



Protect and participate— with the CIF

The Captive Investors Fund represents a competitive advantage in captive investment management, using its scale to achieve results that captives would struggle to match on their own, says Scott Renninger of Captive Resources.

The Captive Investors Fund (CIF) is a Cayman Islands-domiciled mutual fund that was founded in 1994 for captive insurance company clients of Captive Resources (CRI). Raffles Insurance was the founding captive shareholder, with a \$10 million initial investment, with Churchill Casualty and Temporary Services Insurance joining soon after.

The CIF provides shareholders with an opportunity for improved returns with a balanced risk profile. With a theme of “protect and participate”, the CIF’s primary objective is the preservation of capital while earning a competitive risk adjusted return. Since inception, the annual investment return has averaged 5.8 percent.

In the spring of 2019 the CIF celebrated its 25th anniversary at its annual board of directors meeting. Given its record \$4.9 billion in assets—more than double its assets five years ago, and triple its assets eight years ago—there was much to celebrate.

Advantages and investment objectives

Just as captives provide shareholders greater control over their insurance costs, the CIF gives its shareholders control over their investment dollars. This control is a significant advantage for its shareholders. The CIF’s board of directors comprises representatives from captive insurance companies that have invested over \$10 million in the CIF, giving those captives direct insight and control over its management. The



board of directors makes all decisions relating to investment strategies, investment advisors, and the CIF's long-term direction.

Under its board's guidance, the CIF was designed to meet its group captive shareholders' investment objectives to:

- Preserve capital;
- Maintain high credit quality;
- Support outgoing letters of credit;
- Minimise risk through diversification;
- Provide monthly liquidity to pay distributions and/or claims; and
- Generate a favourable return on investment.

The CIF's significant scale has garnered attention and respect in the investment world, attracting quality investment opportunities from many of the world's best-in-class investment advisors at low institutional fees.

Fund asset classes adhere to specific limitations and minimum quality guidelines, meaning the CIF holds high quality and diverse securities that provide lower risk and volatility than market indexes. The CIF provides monthly subscriptions from, and liquidity to, its shareholders, and, as a result of its high quality investments, it has a high credit advance rate to support shareholder outgoing letters of credit.

This high advance rate allows participating captives to keep nearly all of their capital invested while maintaining minimum balances of low-yielding cash to pay claims and operating expenses. This is extremely attractive and a significant competitive advantage for the CIF shareholders.

Growth of the CIF

Since the CIF's founding in 1994, its growth has paralleled that of CRI's Cayman captive insurance clients. While CRI has grown to have 40 group captive clients, the CIF has grown to have 32 captive shareholders. It has achieved many milestones, which include exceeding \$4.9 billion in assets as a direct result of captive shareholder capital and premium growth. This growth has been fuelled by several unique factors, including:

Captive participation: as a captive increases its investment in the CIF, it can participate at higher levels of fund management, including securing a seat on the investment committee and board of directors.

Asset allocation: in order to achieve its investment objectives, the CIF's asset allocation includes US and global fixed income, equity and alternative assets. For each type of investment, the CIF further diversifies styles, sectors and securities by retaining world-class investment advisors. The board of directors establishes limits to each asset class and sets sector and style diversification guidelines. As a multi-manager fund, the CIF can rebalance between asset classes and strategies to maintain the desired balance and a below-market risk profile.



“BY PROVIDING PROTECTION TO SHAREHOLDERS IN DOWN MARKETS AND PARTICIPATING IN MARKET GROWTH, THE CIF PROVIDES SUPERIOR RISK-ADJUSTED RETURN.”

Sound management practices: holdings are constantly reviewed by a dedicated chief investment officer and investment staff, along with finance, accounting, and legal/compliance professionals at CRI to ensure fulfilment of investment guidelines. Supporting the investment objectives, the CIF follows tried and true risk management practices, including:

- Diversification across asset classes, sectors and securities;
- High credit quality and liquidity;
- Balanced endowment style manager of managers approach;
- Scale to retain best-in-class investment managers;
- Specific investment guidelines for each separate account;
- Periodic rebalancing to maintain the CIF's target risk profile;
- Active board of directors and investment committee oversight;
- World-class service providers; and
- Dedicated staff for continuous portfolio monitoring.

Active management: the US equity market is the most efficient market in the world and the CIF uses some US equity index exchange traded funds for low cost passive market exposure. However, credit markets and most international equity markets are not nearly as efficient. The CIF's scale allows it to retain leading investment managers at low institutional fees that rival the cost of bond funds and international indexes. Beyond cost, there is the matter of risk. The CIF's investment policies are more conservative than most index investments as it strives for market returns at less than market risk.

Separately, managed accounts allow the CIF to customise each asset with high quality, lower risk investment policies than passive indexes. Diversification is ensured through concentration limits and complete transparency allows investment professionals to monitor compliance. Over time, the CIF's higher quality helps to protect principal in down markets while it participates in rising markets.

As consultant to the CIF, CRI provides advisory and consultative services with respect to the coordination of its service providers. CRI also prepares and distributes monthly performance reports, holds quarterly investment committee conference calls and organises its board meetings and investment committee workshops. CRI and its sister company, Kensington Management Group, provide the CIF with considerable resources.

The CIF's outlook is bright. It will continue to benefit from substantial positive subscription flows driven by the health and growth of CRI's

Cayman-domiciled group captive clients. The CIF was established in the Cayman Islands to benefit from the island's professional community and to take advantage of Cayman tax and corporate laws. Furthermore, the Cayman Islands Monetary Authority is a strong regulator concerned first and foremost with protecting policyholders and shareholders, while being business-friendly.

Conclusion

With continued diligence and board leadership, the CIF will stay focused on delivering value to its shareholders. It is committed to delivering excellent annual returns by pooling captives' investible funds into high quality securities, managed by best-in-class investment advisors, under a disciplined asset allocation and risk management process, at low cost. By providing protection to shareholders in down markets and participating in market growth, the CIF provides superior risk-adjusted return.

All of us who serve the CIF, whether now or in the past, are proud of its 25-year heritage of reliable investment management tailored to the specific needs of Cayman Islands captive insurance companies. We are gratified by the hundreds of millions of dollars the CIF has contributed to its shareholder captive profits. It will continue to prosper as Cayman provides strategic advantages in a business environment where captives can grow and thrive. ●

Scott Renninger is chief investment officer at Captive Resources, and chairman of the Captive Investors Fund. He can be contacted at: srenninger@captiveresources.com

SHAREHOLDERS' BENEFIT

John Arnold, Raffles member and the CIF director, writes: "Raffles Insurance was the CIF's founding shareholder in 1994. Raffles was established in the Cayman Islands in 1984 with the goal of giving member companies control over their insurance and it has been extremely successful. An important part of handling Raffles' programme is managing investments. The CIF was designed to give Raffles and other captives the same control over investments that they have over their insurance.

"With a 25-year record of solid performance, growing scale, excellent leadership, quality governance, and engaged oversight by the fund's board of directors, the CIF will continue to be a phenomenal partner for Raffles and other shareholders."