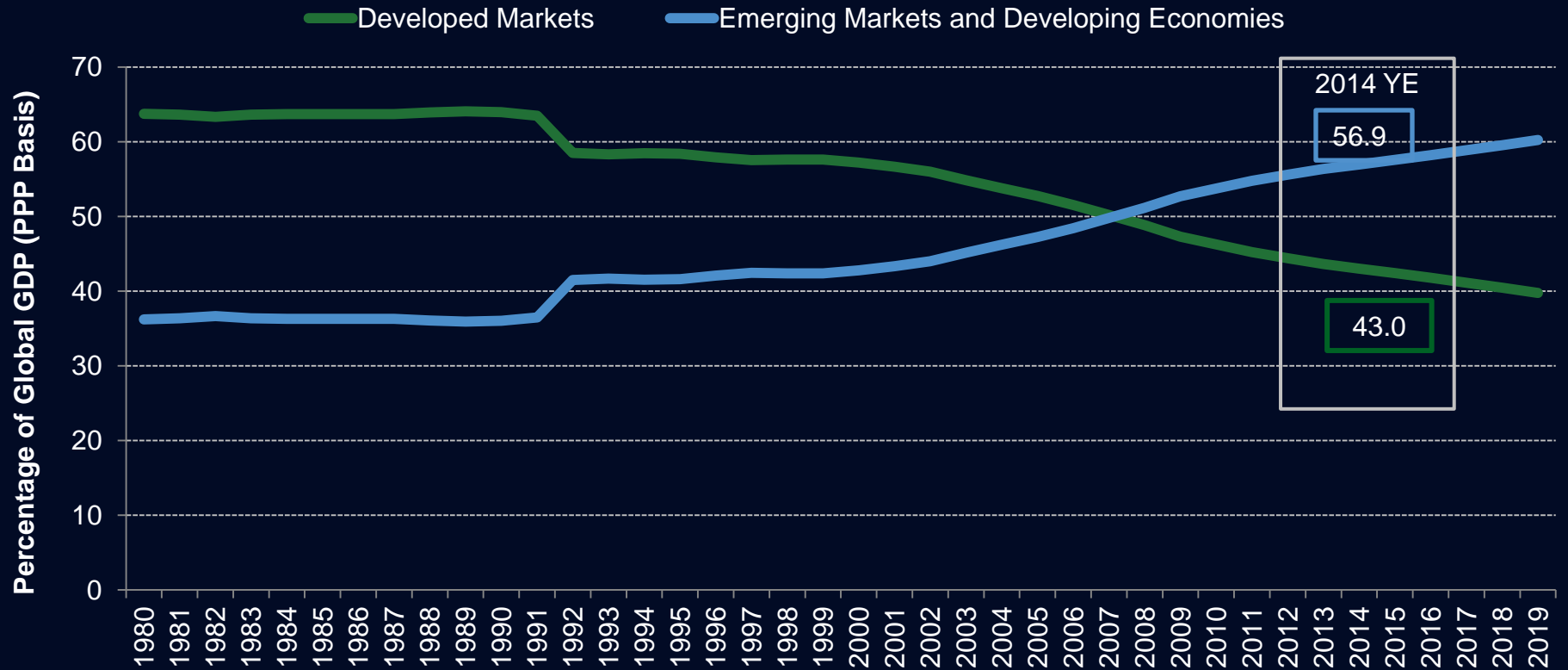
Source: ©A.M. Best Company—used with permission, Federal Reserve, Conning analysis

INVESTMENT OPPORTUNITIES FOR LIFE INSURERS

Emerging Markets Debt

- ◆ Market has experienced dramatic improvement in fundamentals since early 1990s
- ◆ Many EM countries have implemented meaningful financial reforms and improved debt profiles
- ◆ Rating agencies have upgraded large number of issues
- ◆ Many EM countries still growing at faster rates than developed countries
- ◆ Life companies under-invested in asset class

