



2026 Annual Conference

Captive Investment Portfolio Evolution & Asset Allocation Trends

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Benefits of Long-Term Investment Strategy

Why Build a Long-Term Investment Portfolio?

Growing Surplus Creates Opportunities



Increase retentions: add new risk lines and retain more of the parent's risk



Loan back to parent: redeploy surplus into the parent's capital needs



Dividend back to parent: return excess surplus to the parent company



Premium buydown: Utilize a portion of surplus to reduce premium payments



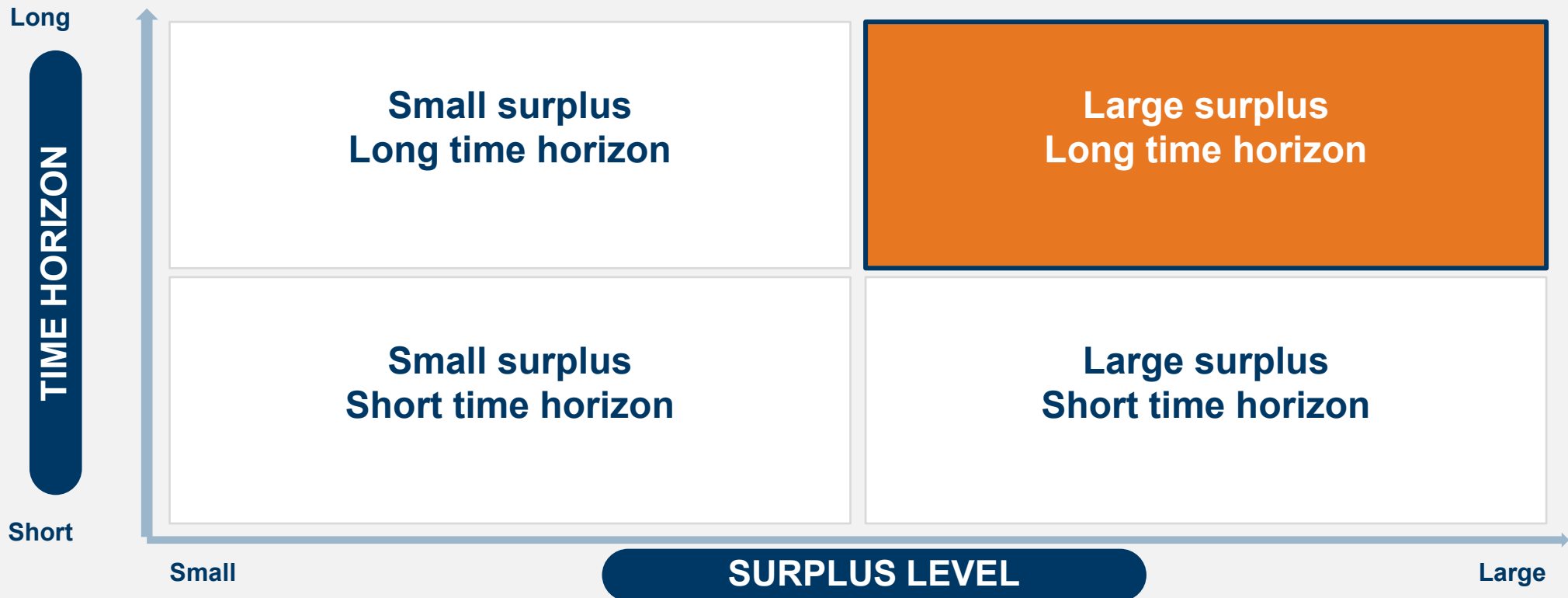
Offset capital gains/losses: apply portfolio results at the parent, where applicable



“Rainy Day Fund” for parent: build capital over time to provide potential liquidity for parent

Potential uses of surplus are illustrative, not recommendations. Availability depends on the captive's domicile, structure, capital and liquidity needs, applicable approvals, and tax treatment. Consult legal, tax, and regulatory advisers before implementation.

Time Horizon and Surplus Levels Drive Investment Strategy



Illustrative framework only, not an investment recommendation. Investment strategy should reflect the captive's liabilities, liquidity needs, risk tolerance, and applicable regulatory and capital requirements.



Structuring the Investment Portfolio

Reserve Discipline Creates Flexibility for Surplus Optimization



FOCUS OF THIS DISCUSSION

RESERVE ASSETS

Conservative, liability-aware allocation

- **Investment grade fixed income: 4.3%**
- **Short-duration fixed income: 3.8%**
- **Commercial paper / short-duration credit: 3.8%**
- **Municipal bonds (after-tax): 3.6%**
- **Cash & cash equivalents: 3.0%**

SURPLUS ASSETS

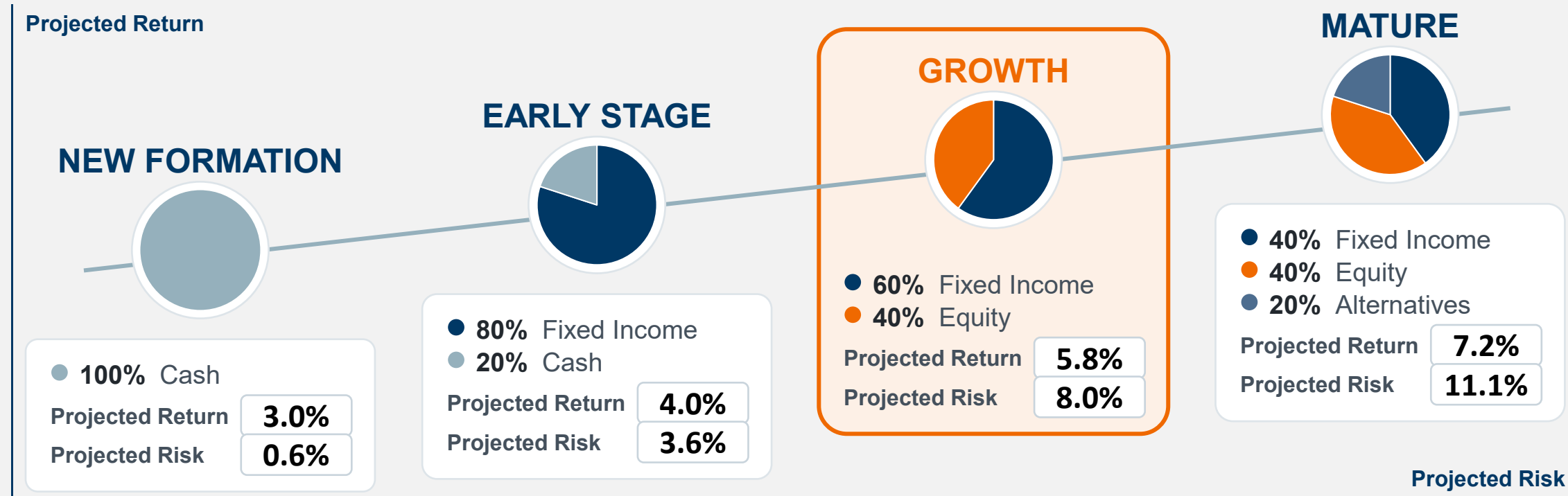
Growth assets

- **Private Equity: 11.5%**
- **Emerging Market Equity: 9.8%**
- **U.S. Equity: 8.0%**
- **High yield bonds: 6.2%**
- **Emerging market debt: 5.7%**
- **Investment grade fixed income: 4.3%**

