Investment Strategies – Corporate Level

Martha Leiper

Senior Vice President & Deputy Chief Investment Officer

Southeastern Actuaries Conference

November 21, 2008

Table of Contents

Current Environment

The seizing up of the credit markets since mid-September has caused the economic outlook to deteriorate.

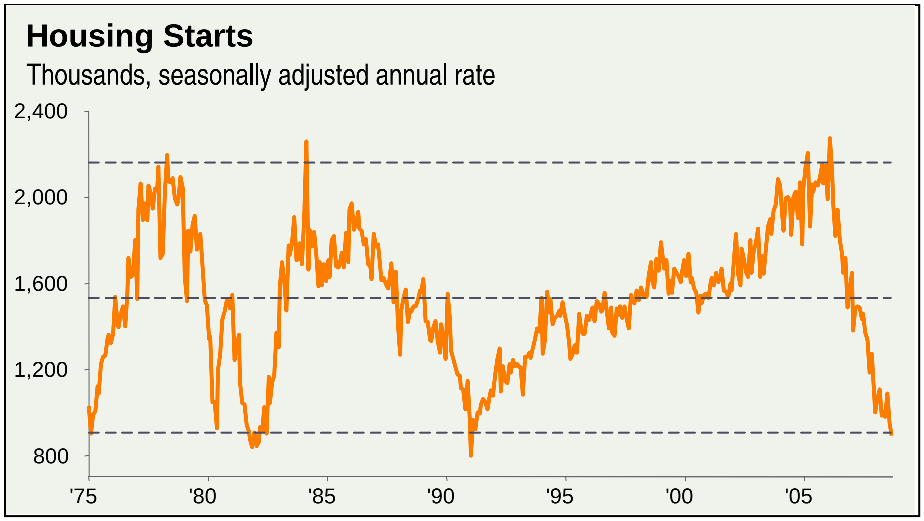
Question: Is the US economy in a recession?

Answer: Recent economic data suggest it began last quarter.

- 3Q GDP falls .3% as housing and auto weakness spread to other areas of the economy.
- Consumer spending declines for the first time since 1991.
- ISM manufacturing index plunges into a range consistent with recessionary slowdown.
- October export orders are weakest in two decades.
- Job losses accelerate.

Current Environment

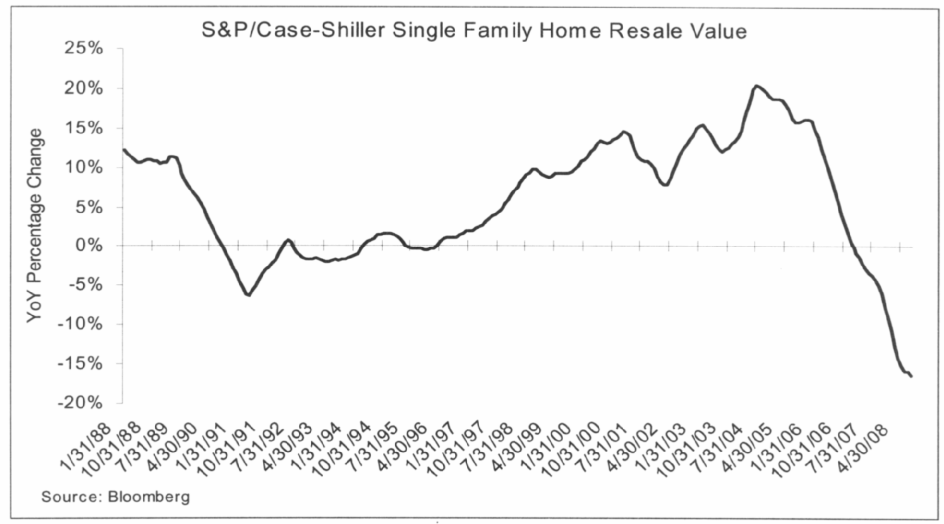
Housing – at the epicenter of the financial crisis, shows no sign of stabilizing.



Source: Census Bureau, FactSet, EcoWin, JPMorgan Asset Management.

Data reflects most recently available as of 9/30/08.