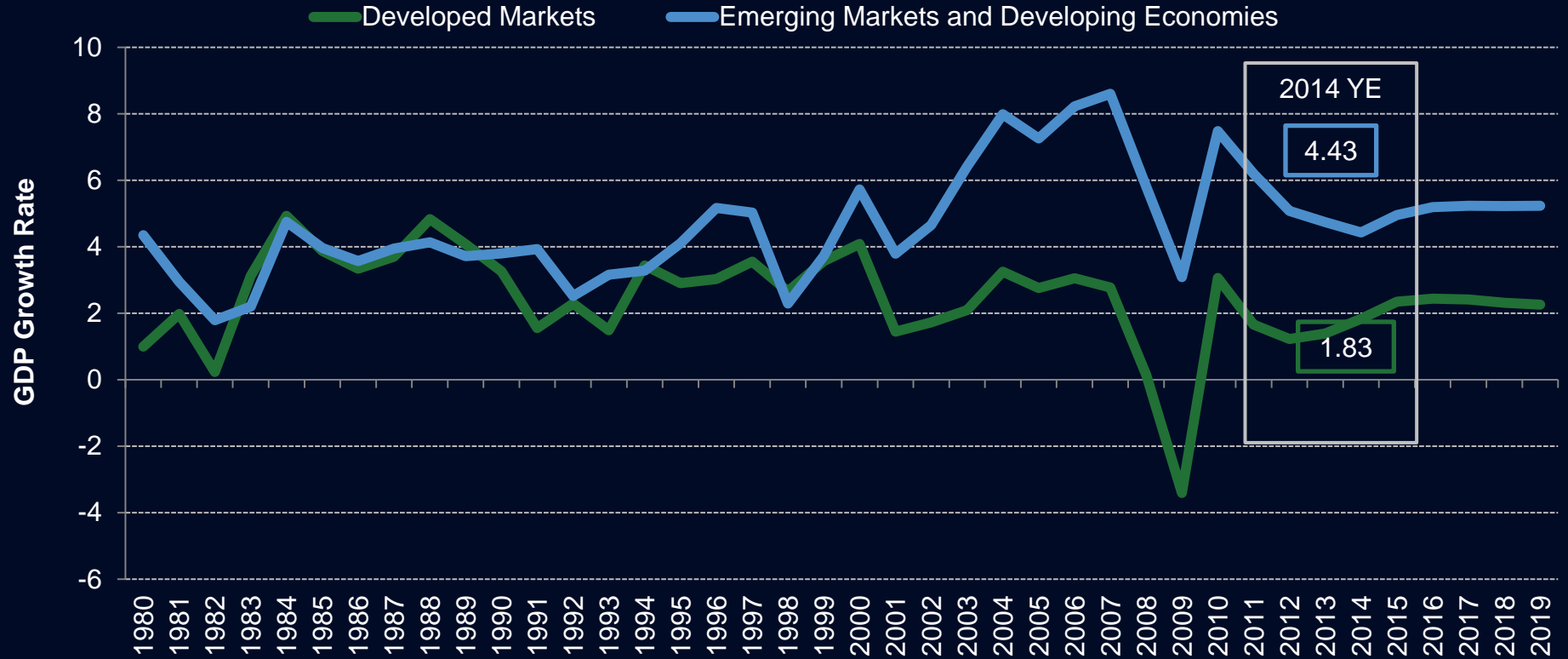
EM/DM Shares of Global GDP



Source: IMF World Economic Outlook Database

*2014 is YTD. 2015-2019 are forecasts

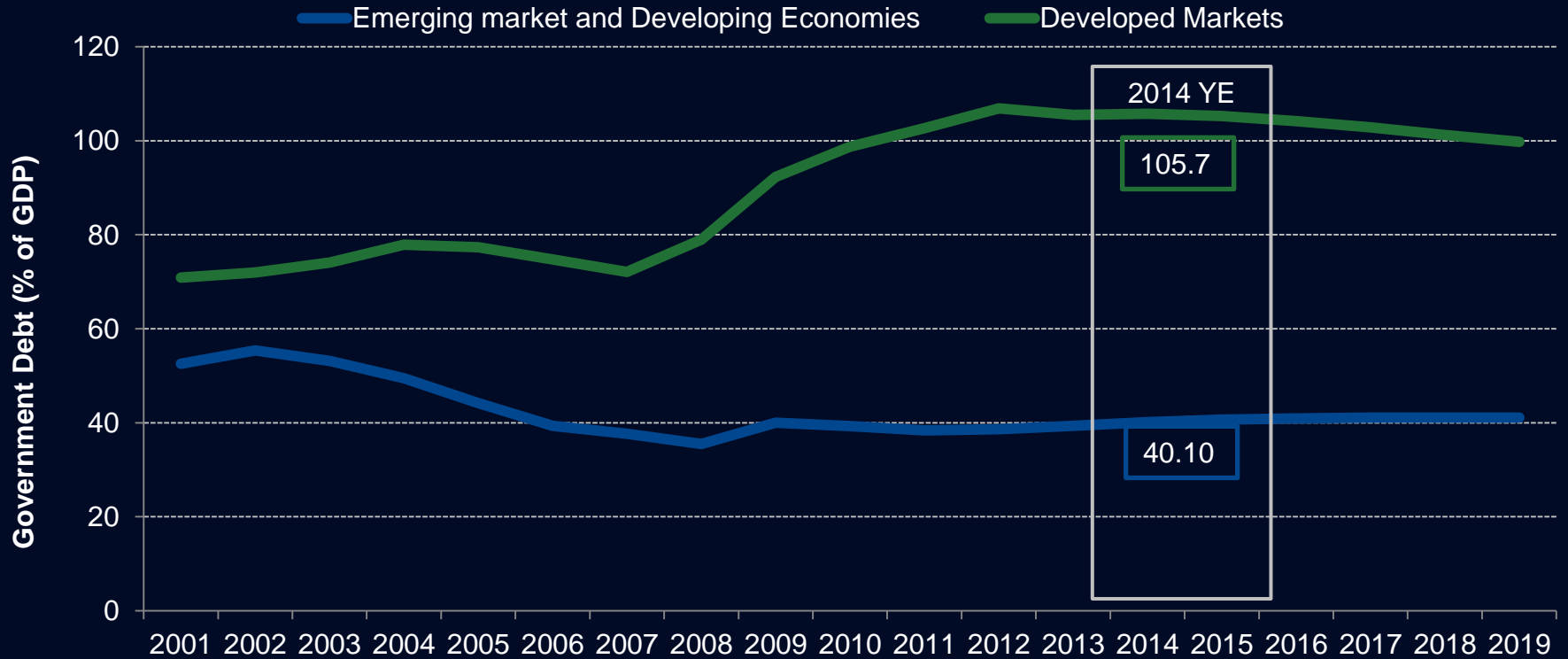
EM/DM Growth Rates



Source: IMF World Economic Outlook Database