Source: PNC 2026 10 Year Capital Market Assumptions, 10-year forecast of asset class performance, 2026–2035. Projected annual returns shown for representative indexes: Bloomberg US Aggregate (core), US Aggregate 1–3 Yr (short duration and commercial paper proxy), Municipal Bond 1–3 Yr and Municipal Bond, US Treasury Bellwethers 3M (cash), US Corporate High Yield, EM USD Aggregate; equity range spans US Large Cap (8.00%) through Emerging Markets (9.75%); private equity (11.50%). Asset classes listed are representative, not a recommendation. Projections are estimates and are not guarantees of future results.

A Captive's Investment Lifecycle

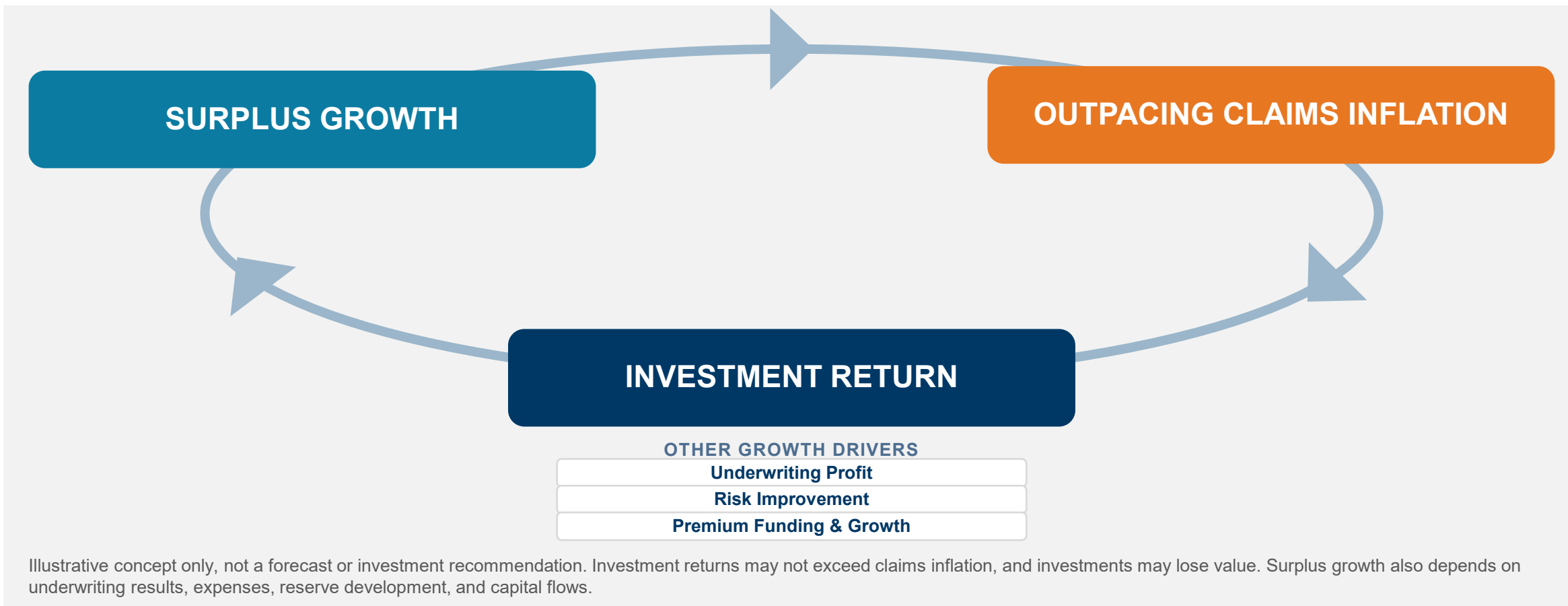
Understand where you are, plan where you want to go



Source: Investor Data and PNC Capital Market Assumptions. Asset-class proxies: Cash = 3-month U.S. Treasury bills. Fixed Income = intermediate-duration bonds. Equity = U.S. Large Cap Equity (S&P 500). Alternatives = private equity. Projected results are forward-looking, illustrative and for comparison only, not promises or estimates of actual results, and should not be relied upon for any purpose. See DISCLOSURE: Portfolio(s) Description, GLOSSARY, PORTFOLIO PERFORMANCE DISCLOSURES and PNC Capital Market Assumptions at the end of this report for portfolio, hypothetical-performance and assumption disclosures.

