



CALIFORNIA  
SELF-INSURERS'  
SECURITY FUND

# 2024 Member Informational Meeting

May 16<sup>th</sup>, 2024

William Lyons, Chairman

Daniel Sovocool, Outside General Counsel

Grant Heinitz, Director, Member Credit Risk

Jill Dulich, Director, Claims and Operations

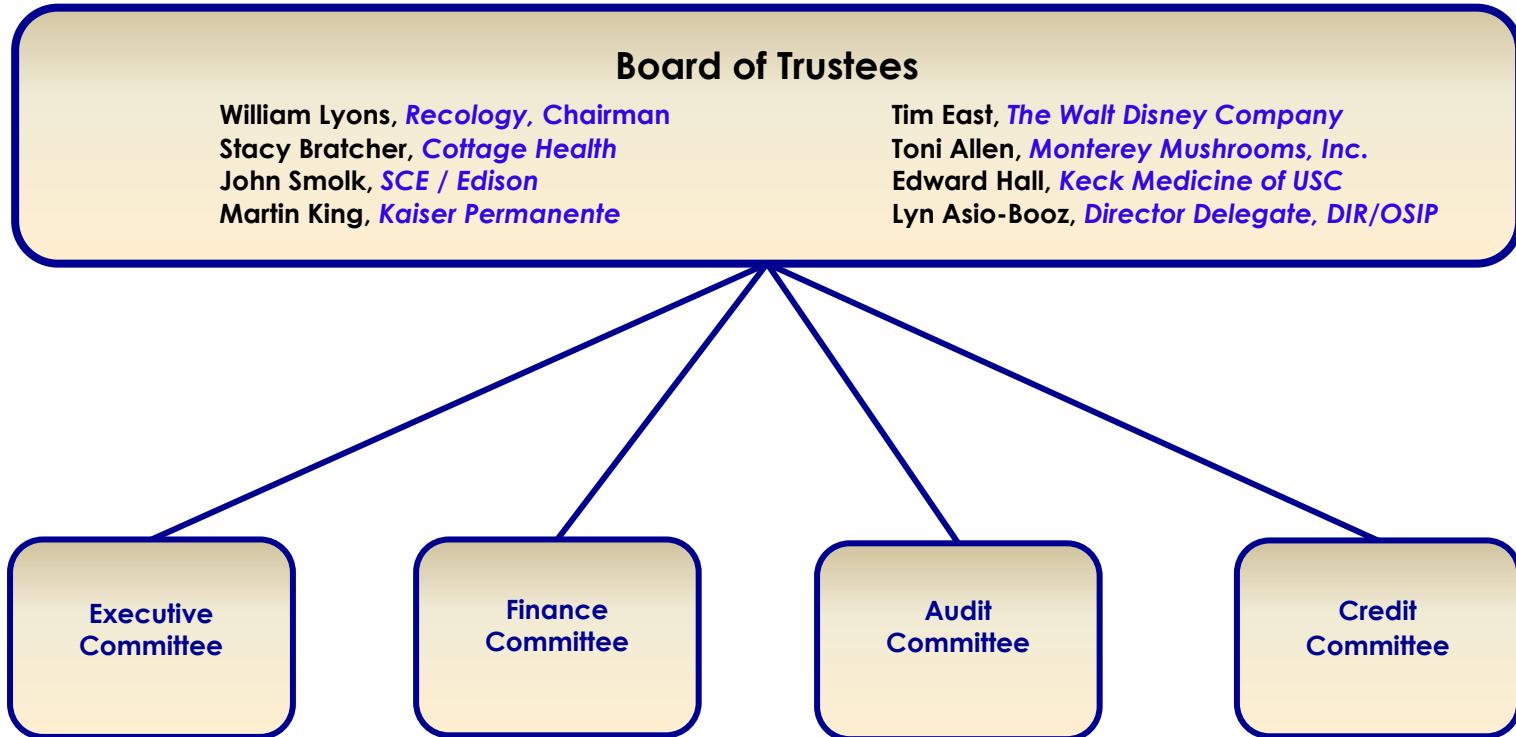


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**Mission Statement:**

"To provide continuity of workers' compensation benefits to injured workers of insolvent, private self-insured companies at the lowest overall long-term cost, equitably distributed to the self-insurance community."

# Board and Committees



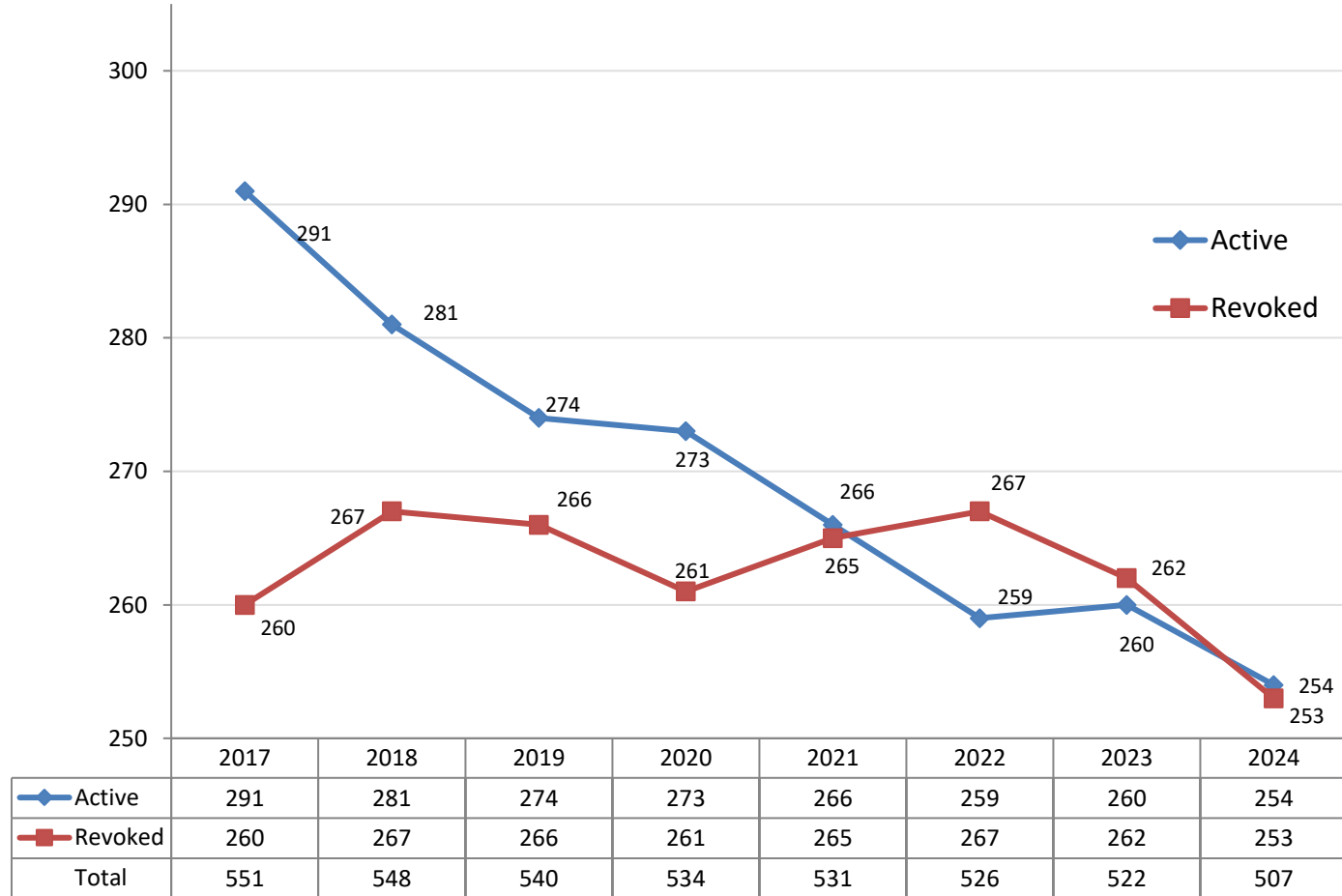
# Estates and Workers' Compensation Claims

		<u>FY2024</u>	<u>FY2023</u>	<u>Δ</u>
<b>Estates</b>	<b>Total</b>	89	88	<b>1</b>
	<b>Active</b>	40	41	<b>-1</b>
<b>Claims</b>	<b>Open</b>	344	362	<b>-18</b>
	(as of 3/31/24 and 6/30/23)			
<b>Claim Liability</b>				
	Paid (gross)	\$4,480,753 <sup>1</sup>	\$4,801,517	-\$320,764
	Open Case Reserves (EFL) (net)	\$15,288,855	\$17,675,207	-\$2,386,352
	IBNR (net) + ULAE	\$12,918,269	\$15,045,790	-\$2,127,521
		<b>\$28,207,124</b>	<b>\$32,720,997</b>	<b>-\$4,513,873</b>
<b>SISF total net assets</b>				
	(as of 6/30)	\$744,404,957 <sup>1</sup>	\$691,459,727 <sup>2</sup>	\$52,945,230
<b>Projected annual costs</b>				
	- claims (net of excess)	\$2,205,927	\$2,981,967 <sup>2</sup>	-\$776,040
	- claims admin	\$970,105	\$1,088,991 <sup>2</sup>	-\$118,886
	- Total	<b>\$3,176,032</b>	<b>\$4,070,958</b>	<b>-\$894,926</b>

