



CALIFORNIA
SELF-INSURERS'
SECURITY FUND

2022 Member Informational Meeting

May 16th, 2022

William Lyons, Chairman

Daniel Sovocool, Outside General Counsel

Grant Heinitz, SISF Credit Risk Manager

Jill Dulich, SISF Claims and Operations Manager



CALIFORNIA
SELF-INSURERS'
SECURITY FUND

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."

CA Self-Insurance Overview

Entities	527 (including 27 SIG' s)
Payroll	\$122 billion
Employees	2.3 million

Source: Office of Self-Insurance Plans

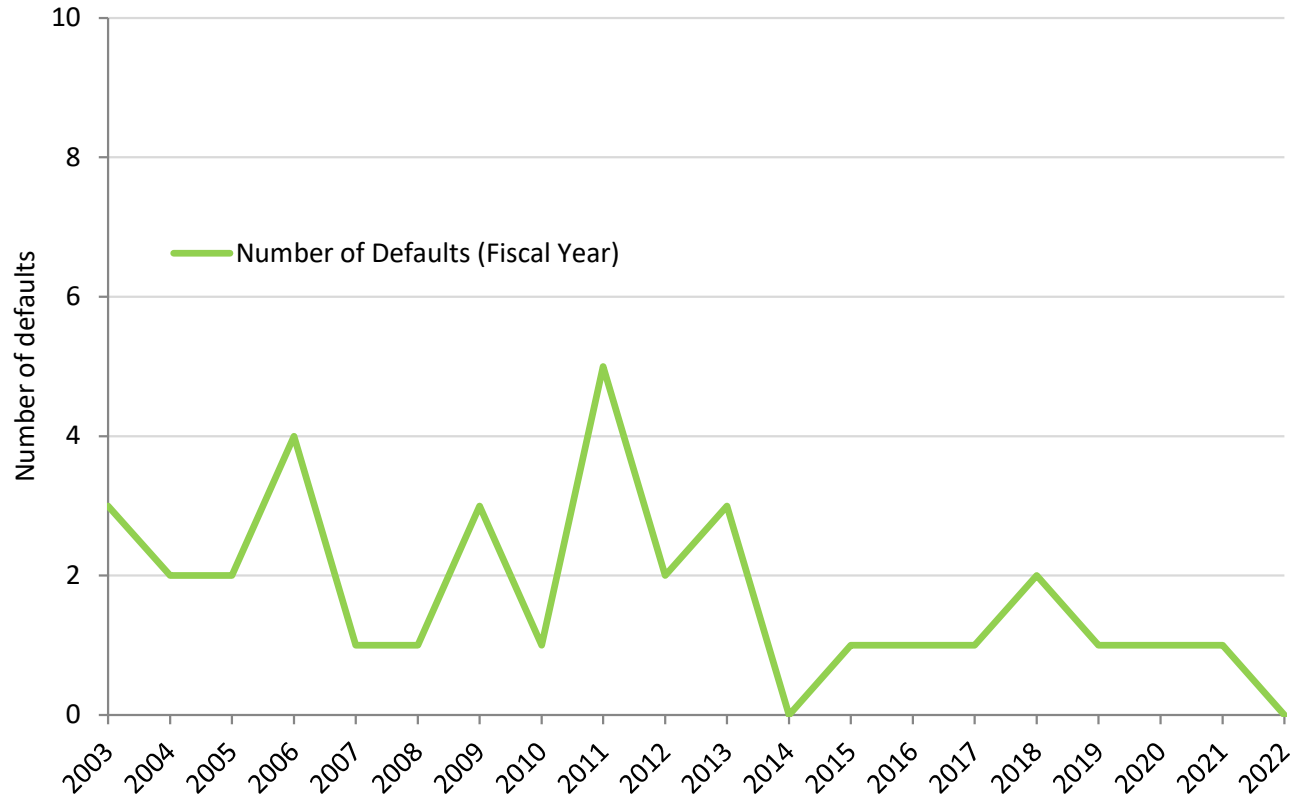
Estates and Workers' Compensation Claims

		<u>FY2022</u>	<u>FY2021</u>	<u>Δ</u>
Estates	Total	88	88	
	Active	41	43	-2
Claims	Open	457	524	-67
(as of 3/31/22 and 6/30/21)				
Claim Liability (net)	Paid	\$5,769,052¹	\$6,939,766	-\$1,170,714
	Open Case Reserves (EFL)	\$25,067,902	\$28,492,652	-\$3,424,750
	IBNR + ULAE	\$21,553,880	\$23,990,081	-\$2,436,201
		\$46,621,782	\$52,482,733	-\$5,860,951
SISF total net assets				
(as of 6/30)		\$685,542,545 ¹	\$703,973,245 ²	-\$18,430,700
Projected annual costs	- claims (net of excess)	\$4,266,070	\$5,033,849 ²	-\$767,779
	- claims admin	\$1,288,509	\$1,547,055 ²	-\$258,546
	- Total	\$5,554,579	\$6,580,904	-\$1,026,325