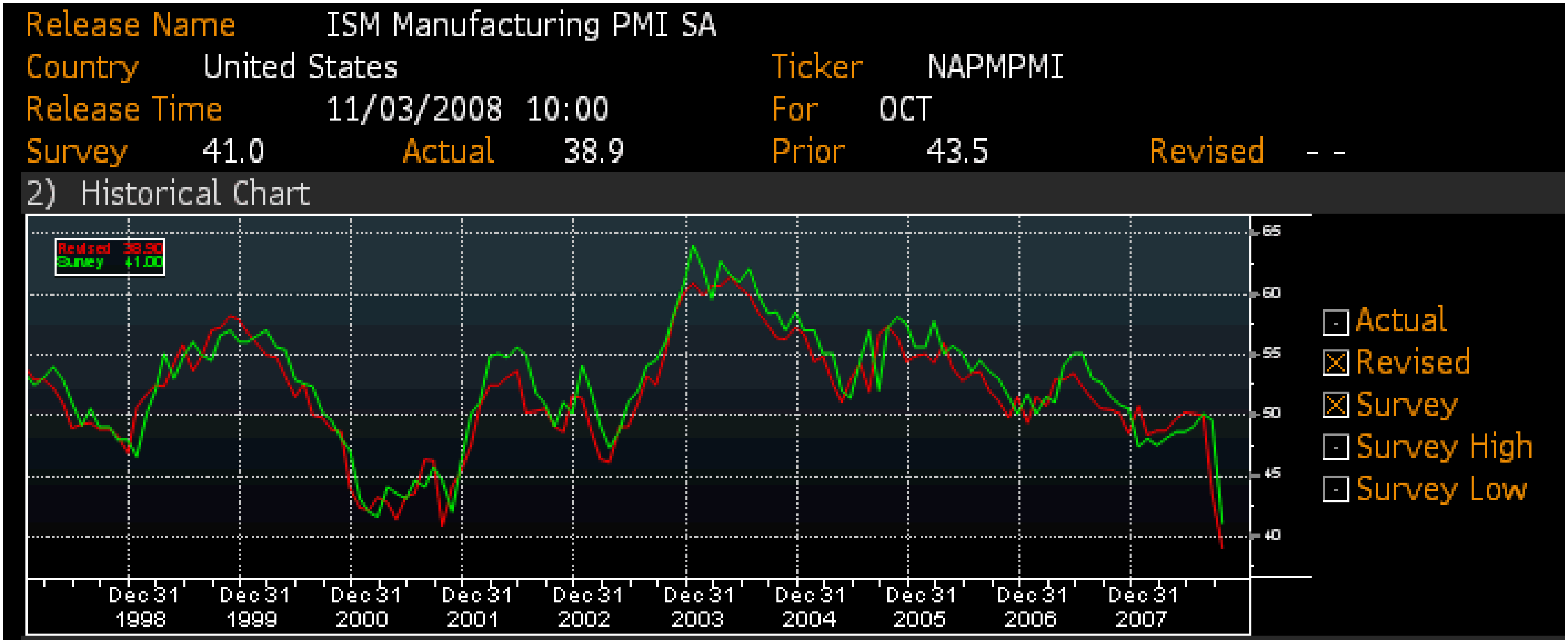
Home price based on median sales price of existing homes and are cumulative, not annualized. Existing-home sales include single-family, townhomes, condominiums and co-ops.



- In October, single family housing starts hit a 26-year low.
- Housing prices continued to decline.

Current Environment

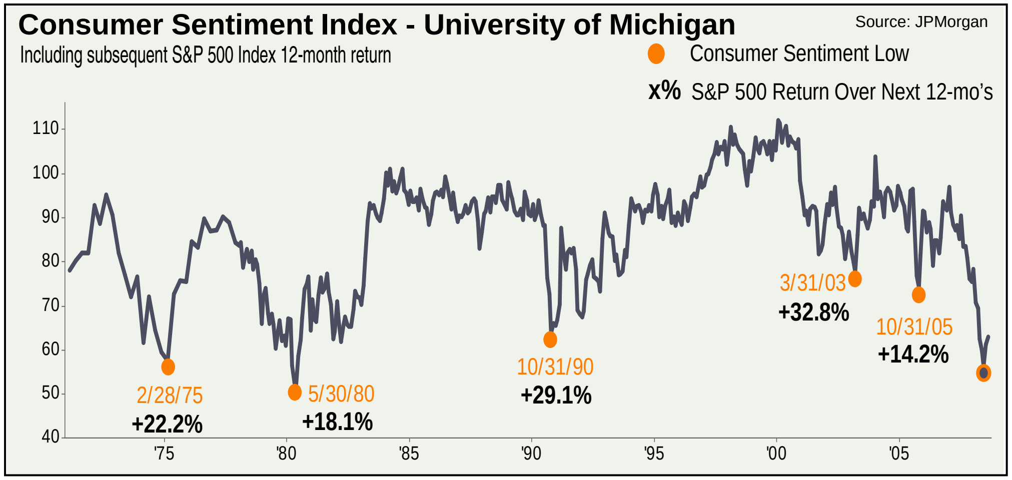
Manufacturing – previously the bright spot in the US economy is showing weakness.