<sup>1</sup> 6/30/24 Projected

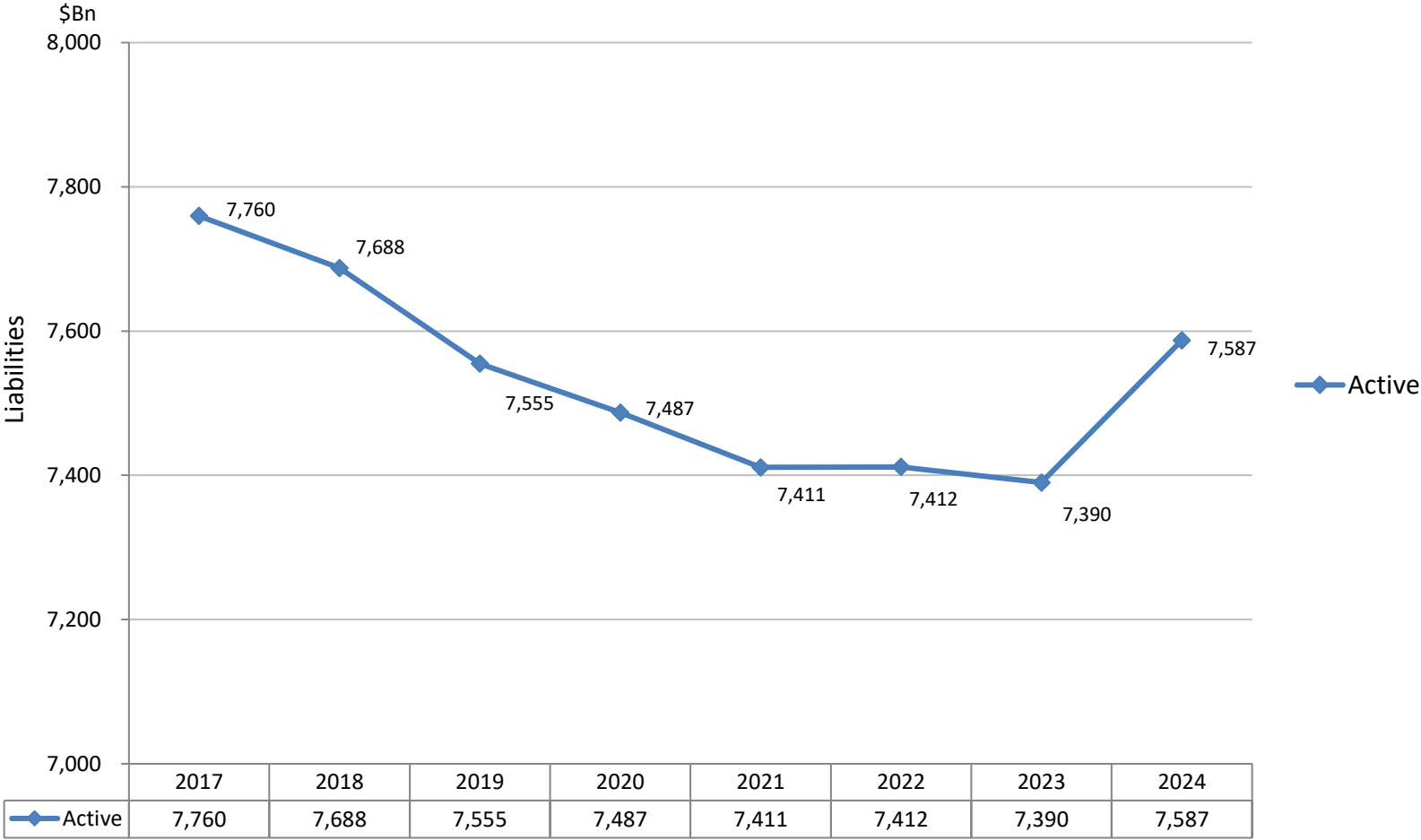
<sup>2</sup> Actual

# Members by Status



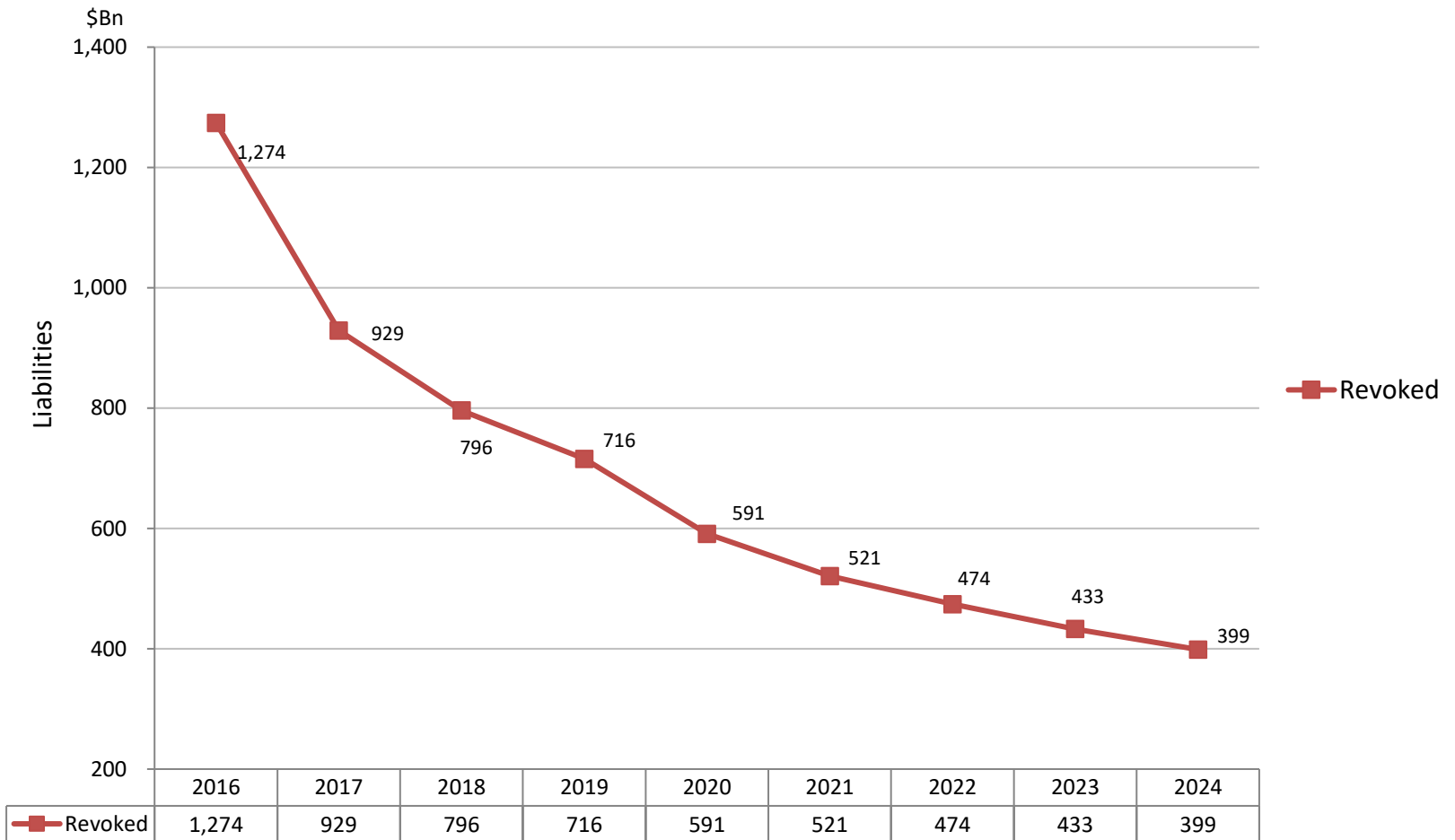
Last eight fiscal years

# Active Member Exposure



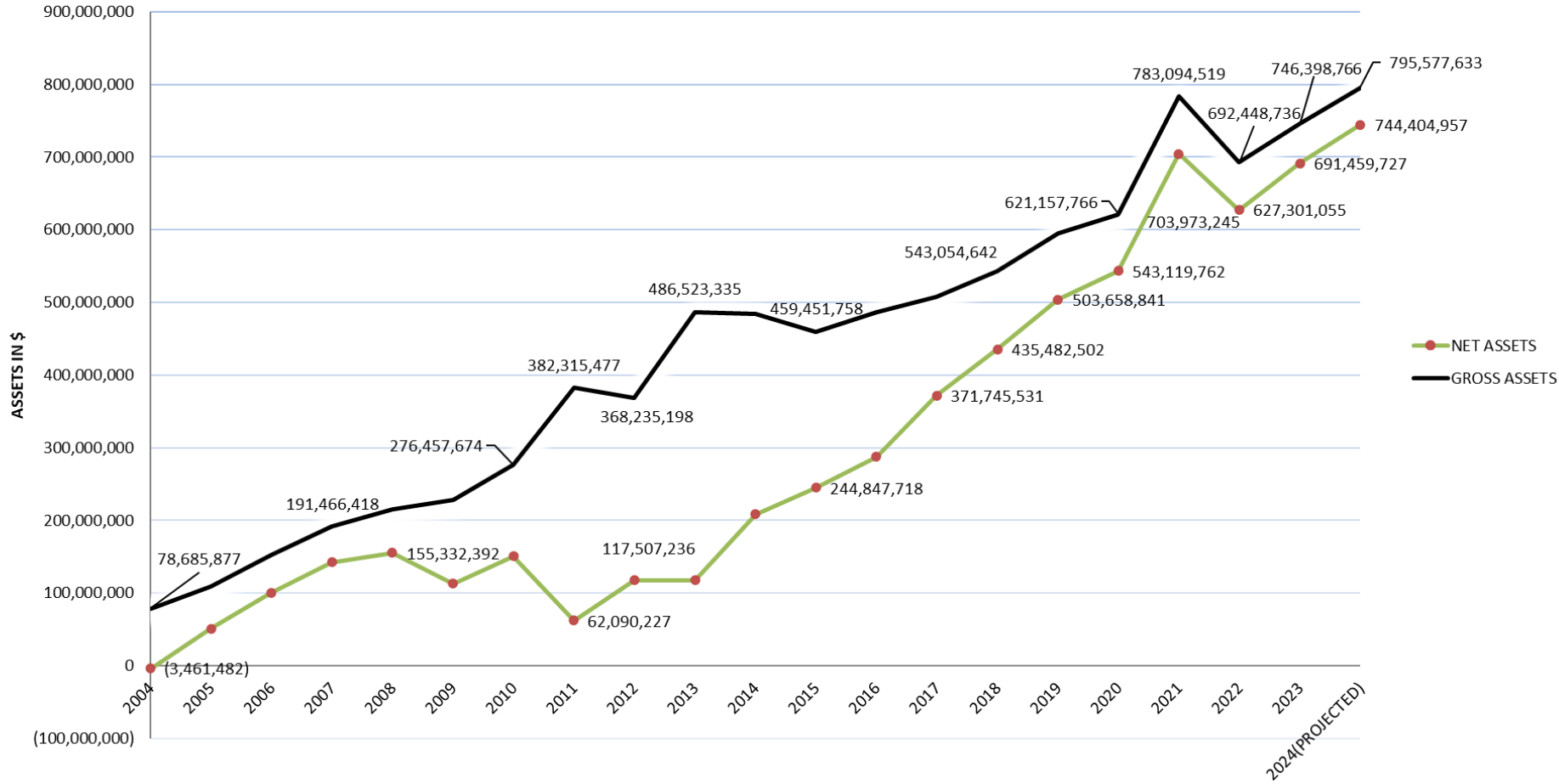
Last eight fiscal years

# Revoked Member Exposure



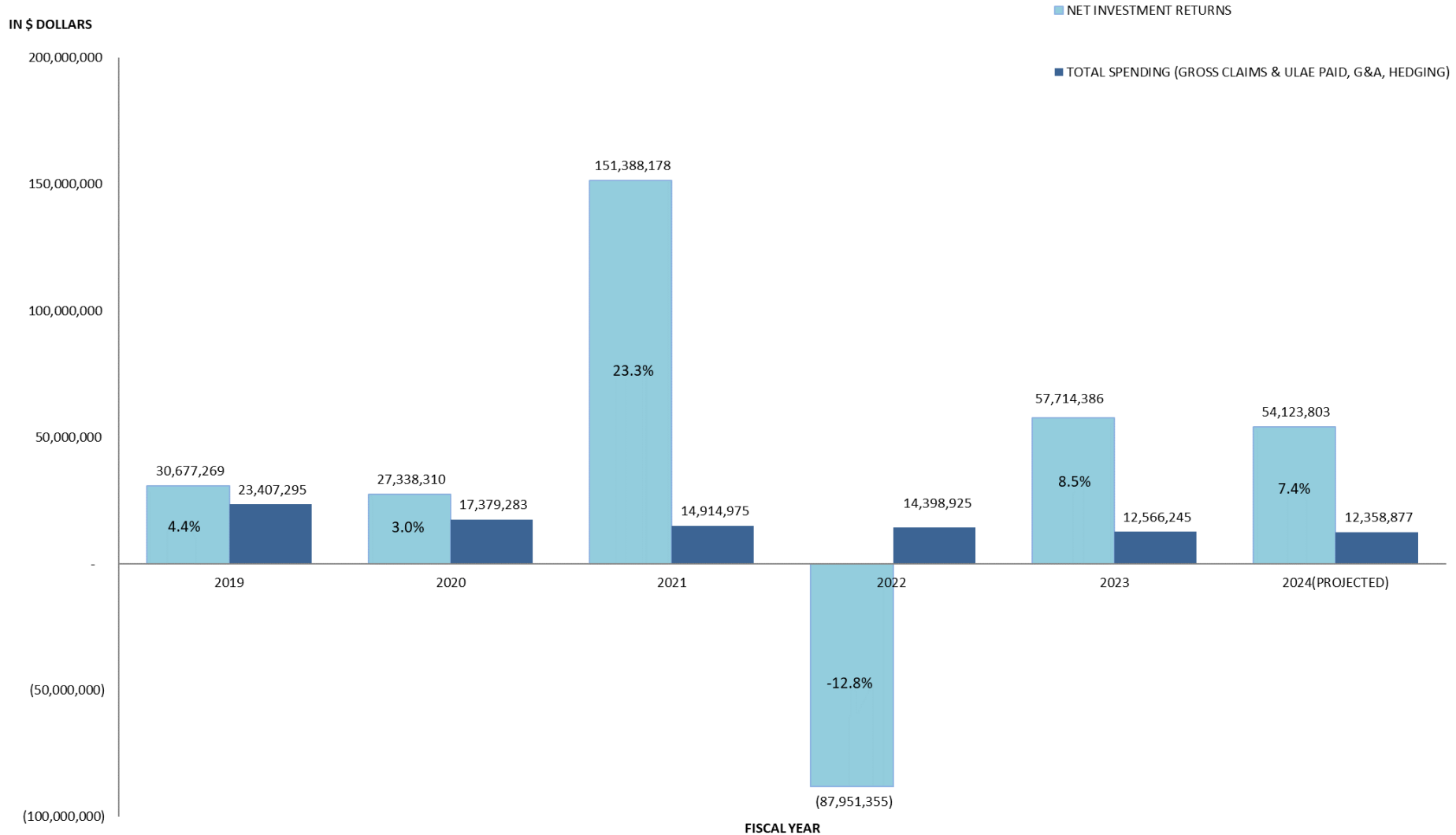
Last eight fiscal years

# Net and Gross Assets (ASP inception)





# Total Spending and Investment Returns



Last six fiscal years

# Investments

## **Reserve Portfolio**

The portfolio has a customized approach to optimize return given the duration of the aggregate liabilities which may be dynamic. Determining the reserve designated assets is a function of cash flow needs, economic capital study, assessment strategy, and funds reserved to cover unforeseen needs that may arise. This is determined on a semiannual basis.

## **Surplus Portfolio**

The Surplus Portfolio represents the assets that are not designated reserve assets. The objective is to generate returns with a focus on growth of capital and maintaining purchasing power.

