Turning Liquidity Into Opportunity: A CIO's Perspective on Modern Insurance Investing

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As insurance companies navigate a more complex investment landscape, liquidity management has evolved from a defensive necessity into a strategic tool. Today's investment leaders must balance liquidity, capital efficiency, risk management, and return objectives while positioning portfolios to capitalize on future opportunities.

In this piece, Nico Santini, CFA, discusses how insurers are approaching portfolio construction in today's market environment. Drawing on more than two decades of experience managing insurance company assets, Santini shares how his investment philosophy has evolved, what he looks for in asset managers, and why he believes liquidity should be viewed as an asset that creates opportunities rather than simply a reserve for unexpected needs.

The discussion also explores the role of securitized credit and short-duration strategies within a modern liquidity framework, including the characteristics Santini values in investment solutions such as the Angel Oak UltraShort Income ETF (UYLD), an exchange-traded fund (ETF) on the NAIC's SVO-Identified Bond ETF List.[1] He highlights the importance of strong underwriting, experienced management, disciplined risk controls, and thoughtful portfolio construction when evaluating liquidity-oriented investments.

From building a tiered liquidity framework and evaluating alternative investments to navigating securitized credit and capital calls, the conversation offers practical insights for insurance executives seeking to build resilient, flexible portfolios.

Q: Nico, can you tell us about your background and your role at Coverys?

A: I currently serve as chief investment officer (CIO) at Coverys, a global medical malpractice insurer headquartered in Boston with operations in the U.K. and the EU. I oversee investment policy, strategic asset allocation, portfolio management, risk oversight, and investment accounting. My role is to ensure the investment portfolio supports Coverys' broader insurance objectives by generating returns while aligning with the company's liabilities, capital position, and liquidity needs.

Before joining Coverys, I spent 20 years at New England Asset Management (NEAM), where I worked in quantitative analysis, corporate bond trading, and portfolio management. I managed approximately $10 billion in insurance company portfolios across multiple jurisdictions and business lines. Following NEAM, I served as CIO of ProSight Global, helping formalize its investment strategy and build out its investment capabilities.

One of the most rewarding aspects of my career has been translating complex investment strategies into actionable recommendations for executive teams and boards. I enjoy developing investment solutions that align with an organization's objectives, capital requirements, and risk profile.

Q: How has your investment philosophy evolved?

A: The investment process has become far more institutional and forward-looking. Earlier in my career, insurance companies largely relied on high-quality corporate bonds and relatively static asset allocations. Today portfolio management is much more dynamic. We spend considerably more time on asset allocation, cash flow forecasting, stress testing, capital efficiency, and ensuring the investment strategy is aligned with enterprise-wide objectives.

While high-quality public fixed income remains the foundation of insurance portfolios, the modern tool kit has expanded significantly. Today it includes private credit, structured credit, the Federal Home Loan Bank (FHLB), margin banking strategies, tax credit investments, ETFs, and select opportunistic alternatives.

The key is leveraging a broader tool kit without abandoning the core insurance principles of liquidity management, capital preservation, downside protection, and strong governance.

Liquidity itself has become a strategic asset, particularly in an environment that continues to present compelling opportunities. Our philosophy is to partner with managers that employ dislocation strategies and provide capital when opportunities emerge. Even in downside scenarios, enhanced cash portfolios can maintain low volatility while generating yields comparable to core fixed income. That flexibility allows us to reposition portfolios efficiently and pursue opportunistic investments as they arise.

Q: What do you look for when selecting external asset managers?

A: Performance is important, but it is only one component of our evaluation process. We focus on whether a manager has:

- A repeatable investment process
- Strong underwriting discipline
- Robust risk controls
- High-quality reporting and transparency
- Deep insurance industry expertise

Beyond those qualifications, we look for what I call the X factor.

The best managers do more than simply manage assets; they also provide thought leadership. They understand how their strategies fit within an insurance company's balance sheet, capital framework, and overall portfolio construction process. We want to partner with managers who are intellectually curious, forward-thinking, and capable of helping our investment team become smarter over time.

Q: How do you frame liquidity for an insurance company, and what is your overarching philosophy on managing it?

A: Liquidity should not be viewed as idle cash. It should be viewed as a strategic asset.

When structured properly, a liquidity portfolio can simultaneously:

- Meet operational cash needs
- Preserve capital
- Generate attractive yields
- Enhance flexibility
- Capitalize on market dislocations

For insurers, the goal is to build a tiered liquidity framework that balances immediate access to capital with longer-term return objectives. When done well, liquidity becomes a competitive advantage rather than simply a defensive measure.

Q: How do you structure Coverys' liquidity portfolio?

A: Liquidity management starts with understanding the operating profile of the business. As we are a medical malpractice insurer, our liabilities tend to have a longer duration than those of many traditional property and casualty insurers. Furthermore, our industry often underwrites at a loss. This is simply a function of the business. We typically see combined ratios over 100, averaging around 107–108 and oftentimes over 115, driven by the types of claims we handle and the "nuclear verdicts" that occur.