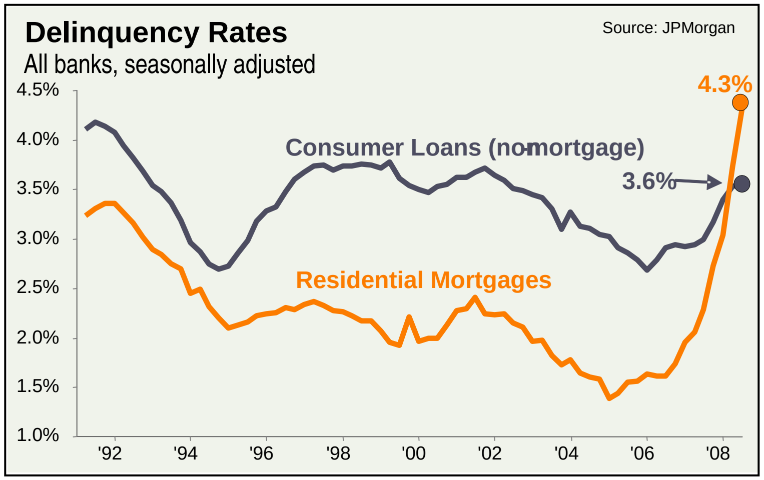
- Manufacturing in the US contracted in October at the fastest pace in 26 years.
- Exports have weakened as economies abroad falter.

Current Environment

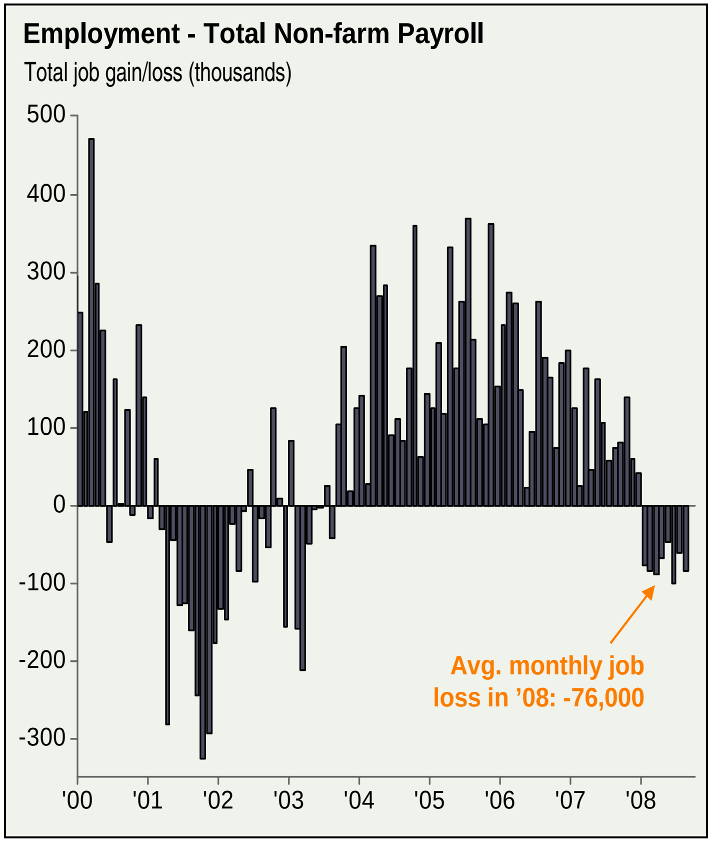
Consumer – sentiment turns negative.



- CSI drops 12.7 points in October.



- Delinquency rates trend higher.



Source: BLS, JPMorgan Asset Management.

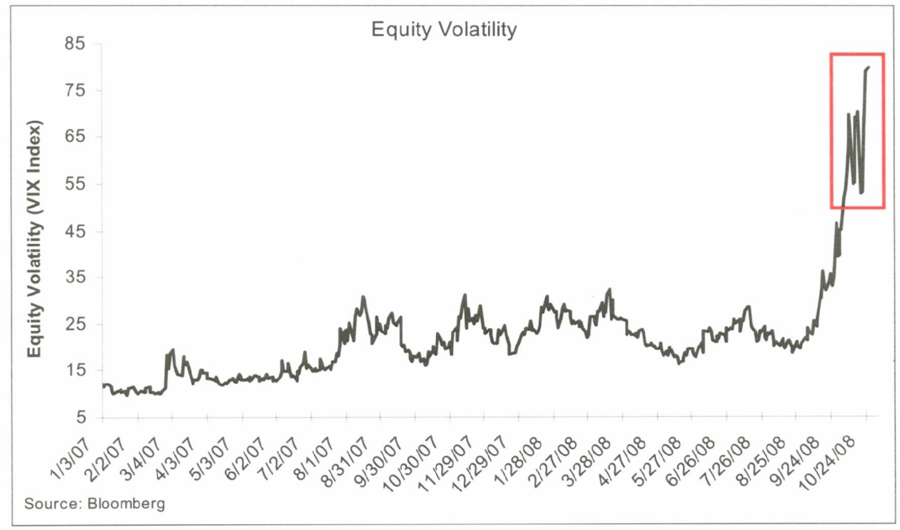
Data reflects most recently available as of 9/30/08.

- Labor market has weakened.

Current Environment - Financial Markets Remain Extremely Volatile

The destruction in shareholder wealth over the past 2 months has been dramatic.