¹ 6/30/22 Projected

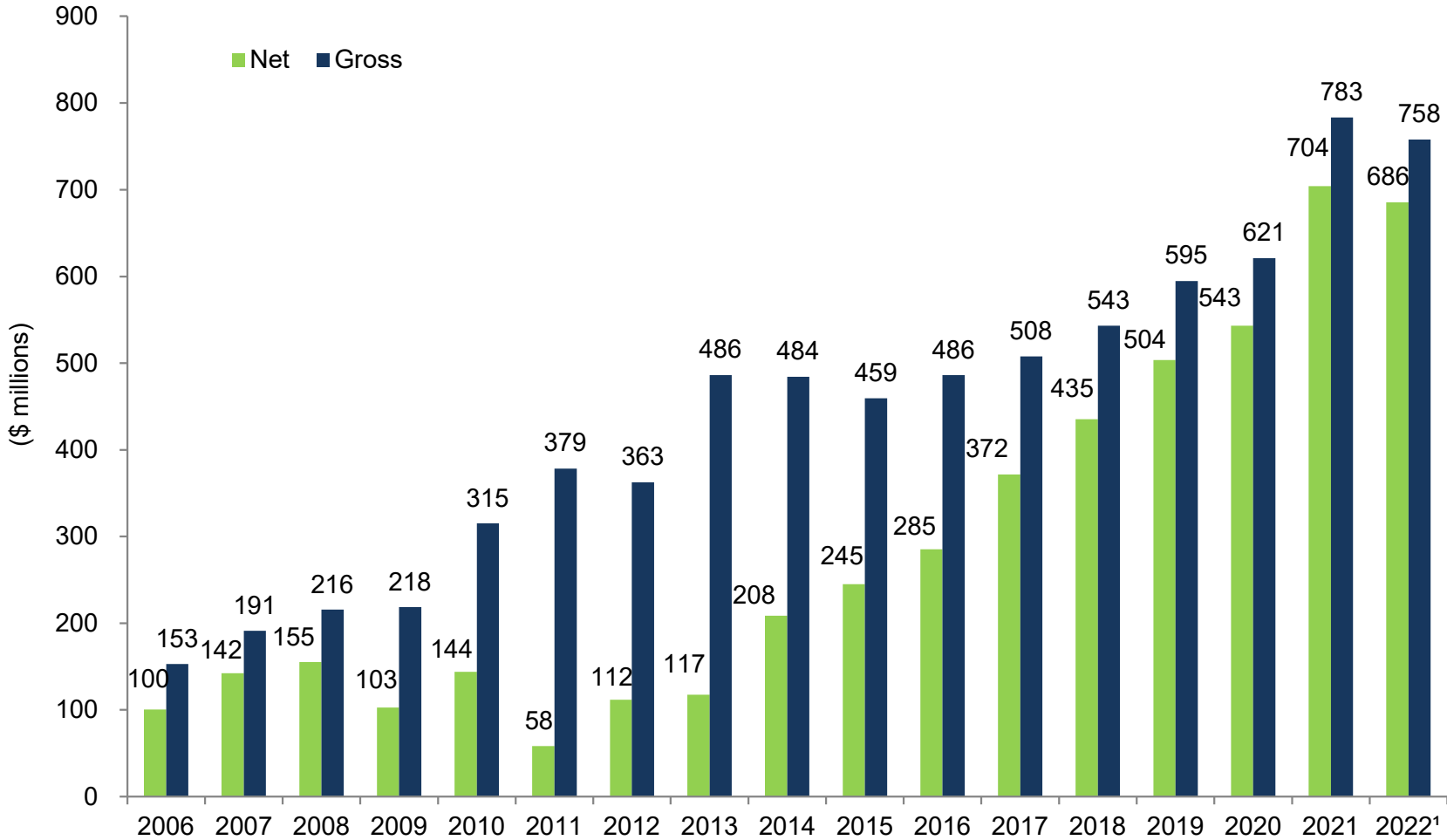
² Actual

Default History



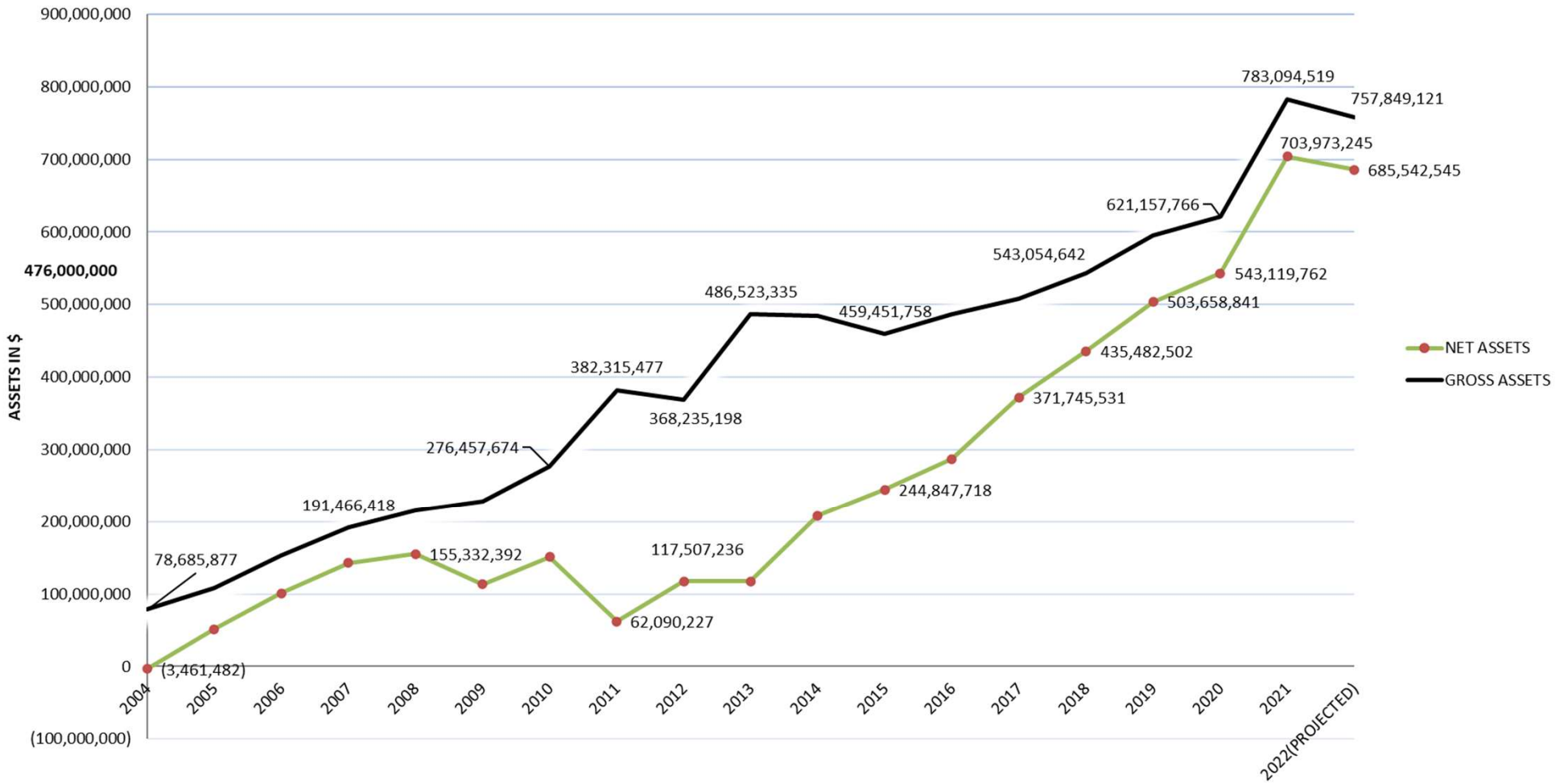
Defaults as of 5/2/22

ASP – Financial Strength

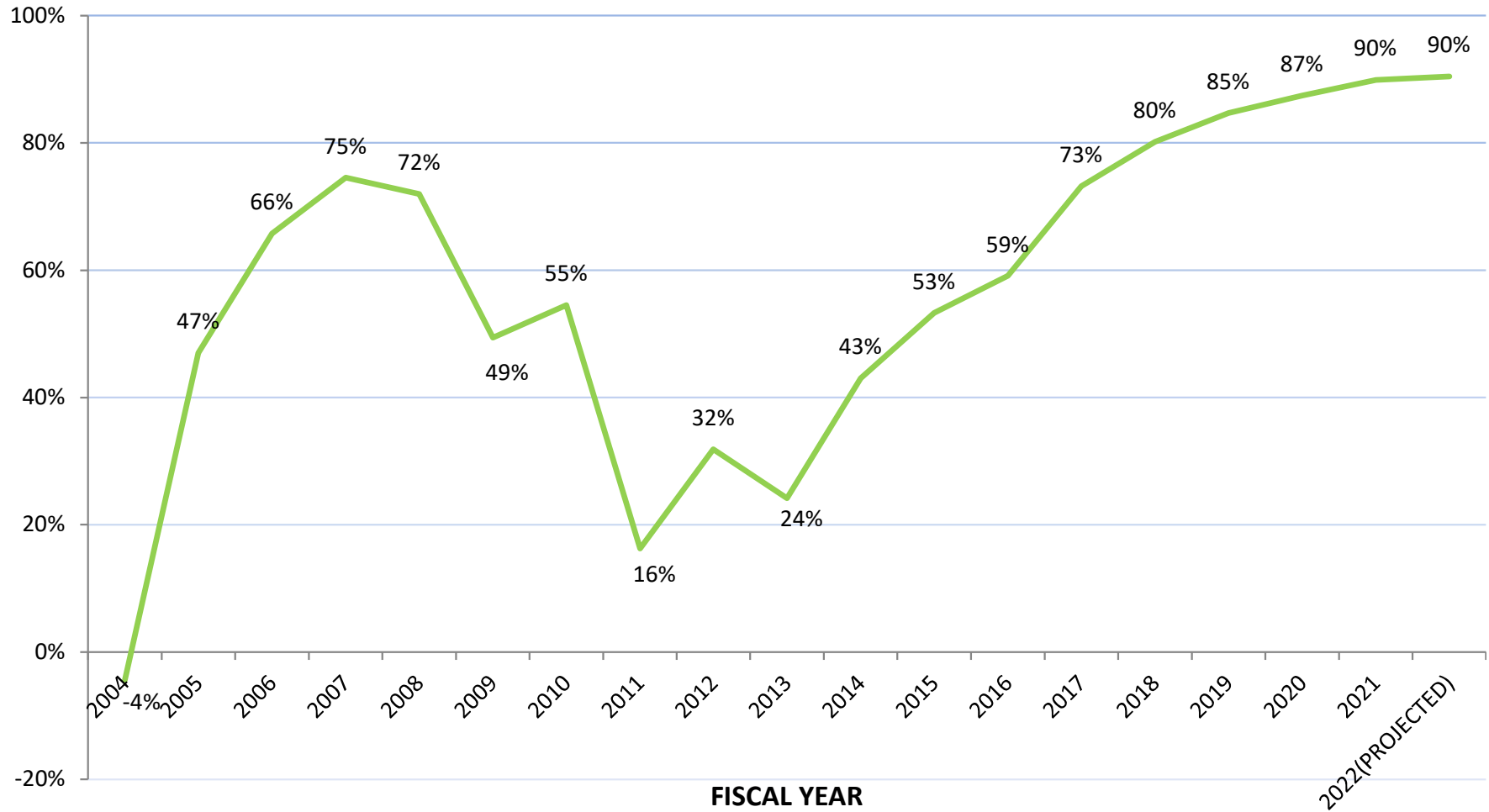


¹ 6/30/22 Projection
 Source: Audited SISF Financial Statements Jun 30. 2006-2021

Net and Gross Assets (ASP inception)



% Net Assets / Gross Assets (ASP inception)



Total Spending and Investment Returns



Last six fiscal years

Investments

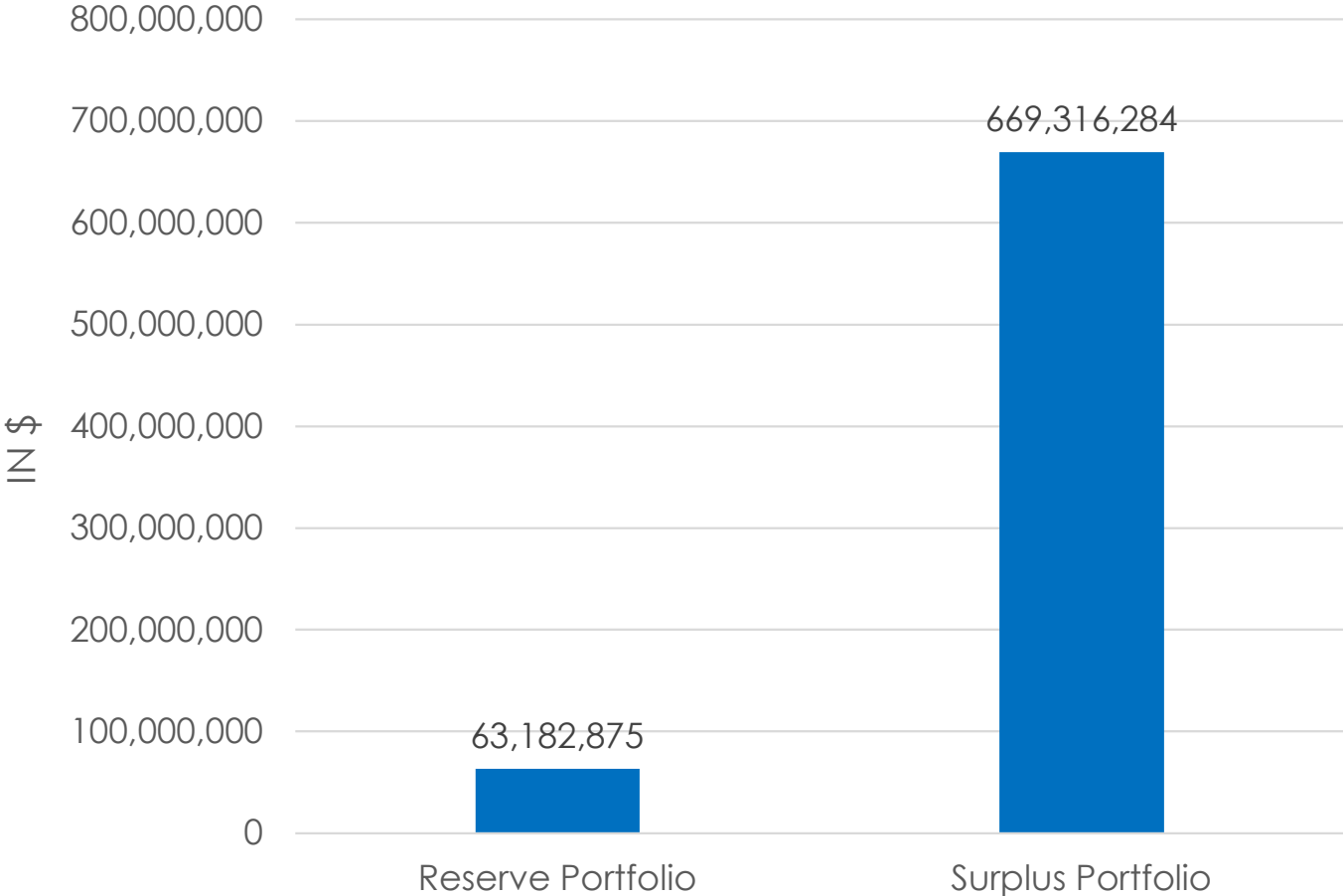
Reserve Portfolio

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.