Because of these high combined ratios, the investment portfolio tends to act as the ballast that counters the negative operating cash flow. Therefore, it is critical that we always have our finger on the company's cash flow pulse, as the portfolio supports our business.

We begin with a comprehensive forecast that incorporates:

- Claim payments
- Operating expenses
- Premium receipts
- Reinsurance cash flows
- Tax obligations
- Strategic initiatives such as acquisitions
- Future capital calls from private investment strategies

From there, we organize liquidity into four tiers.

Tier 1: Portfolio Cash Flow

The first source of liquidity is the interest income generated by the investment portfolio itself. This cash flow generally covers our routine operating needs and often provides excess liquidity beyond those requirements.

Tier 2: Immediate Liquidity

Given the potential for large medical malpractice claims, we maintain a significant amount of immediately available liquidity.

For this tier, we favor ultrashort income ETFs because they provide:

- Same-day or near-immediate liquidity
- Higher yields than traditional money market funds
- Minimal market volatility

We want liquidity to be functional while also generating attractive risk-adjusted returns.

Tier 3: Contingent Liquidity

The third tier is designed for anticipated but less-immediate needs, such as acquisitions or private investment capital calls.

For this bucket, we use separately managed accounts that follow enhanced cash strategies. These portfolios are investment-grade and highly liquid, though they may require several days to fully liquidate. In exchange for this modest liquidity trade-off, we generally earn higher yields.

Tier 4: Standby Liquidity

The fourth tier consists of highly liquid securities within the core portfolio combined with access to the FHLB. This serves as a backstop source of liquidity and helps reduce the likelihood of selling securities at a loss during periods of market stress. The ultimate objective is straightforward—avoid becoming a forced seller at the wrong time.

Q: As the market for cash alternatives evolves, many traditional strategies concentrate heavily in commercial paper or corporate credit. How do you view the role of high-quality securitized credit and products like the Angel Oak UltraShort Income ETF within a modern liquidity portfolio?

A: While there are many short-duration cash substitutes available today, what I find most compelling is high-quality securitized credit. I like these products when they are backed by strong collateral, sound structural protections, and real manager expertise.

The key is to properly underwrite the structure and its cash flow. You can't just reach for spread and assume complexity automatically creates value. You need a manager with the pedigree and resilience to navigate economic cycles without excessive volatility.

Frankly, that is why we really like the Angel Oak UltraShort Income ETF. It meets all of our criteria. When supported by a strong understanding of the underlying securitized products, shorter-duration structured securities make a great deal of sense and serve as a core component of our Tier 1 and Tier 2 liquidity capital.

Ultimately, no single strategy is an end-all, be-all. Instead, effective liquidity management relies on a combination of complementary approaches. We are comfortable accepting a modest degree of complexity in short-duration structured credit because the FHLB serves as a liquidity backstop, providing pure standby liquidity during periods of stress. This creates ballast on both ends, enabling us to build a holistic, resilient liquidity framework rather than rely on a single strategy.

Q: What innovations in liquidity management are most interesting to you today?

A: There has been substantial innovation in cash alternatives and short-duration investment strategies.

Investors today can choose from:

- Treasury bills
- Commercial paper
- Corporate bonds
- Short-duration high-yield strategies
- ETFs
- Structured credit strategies
- Enhanced cash portfolios

What's most important is not identifying a single solution; rather, it's about building a complementary framework. A well-designed liquidity portfolio combines these various strategies to serve different purposes. This holistic approach delivers strong risk-adjusted returns and the operational flexibility needed to navigate any market environment, ensuring the portfolio is never overly reliant on a single market dynamic.

For more information about Angel Oak Capital Advisors and its structured credit investment solutions, visit www.angeloakcapital.com.

DEFINITIONS & DISCLOSURES

Combined Ratio: A key property and casualty insurance metric that measures underwriting profitability by comparing claims and expenses to premiums earned, with a ratio below 100% indicating an underwriting profit and above 100% indicating an underwriting loss.

Investing involves risk; principal loss is possible. Investments in debt securities typically decrease when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower- rated and non-rated securities present a greater risk of loss to principal and interest than higher rated securities. Investments in asset-backed and mortgage-backed securities include additional risks that investors should be aware of including credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund is a recently organized investment company with limited operating history. As a result, prospective investors have a limited track record or history on which to base their investment decisions. Derivatives involve risks different from, and in certain cases, greater than the risks presented by more traditional investments. Derivatives may involve certain costs and risks such as illiquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. The Fund may use leverage, which may exaggerate the effect of any increase or decrease in the value of securities in the Fund's portfolio or higher and duplicative expenses when it invests in mutual funds, ETFs, and other investment companies. For more information on these risks and other risks of the Fund, please see the Prospectus.

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There is no guarantee that the investment objectives will be achieved. Past performance is not a guarantee or indicator of future results.

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