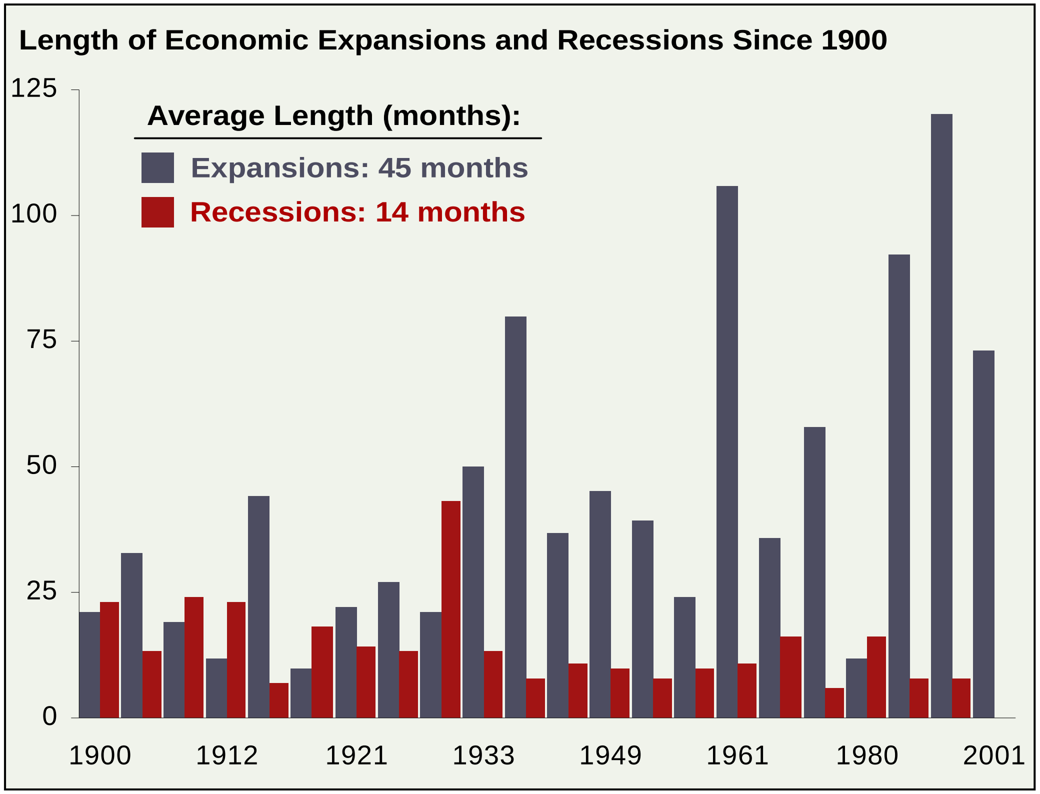
Source: Standard & Poor's, First Call, Compustat, FactSet, JPMorgan Asset Management.



- S&P 500; still searching for a bottom?
- 46% decline by mid-October.
- Writedowns by financials continue to pummel the S&P 500.

- Volatility is at historically wide levels.
- Chicago Board Options Exchange Volatility Index surged to an intra-day record.

The Lead-In: Markets "Pulse"



Recessions and Market Returns

Year	Length (months)	Return: During Recession	Return: 6-mo's After
1948	11	3.9%	12.2%
1953	10	18.3%	16.4%
1957	8	-7.6%	20.4%
1960	10	11.6%	9.0%
1969	11	-7.5%	20.6%
1973	16	-17.9%	1.1%
1980	6	8.1%	8.2%
1981	16	7.0%	18.8%
1990	8	3.4%	4.0%
2001	8	-4.7%	-4.5%
AVG	**10**	**1.4%**	**10.6%**

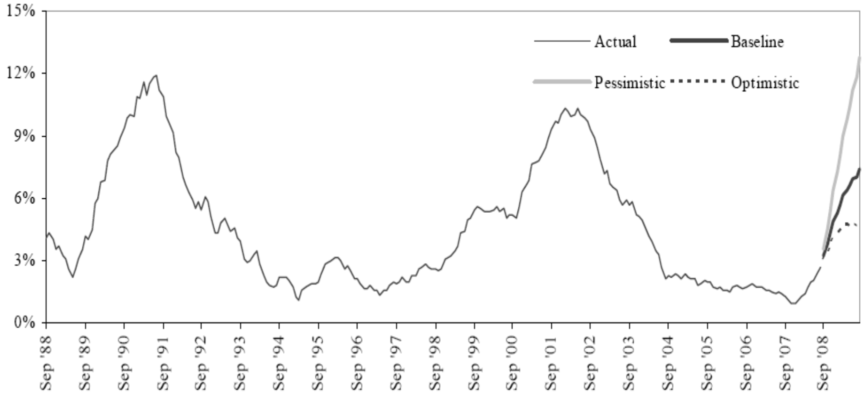
Source: NBER, Standard & Poor's, JPMorgan Asset Management.