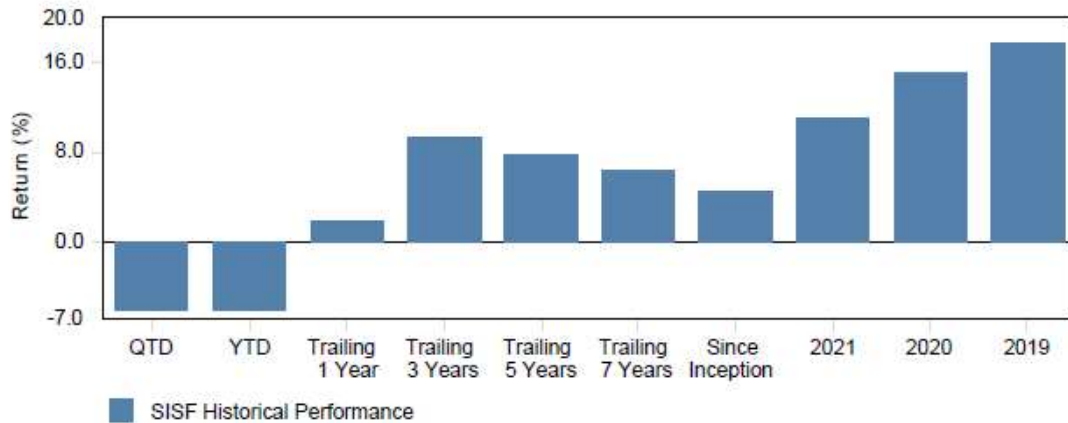
Investments



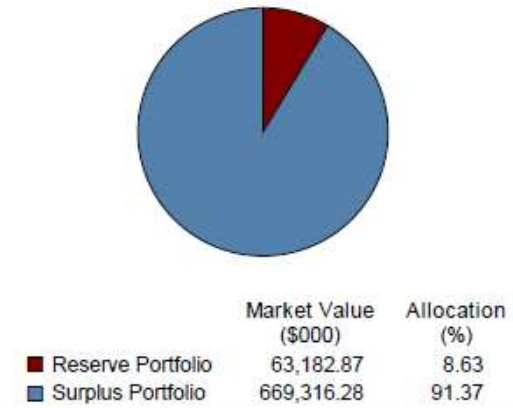
As of 3/31/22

**Self Insurers Security Fund
Executive Summary
As of March 31, 2022**

Total Fund Performance



March 31, 2022: \$732,499,159



	Allocation		Performance(%)											Inception Date
	%		QTD	YTD	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Trailing 7 Years	Trailing 10 Years	Since Inception	2021	2020	2019	
SISF Historical Performance	100.00		-6.18	-6.18	1.91	9.44	7.81	6.39	6.12	4.46	11.22	15.12	17.68	09/01/2003
Reserve Portfolio	8.63		-2.09	-2.09	-2.21	0.38	0.96	0.90	0.90	1.57	-1.03	1.95	3.32	09/01/2003
Reserve Risk BM			-2.67	-2.67	-2.52	1.21	1.49	1.30	1.27	2.23	-0.75	4.14	4.62	
Difference			0.58	0.58	0.31	-0.83	-0.53	-0.40	-0.37	-0.66	-0.28	-2.19	-1.30	
Low Duration Fixed Income	3.23		-0.49	-0.49	-0.71	0.85	1.17	0.91	0.64	1.40	-0.24	1.22	2.94	09/01/2003
Citi TSY 1 Yr			-0.82	-0.82	-0.93	1.01	1.24	1.02	0.80	1.53	-0.06	1.88	2.92	
Difference			0.33	0.33	0.22	-0.16	-0.07	-0.11	-0.16	-0.13	-0.18	-0.66	0.02	
Fixed Income	5.40		-3.10	-3.10	-3.24	0.00	0.88	0.86	1.01	1.99	-1.61	2.44	3.39	10/01/2003
BC Gov/Cr Intm			-4.51	-4.51	-4.10	1.50	1.81	1.65	1.85	3.08	-1.44	6.44	6.80	
Difference			1.41	1.41	0.86	-1.50	-0.93	-0.79	-0.84	-1.09	-0.17	-4.00	-3.41	
Surplus Portfolio	91.37		-6.56	-6.56	2.30	10.64	9.31	7.90	8.34	6.61	12.49	16.71	21.16	08/01/2004
Surplus Risk BM			-5.65	-5.65	2.67	9.75	8.69	7.30	7.21	6.85	10.38	15.06	20.26	
Difference			-0.91	-0.91	-0.37	0.89	0.62	0.60	1.13	-0.24	2.11	1.65	0.90	
Public Equities	47.09		-9.55	-9.55	0.69	14.05	12.51	10.54	11.54	8.76	16.96	23.21	29.98	11/01/2004
Public Equities BM			-5.40	-5.40	9.33	15.73	13.36	11.44	12.42	9.44	22.11	17.68	28.91	
Difference			-4.15	-4.15	-8.64	-1.68	-0.85	-0.90	-0.88	-0.68	-5.15	5.53	1.07	
Fixed Income	16.54		-5.42	-5.42	-4.44	1.41	1.79	1.64	1.72	1.76	-1.09	6.69	7.11	12/01/2011
Fixed Income BM			-5.10	-5.10	-5.20	1.03	1.56	1.47	1.72	1.80	-3.12	7.54	6.54	
Difference			-0.32	-0.32	0.76	0.38	0.23	0.17	0.00	-0.04	2.03	-0.85	0.57	
Hedge Funds	17.74		-2.97	-2.97	4.81	7.21	-	-	-	6.14	8.44	9.92	12.57	02/01/2018
HFRI Fund of Funds Comp			-2.64	-2.64	1.32	5.90	-	-	-	3.74	6.17	10.88	8.39	
Difference			-0.33	-0.33	3.49	1.31	-	-	-	2.40	2.27	-0.96	4.18	
Private Equity*	4.19		0.82	0.82	11.36	12.07	-	-	-	11.82	15.89	26.32	-	03/29/2019
Real Assets*			1.89	1.89	26.78	19.58	-	-	-	18.18	31.61	10.41	13.09	06/06/2018
Semi-Liquid Real Estate			5.05	5.05	30.55	-	-	-	-	17.77	29.69	6.92	-	12/01/2019
NCREIF Property Idx			5.33	5.33	21.88	-	-	-	-	11.13	17.70	1.61	-	
Difference			-0.28	-0.28	8.67	-	-	-	-	6.64	11.99	5.31	-	

* Returns for Private Equity and Real Assets are IRRs. All other assets are TWR.

SISF Performance Highlights

- Strong results in calendar year 2021: the total SISF portfolio gained 11.22%, driven primarily by gains in public equities, hedge funds, private equity, and real assets.
- In the first quarter of 2022, markets have seen a reversal, with both risk assets (stocks) and defensive assets (bonds) posting negative returns.
- For the trailing one-year period ending 3/31/22, the total SISF portfolio generated a positive return of +1.9%.
 - The SISF Reserve portfolio was down -2.2% over the one-year period but outperformed its risk benchmark by 31 basis points.
 - The SISF Surplus portfolio was up +2.3% over the one-year period, trailing its risk benchmark by 37 basis points.
 - Positive contributors to performance over the one-year period include relative results in fixed income and hedge funds as well as strong absolute returns in private equity (11.36%) and real assets (26.78%).

Macro Forecast Summary

Table 1

	Q2 22	Q3 22	Q4 22	Q4 23
Inflation (CPI)	7.6	6.5	5.1	2.0
Economic Growth (GDP - US)	2.3	2.8	2.0	2.1
Policy Rate (Fed)	1.375	2.125	2.625	3.125
US Treasury – 2 Yr	2.60	2.80	3.00	n/a
US Treasury – 5 Yr	2.60	2.70	2.75	n/a
US Treasury – 10 Yr	2.85	2.90	3.00	n/a
US Treasury – 30 Yr	2.55	2.60	2.60	n/a
Oil Price (Brent/bbl)	110	130	120	n/a

For valuation methodology and risks associated with any recommendation, rating or price target referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

Economic / Asset Forecast Summary

Table 2

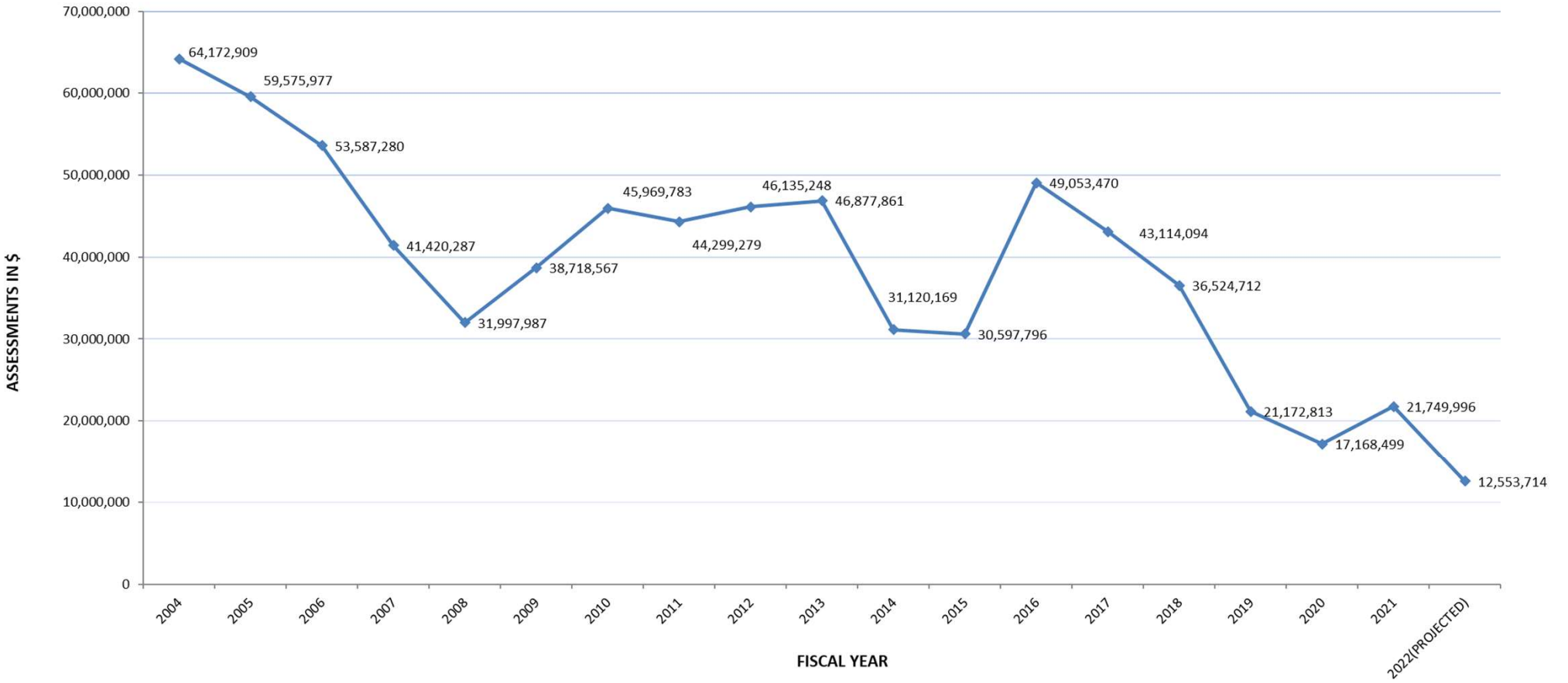
Base Case Forecasts	Old Q4 2022	New Q2 2023	▲ from Last F'cast
Equities			
S&P 500	4,400	3,900	-11%
MSCI Euro	1,830	1,760	-4%
Topix	2,200	2,050	-7%
MSCI EM	1,160	1,060	-9%
Rates (%)			
UST 10yr	2.60	3.15	55 bps
Credit (bps)			
US IG	110	150	40
US HY	350	490	140
Securitized Credit (bps)			
US Agency MBS	30	35	5
US CMBS AAA	77	125	48

Table 3

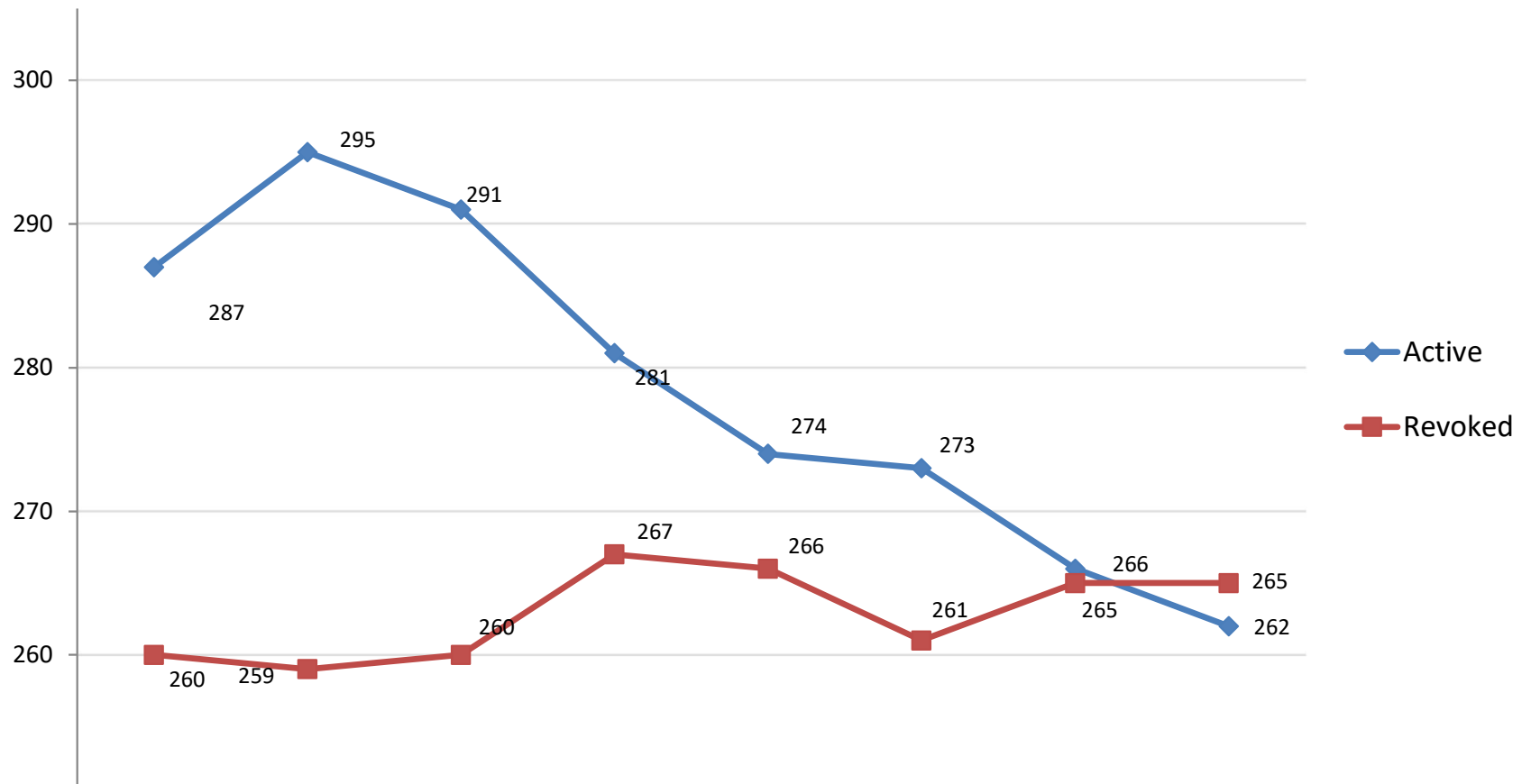
	Old Forecasts		New Forecasts		Change from Last Forecast	
Real GDP (%Y)	2022e	2023e	2022e	2023e	2022e	2023e
Global	3.2	3.5	2.9	3.5	-0.3	0.0
U.S.	3.5	2.7	2.6	2.6	-0.9	-0.1
CPI (%Y)						
Global	7.3	4.2	7.4	4.2	0.1	0.0
U.S.	6.8	2.4	6.8	2.4	0.0	0.0