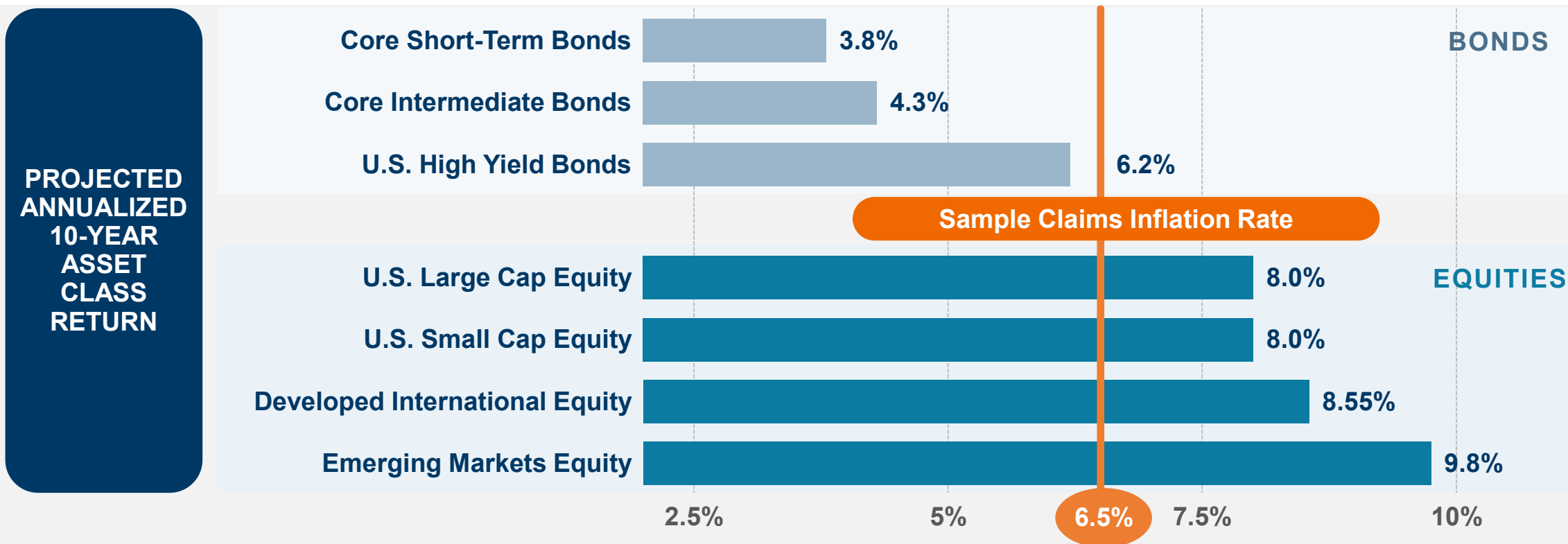
Positive Feedback Loop

Investment Returns Outpacing Claims Inflation



Outpacing Claims Inflation

Bonds vs. Equities



Asset class returns based on PNC's 10-Year Capital Market Assumptions.

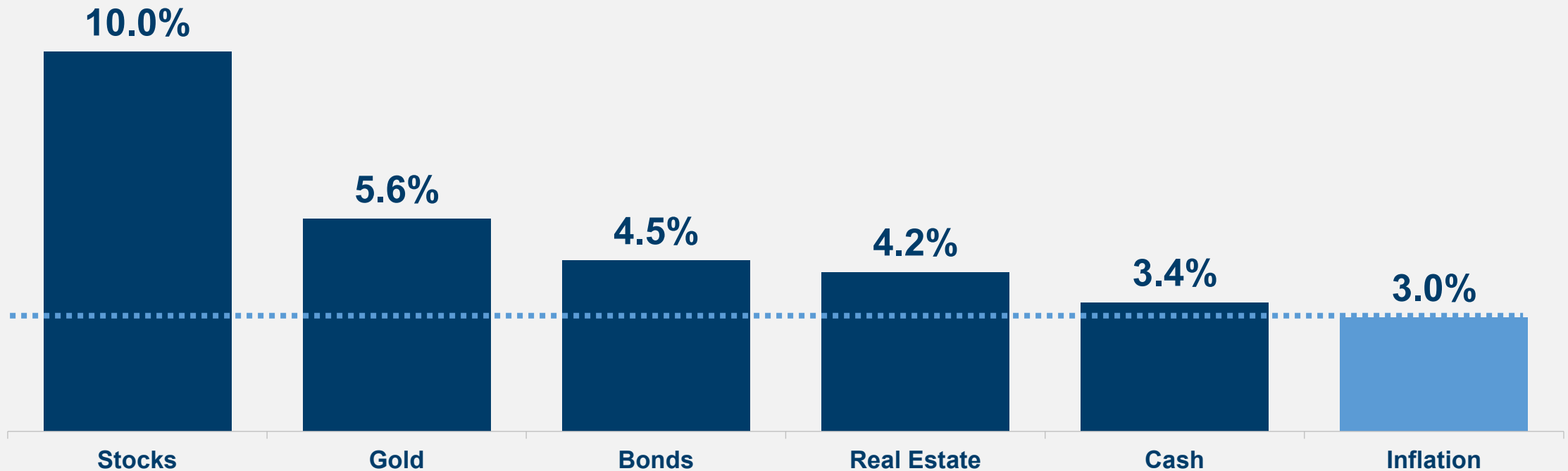
The 6.5% claims inflation rate is hypothetical and shown for illustration only. Actual claims inflation varies by coverage and captive. Projected returns are estimates, not guarantees, and investments may lose value.



Understanding Investment Risk

Asset Class Performance Since 1928

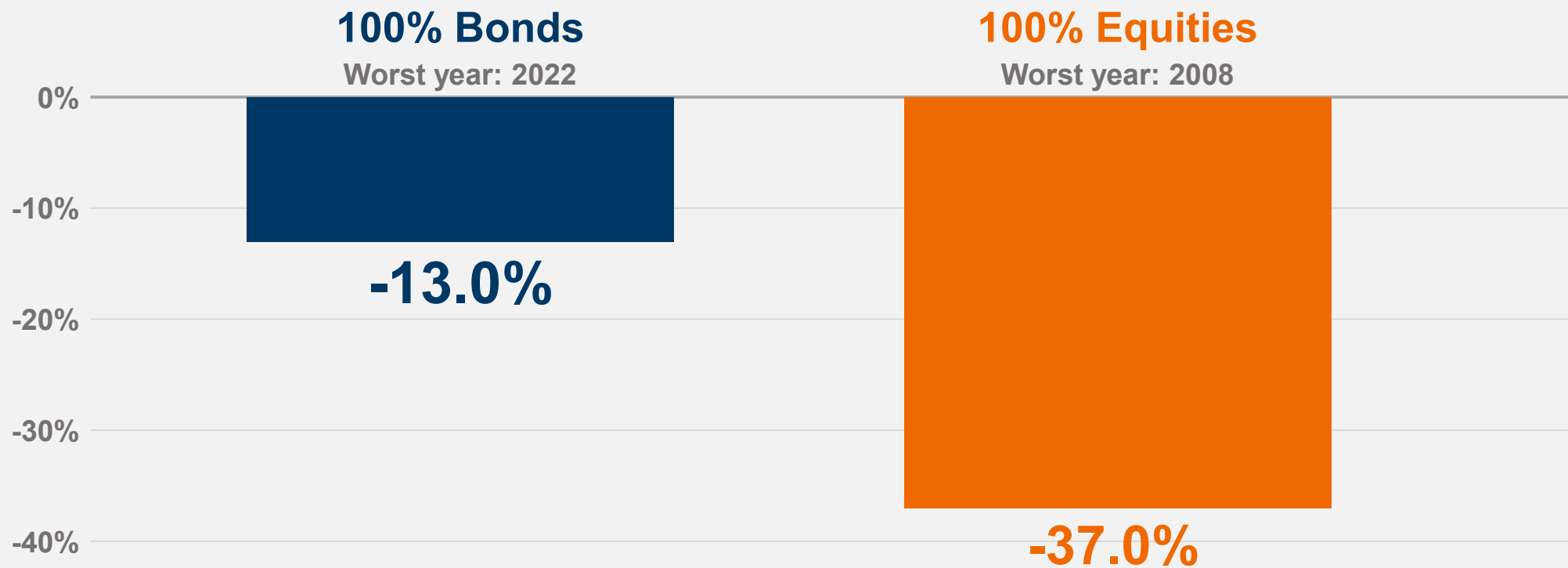
Annualized Returns of Various Asset Classes, 1928–2025