*2014 is YTD. 2015-2019 are forecasts

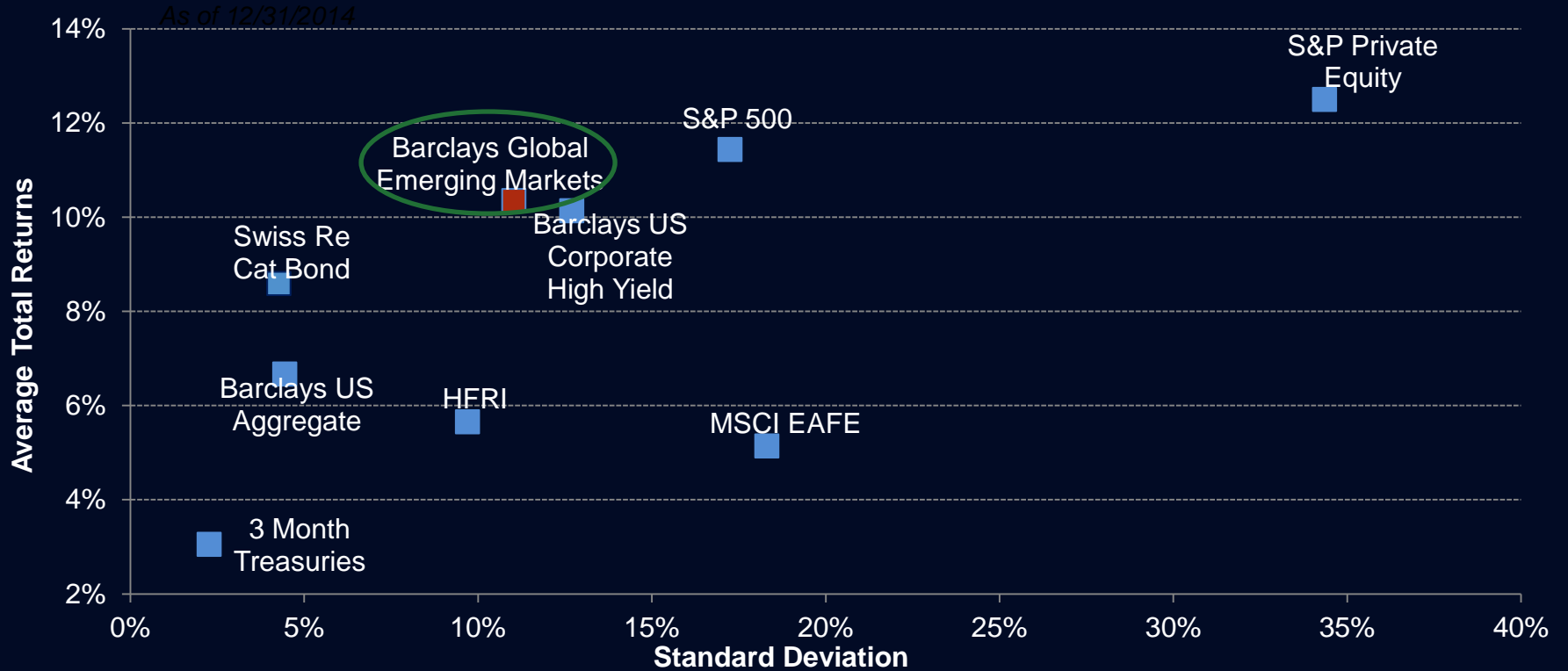
Government Debt/GDP



Source: IMF World Economic Outlook Database

*2014 is YTD. 2015-2019 are forecasts

EM Debt Performance