- "History doesn't repeat itself, but it does rhyme." – Mark Twain

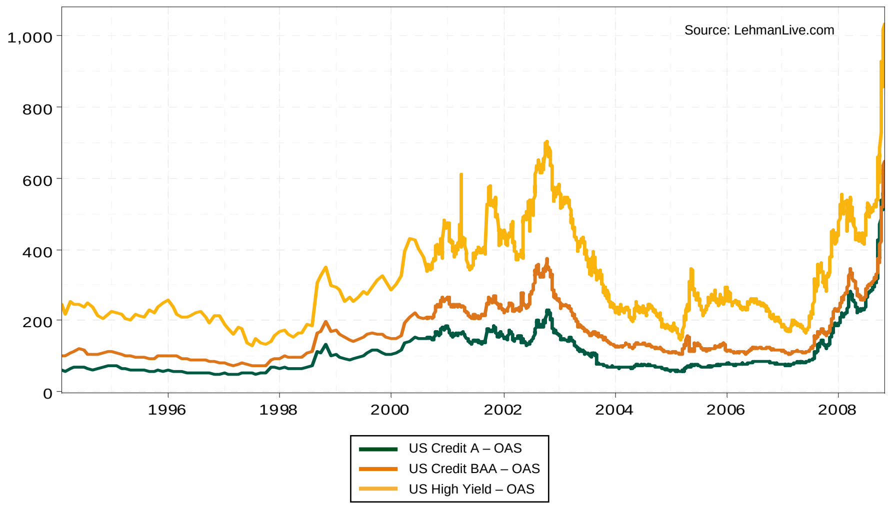
The Lead-In: How did we get here?

Investors and Wall Street have a short memory.

Default Rates



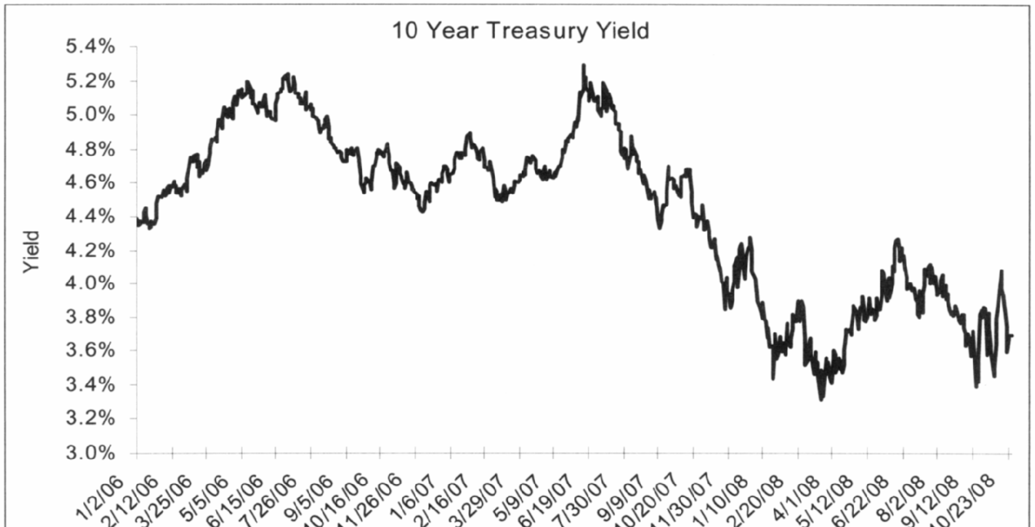
Corporate Spreads



- During the 2001/2002 corporate fraud era, defaults increased; spreads widened, equity markets declined.
- This was followed by a very benign risk environment.
  - Tight credit spreads
  - Low default rates
  - Strong demand for credit
- Which created an opportunity for the structured credit market to boom.

The Lead-In: Demand for investments was greater than supply

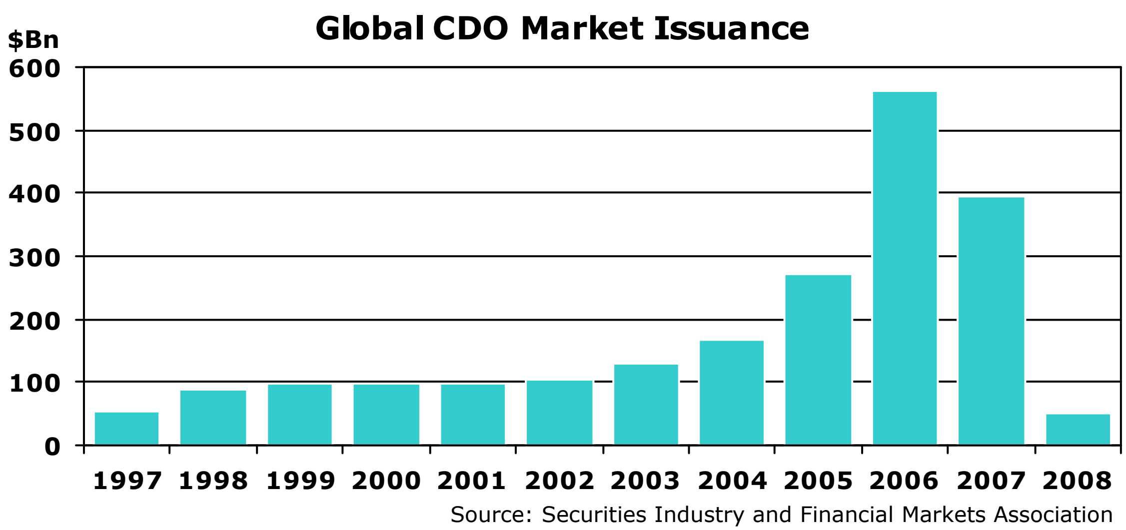
- Institutional investors, hedge funds, private equity firms and sovereign-wealth funds had cash to invest.
- Investors searched for yield.
  - Low interest rates
  - Tight spreads
  - Low volatility
  - Virtually no defaults