Stocks represented by the S&P 500 Index (total return); Bonds by 10-year U.S. Treasuries; Cash by 3-month U.S. Treasury bills; Housing by the Case-Shiller U.S. National Home Price Index; Inflation by CPI-U. Returns are annualized and nominal (not inflation-adjusted) and assume reinvestment of income; they do not reflect fees, expenses, or taxes, which would reduce results. Past performance is not a guarantee of future results. Indexes are unmanaged and cannot be invested in directly. For illustrative purposes only.

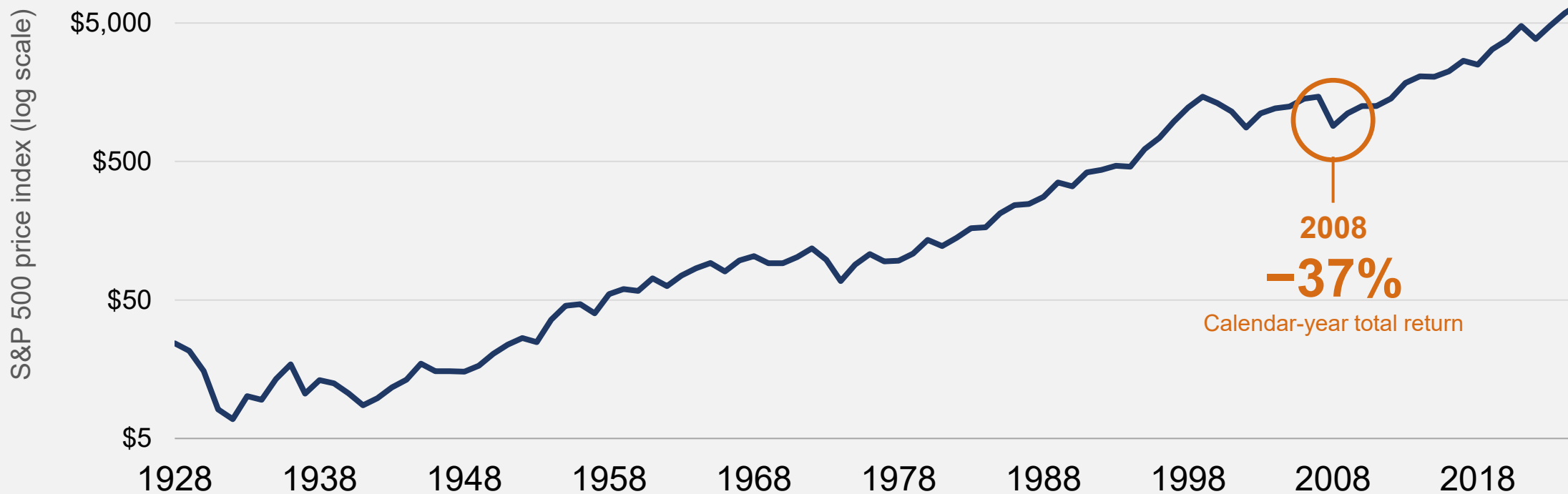
Worst Calendar Year Drawdown

Bonds vs. Equities



Worst single calendar-year total return since 1976 through 2025. Bonds = Bloomberg U.S. Aggregate Bond Index; Equities = U.S. Large Cap Equity (S&P 500). Past performance does not guarantee future results.

S&P 500 Historical Chart: 1928 - 2025

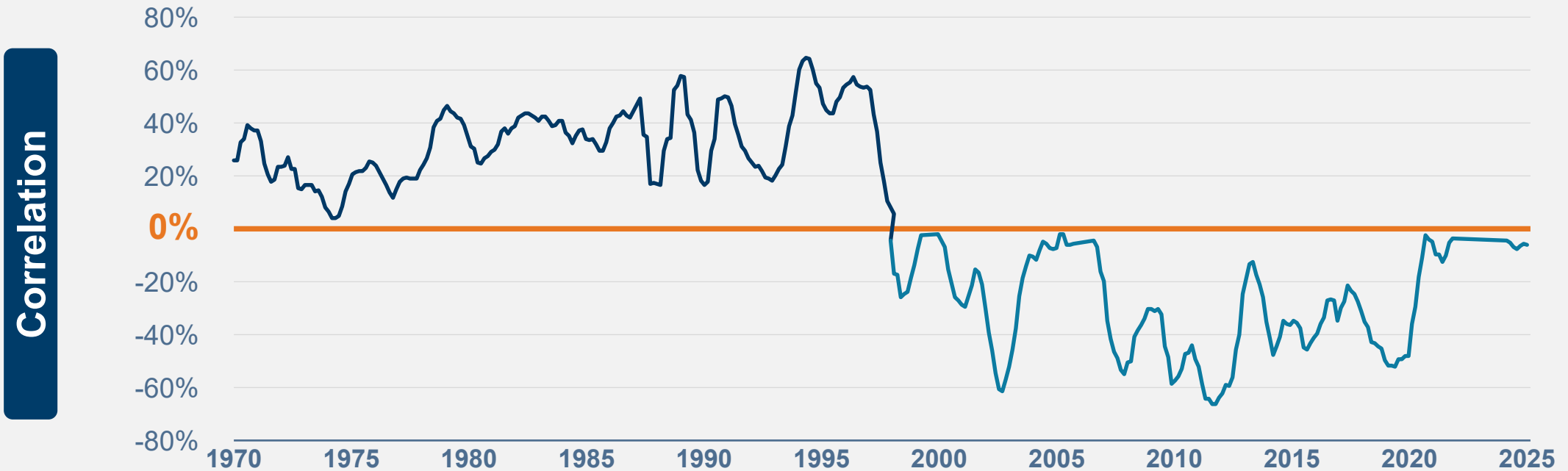


Sources: Macrotrends (1928–2024), CNBC (2025). Year-end closes through Dec. 31, 2025; price index excludes dividends. Past performance is not a guarantee of future results.