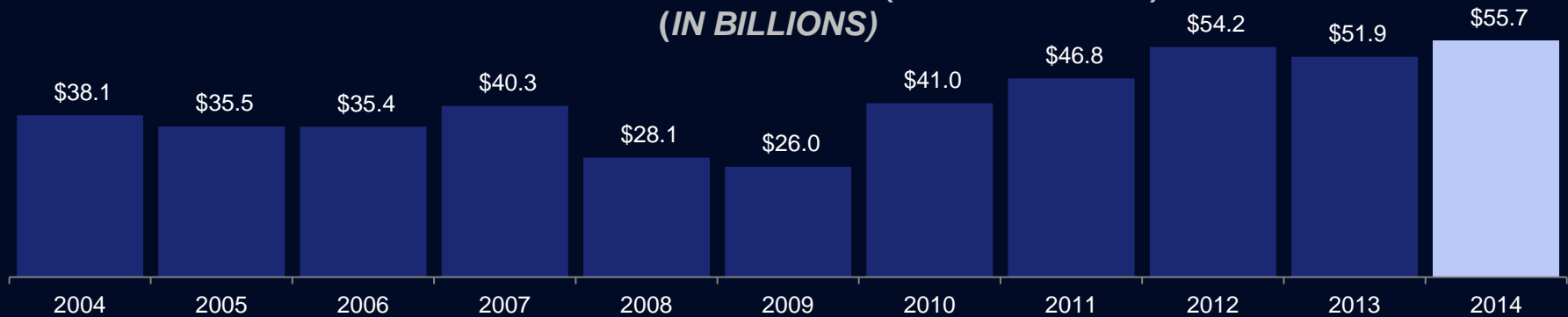
Average return and standard deviation calculated based on annual data from 1990 to 2014, except as follows: HFRX Global Hedge Fund Index (1998), and S&P Listed Private Equity Total Return Index (2003). As of 3/31/2015.