- Based on earnings outlook, the shift in the yield curve, forecasted slowdown in economic growth and higher inflation (Table 1), Morgan Stanley has cut the forecast on public equities (Table 2).
- In addition, we expect a modest slowdown in global and US GDP growth (Table 3).
- We maintain our longer-term inflation forecast (Table 2).
- Lastly, we expect near term volatility to continue in both fixed income and equities, building a base for higher expected returns (10-year forecast).

Assessments (ASP inception)



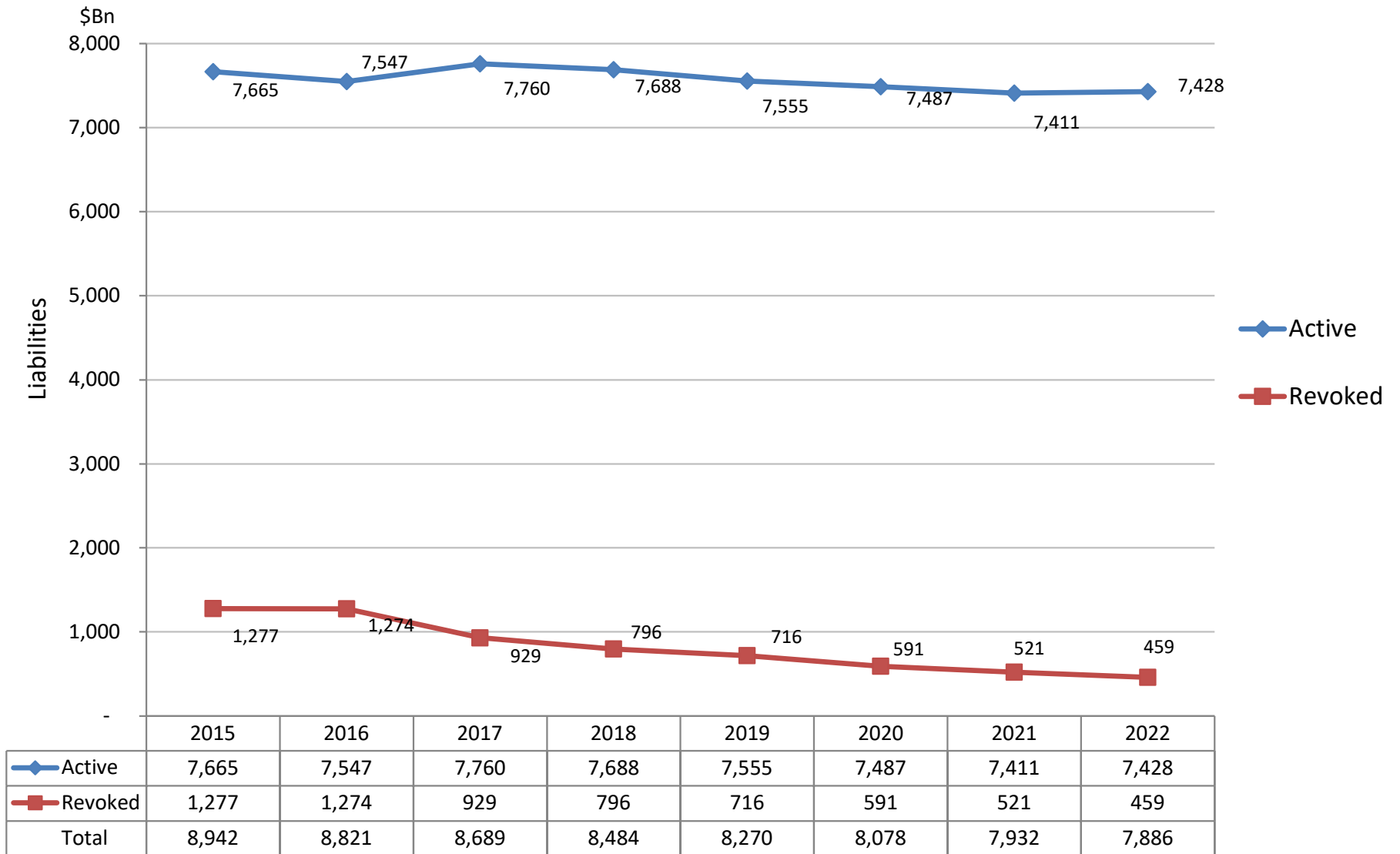
Members by Status



	2015	2016	2017	2018	2019	2020	2021	2022
Active	287	295	291	281	274	273	266	262
Revoked	260	259	260	267	266	261	265	265
Total	547	554	551	548	540	534	531	527

Last eight fiscal years

Exposure by Status



Last eight fiscal years

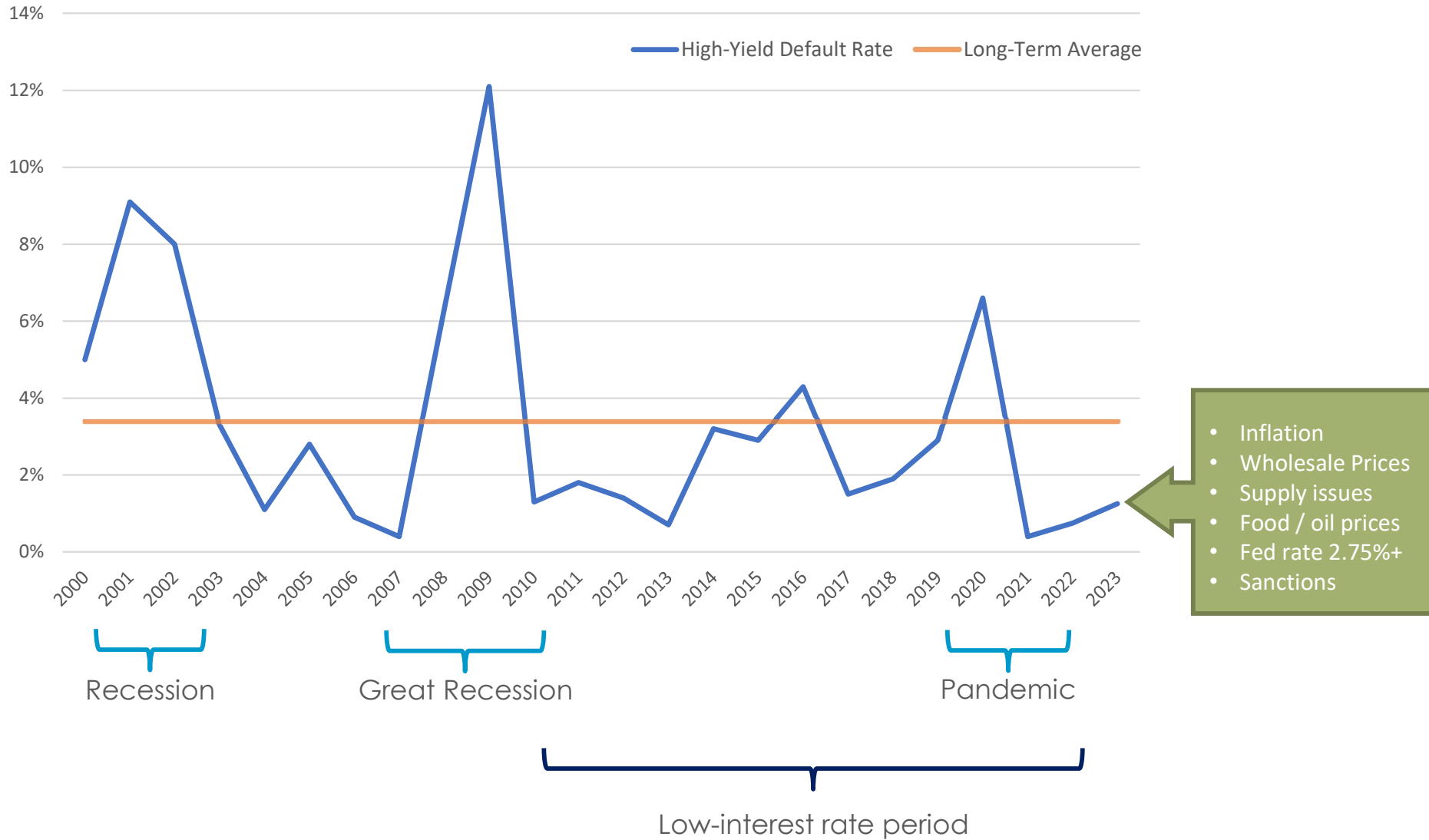
Grant Heinitz
Credit Risk Manager



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Credit Market

All expansions come to an end. This is often tied to tight US labor markets, inflation (or inflation risk) that produces a restrictive Fed policy stance, and a range of financial and economic imbalances