Equity Returns Typically Uncorrelated to Bond Returns



Historical Correlation of Bonds & Equity Returns (1-Year Rolling Periods)
1970–2025

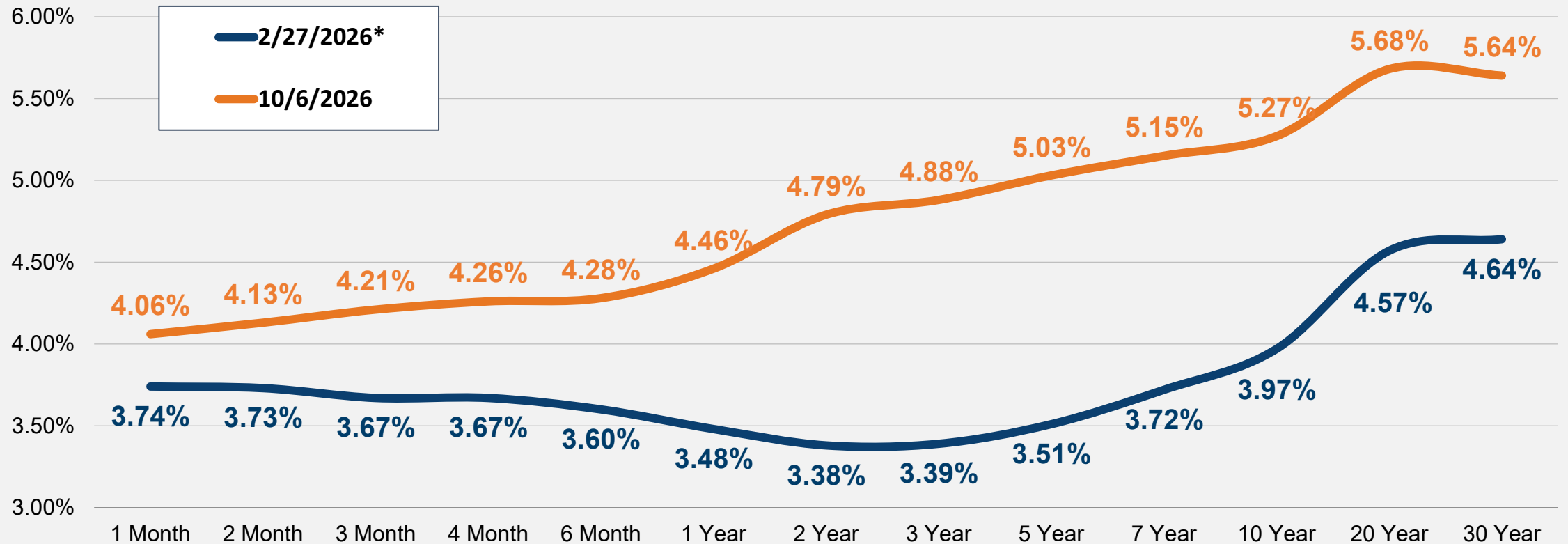


Source: BlackRock. As of 11/25/2025. The lines show correlation of daily U.S. Treasury returns and S&P 500 Index over rolling 1-year time periods. Correlations vary over time. Diversification does not guarantee a profit or protect against loss. Past performance does not guarantee future results.



Where to Start

Start with Bonds: Treasury Yield Curve Since Start of Iran Conflict



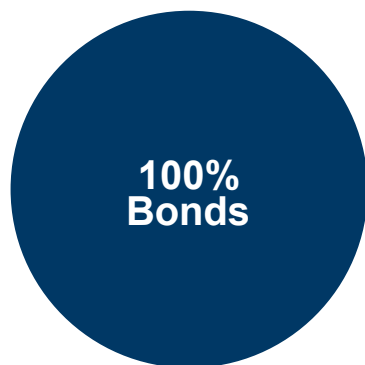
Source: U.S. Department of the Treasury, Daily Treasury Par Yield Curve Rates. *2/27/2026 reflects the last trading day before the start of the Iran conflict.