Source: Bloomberg

Collateralized Debt Obligations - CDOs

- Collateralized Debt Obligation (CDO) – unregulated type of asset-backed security and structured credit product.
  - Constructed from a portfolio of fixed-income assets
  - Assets are divided into tranches by ratings
  - Losses are applied in reverse order of seniority



- CDOs offered returns that were often 2% - 3% higher than similarly rated corporate bonds.
- Demand for synthetic CDOs surged.

CDOs turn Toxic

- The math ended up driving the way CDO portfolios were put together.
  - Bankers loaded the securities with bonds and swaps offering the highest return for a given credit rating
  - Many institutions lacked the competency to monitor credit performance and/or estimate expected cash flows

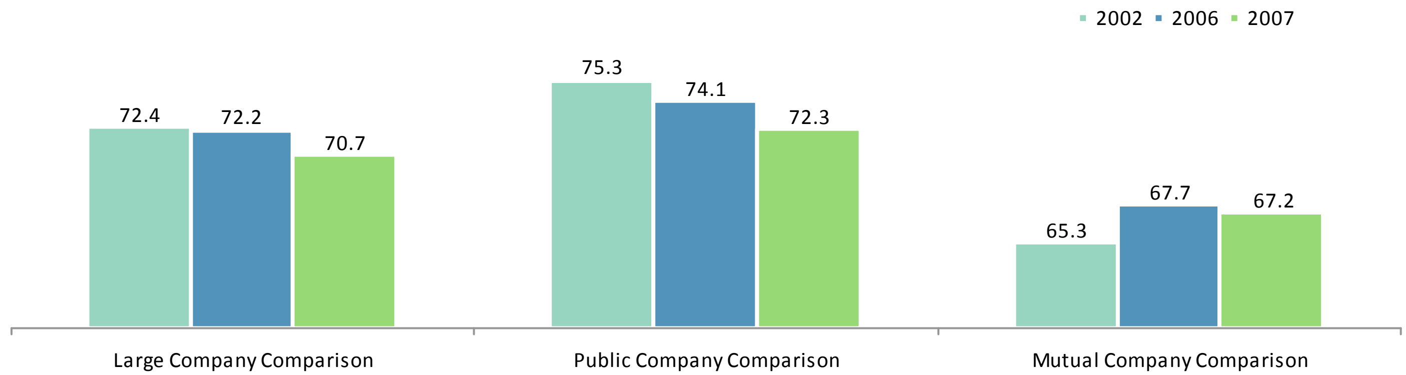
- Approximately $254 billion of CDOs tied to sub-prime mortgages have defaulted.

- Losses on CDOs tied to corporate credit may spark the next round of writedowns.

Relevance to Insurance Investments

- The bulk of a life insurance company's general account is typically invested in fixed income securities.
  - Provides a steady stream of income
  - Allows matching of asset and liability cash flows and duration
  - Minimal RBC change versus equities or alternative assets