Source: Data compiled and analyzed by Conning from Damodaran online <http://pages.stern.nyu.edu/~adamodar/>, accessed 03/31/2015.

Private Placements: Market Overview

- ◆ Volume rebounded strongly from the depressed levels during the global financial crisis
- ◆ Supply increased by 9% in 2014 to over \$55 billion, a new annual volume record
- ◆ Average deal size was roughly \$220 million versus \$216 million in 2013
- ◆ Level of oversubscriptions remained high in 2014 at over 4.5x
- ◆ Issuance is expected to remain strong in 2015

PRIVATE PLACEMENT VOLUME (2004 – YTD 2014)
(IN BILLIONS)



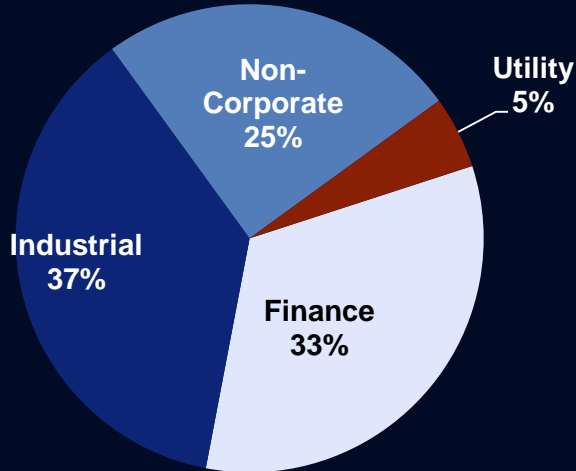
Source: Thomson Reuters - 2012 Totals / Bank of America Merrill Lynch as of December 31, 2014

Past performance is not indicative of future results

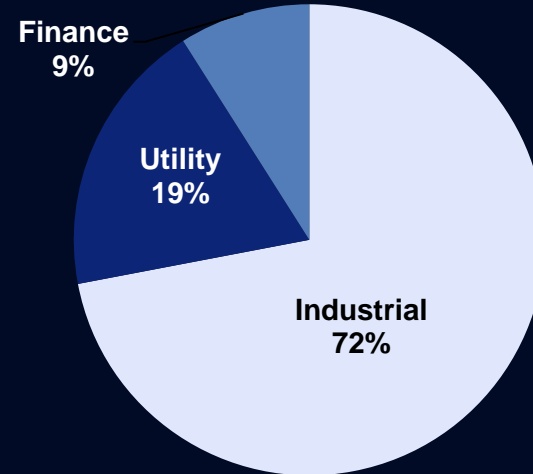
Private Placements: Diversification Benefits

Overall Market Supply

Investment Grade Supply 2014



Private Placement Supply 2014



Source: Barclays Indices, POINT ©2015 Barclays Risk Analytics and Index Solutions Limited. Used with permission.
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As of December 31, 2014

Private Placements: Good Relative Value

| | Avg Purchase Yield* | Avg Maturity (yrs)* | Avg Quality* | Avg. Spread (bps)* | Public Spread (bps)** | Difference (bps)*** |
|------|---------------------|---------------------|--------------|--------------------|-----------------------|---------------------|
| 2014 | 4.26% | 8.0 | Baa3 | 211 | 178 | 33 |
| 2013 | 4.63% | 9.2 | Baa3 | 246 | 158 | 88 |
| 2012 | 4.82% | 8.9 | Baa2 | 309 | 180 | 129 |
| 2011 | 4.98% | 8.6 | Baa3 | 235 | 205 | 30 |
| 2010 | 5.80% | 8.3 | Baa1 | 247 | 140 | 107 |
| 2009 | 6.23% | 7.8 | A2 | 361 | 176 | 185 |
| 2008 | 6.58% | 8.4 | Baa1 | 308 | 268 | 40 |
| 2007 | 6.10% | 9.6 | Baa2 | 160 | 146 | 14 |

* Represents average data for all private placement bonds Conning purchased. In 2010, this includes two 144a securities marketed as private placements.