Adding Equities to Bond Portfolio

Projected 10-Year Risk and Return



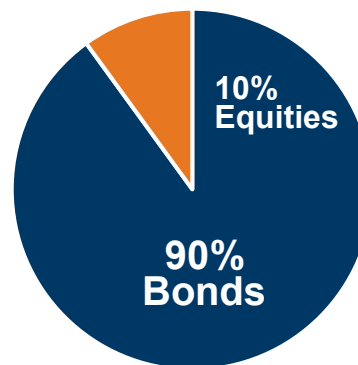
100% Bonds



Projected Return **4.28%**
Projected Risk **4.50%**

Baseline portfolio

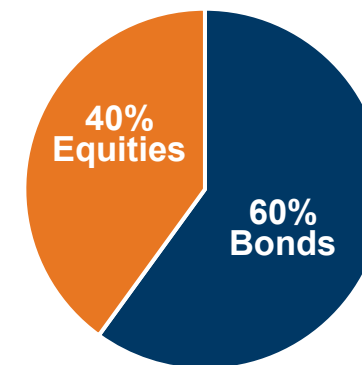
90% Bonds / 10% Equities



Projected Return **4.63%**
Projected Risk **4.78%**

vs. 100% Bonds: Return +0.35% | Risk +0.28%

60% Bonds / 40% Equities



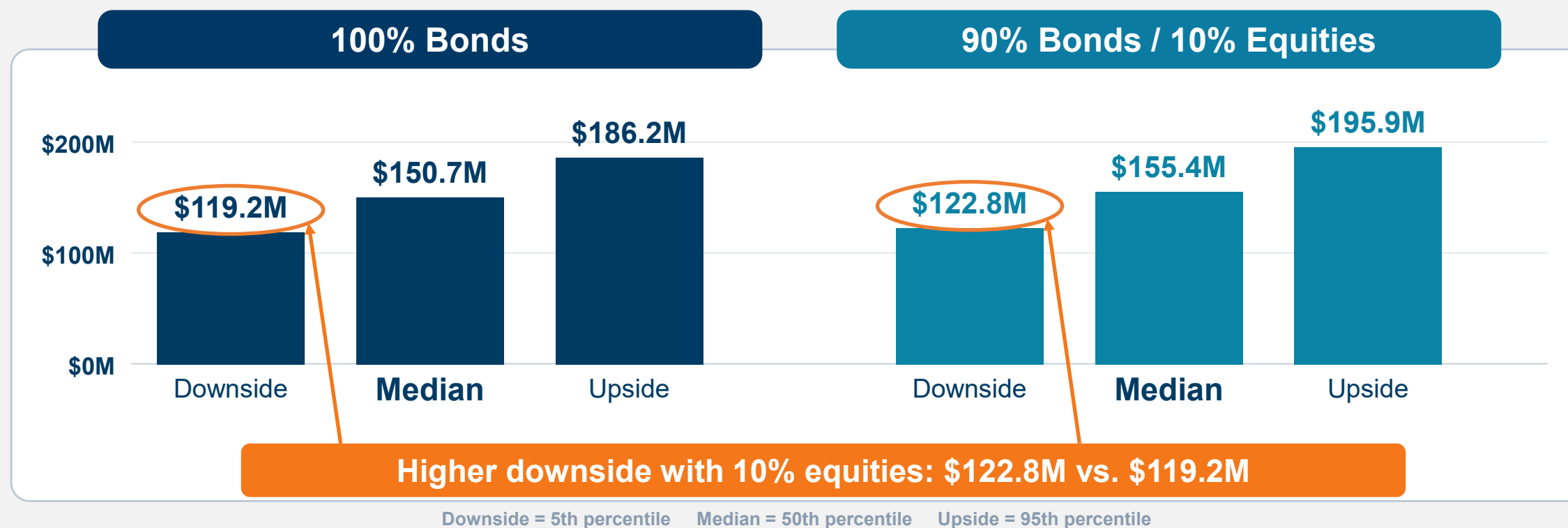
Projected Return **5.74%**
Projected Risk **8.01%**

vs. 100% Bonds: Return +1.46% | Risk +3.51%

Risk = standard deviation. Bonds = Intermediate duration bonds. Equities = U.S. Large Cap Equity (S&P 500). Source: Investor Data and PNC Capital Market Assumptions. See DISCLOSURE: Portfolio(s) Description and GLOSSARY at the end of this report for disclosures regarding the Portfolio(s) above. Projected results are based on the PNC Capital Market Assumptions, are forward-looking, are for illustrative and comparison purposes only, are not promised or estimates of actual results, and should not be relied upon for any purpose. See PORTFOLIO PERFORMANCE DISCLOSURES for disclosure regarding hypothetical performance and PNC Capital Market Assumptions at the end of this report.

Upside & Downside Improvement

10 Year Projected Market Value of \$100 Million Portfolio



Source: Investor Data and PNC Capital Market Assumptions. See DISCLOSURE: Portfolio(s) Description and GLOSSARY at the end of this report for disclosures regarding the Portfolio(s) above. Projected results are based on the PNC Capital Market Assumptions, are forward-looking, are for illustrative and comparison purposes only, are not promised or estimates of actual results, and should not be relied upon for any purpose. See PORTFOLIO PERFORMANCE DISCLOSURES for disclosure regarding hypothetical performance and PNC Capital Market Assumptions at the end of this report.

Where to Start



- 1 Consider captive's long-term investment strategy with management at inception**
- 2 Build flexible Investment Policy Statement for potential inclusion of growth assets**
- 3 Identify your worst-case scenario for short-term liquidity needs**
- 4 Understand investment restrictions, tax considerations, and regulations**

Questions?



Thank You!

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Extra Charts & Disclosures

Equities Following the Worst Months in Market History



S&P 500 total returns following the 10 worst months, 1928–2024

Date	Total Return	One Year	Five Years	Ten Years
September 1931	–29.7%	–9.6%	118.2%	84.7%
March 1938	–24.9%	35.2%	84.5%	207.1%
May 1940	–22.9%	8.0%	118.8%	263.8%
May 1932	–22.0%	131.3%	367.4%	218.1%
October 1987	–21.5%	14.7%	96.8%	387.1%
April 1932	–20.0%	54.5%	265.6%	130.0%
October 1929	–19.7%	–26.6%	–51.2%	–9.2%
February 1933	–17.7%	98.7%	154.6%	234.7%
October 2008	–16.8%	9.8%	102.6%	246.7%
June 1930	–16.3%	–23.4%	–32.8%	–15.6%
Average	–21.2%	29.3%	122.4%	174.7%

Average gain after the worst months: +29% in one year, +175% over ten.

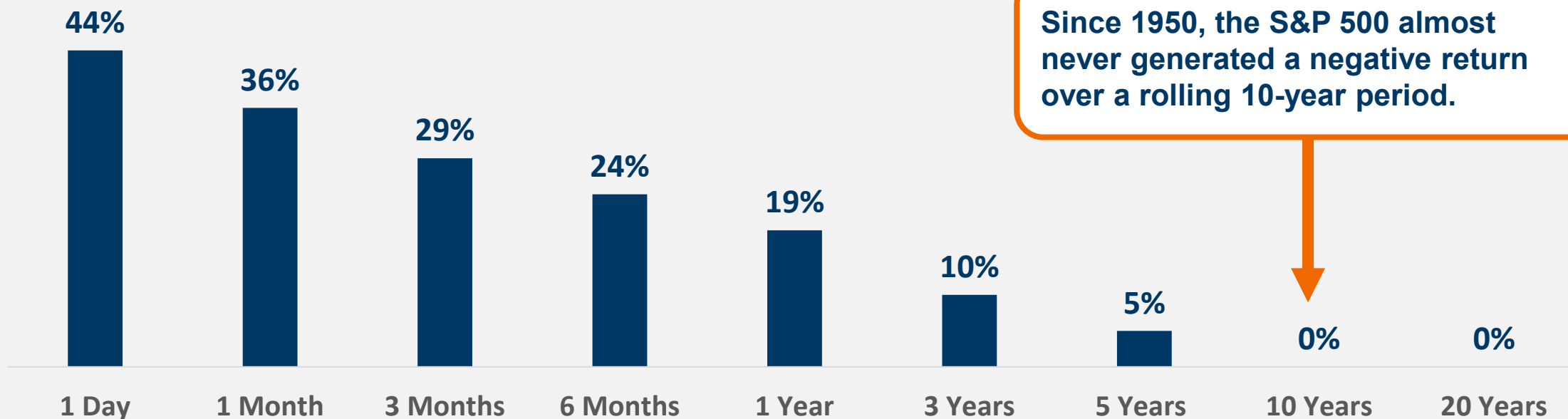
Source: Ben Carlson, Risk and Reward: How to Handle Market Volatility and Build Long-term Wealth (Harriman House, 2026).