# Investments- Strategic Long-Term Asset Allocations

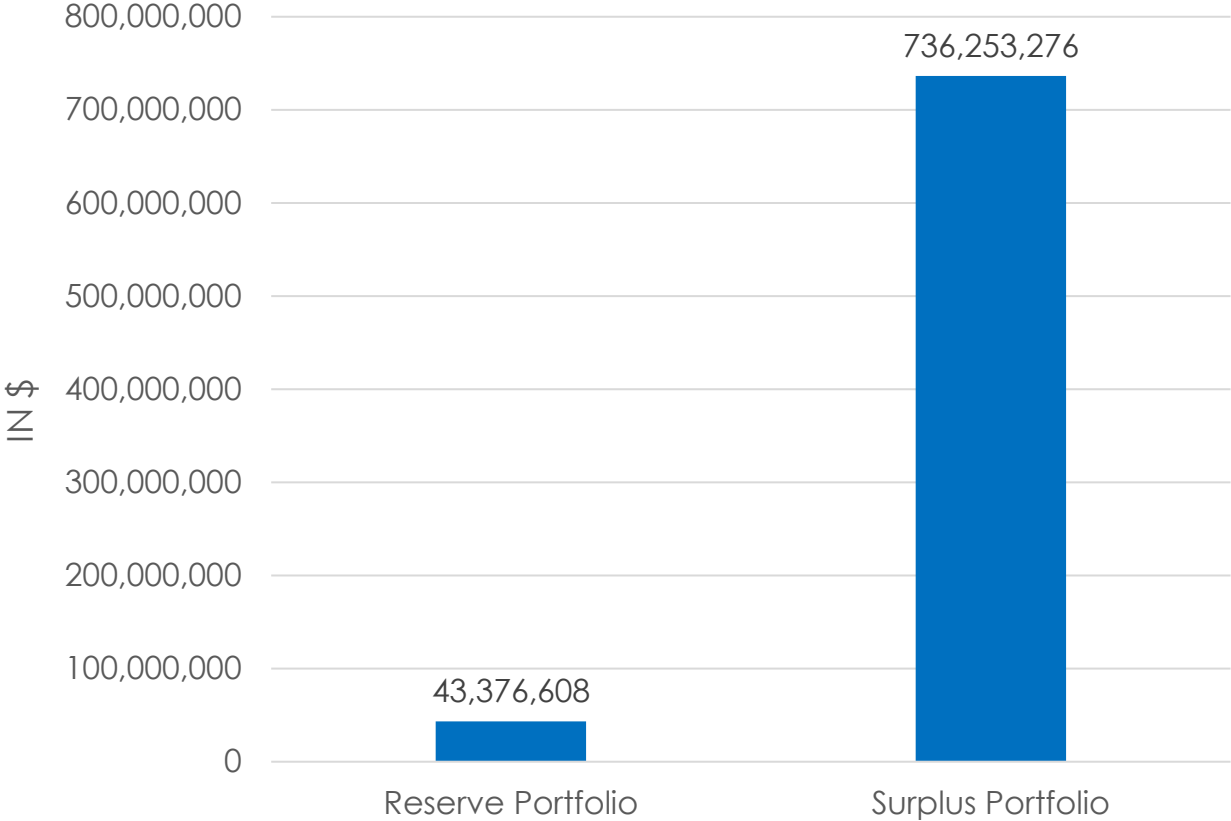
## Reserve Portfolio

Asset Class	Strategic Target	Upper Limit	Benchmark
Fixed Income	100%	100%	Custom Liability based Benchmark
<b>Total</b>	<b>100%</b>		

## Surplus Portfolio

Asset Class	Lower Limit	Strategic Target	Upper Limit	Benchmark
Public Equity	30%	40%	60%	MSCI ACWI Index
Fixed Income	15%	20%	25%	Citi World Government Bond Index
Hedge Funds	15%	20%	25%	HRFI FOF Composite Index
Private Equity	0%	10%	15%	Representative Private Equity Index
Real Assets	0%	10%	15%	Representative Real Assets Index
<b>Total</b>		<b>100%</b>		

# Investments



As of 3/31/24

## SISF Performance Estimates\*

March 31, 2024

California Self-Insurers' Security Fund	Value	Allocation	Mar. 2024	Q1 QTD	YTD 2024	Trailing One Year	2023	2022	2021	2020
<b>SISF - Reserve Portfolio</b>	\$43,376,608	100.00%	0.55%	0.17%	0.17%	3.58%	5.01%	-4.02%	-1.02%	0.60%
<b>Fixed Income</b>	\$43,363,402	99.97%	0.55%	0.17%	0.17%	3.58%	5.01%	-4.02%	-1.02%	0.60%
Cash	\$13,206	0.03%								
<b>SISF - Surplus Portfolio</b>	\$736,253,276	100.00%	1.35%	3.49%	3.49%	12.71%	13.99%	-14.44%	12.37%	16.99%
<b>Equities</b>	\$332,510,832	45.16%	2.71%	7.28%	7.28%	22.31%	22.80%	-22.33%	16.76%	24.47%
Fixed Income	\$132,429,017	17.99%	0.73%	-0.92%	-0.92%	3.25%	7.34%	-11.67%	-1.15%	5.84%
Hedge Funds	\$138,175,577	18.77%		1.95%	1.95%	10.33%	10.41%	-7.13%	7.74%	8.98%
Alternative Investments	\$124,792,170	16.95%		0.54%	0.54%	3.25%	3.97%	8.57%	25.15%	0.65%
Cash	\$8,345,680	1.13%								
<b>Total</b>	\$779,629,885	100.00%	1.30%	3.29%	3.29%	12.12%	13.35%	-13.58%	11.12%	15.15%
S&P 500			3.10%	10.16%	10.16%	27.86%	24.23%	-19.44%	26.89%	16.26%
Russell 1000			3.09%	9.91%	9.91%	27.89%	24.51%	-20.41%	24.76%	18.87%
Russell 2000			3.39%	4.81%	4.81%	17.87%	15.09%	-21.56%	13.70%	18.36%
MSCI All Country World			2.93%	7.78%	7.78%	21.15%	20.09%	-19.80%	16.80%	14.33%
MSCI All Country World Ex US (Net Return)			3.13%	4.69%	4.69%	13.26%	15.62%	-16.00%	7.82%	10.65%
MSCI Emerging Markets			2.18%	1.90%	1.90%	5.34%	7.04%	-22.37%	-4.59%	15.84%
Bloomberg US Aggregate (Total Return)			0.92%	-0.78%	-0.78%	1.70%	5.53%	-13.01%	-1.54%	7.51%
Bloomberg Global Aggregate (Total Return)			0.55%	-2.08%	-2.08%	0.49%	5.72%	-16.25%	-4.71%	9.20%
FTSE World Govt Bond Index All Maturities (USD)			0.43%	-2.42%	-2.42%	-0.84%	5.19%	-18.26%	-6.97%	10.11%
HFRI Fund of Funds Composite				2.68%	2.68%	8.20%	6.16%	-5.31%	6.17%	10.88%
HFRX Global Hedge Fund (USD)			1.22%	2.47%	2.47%	5.66%	3.10%	-4.40%	3.65%	6.76%

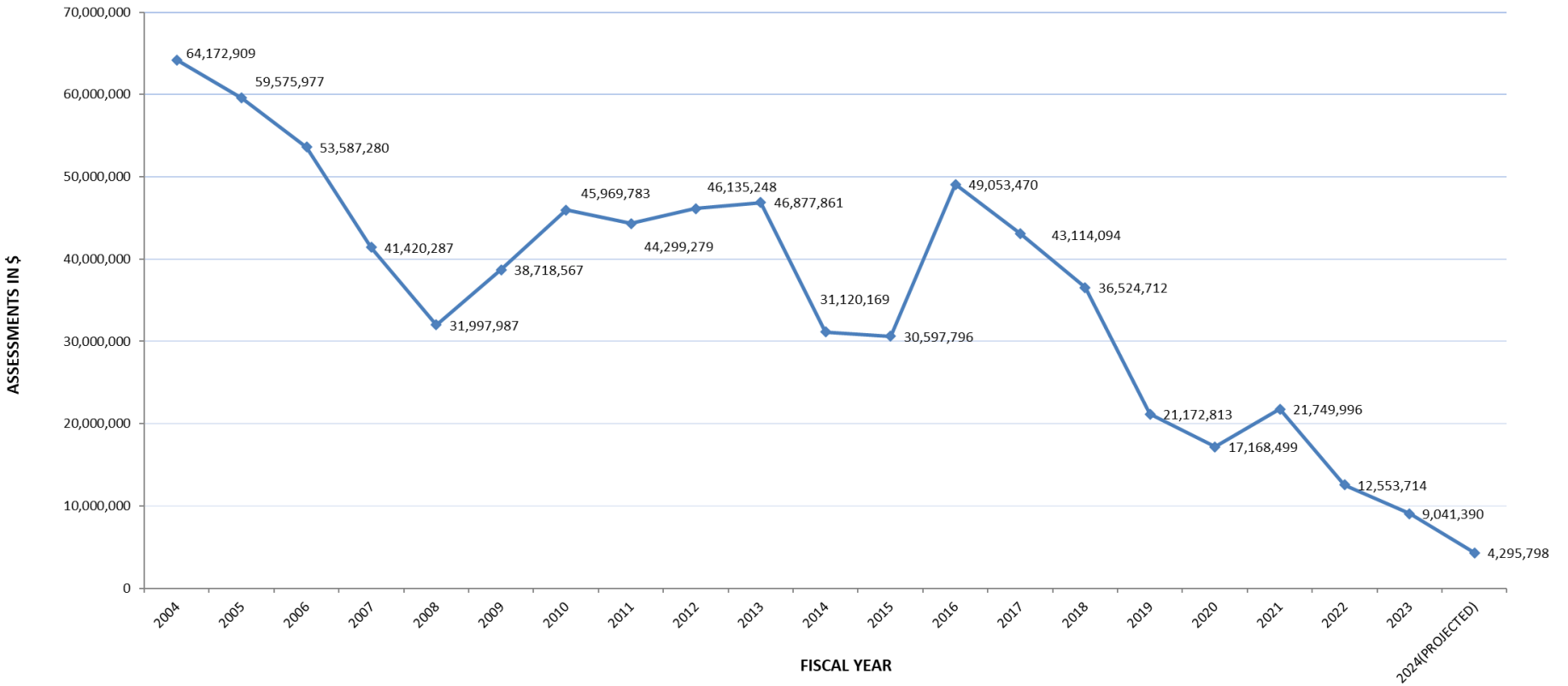
\*Alternative Investments Valuations are based on most recent statement available.

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# SISF Performance Highlights

- Positive results in calendar year 2023. The total portfolio gained 13.35%, driven primary by gains in public equities and hedge funds.
- In the first quarter of 2024, the total portfolio gained 3.29%.
- For the trailing one-year period ending 3/31/24, the SISF portfolio generated a positive return of 12.12%.
  - The SISF Reserve portfolio gained 3.58% over the one-year period, compared to a benchmark of 3.60%.
  - The SISF Surplus portfolio gained 12.71% over the one-year period, compared to a benchmark of 15.58%.
  - Positive contributors to performance over the one-year period were equity (22.31%) and hedge funds (10.33%).