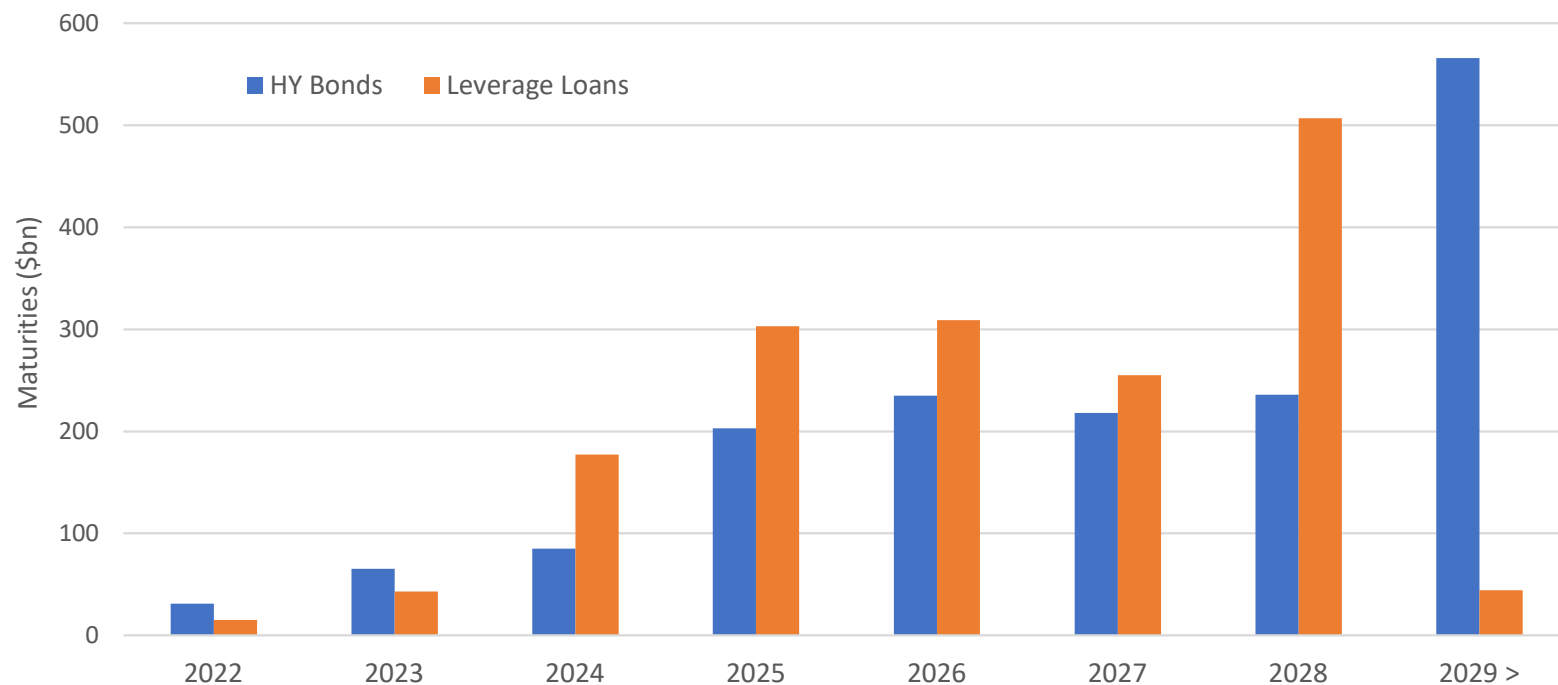


Source: J.P. Morgan U.S. High-Yield Default Rate

Credit Market (cont'd)

Several companies have taken advantage of the record low-interest rate environment and refinanced debt, extending maturities.

Maturity Schedule



Total Maturities (\$bn):	\$46	\$108	\$262	\$506	\$544	\$473	\$743	\$610
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Majority of companies with maturities in 2024 and onward will hit a crossroads - issuing / refinancing debt in a high-interest rate environment, leading to lower coverage ratios.

Source: J.P. Morgan

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 Credit Risk Monitor)
- Quarterly unaudited financials required for private non-investment grade members
- Trade payment data
- Watchlist and internal scorecard
- Management discussions

Credit Underwriting Update

SISF will incorporate an additional Moody's RiskCalc model into underwriting for 2022/23

- The Security fund historically has relied on Moody's RiskCalc 4.0 credit modeling to underwrite all privately-held members without formal ratings for participation in the ASP
- Moody's has a different model, RiskCalc 3.1 North America Large Firm, that is designed specifically for corporates with assets above \$100mm
- While there is overlap, in broad terms RiskCalc 4.0 focuses more on activity, leverage, and liquidity, while RiskCalc 3.1 Large Firm focuses more on debt coverage, leverage, and growth
- Based in part upon the recommendation of Moody's, starting with the upcoming ASP Plan Year commencing July 1, 2022, the Security Fund will apply RiskCalc 3.1 Large Firm model to determine ASP participation of corporate members with total assets greater than \$100m.

By using both models, the Security Fund will have a more tailored approach to underwriting and ability to properly assess the risk of large private corporate members within the portfolio.

ASP – Overview

- Successful implementation of 2021/22 Alternative Security Program
 - 9th year post SB863
 - ASP liabilities decreased slightly (-0.6%)
- Financial strength of Fund continues to improve¹
 - net \$704 mill
 - gross \$783 mill
- Overall portfolio credit rating stable – Baa3
- Assessment decreased 16.7% (\$22.5mm vs. \$27.0mm) from the prior year
 - \$10mm in Premium credit was returned to eligible members
 - Actual assessment of \$12.5mm (net of Premium Credit)

¹ SISF Audited Financial Statements 6/30/2021

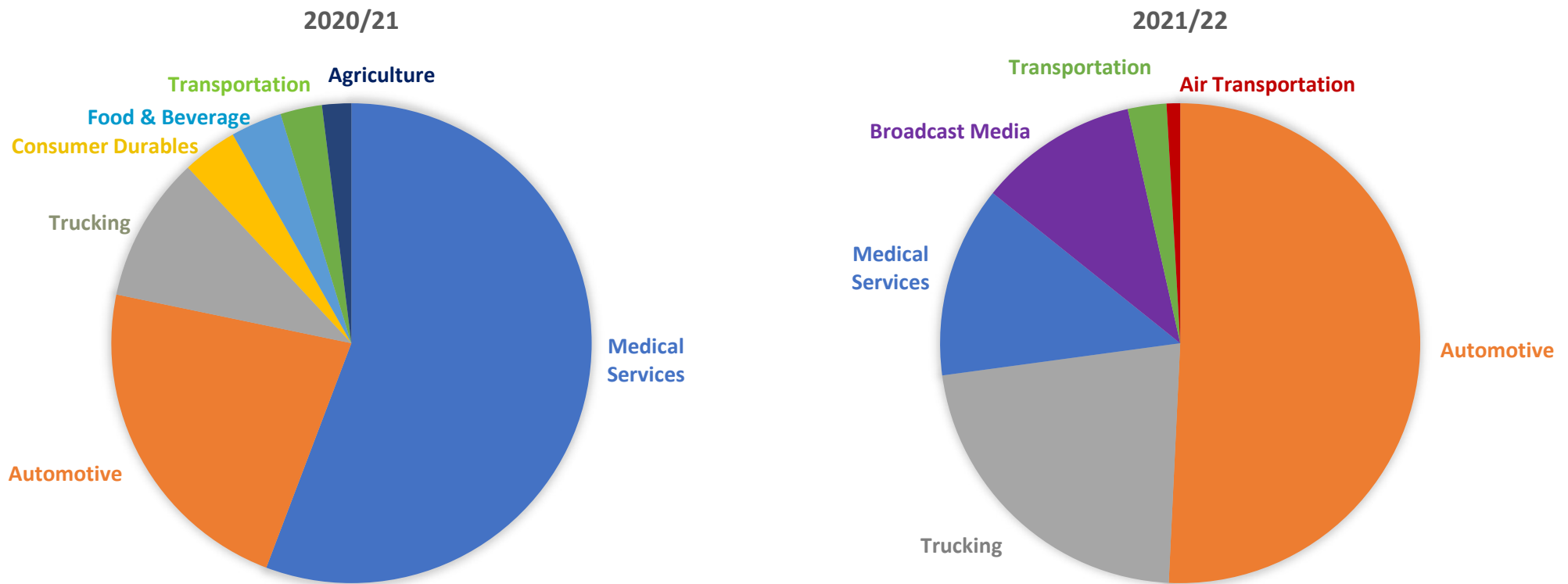
ASP – Participation Summary

ASP liabilities have decreased consistently since the passage of SB863...

	2021/22		2020/21		Δ	
	\$ (mm)	#	\$ (mm)	#	\$ (mm)	%
Fully	5,504	290	5,532	284	(28)	-0.5%
Partial	1,233	44	955	53	279	29.2%
Composite Deposit	6,737	334	6,487	337	250	3.9%
Partial	330	44	520	53	(190)	-36.6%
Excluded	819	193	925	194	(106)	-11.4%
3701 Security	1,149		1,446		(296)	-20.5%
Total ASP	7,886	527	7,932	531	(46)	-0.6%

ASP – Industries that experienced large increases

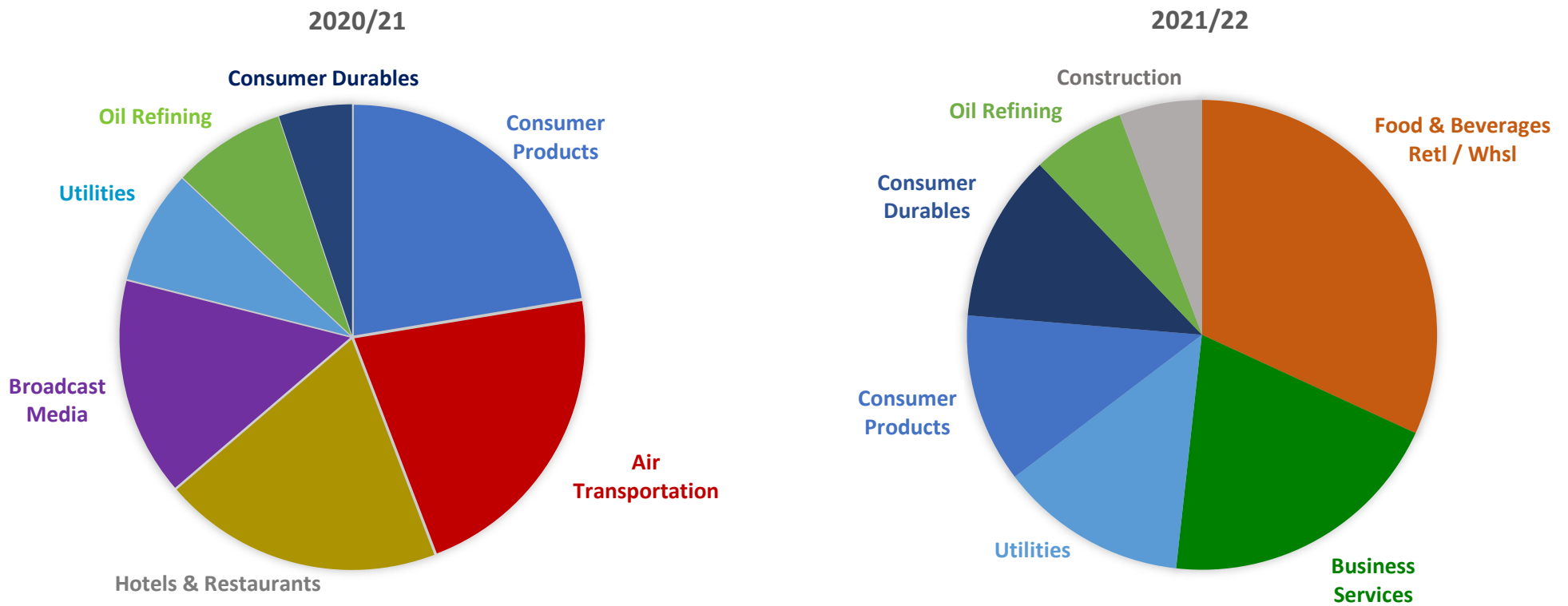
Second year of the pandemic shows the top three industries that experienced large increases remaining the same, but their ranking order changed