** Sourced from Barclays Live. Simple average of public corporate bond index adjusted for credit quality and tenor to match the average characteristics of Conning private placement purchases. Barclays Indices, POINT ©2015 Barclays Risk Analytics And Index Solutions Limited. Used with permission.

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*** Spread premium of Conning private placement purchases vs. public spread.

As of December 31, 2014

Past performance is not indicative of future results

U.S. High Dividend Equities (HDE)

- ◆ Provides increasing levels of net investment income
- ◆ Improves portfolio quality by providing exposure to issuers with a paucity of outstanding bonds
- ◆ Achieves diversification without sacrificing strong liquidity
- ◆ Provides a potential source of market appreciation in rising interest rate environments

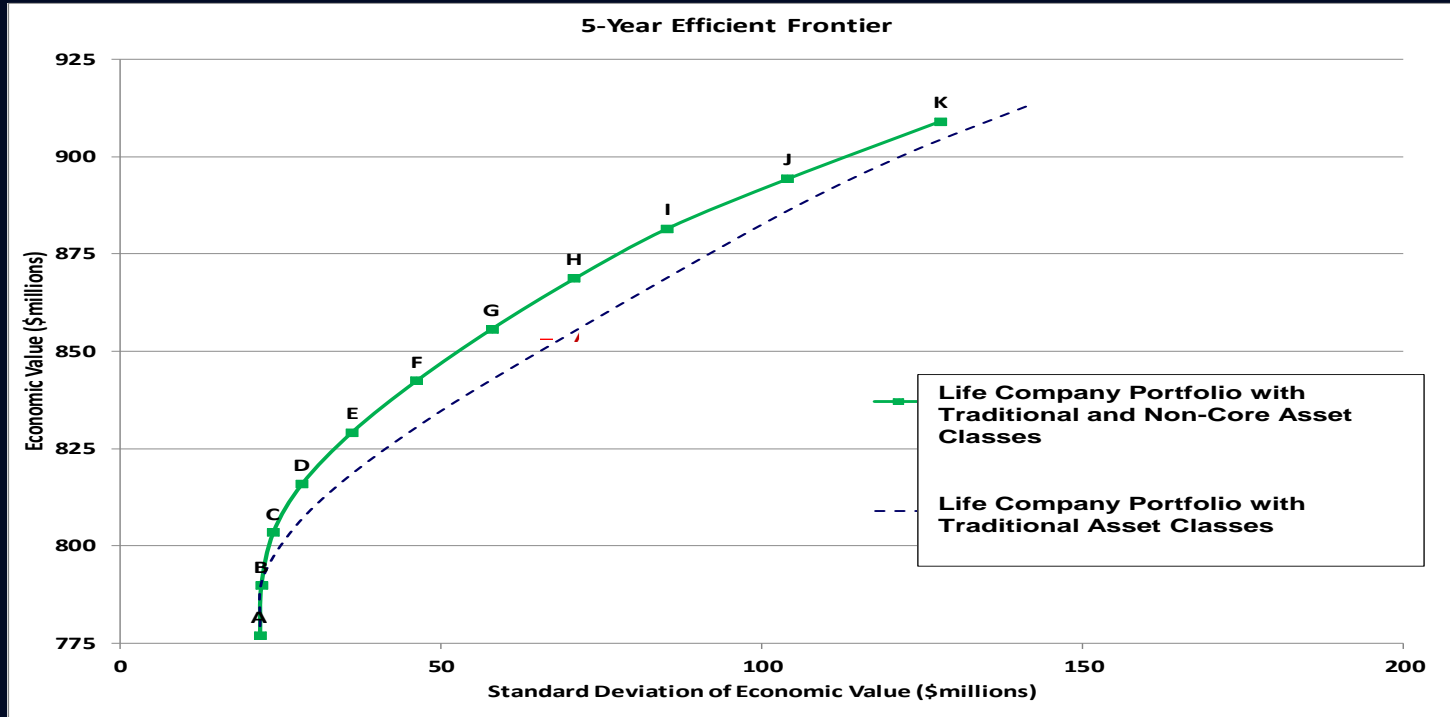
Dividends Are A Significant Portion of Equity Total Returns