# Assessments (ASP inception)



Grant Heinitz  
Director, Member Credit Risk

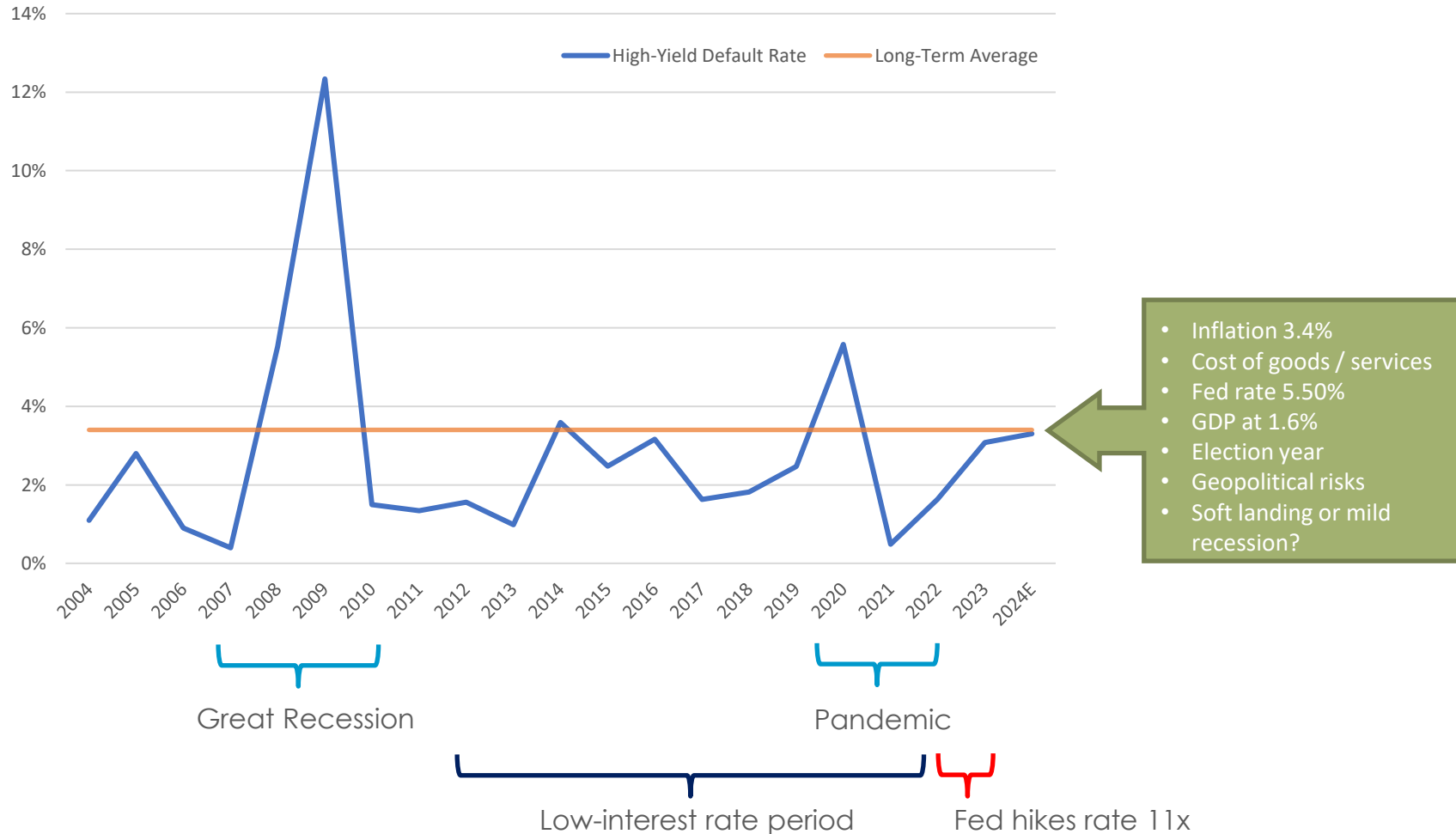


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# Economics and Credit

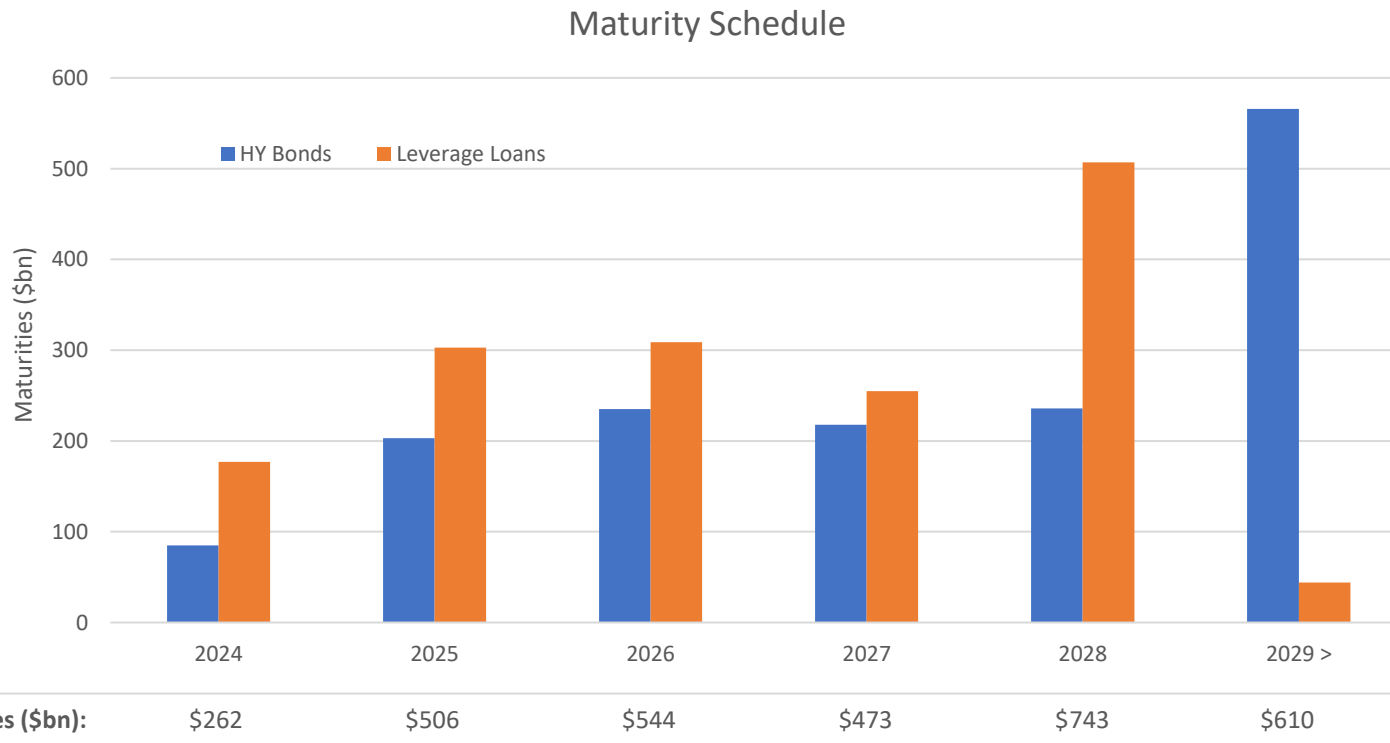
The economy continues to expand on the backdrop of a dovish Fed that continues its restrictive policy, but a slowdown is inevitable in the future.



Source: J.P. Morgan U.S. High-Yield Default Rate (includes Distressed Exchanges)

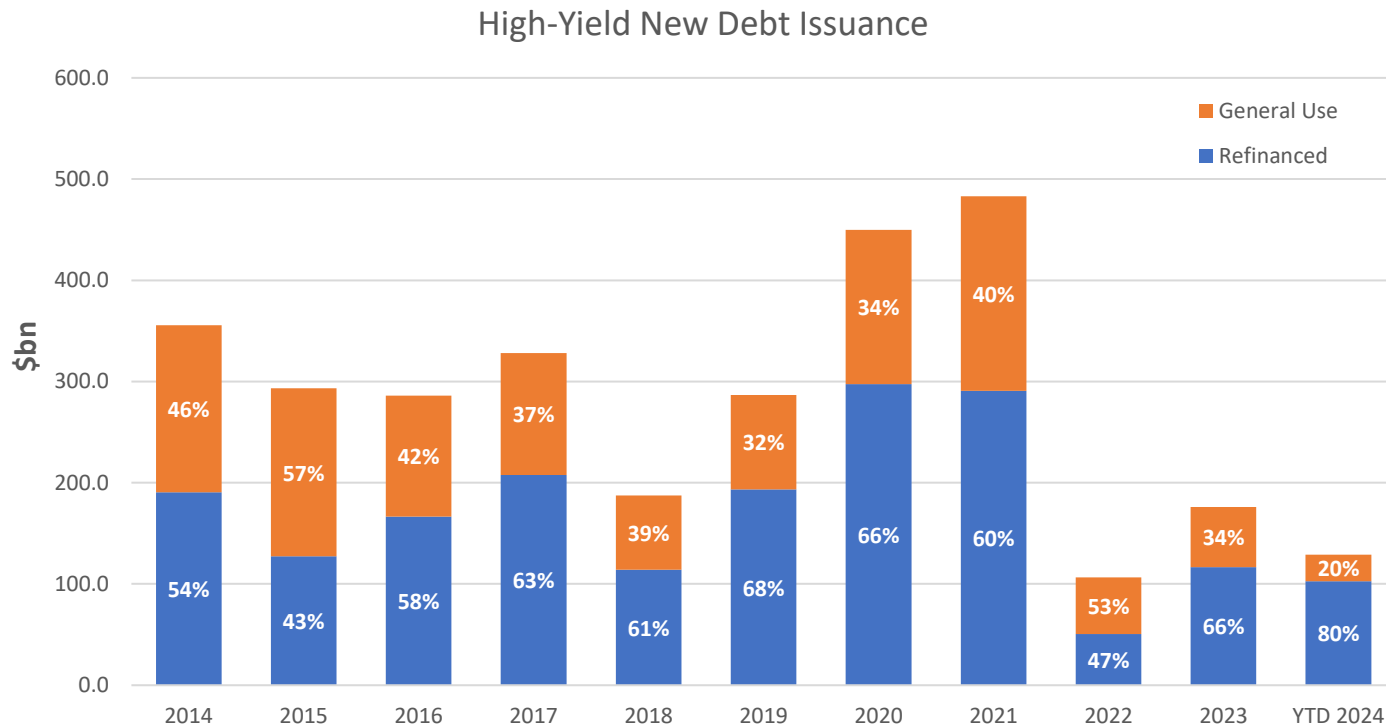
# Economics and Credit (cont'd)

Several companies took advantage of the record low-interest rate environment, refinancing debt and extending maturities before the Fed started rate hikes in March 2022.



# Economics and Credit (cont'd)

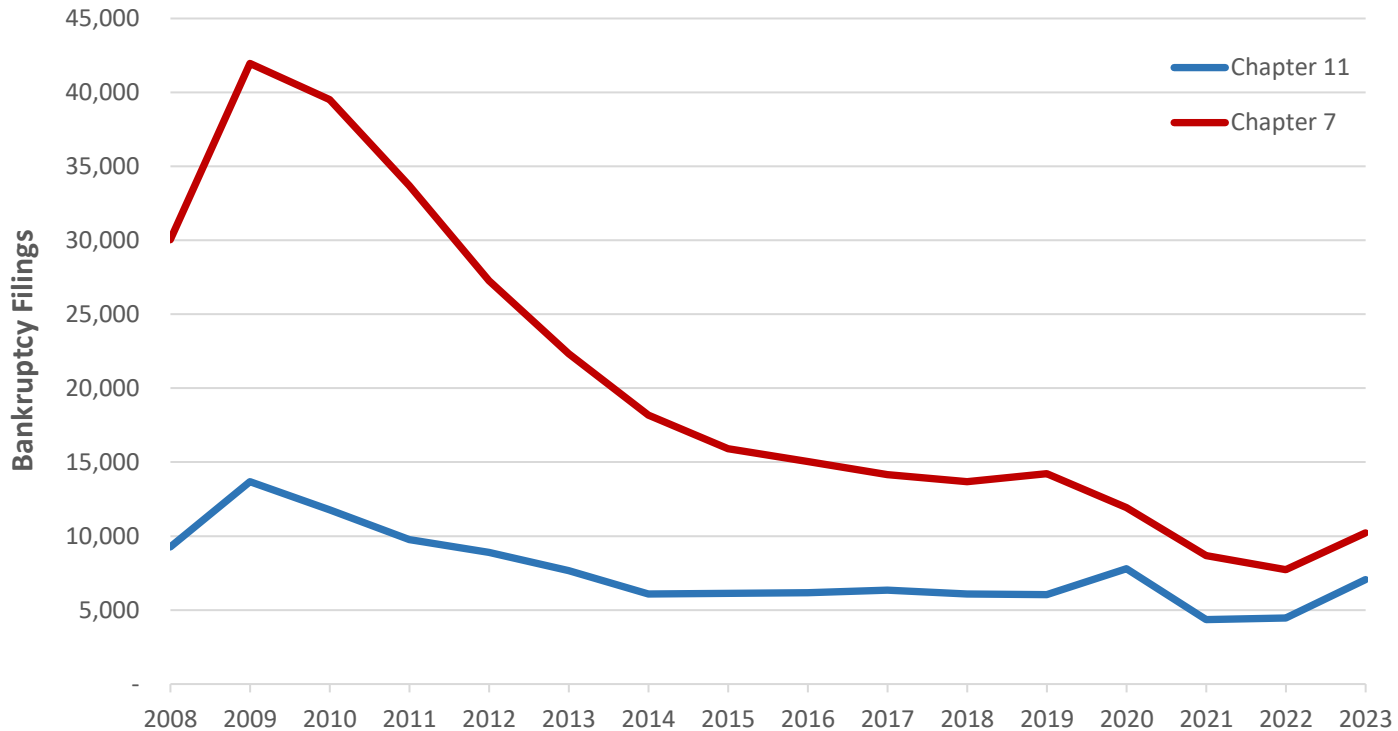
Default activity may be elevated in 2024 (more elevated than we are used to) and could plateau by 2026.



The Fed will play a pivotal role as it begins cutting rates, and the speed and degree those rate cuts occur.