Source: Actuarial reports data as of 12-30-2021

ASP – Industries that experienced large decreases

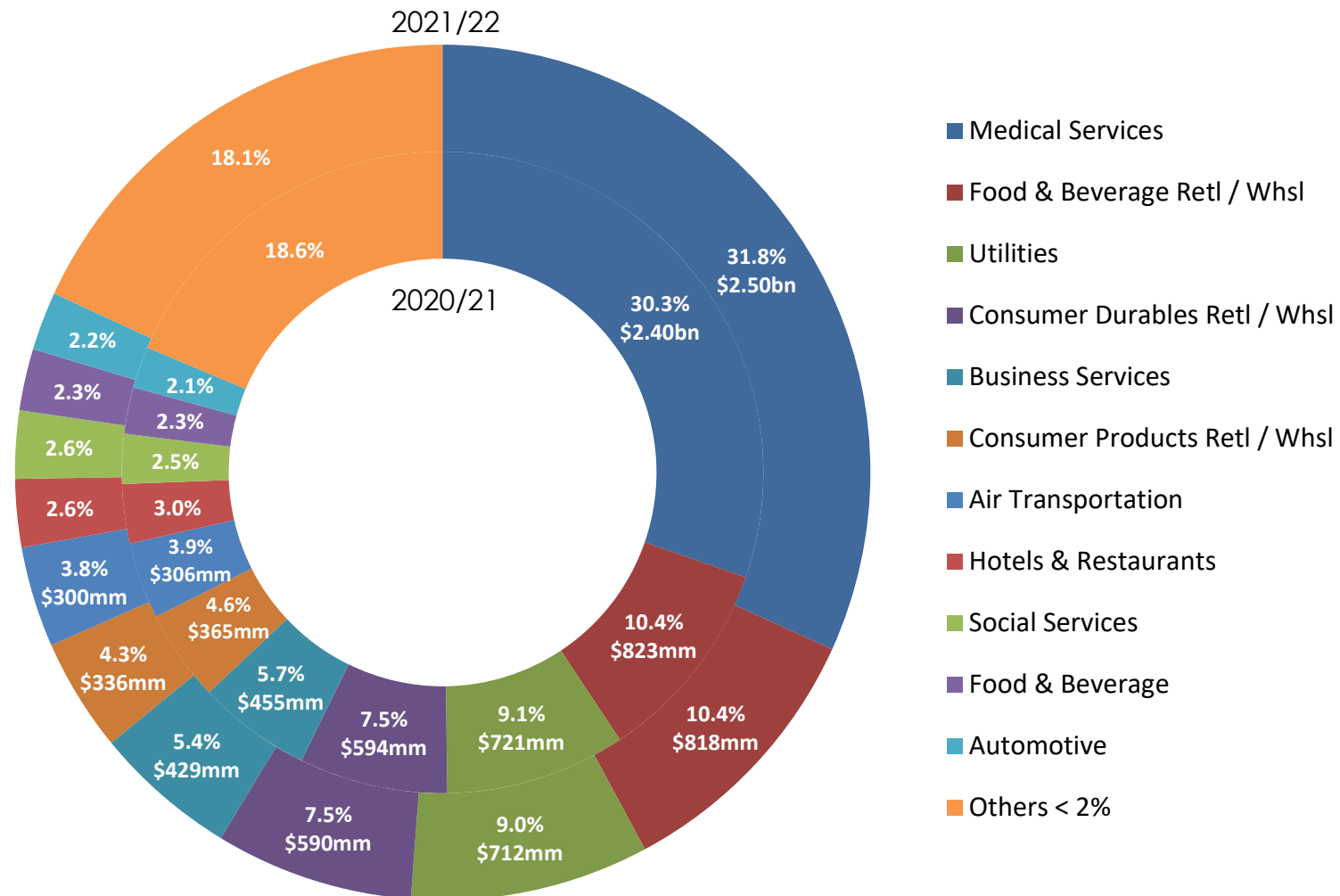
The reduction in payroll in 2020 had an immediate impact on EFL, while 2021 saw further decreases due to the continued effect of the pandemic on select industries



Source: Actuarial reports data as of 12-30-2021

Total ASP – Industry Distribution

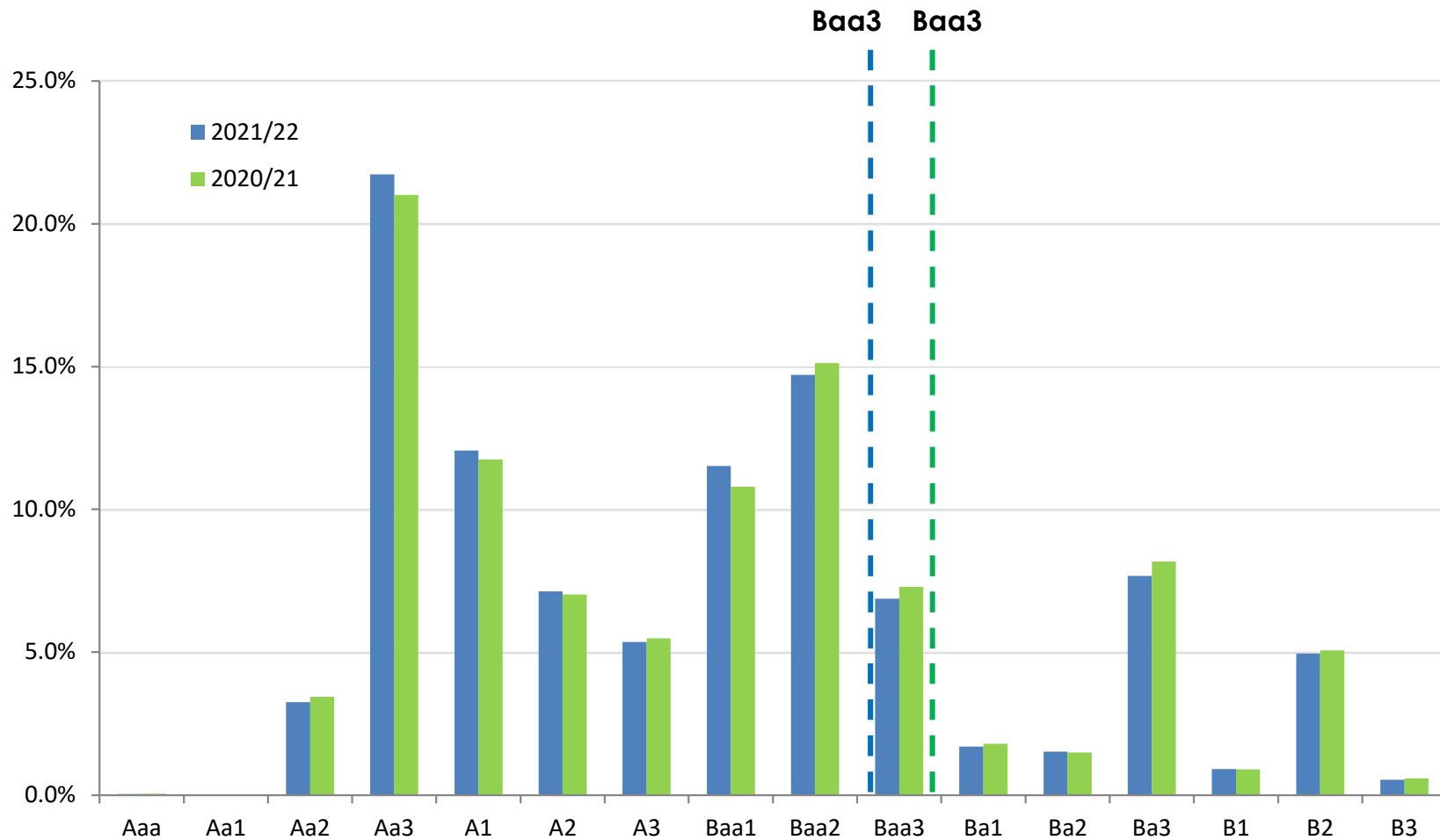
Total liabilities have decreased year-over-year, but industry exposure is relatively unchanged across all groups



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

ASP – Rating Distribution

The overall portfolio credit rating remained stable at Baa3 as the pandemic continues in its second year