Bonds as a % of Invested Assets



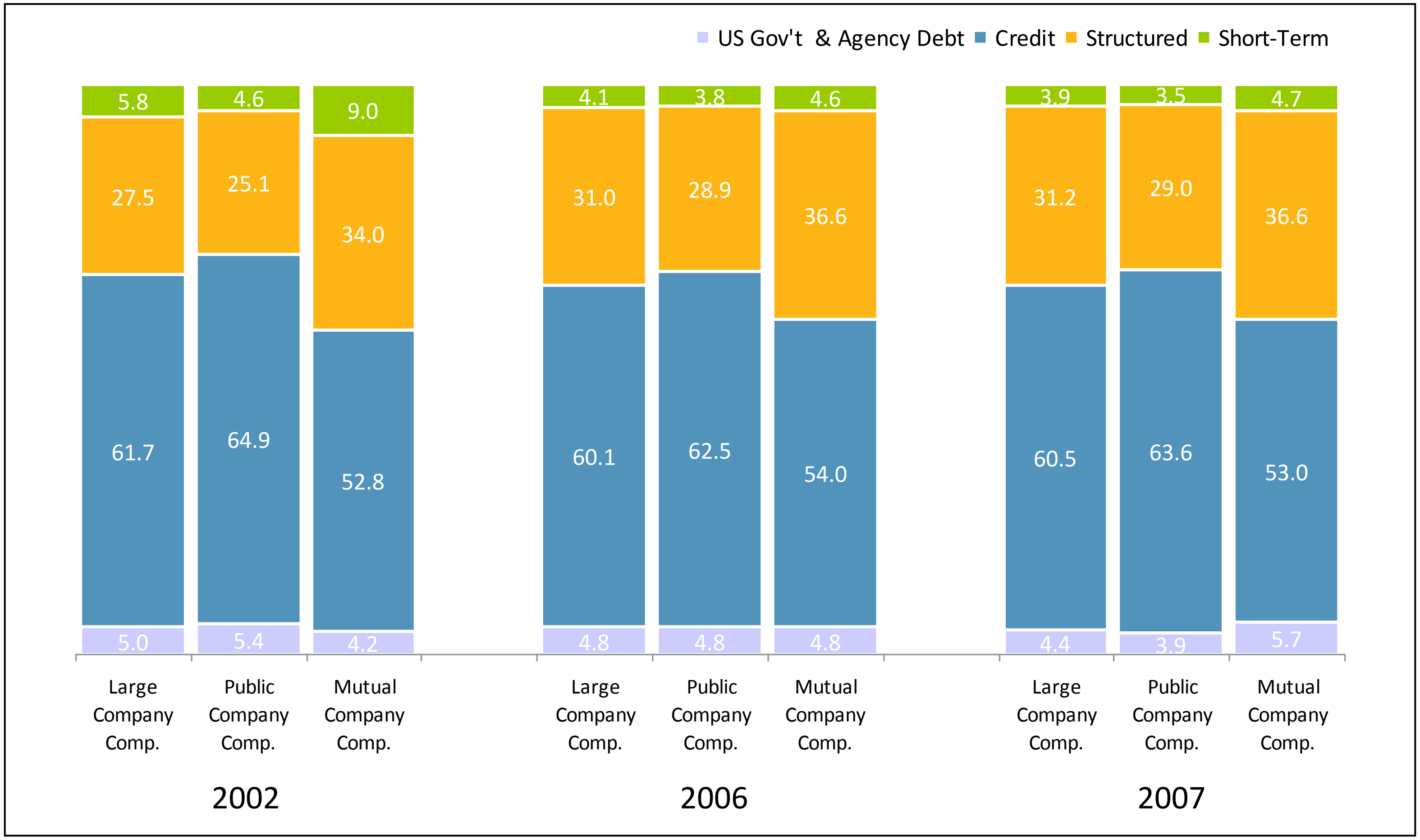
Large Company Composite represents an asset-weighted average of 19 large life insurers.
Mutual Company Composite includes: Mass Mutual, Nationwide, New York Life, Northwestern, Pacific Life, and TIAA.

Source: J.P. Morgan

Relevance to Insurance Investments

As investors searched for yield, the allocation to structured products increased.

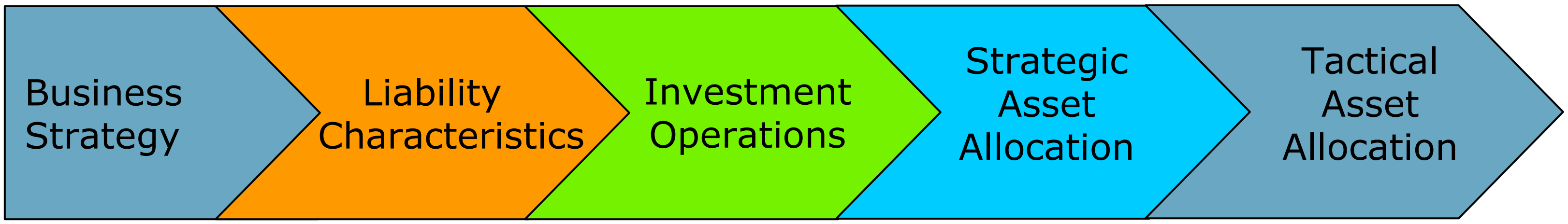
Composition of the Bond Portfolio as a % of Total Bonds



Source: J.P. Morgan

Lessons Learned – Stick to Fundamentals

The Components of Insurance Investment Strategy



- Investment strategy is designed to help operating businesses keep the promises they make to customers:
  - For policyholders with current claims, funds are available for timely payment.
  - For all other policyholders, the company's financial future is secure.
  - For potential policyholders, pricing is competitive.

- From a shareholder perspective, the investment strategy is designed to support business strategy and generate an acceptable return while protecting against threats to capital formation, liquidity and valuation.