# Economics and Credit (cont'd)

2023 Chapter 11 and 7 bankruptcy activity increased 58% and 32% respectively from multi-year lows in 2021 and 2022.

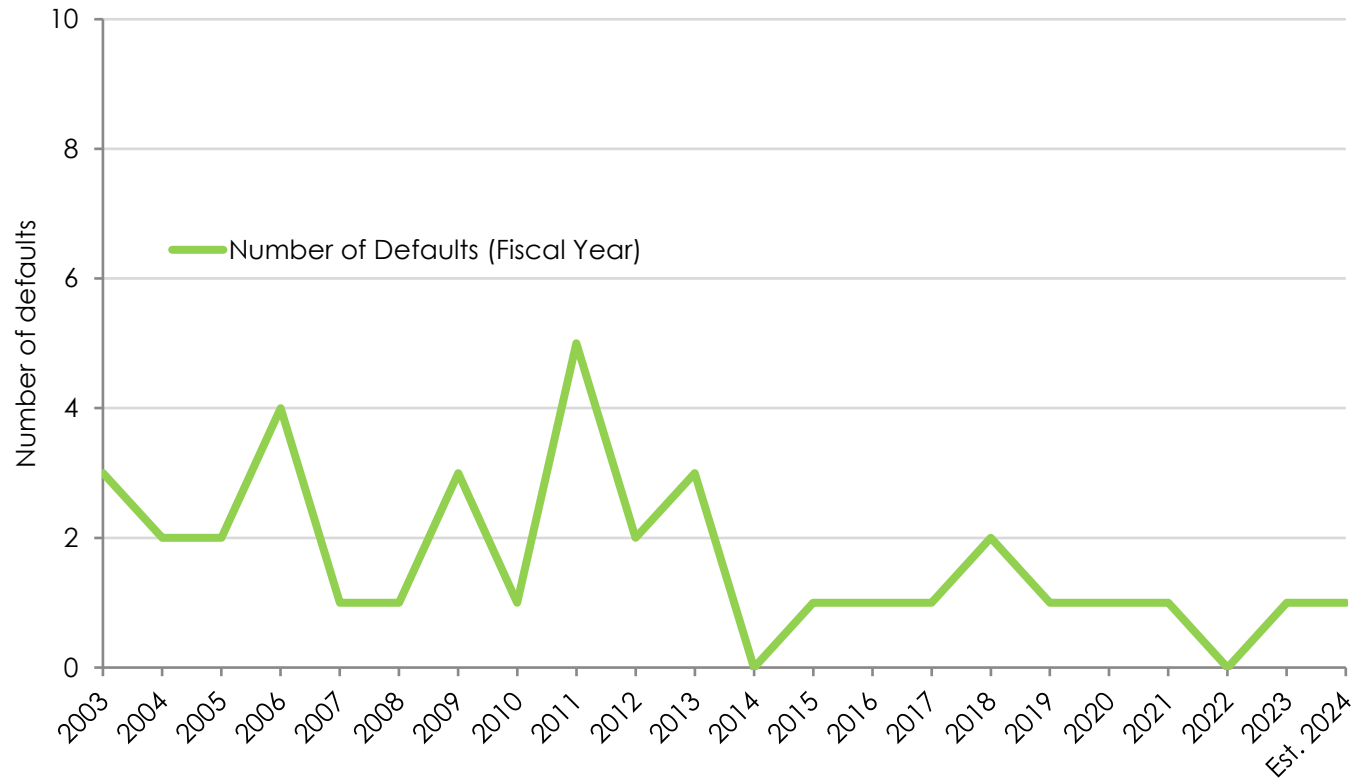


YTD March 2024 filings are tracking at 29% vs. full-year 2023 filings with nine months of data remaining.

Source: United States Courts ([www.uscourts.gov](http://www.uscourts.gov))

# Default History

SISF has experienced very little defaults considering the size and profile of the portfolio.



Defaults as of 5/1/2024

# Simplified Admission Requirements

- Expedited OSIP and SISF decision-making on entry into self-insurance
- Credit-based underwriting for new admission
- Credit-based, expedited decision-making for entry into ASP (no waiting period)

Credit level	Rating Equivalency			Member Type	Deposit retained by SISF	Collateral posted with OSIP	Expedited decision-making for entry into ASP
	S&P	Fitch	Moody's				
1	AAA	AAA	Aaa	Fully Participating	100%	-	Immediate Entry
2	AA+	AA+	Aa1		100%	-	
3	AA	AA	Aa2		100%	-	
4	AA-	AA-	Aa3		100%	-	
5	A+	A+	A1		100%	-	
6	A	A	A2		100%	-	
7	A-	A-	A3		100%	-	
8	BBB+	BBB+	Baa1		100%	-	
9	BBB	BBB	Baa2		100%	-	
10	BBB-	BBB-	Baa3		100%	-	
11	BB+	BB+	Ba1	Partial Participating	100%	-	Subject to Credit Committee Approval
12	BB	BB	Ba2		100%	-	
13	BB-	BB-	Ba3		90%	10%	
14	B+	B+	B1		75%	25%	Not Admitted on midyear basis
15	B	B	B2		50%	50%	
16	B-	B-	B3		25%	75%	

# Credit Underwriting and Monitoring

## Credit underwriting

- Audited Financial Statements
- Formal or equivalent implied credit ratings
- Discretionary

## Credit monitoring

- Credit committee meets once per month (twice per month during pandemic)
- Credit-relevant media coverage (Moody's, S&P, Fitch, Reorg, and JPMorgan Markets)
- Private co. credit data (Credit Risk Monitor / Experian, Orbis / Bureau van Dijk, Cortera)
- Quarterly unaudited financials required for private non-investment grade members
- Watchlist and internal scorecard
- Management discussions

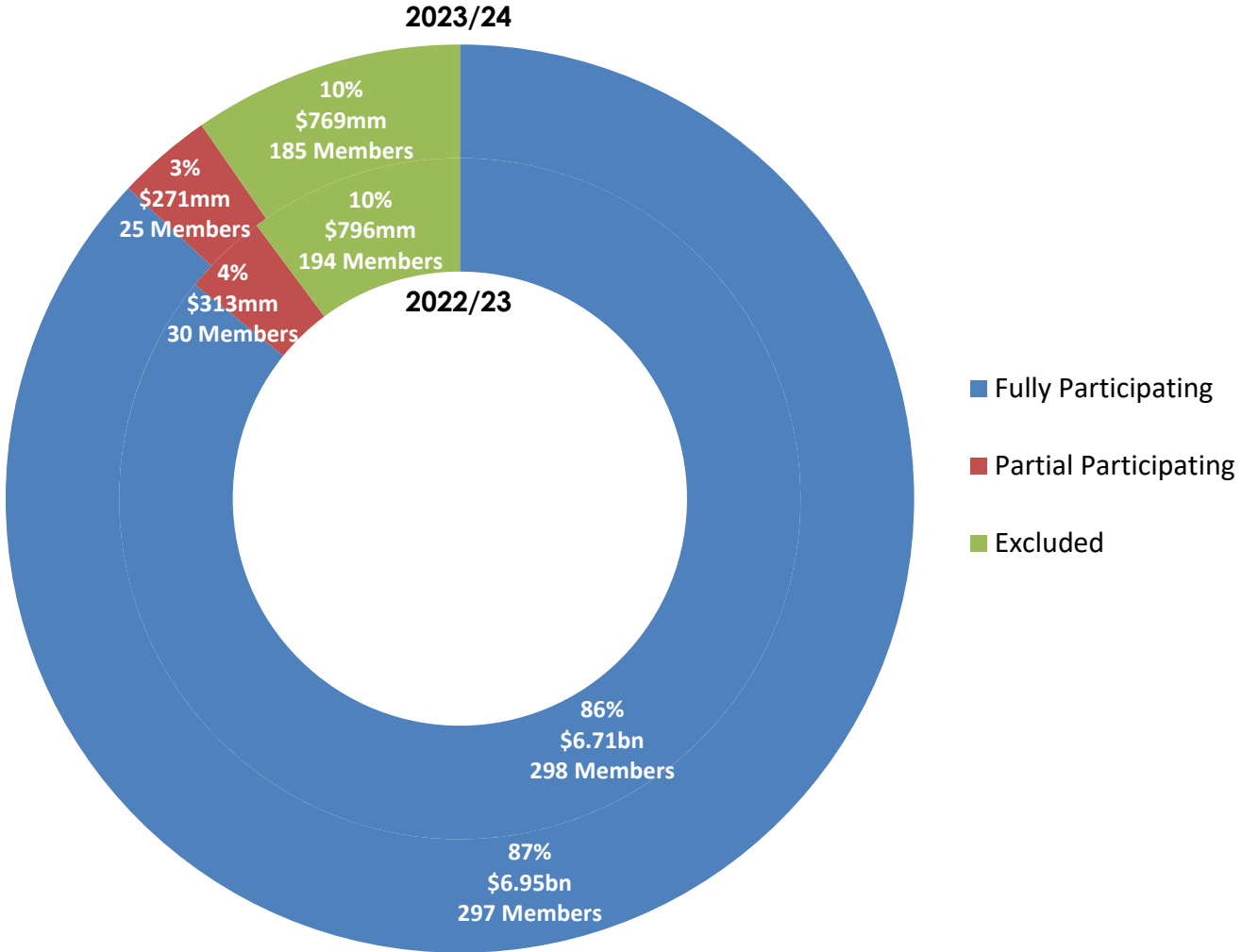
# ASP – Overview

- Successful implementation of 2023/24 Alternative Security Program
  - 11<sup>th</sup> year post SB 863
  - ASP liabilities increased slightly (2.1%)
- Portfolio remains stable
  - 507 members – 254 active, 253 revoked certificates
  - \$7.98bn exposure spread across 50+ industries
    - Publicly-traded cos: 211
    - Privately-held cos: 296
  - Portfolio credit rating at Baa2 (investment grade)
- Assessment decreased 14.2% (\$16.3mm vs. \$19.0mm) from the prior year
  - \$12mm in Premium credit was returned to eligible members
  - Actual assessment of \$4.3mm (net of Premium Credit)



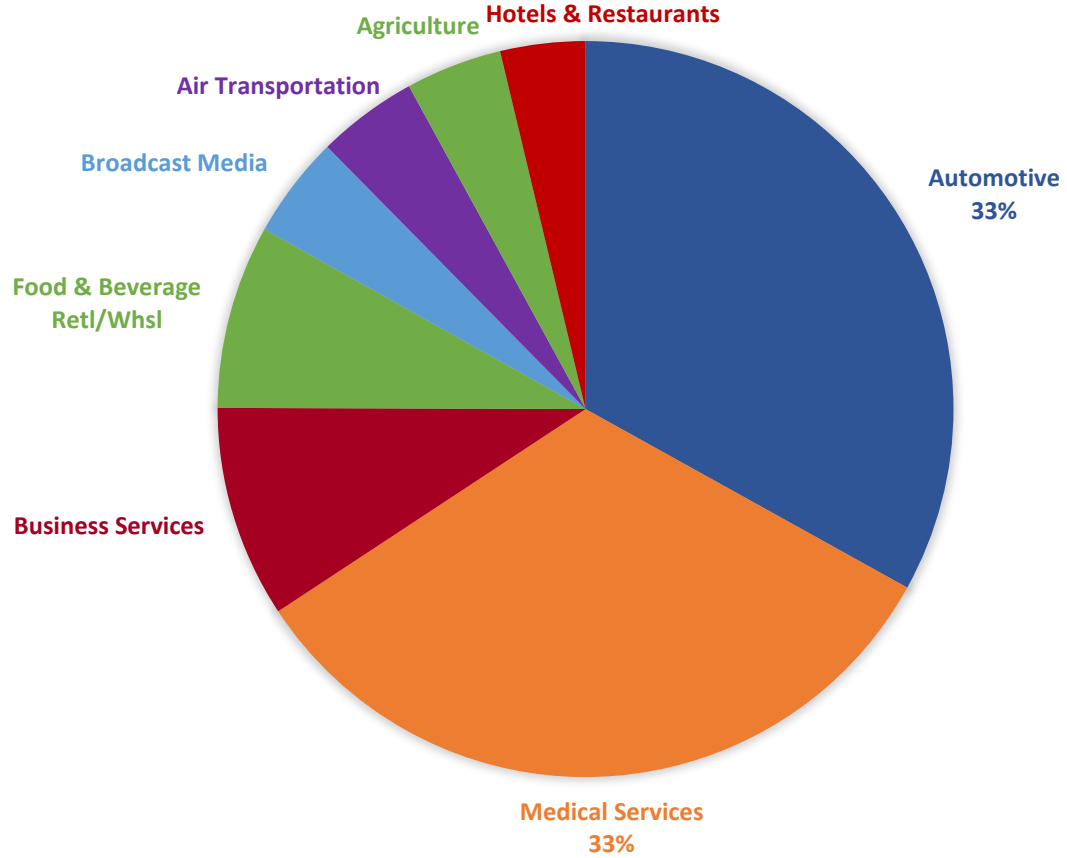
# ASP – Participation Summary

ASP liabilities increased slightly by 2.1% (\$7.985bn vs. \$7.822bn).



# ASP – Industries that Experienced Large Increases

Consumption for goods and services continues unabated, industries have taken note and increased payrolls to offset consumer demand.