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

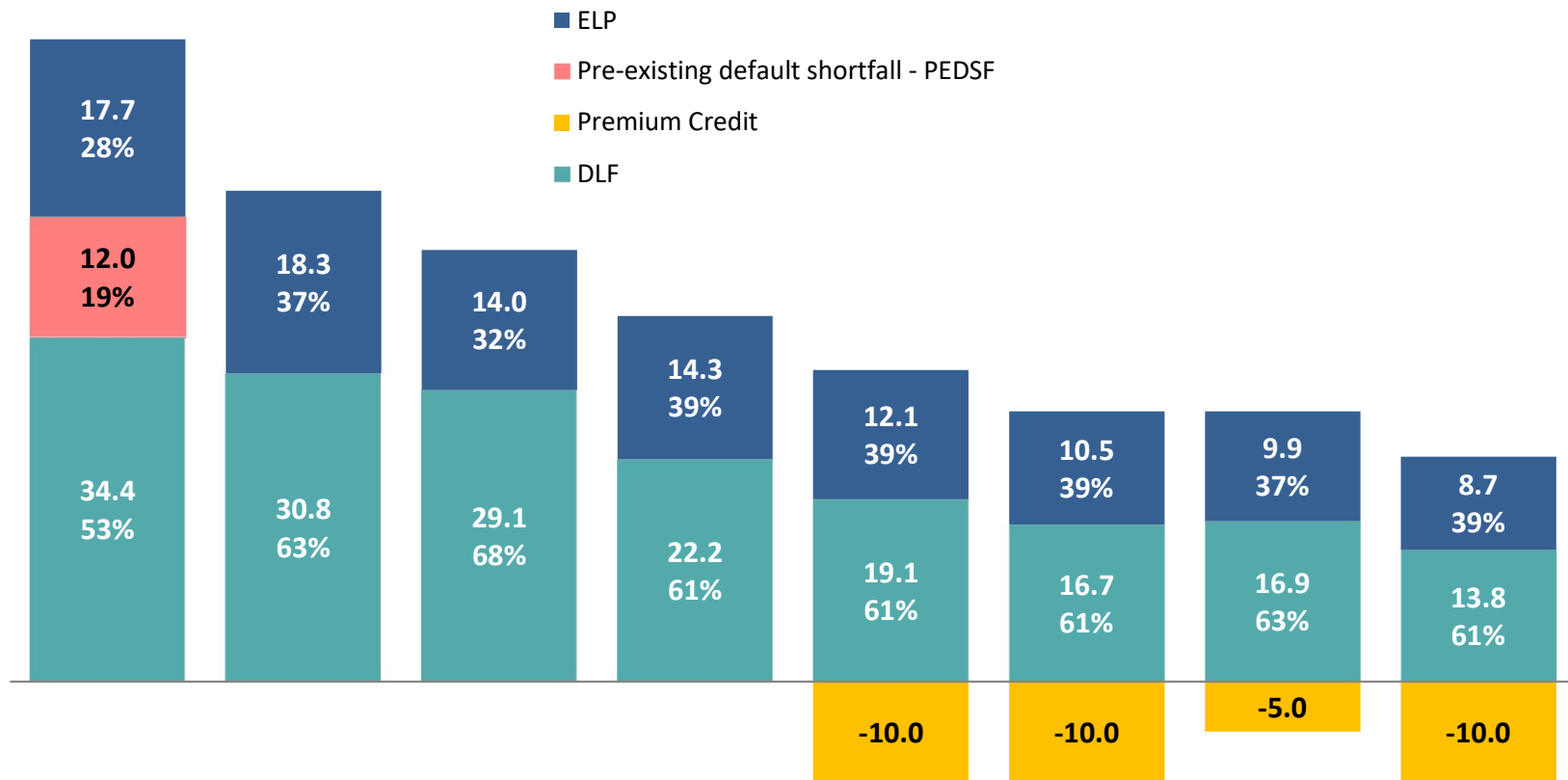
Capital

Claims

General administrative

ASP – Total Assessment

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



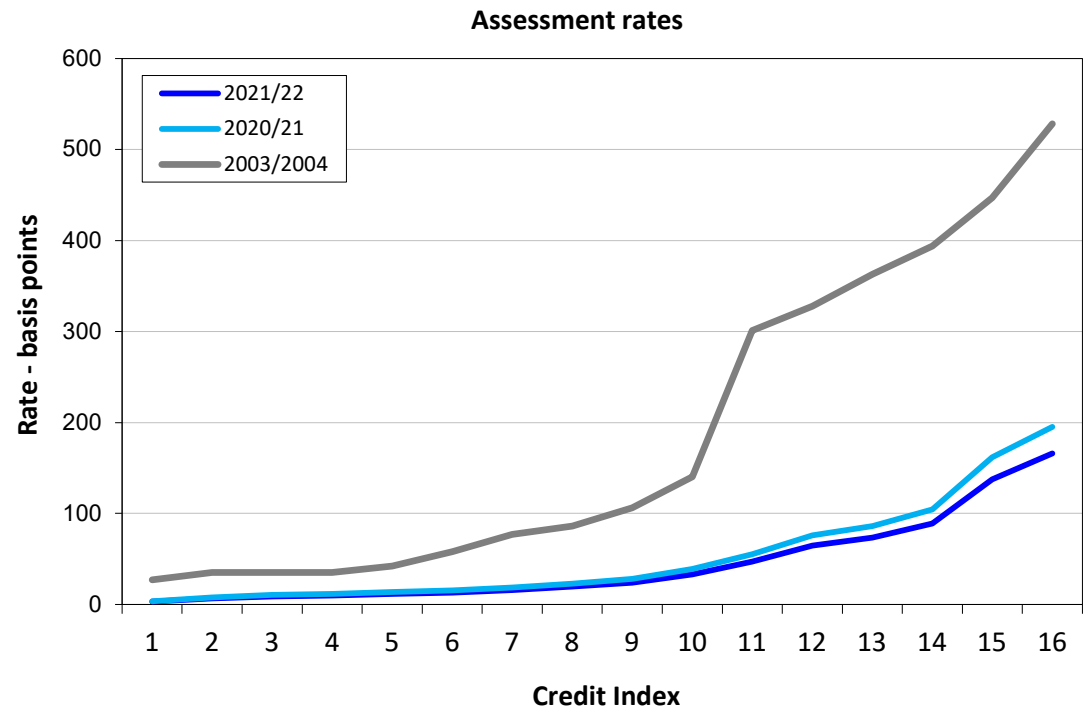
	2003/04	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Aggregate fees	64.2	49.1	43.1	36.5	21.2	17.2	21.8	12.5
Total liabilities	4,675.0	8,878.3	8,716.7	8,478.2	8,270.2	8,078.2	7,932.0	7,893.7
%	1.4	0.6	0.5	0.4	0.3	0.2	0.3	0.2

The "Fair Share" Credit has been issued the last four 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

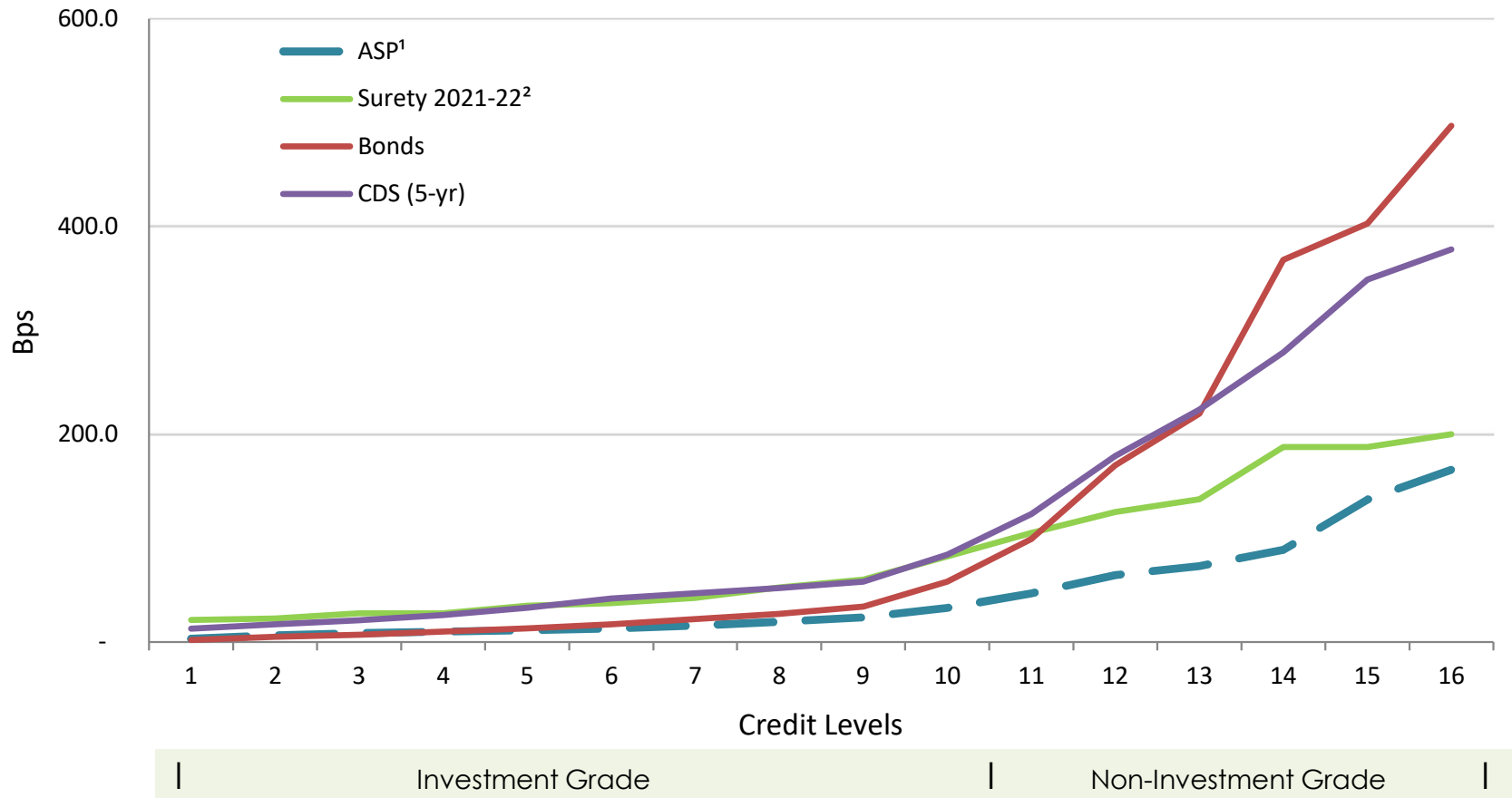
Considering the capital needs of the Fund and the current credit environment, assessment rates decreased across all levels

Index	Rating	2021/22	2020/21	% Δ
1	Aaa / AAA+	3	4	-15%
2	Aa1 / AA+	6	8	-15%
3	Aa2 / AA	9	10	-15%
4	Aa3 / AA-	10	12	-15%
5	A1 / A+	12	14	-15%
6	A2 / A	13	15	-15%
7	A3 / A-	16	19	-15%
8	Baa1 / BBB+	19	23	-15%
9	Baa2 / BBB	24	28	-15%
10	Baa3 / BBB-	33	39	-15%
11	Ba1 / BB+	47	55	-15%
12	Ba2 / BB	65	76	-15%
13	Ba3 / BB-	73	86	-15%
14	B1 / B+	89	104	-15%
15	B2 / B	137	161	-15%
16	B3 / B-	166	195	-15%



ASP – Current rates vs. market

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



¹ SISF Assessment rates 2021/22

² Marsh Surety estimates

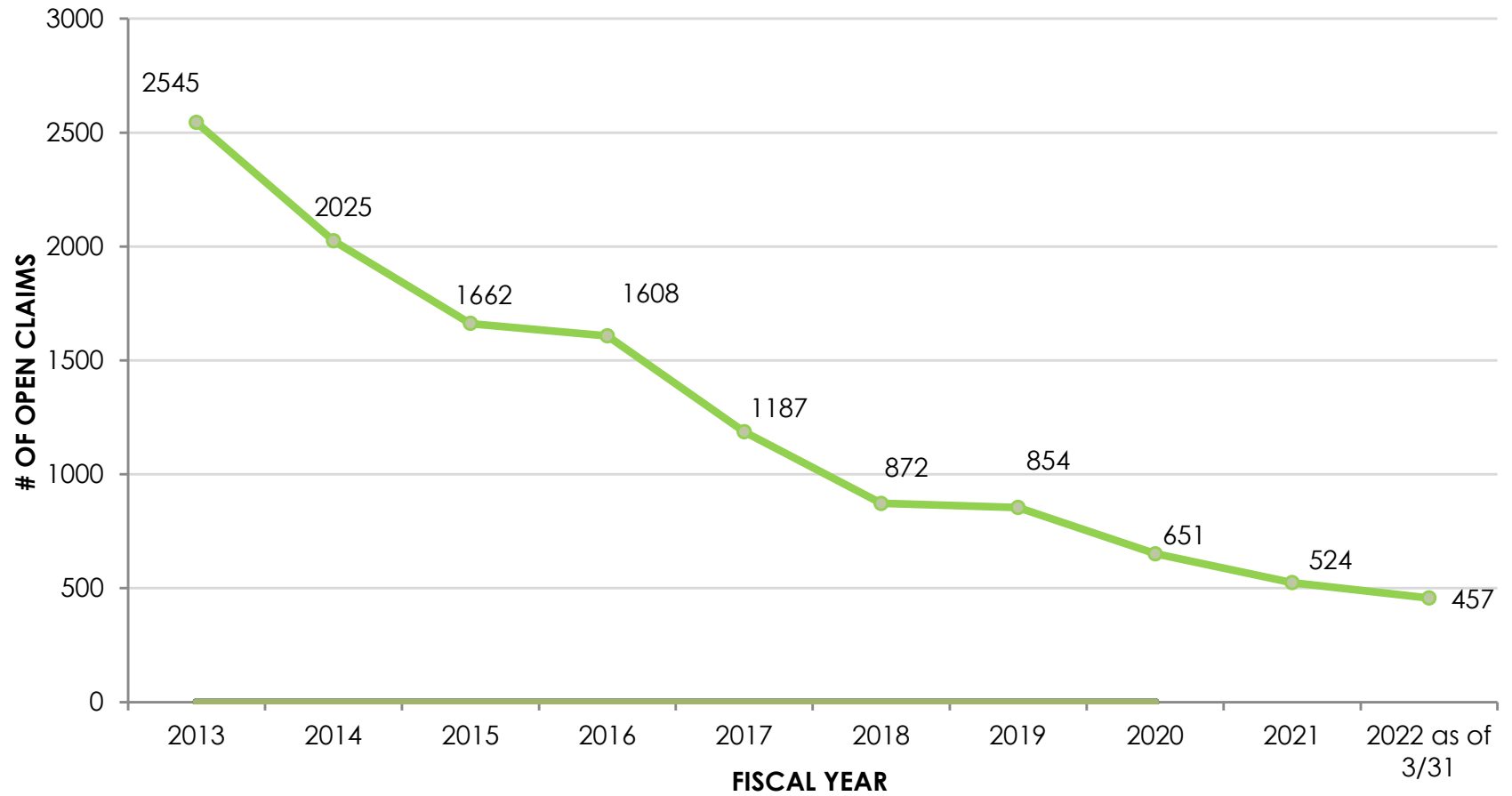
Moody's Market Implied Bond Spreads and CDS 5/19/2021