Don't Be Afraid of Equities

Equities as a Principal Preservation Tool with Long Time Horizon



Frequency of a Negative Return In Equities
(S&P 500, 1950 - 2024)



Source: Ben Carlson, Risk and Reward: How to Handle Market Volatility and Build Long-term Wealth (Harriman House, 2026). Assumes dividends are reinvested. Based on monthly periodicity for all time periods except daily.

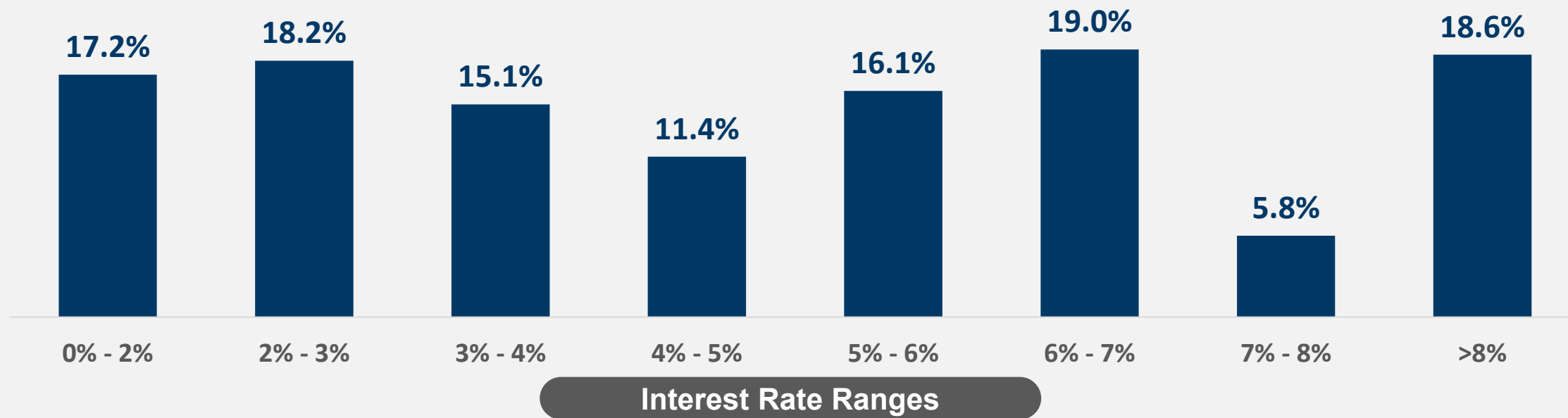
Protecting Against Higher Interest Rates

Equity Returns Across Interest Rate Environments



Since 1940, median annual S&P 500 returns were positive

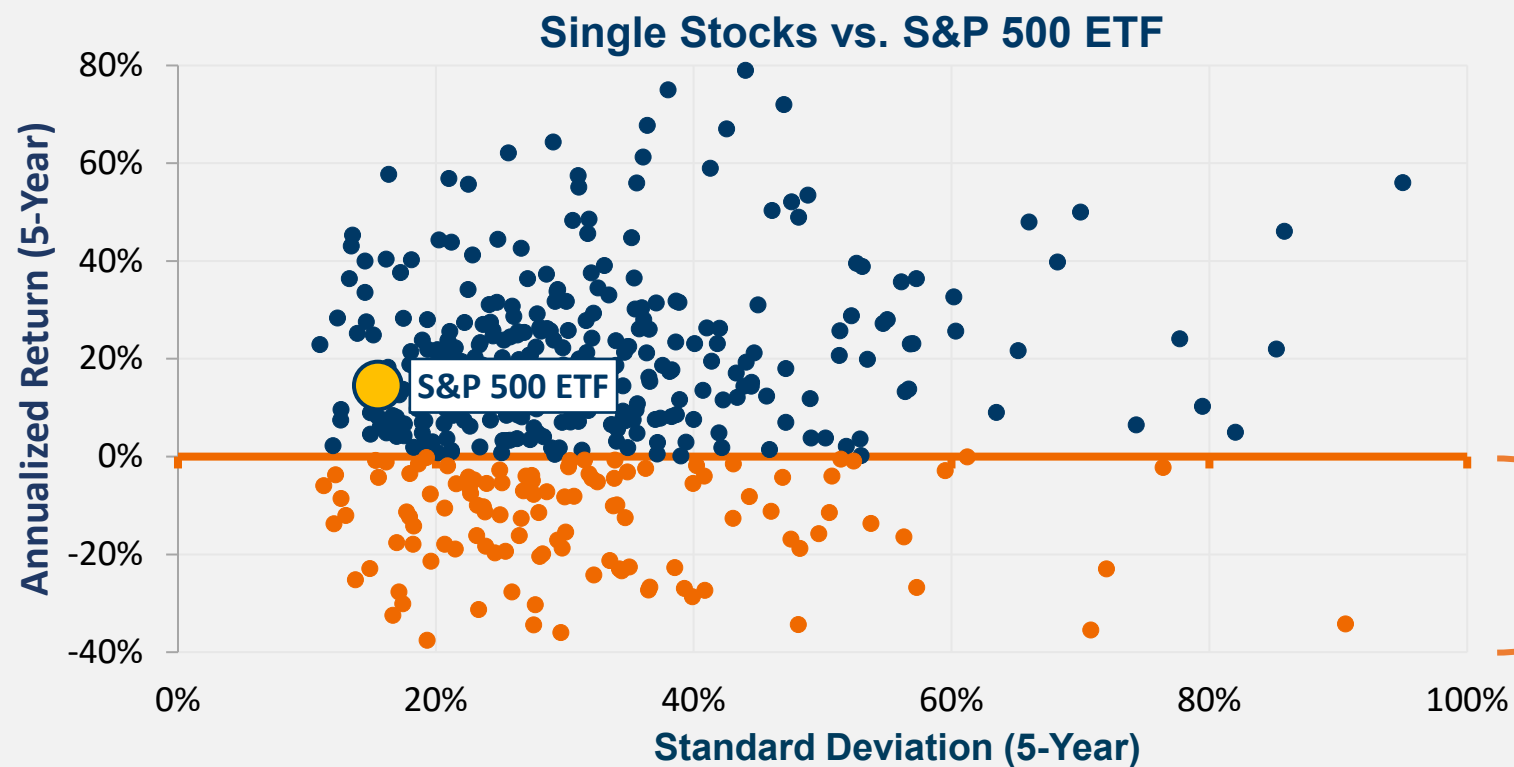
S&P 500 Median Annual Returns During Various Interest Rate Environments



As of June 2025, dating back to 1940. Interest rates based on 10-year Treasury yields.
Source: Goldman Sachs, Robert Shiller. How Do Higher Interest Rates Affect US Stocks?