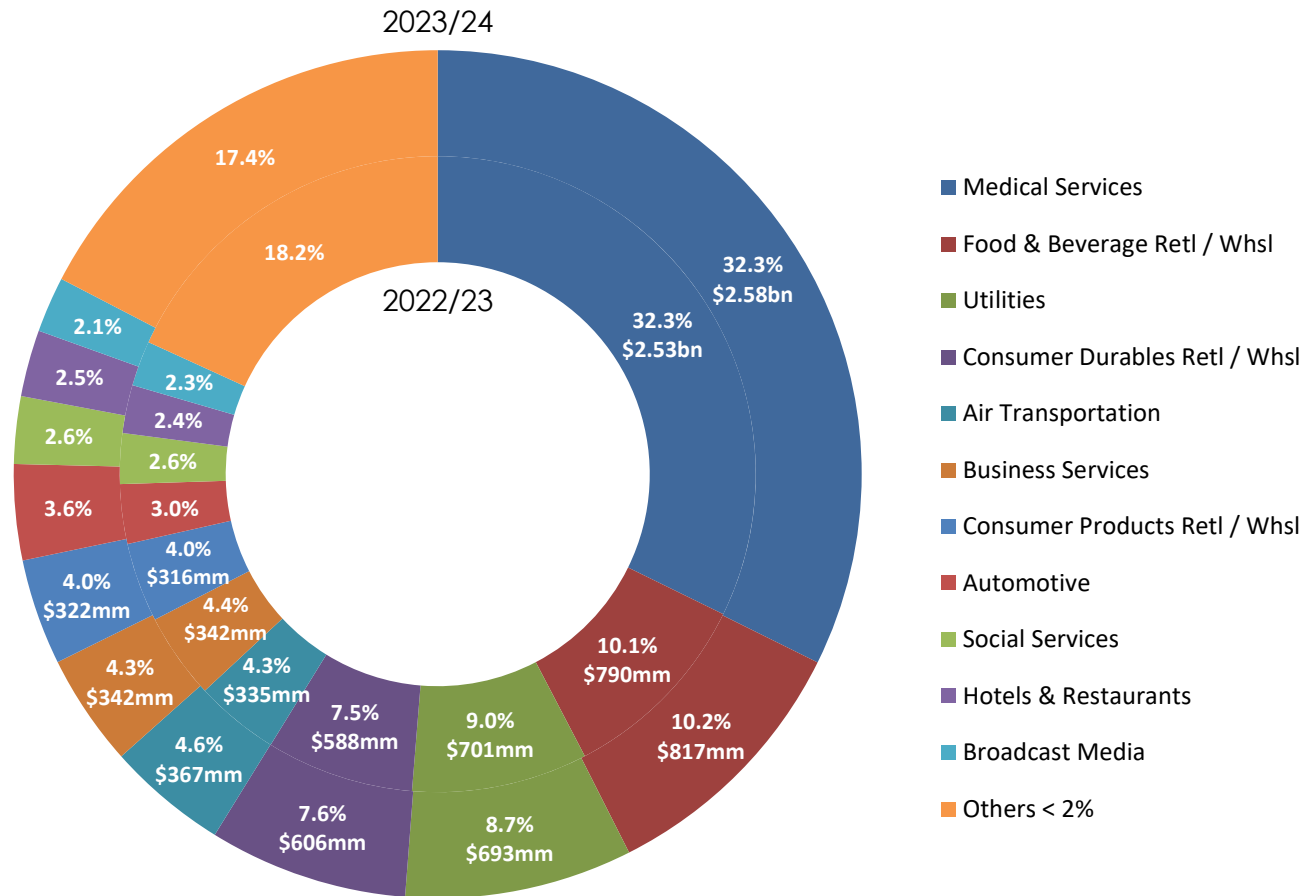


In the beginning of the pandemic (2020), liabilities and payroll decreased considerably for the following industries: Air Transportation, Hotels & Restaurants, Food & Beverage, and Consumer Products / Durables (Retail).

Source: Actuarial data as of 12-30-2023 for upcoming 2024-25 ASP plan year

# Total ASP – Industry Distribution

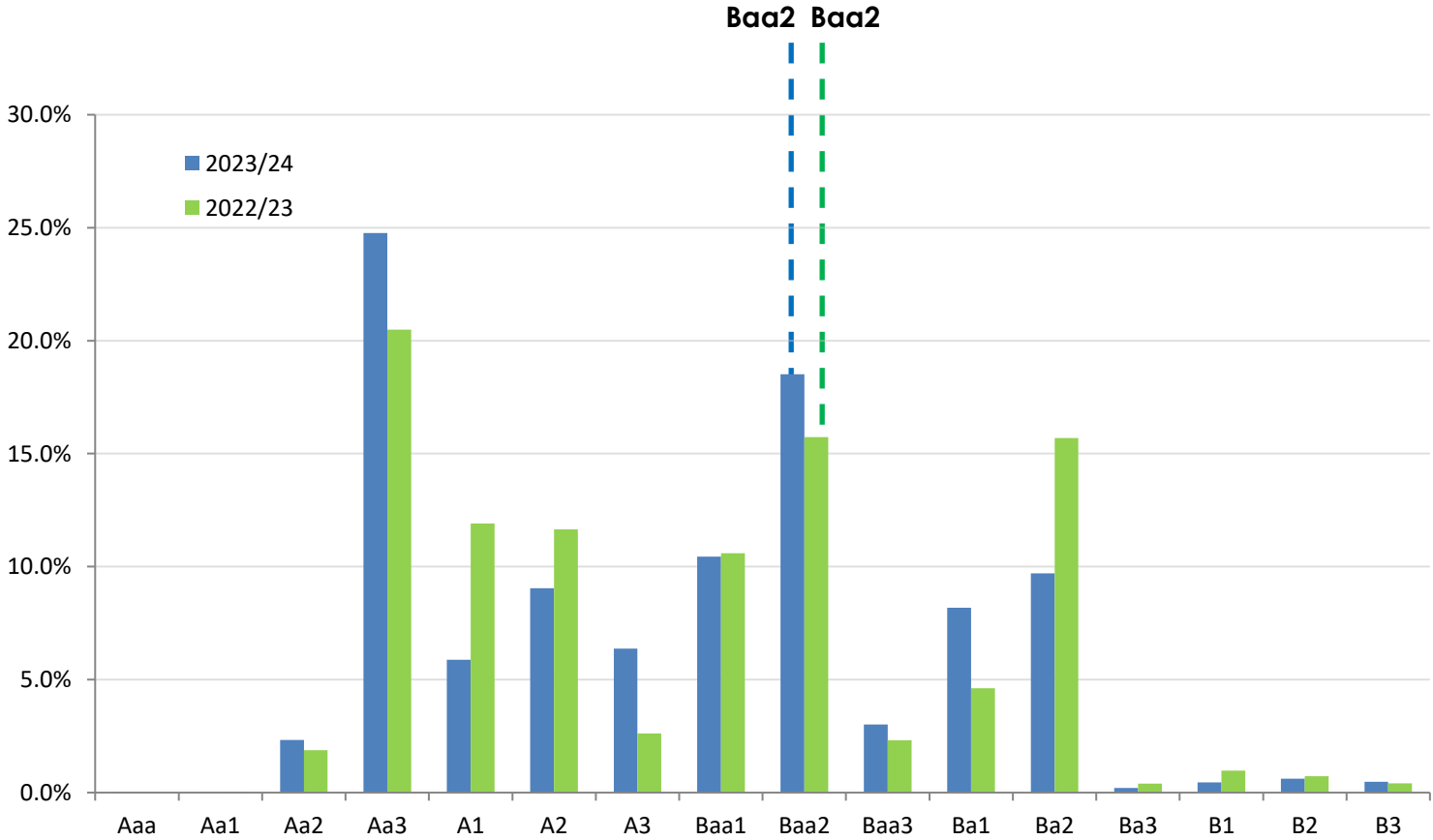
Total liabilities have increased year-over-year, but industry exposure is relatively unchanged across all groups.



Source: Moody's Analytics Industry Groups, SEC, Company financial statements

# ASP – Rating Distribution

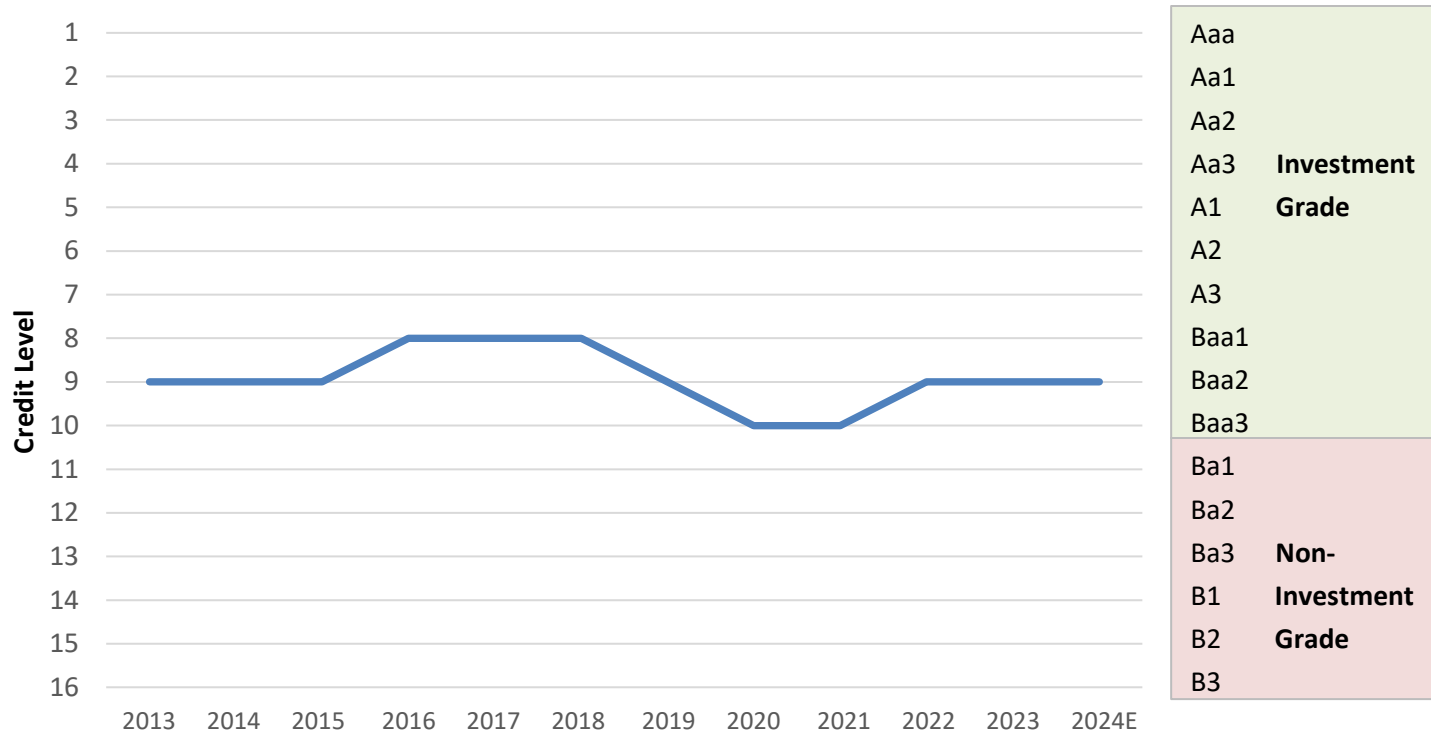
The overall portfolio credit rating remains at Baa2.



Source: Moody's, S&P, Fitch Ratings, Moody's RiskCalc and CreditEdge

# ASP – Portfolio Rating History

The overall portfolio credit rating has remained relatively stable considering the number of economic events.



Source: Moody's, S&P, Fitch Ratings, Moody's RiskCalc and CreditEdge

# ASP – Assessment Components

The total assessment comprised of two elements.