| | Price % Change | Dividend Contribution | Total Return | Dividends % of Total Return |
|-------------|----------------|-----------------------|---------------|-----------------------------|
| 1930s | -41.9% | 56.0% | 14.1% | N/A |
| 1940s | 34.8% | 100.3% | 135.0% | 74.3% |
| 1950s | 256.7% | 180.0% | 436.7% | 41.2% |
| 1960s | 53.7% | 54.2% | 107.9% | 50.2% |
| 1970s | 17.2% | 59.1% | 76.4% | 77.4% |
| 1980s | 227.4% | 143.1% | 370.5% | 38.6% |
| 1990s | 315.7% | 116.7% | 432.4% | 27.0% |
| 2000s | -24.1% | 15.0% | -9.1% | N/A |
| 2010-2014 | 84.6% | 20.3% | 105.0% | 19.4% |
| Avg. | 102.7% | 82.7% | 185.4% | 46.9% |

Source: Strategas; As of 12/31/2014

Past performance is not indicative of future results

Impact of Non-Core Assets



Source: Conning ADVISE® Enterprise Modeler.

Efficient frontiers are created using Conning's ADVISE® Enterprise Risk Modeler and Investment Optimizer. Projections are based on property-casualty industry data as of December 31, 2012, economic scenarios generated by Conning's GEMS® Economic Scenario Generator, and Conning's assumptions for future industry underwriting results and volatility around those results.

Summary

- ◆ Continued decline in bond yields creating major challenges for life insurers
- ◆ Industry is responding by increasing credit risk, but risk premiums have shrunk
- ◆ Excess performance provided by corporate bonds not likely to be as favorable over next five years
- ◆ Insurers must continue to focus on benefits of diversification
- ◆ Companies should expand expertise and access to a variety of non-traditional asset classes that can enhance investment income, risk-adjusted returns and portfolio diversification

APPENDIX

Disclosure

Conning & Company is the parent of Conning, Inc., Goodwin Capital Advisers, Inc. and Conning Investment Products, Inc., a FINRA-registered broker dealer, and an affiliate of Conning Asset Management Limited, and Cathay Conning Asset Management Limited (CCAM) (together, "Conning"). Conning & Company's parent is a portfolio company of the funds managed by Aquiline Capital Partners, LLC (a New York-based private equity firm). Conning has offices in Hartford, New York, London, Cologne, and Hong Kong.

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C11# 3309637

Notes: Indices Used

Alerian MLP Index - A composite of the 50 most prominent energy Master Limited Partnerships (MLPs) that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index, which is calculated using a float-adjusted, capitalization-weighted methodology, is disseminated real-time on a price-return basis and on a total-return basis.

Alerian MLP Infrastructure Index - Index is comprised of 25 energy infrastructure Master Limited Partnerships (MLPs) that earn the majority of their cash flow from the transportation, storage, and processing of energy commodities. The index is calculated using a capped, float-adjusted, capitalization-weighted methodology and disseminated real-time on a price-return and total-return basis.

Barclays US MBS Index - The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The MBS Index is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates.

Barclays US Treasury – Dollar-denominated, public obligations of the U.S. Treasury which have at least one year to final maturity, at least \$250 million par amount outstanding, rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch, fixed rate, although it can carry a coupon that steps up or changes according to a predetermined schedule.

Barclays US Baa Corporate Index - Publicly issued fixed-rate, dollar-denominated, U.S. corporate and specified foreign debentures which have at least one year to final maturity, at least \$250 million par amount outstanding, rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade.

Barclays US Corporate High-Yield Index – Barclays calculates their index on a capitalization weighted basis for below investment grade (BA1/BB+ and lower) rated US corporate securities with at least \$150 MM par value and more than one year until maturity. They use ratings from Moody's, S&P, and Fitch with the median used if all three rate it, the lower rating if only rated by two, and the sole rating if only rated by one rating agency. Some unrated securities are included if they had previously rated high yield issues and trades at similar levels.