Equities as “Tax Alpha”

Direct Indexing Provides Tax Optimization Capabilities



Key Benefits

**Transition & Onboarding
Flexibility**

Custom Exclusions / ESG

**Tax Loss Harvesting
(a.k.a. “Tax Alpha”)**

The performance data quoted presents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate, so an investor's shares, when redeemed, may be worth more or less than their original cost; current performance may be lower or higher than the performance data quoted. The most recent month-end performance data can be accessed at https://go.ycharts.com/fund_contact_info. Period ending 12/31/2025.

Capital Market Assumptions 2026



Capital market assumptions are key inputs for any asset allocation model. These assumptions represent PNC Bank's 10-year projections of risk and return (if Large Cap Core projected return is 8.00) or 30-year projections of risk and return (if Large Cap Core projected return is 7.38) for the respective asset classes. These estimates are updated on an annual basis (generally at the beginning of each year) and take into account economic fundamentals, long-term historical trends, as well as other relevant factors.

Description	Return	Standard Deviation	Dividend Yield	Turnover	Proxy
Equity					
Large Cap Core	8.00	17.25	1.20	5.00	LCC-S&P 500 TR in USD
Mid Cap Core	8.75	20.85	1.30	15.00	MCC-S&P Mid Cap 400 TR in USD
Small Cap Core	8.00	23.00	1.25	20.00	SCC-Russell 2000 TR Gross in USD
International Core	8.00	18.90	2.75	5.00	ILC-MSCI World ex USA TR Net in USD
International Small Cap	8.25	21.10	2.75	15.00	ISC-MSCI World ex USA Small Cap TR Net in USD
Emerging Market	9.75	24.80	2.35	5.00	IEM-MSCI EM IMI TR Net in USD
Global Equity	8.20	18.20	1.75	5.00	GE-MSCI AC World Index IMI TR Net in USD
Fixed Income					
Short Taxable	3.75	1.50	3.75	70.00	FST-Bloomberg US Agg 1-3 Yr TR Gross in USD unhedged
Short Municipal	2.80	1.50	2.75	90.00	FSM-Bloomberg Muni Bond 1-3 Yr TR Gross in USD unhedged
Core Intermediate Taxable	4.30	4.50	4.30	65.00	FCT-Bloomberg US Agg TR Gross in USD unhedged
Core Intermediate Municipal	3.60	5.05	3.60	65.00	FCM-Bloomberg Muni Bond TR Gross in USD unhedged
Core Long Taxable	5.10	11.40	5.10	30.00	FLT-Bloomberg US Agg Long Gov/Corp TR Gross in USD unhedged
Core Long Municipal	4.50	8.10	4.50	25.00	FLM-Bloomberg Muni Long 22+ Yr TR Gross in USD unhedged
Inflation Adjusted	4.00	6.20	4.00	35.00	FIA-Bloomberg US TIPS TR Gross in USD unhedged
US High Yield	6.20	10.40	6.20	45.00	FHY-Bloomberg US HY - Corp TR Gross in USD unhedged
Floating Rate Loans	6.00	8.00	5.95	100.00	FLO-Morningstar LSTA US Leveraged Loan 100 TR Gross in USD
International Bond	2.75	8.60	2.75	30.00	FIB-Bloomberg Global Agg ex-US TR Gross in USD unhedged
Emerging Market Bond	5.70	9.60	5.70	30.00	FIEM-Bloomberg EM Agg TR Gross in USD unhedged
Global Fixed Income	3.50	6.50	3.50	30.00	FGL-Bloomberg Global Agg TR Gross in USD unhedged
Cash	3.00	0.60	3.00	100.00	CSH-FTSE (3 M) T-Bill (LOC) TR Gross in USD
Alternative Assets					
Private Equity	11.50	21.50	0.00	100.00	APE-S&P Listed Private Equity Index PR in USD
Private Real Estate	9.25	15.00	0.00	25.00	APR-MSCI US REIT Index TR Net in USD
Private Debt	7.95	12.50	0.00	50.00	APD-Bloomberg US Cred Corp HY Caa TR Gross in USD unhedged
Real Assets Commodities	6.25	17.40	0.00	100.00	ACM-Bloomberg Commodity Index TR in USD
Real Assets Infrastructure	7.70	9.50	0.00	20.00	AIF - S&P Global Infrastructure - TR Net in USD
Real Assets Timber	5.00	7.20	0.00	10.00	ATM-S&P Global Timber and Forestry Index TR Net in USD
Inflation	2.25	1.25	0.00	-	CSH-FTSE (3 M) T-Bill (LOC) TR Gross in USD

Disclosures



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In preparing this Study, PNC Bank has relied, without any independent verification, on information provided by you (and your advisors and agents) verbally and in writing, regarding the securities held in, and/or the asset allocation of, your investment assets, as well as your investment goals, philosophy and risk tolerance levels (“Client Data”). Any change in Client Data would impact the results presented in this Study. PNC Bank assumes no obligation to verify or update any Client Data.

Disclosures (continued)



For definitions of Indices/Benchmarks used on Capital Market Assumptions slides in this presentation, please refer to www.pnc.com/indexdefinitions.

Projected returns in this presentation are shown gross of advisory fees and transaction costs; reflect reinvestment of dividends, interest and capital gain distribution and annual rebalancing. The effect of advisory fees on the portfolio could be material. If these fees were reflected, returns would be lower.

Important Disclosure Regarding Hypothetical Performance. Performance information in this Study is derived from one or more hypothetical investment portfolio(s) constructed by PNC Bank investment professionals for comparison purposes only. Performance results for the hypothetical portfolio(s) is highly dependent upon PNC investment personnel judgment and analysis and the assumptions stated herein as well as Client Data. References in this Study to future or expected returns are not promises or estimates of actual returns PNC Bank may achieve, are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation. Further, forecasts are hypothetical in nature and based on the Study Assumptions. Forecasts have inherent limitations because trades have not actually been executed. Forecasts results may under or over compensate for the impact of certain economic and market factors that would impact a manager's investment decision, all of which can adversely affect trading results.

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