**ELP** (Excess Liability Protection) fee

- covers risk transfer expenses and partial admin costs

**DLF** (Default Loss Fund) fee

- builds capital, covers partial admin costs, and pays current claims

## ELP

Risk transfer

Placement

General administrative

## DLF

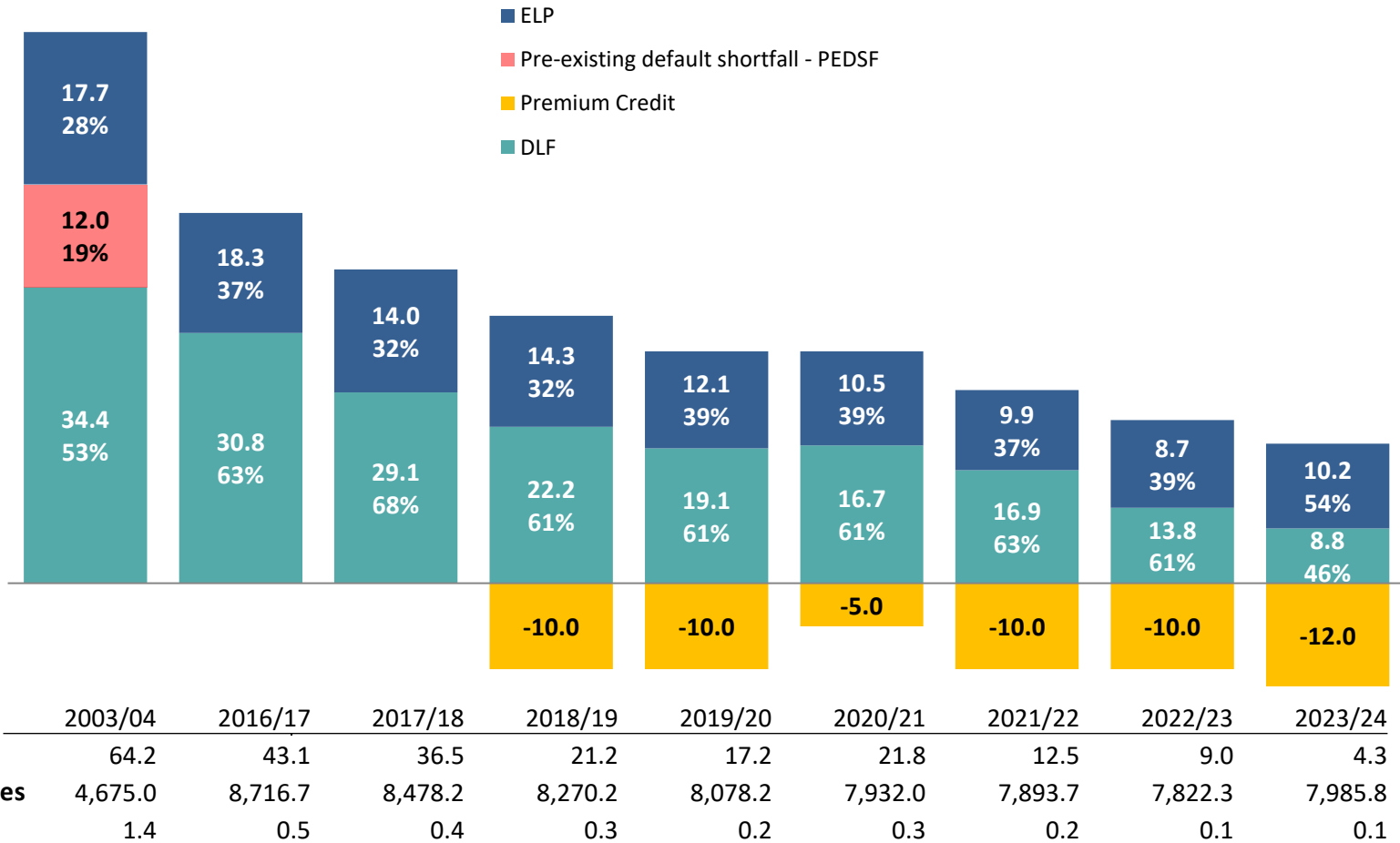
Capital

Claims

General administrative

# ASP – Total Assessment

The total assessment has decreased gradually since the inception of the ASP in 2003/04.

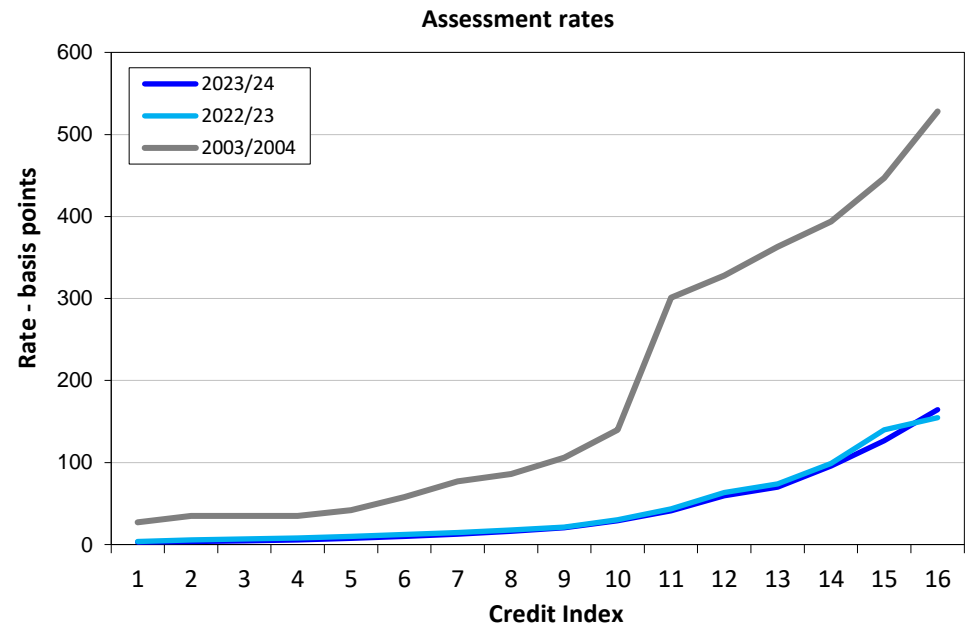


The "Fair Share" Credit has been issued the last six years and acts as a Premium Credit to eligible members who contributed to the initial development of the Default Loss Fund ("DLF") covering the first ten years of the ASP.

# ASP – Assessment Rates

Considering the capital needs of the Fund and the current credit environment, assessment rates decreased across most levels.

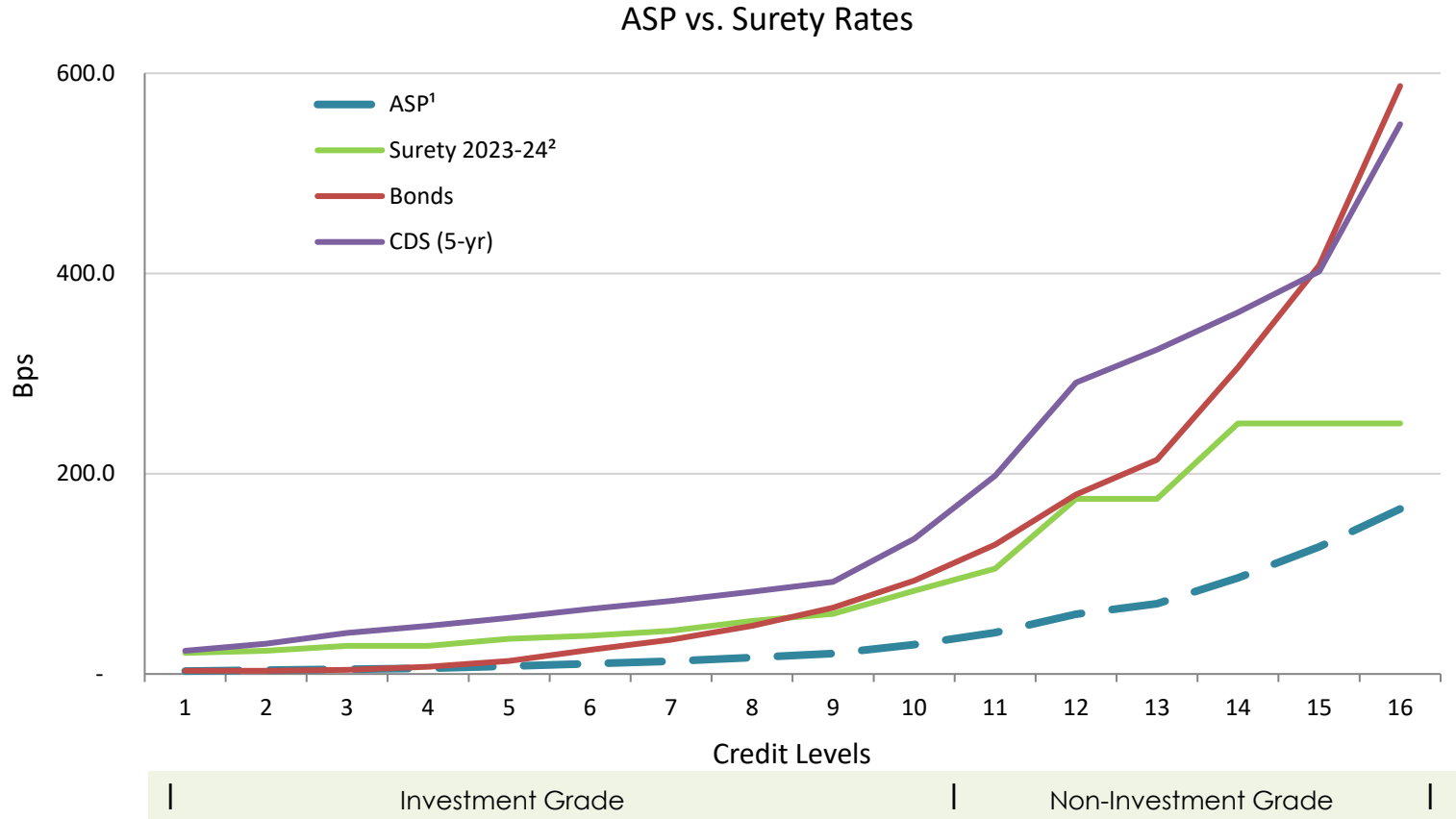
Index	Rating	2023/24	2022/23	% Δ
1	Aaa / AAA+	3	4	-25%
2	Aa1 / AA+	4	6	-35%
3	Aa2 / AA	5	7	-33%
4	Aa3 / AA-	6	8	-31%
5	A1 / A+	8	10	-25%
6	A2 / A	10	12	-17%
7	A3 / A-	13	15	-13%
8	Baa1 / BBB+	16	18	-8%
9	Baa2 / BBB	20	21	-4%
10	Baa3 / BBB-	29	30	-4%
11	Ba1 / BB+	41	44	-6%
12	Ba2 / BB	60	63	-6%
13	Ba3 / BB-	70	74	-5%
14	B1 / B+	96	99	-3%
15	B2 / B	127	140	-9%
16	B3 / B-	165	155	6%





# ASP – Current rates vs. market

ASP rates are generally below that of credit pricing sources such as bonds, CDS, and surety rates.



<sup>1</sup> SISF Assessment rates 2023/24

<sup>2</sup> Marsh Surety estimates

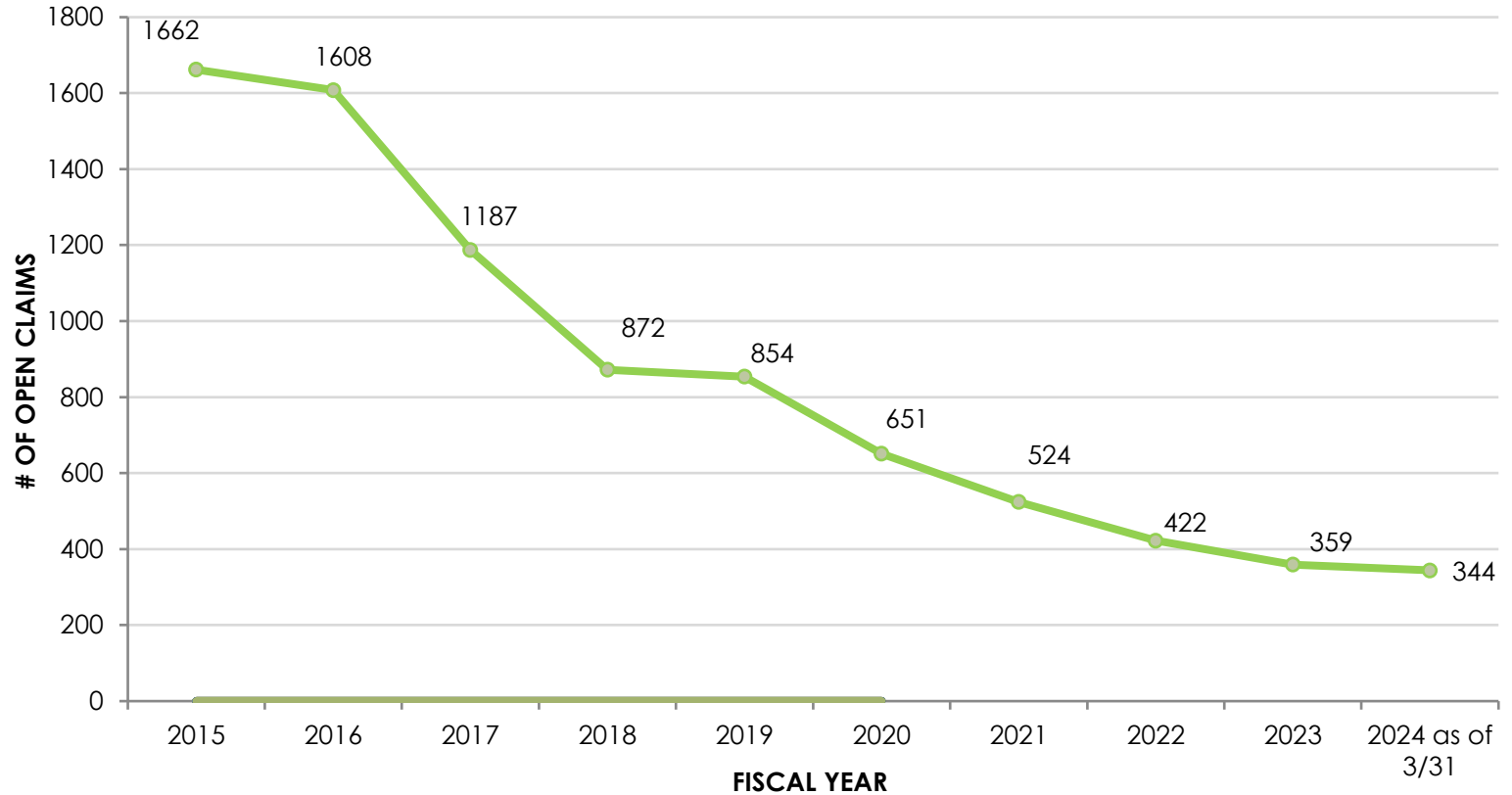
Moody's Market Implied Bond Spreads and CDS 5/17/2023