Barclays US Investment-Grade Corporate Index – Barclays calculates their index on a capitalization weighted basis for investment grade rated US Corporate securities with at least \$250 MM par value and more than one year until maturity. They use ratings from Moody's, S&P, and Fitch with the median used if all three rate it, the lower rating if only rated by two, and the sole rating if only rated by one rating agency.

Barclays Investment Grade: Natural Gas Pipelines – A subsector of the Barclays US Investment-Grade Index, where the issuer meets the criteria of the Barclays US Corporate Index and is categorized as a pipeline entity.

Barclays U.S. Aggregate Index - The Barclays U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Barclays Emerging Market Index - The Barclays EM USD Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. The index is broad-based in its coverage by sector and by country, and reflects the evolution of EM benchmarking from traditional sovereign bond indices to Aggregate-style benchmarks that are more representative of the EM investment choice set. Country eligibility and classification as an Emerging Market is rules-based and reviewed on an annual basis using World Bank income group and International Monetary Fund (IMF) country classifications.

Notes: Indices Used

The Barclays Short Treasury Index - The Barclays Short Treasury Index includes aged U.S. Treasury bills, notes and bonds with a remaining maturity from 1 up to (but not including) 12 months. It excludes zero coupon strips.

Credit Suisse Leveraged Loan Index - Credit Suisse Leveraged Loan is an index designed to mirror the investable universe of the \$US-denominated leveraged loan market. The index inception is January 1992. The index frequency is monthly. New loans are added to the index on their effective date if they qualify according to the following criteria: Loans must be rated "5B" or lower; only fully-funded term loans are included; the tenor must be at least one year; and the Issuers must be domiciled in developed countries (Issuers from developing countries are excluded).

Dow Jones Utilities Index - The Dow Jones Utilities Average is a price-weighted average of 15 utility companies that are listed on the New York Stock Exchange and are involved in the production of electrical energy.

FTSE NAREIT All REITs Index - The FTSE NAREIT All REITs Index is a free float adjusted market capitalization weighted index that includes all tax qualified REITs listed in the NYSE, AMEX, and NASDAQ National Market.

HFRI Fund Weighted Composite - The HFRI Monthly Indices are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. The HFRI are broken down into 4 main strategies, each with multiple sub-strategies. All single-manager HFRI Index constituents are included in the HFRI Fund Weighted Composite, which accounts for over 2200 funds listed on the internal HFR Database.

Merrill Lynch Convertible Bond Index - The index consists of convertible bonds traded in the U.S. dollar denominated investment grade and non investment grade convertible securities sold into the U.S. market and publicly traded in the United States. The Index constituents are market value weighted based on the convertible securities prices and outstanding shares, and the underlying index is rebalanced daily.

S&P GSCI Index Spot CME - The S&P GSCI contains as many commodities as possible, with rules excluding certain commodities to maintain liquidity and invest-ability in the underlying futures markets. The index currently comprises 24 commodities from all commodity sectors - energy products, industrial metals, agricultural products, livestock products and precious metals. The wide range of constituent commodities provides the S&P GSCI with a high level of diversification, across subsectors and within each subsector.

S&P GSCI Precious Metals Index - The widely tracked S&P GSCI is recognized as a leading measure of general price movements and inflation in the world economy. The index – representing market beta – is world-production weighted. It is designed to be investable by including the most liquid commodity futures, and provides diversification with low correlations to other asset classes.

Standard & Poor's (S&P) 500 Index – A capitalization weighted index of 500 US stocks. The index composition is managed by Standard & Poor's but is generally viewed as including the largest capitalization US stocks.

S&P 500 Dividend Aristocrats Index - S&P 500 Dividend Aristocrats measure the performance S&P 500 companies that have increased dividends every year for the last 25 consecutive years. The Index treats each constituent as a distinct investment opportunity without regard to its size by equally weighting each company.