Jill Dulich
Claims and Operations Manager

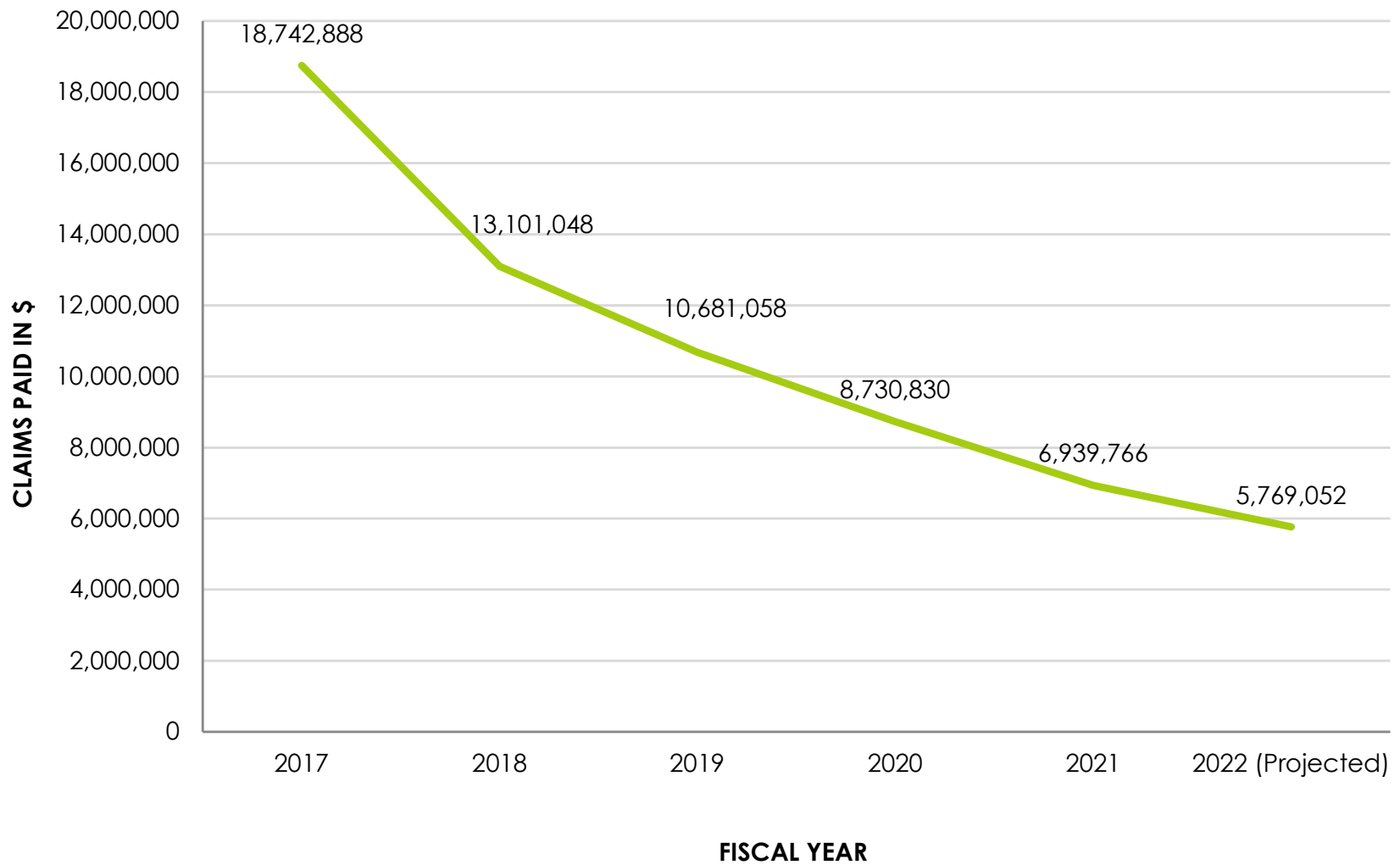


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Open Claims Count

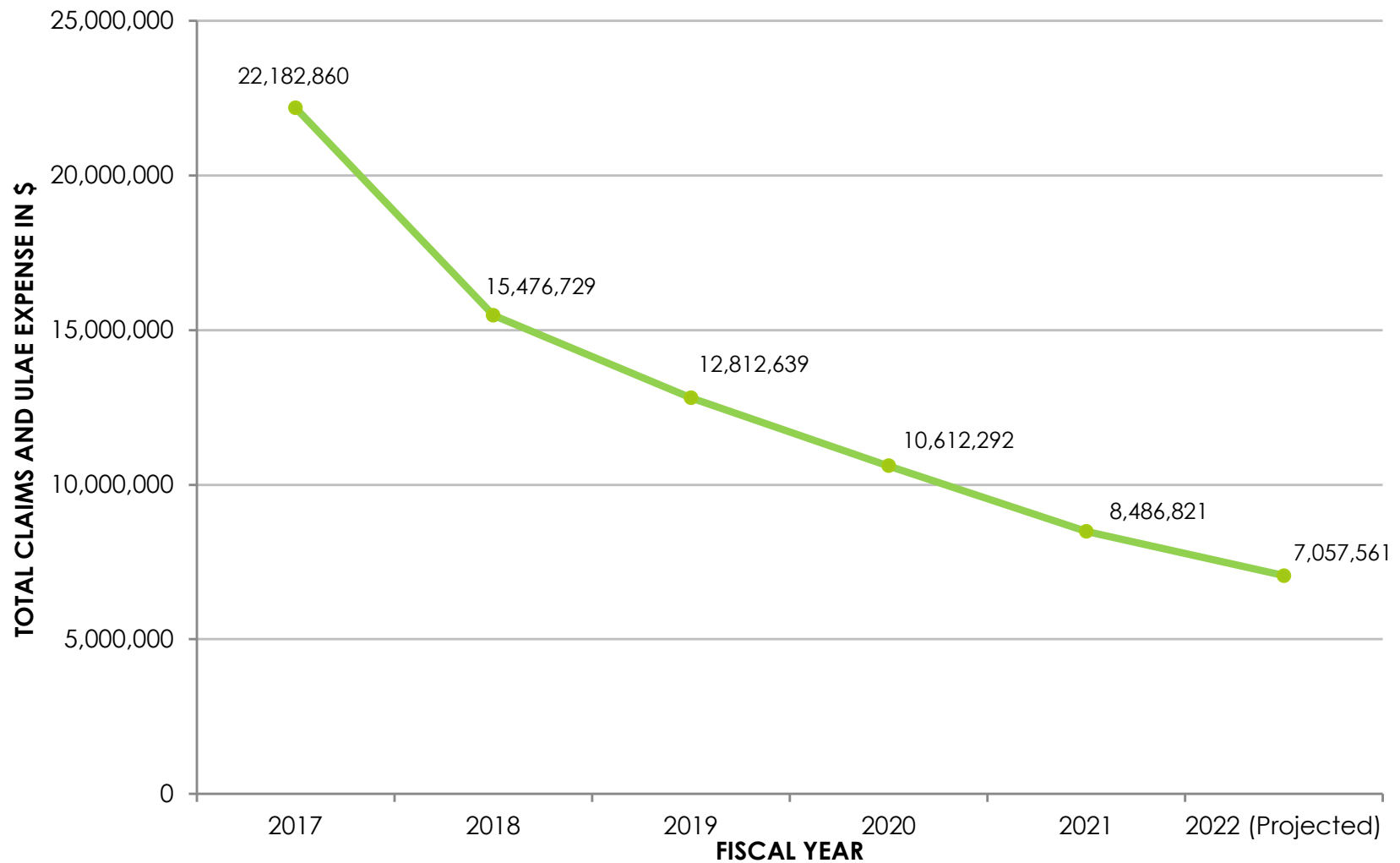


Claims Paid



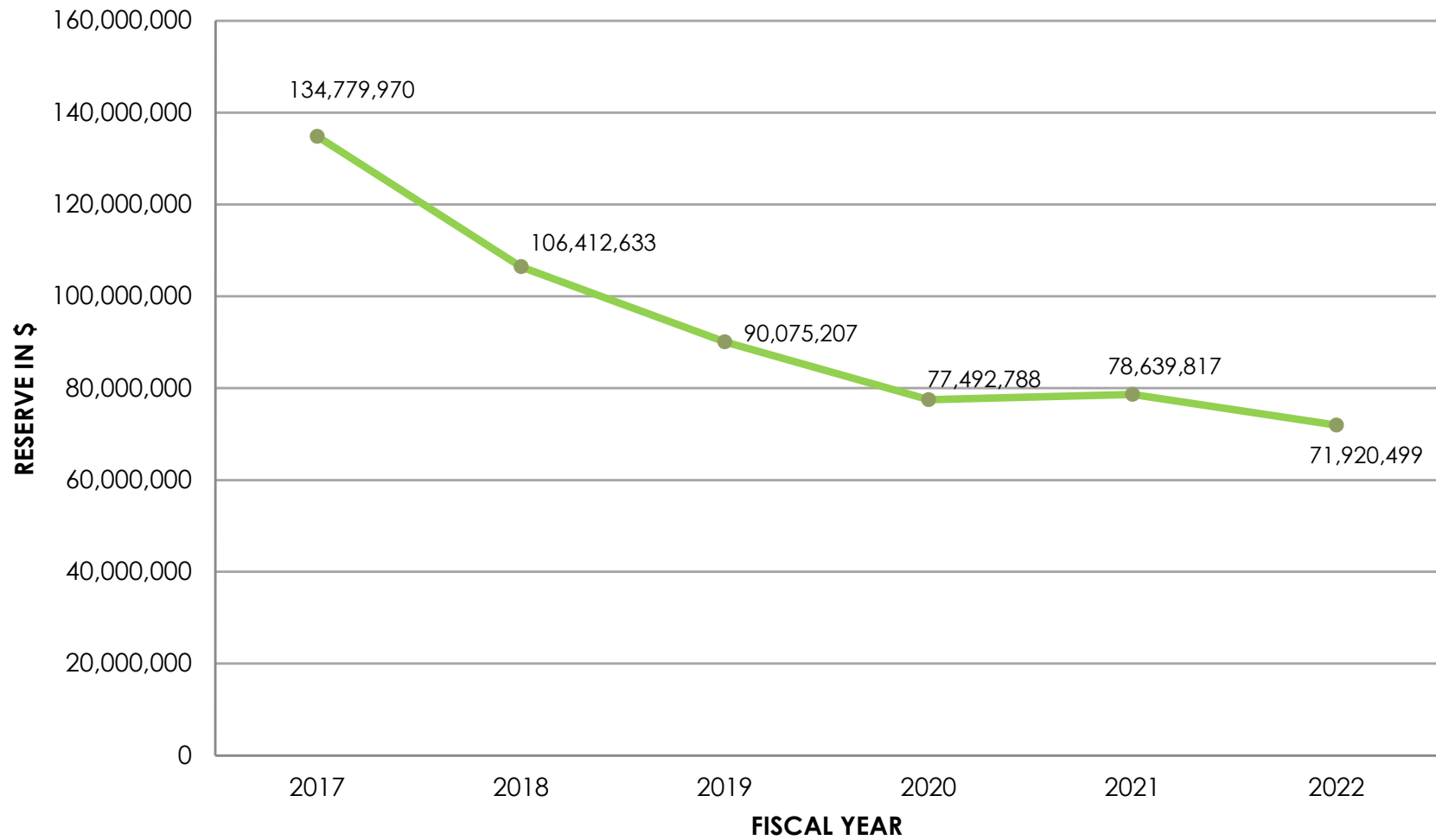
Last six fiscal years

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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