Jill Dulich  
Director, Claims and Operations

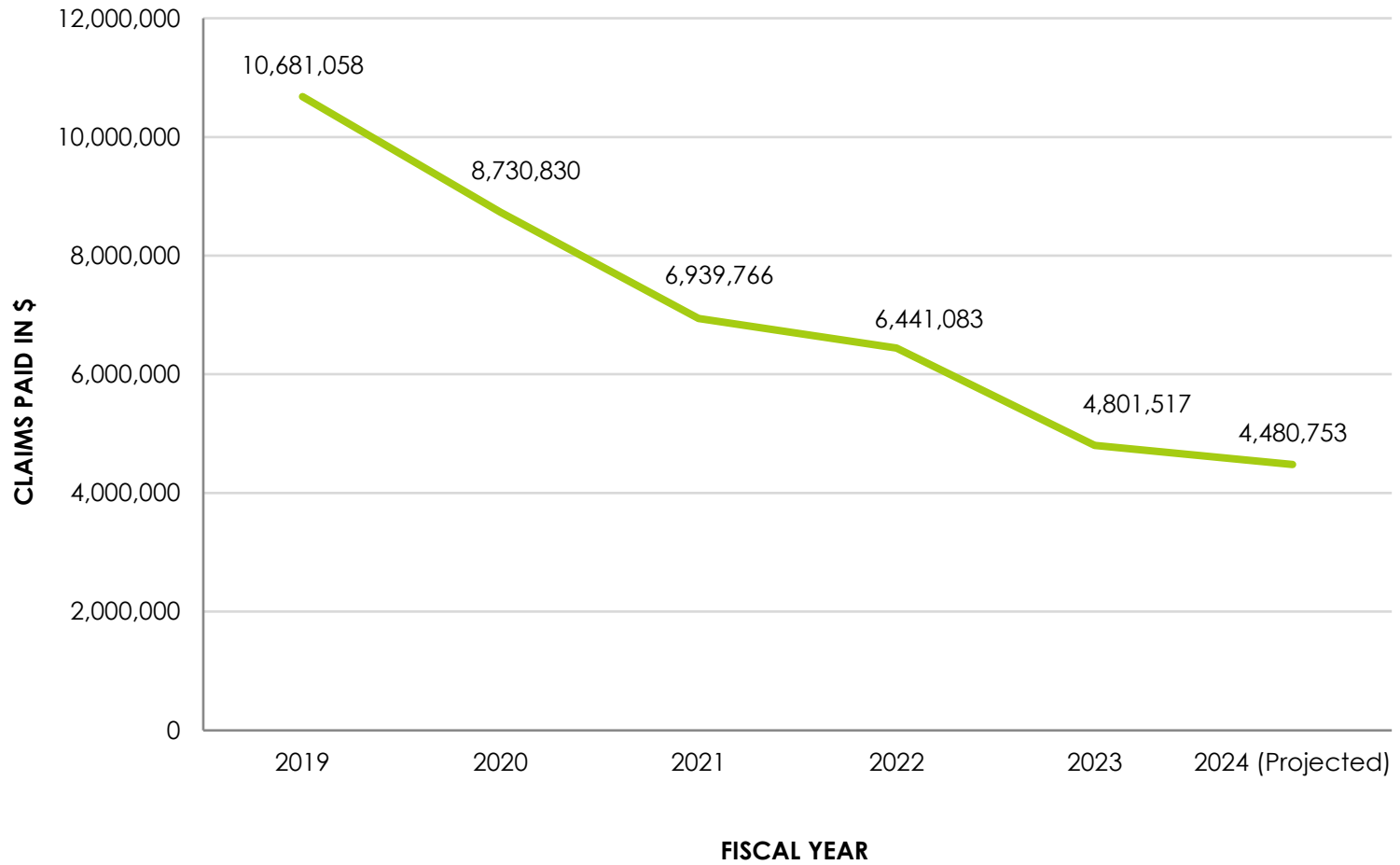


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# Open Claims Count

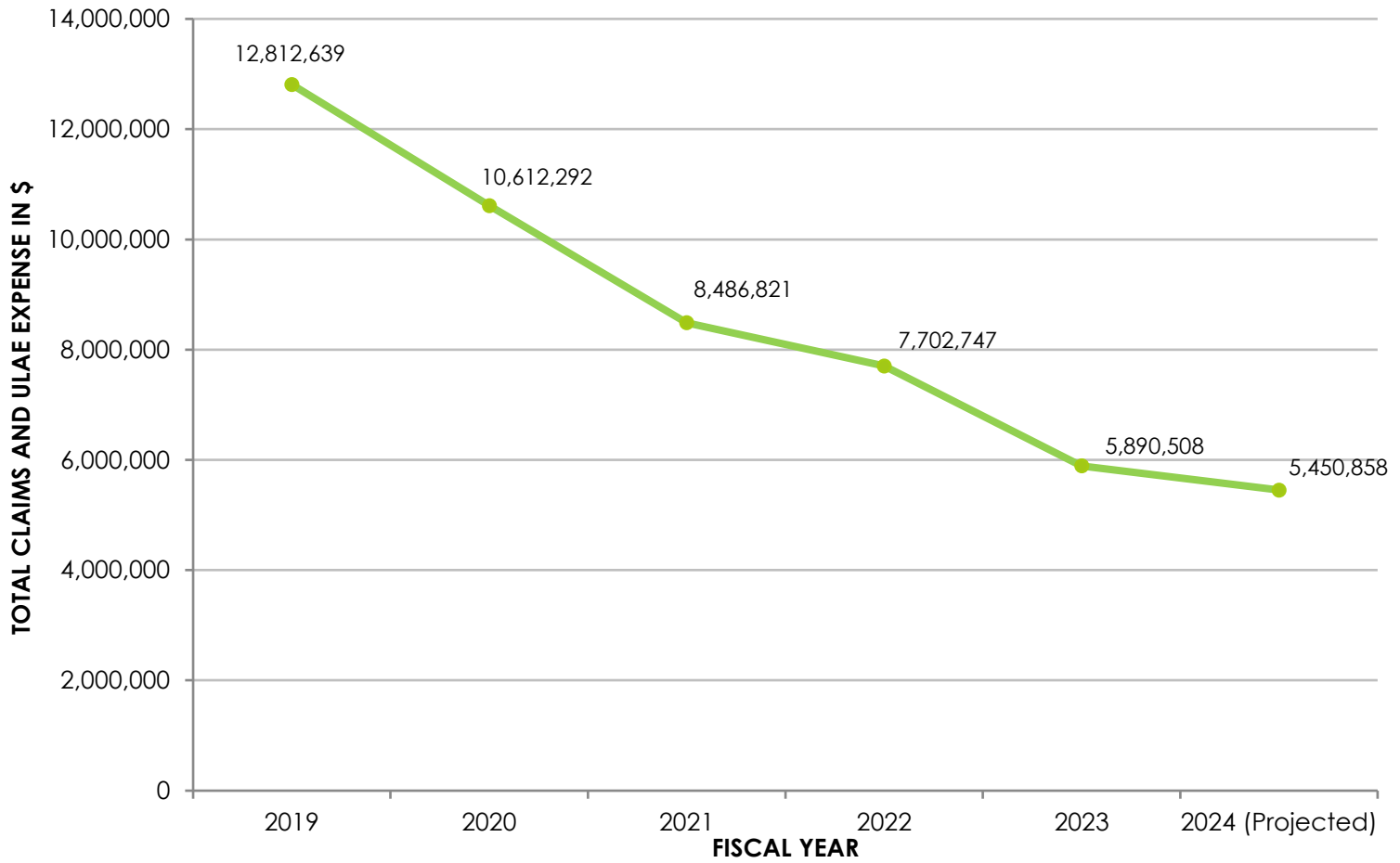


# Gross Claims Paid



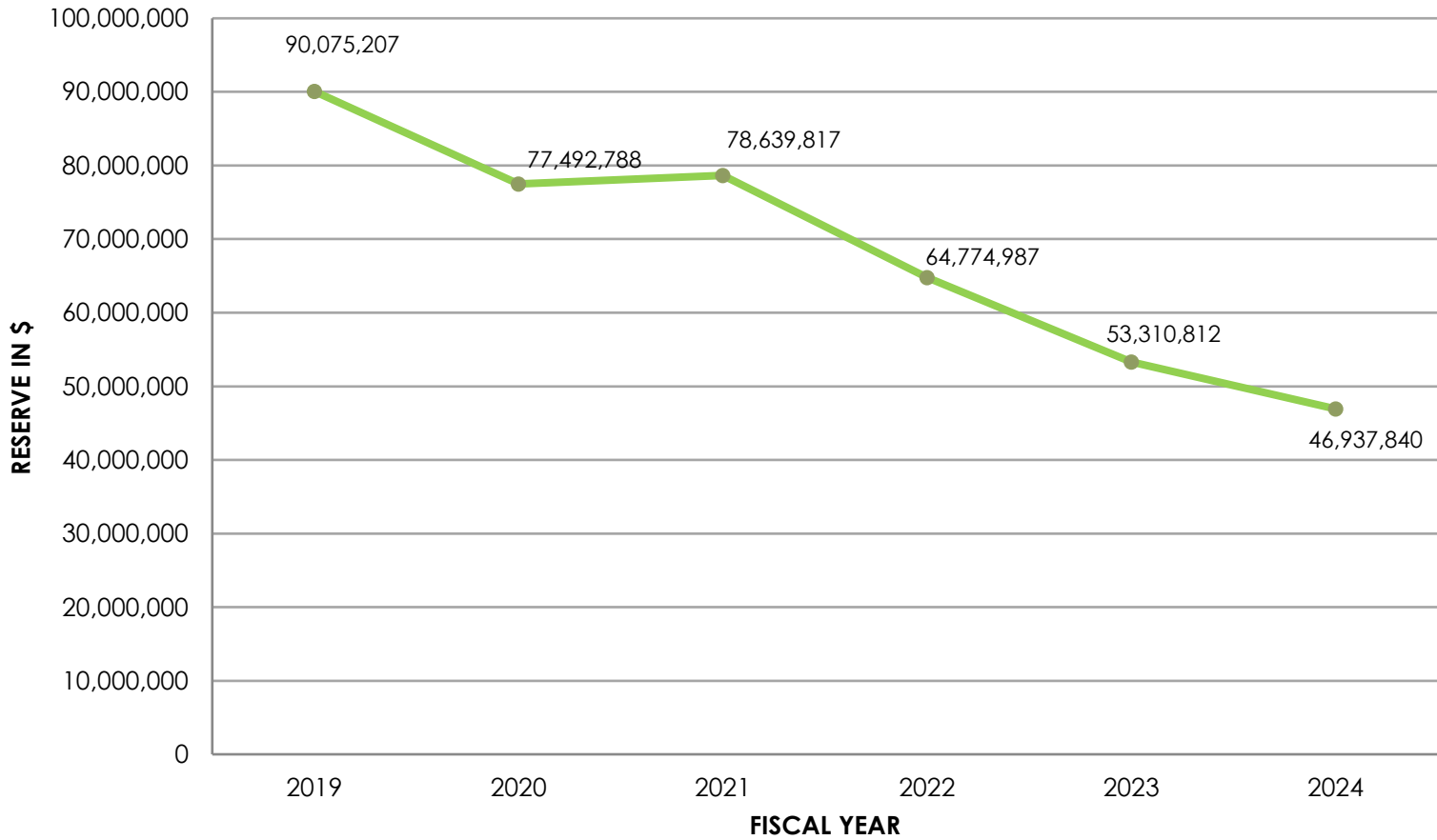
Last six fiscal years

# Gross Total Claims and ULAE Expenses



Last six fiscal years

# Gross Estimated Future Liabilities for Claims and ULAE



Last six fiscal years



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