Lessons Learned – Go back to basics

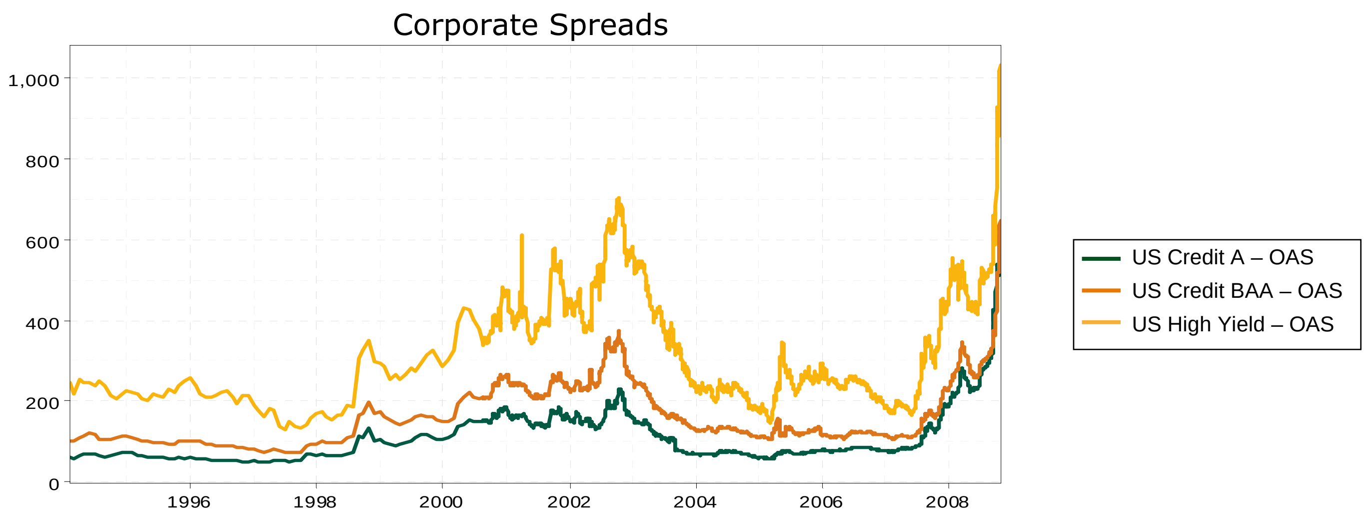
- Set investment objectives and risk budgets.

- Adjust your asset allocation to your risk tolerance.
  - Include the possibility of tail risk
  - Diversification matters
  - Mind the correlations
  - Manage Liquidity

- Maintain robust ALM process.

Opportunities

- Confidence in the financial system is at an all-time low.
- Shift in concern in recent weeks from financial crisis to global recession.
- Spreads on investment-grade credits are at historically wide levels.



Issuer	Rating	Maturity	Spread	Yield
Kimberly Clark	A2/A	10-yr	+363	7.50%
3M Company	Aa1/AA	3-yr	+275	4.50%
CSX Transportation	A2/A-	6-yr	+575	8.375%
PepsiCo	Aa2/A+	10-yr	+420	7.90%
IBM	A1/A+	10-yr	+388	7.625%

Outlook - What Next?

- Health of financial sector

- Next shoes to fall?
  - CDS
  - credit cards
  - industrial credits
  - state government funding issues such as California

- Increasing defaults – LBO debt from recent years will be hard to refinance

- Government response of new administration

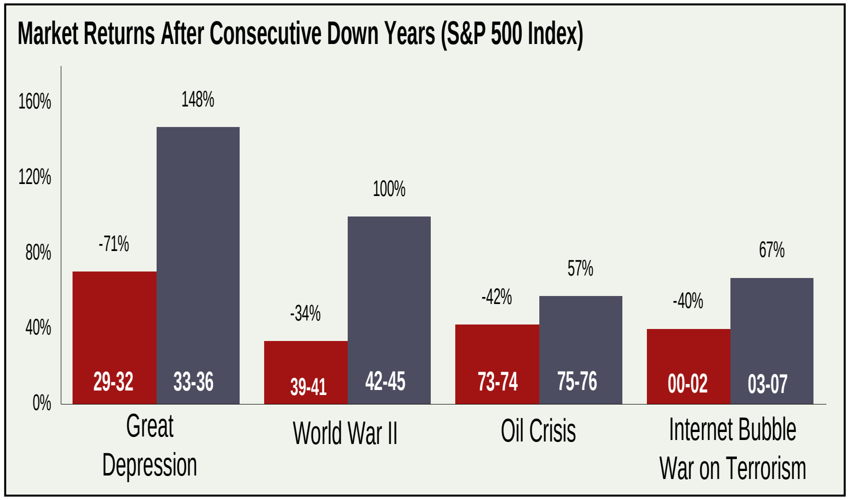
- Global slowdown

Outlook – There is Hope

- Markets eventually recover from even the sharpest downturns.

Recession	Peak to Trough Decline	Months to Recapture Loss from Trough 25%	50%	75%	100%
1973-1975	-48%	4	7	11	69
1981-1982	-28%	0.5	1	2	3
1987 crash	-34%	5	13	17	19
1990-1992	-20%	3	3	4	4
2001-2002	-49%	8	16	48	55
2008	46% (so far)	TO BE DETERMINED			

Source: Wachovia Securities



Source: JPMorgan