

GLOBAL INSURANCE STOCK REVIEW: FIRST HALF 2019

These are exciting times for holders of insurance stocks, whether institutional investors or insurance executives themselves. Approximately 70% of the world's insurance premiums are written by stockholder-owned insurers, so rising share prices provides added financial security to all stakeholders in the insurance value chain.

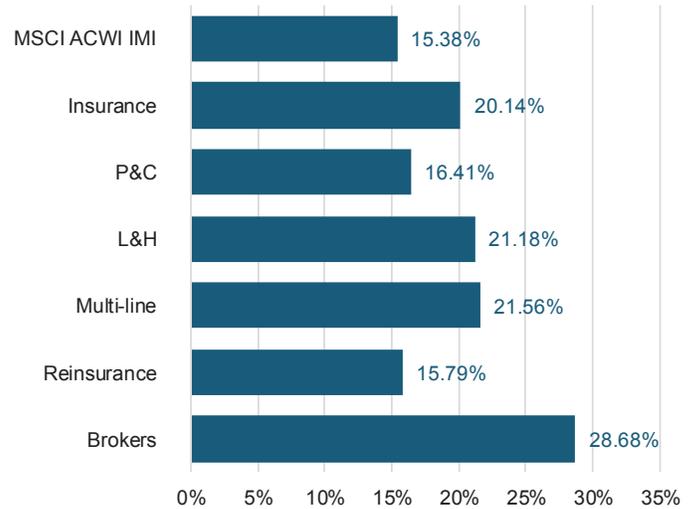
Global stocks continued their bull run in the second quarter of 2019, so that for the first half of the year the Morgan Stanley All Countries World Index rose 15% to a record high. Insurance stocks not only participated in the broad gain, as they did in the first quarter, but substantially outperformed in the second stanza. The IIS global insurance stock aggregate thus gained a robust 20% for the half year, with market-beating advances in every industry sector.

Insurance Brokers continued their performance dominance, climbing 27%. While mainstream brokers performed reasonably well, the stars were niche specialists. EHealth rocketed 124%, as the web portal/online marketplace for US government Medicare, Medigap and Medicare supplement plans saw its revenues soar. Brazilian broker Wiz Solutions jumped 79%, and controversial Chinese broker Fanhua gained 55% to lead the sector. Even the "laggard" insurance brokers did well: Gallagher, Crawford and Brown & Brown all gained 20% or more.

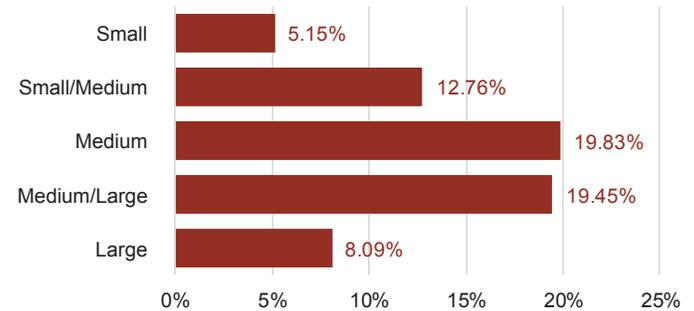
The next two industry sectors were closely bunched in performance for the half. Multi Line insurers, an increasingly endangered species around the world, added 22%. Notable sector leaders included both the large (AIG +37%, Axa and China Pacific both +29%) and the small (Israel's Menorah +45% and Norway's Gjensidige +36%). The number of Multi Lines continues to decrease as more companies choose to focus on either life or nonlife, depending on their particular competitive strengths.

RETURNS BY SECTOR*

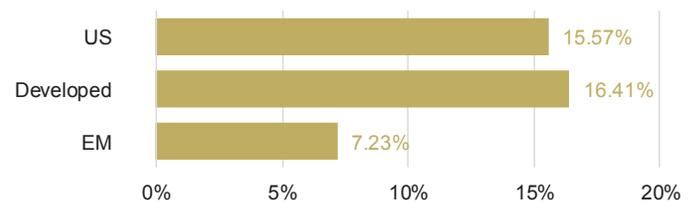
*Weighted Return



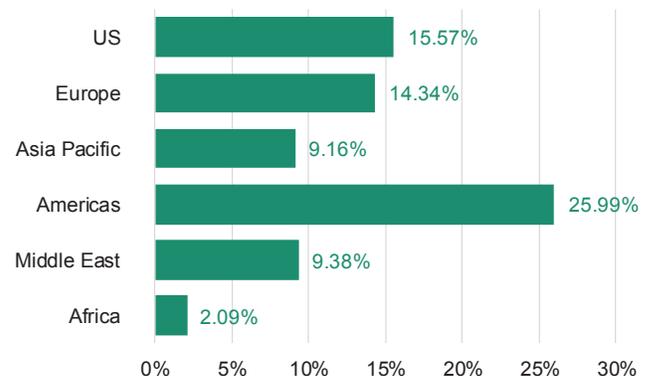
RETURNS BY MARKET CAP



RETURNS BY MARKET TYPE



RETURNS BY REGION



The Life & Health sector rose 21% for the first half. The top three leaders coincidentally all had a Pacific Ocean connection: China's giant Ping An was up 61%, Australian health insurer NIB Holdings gained 51%, and Seattle-based pet insurer Trupanion rose 42%. Fifteen Life and Health insurers were up more than 30% for the first half, the best showing for this sector in several years. The list of poor performing L&H issues featured mostly Asian names, with Korean and Chinese names most prominent.

The Property & Casualty sector gained 16% for the first six months of 2019. P&C carriers enjoyed higher investment income as portfolio yields increased, a relatively light catastrophe period, and a great deal of prior period reserve releases. Additionally, commercial rate levels were on the rise, although motor rates were down in a fiercely competitive personal lines environment around the world.

US insurers dominated this category, with 15 of the top 20 performers being American companies, all gaining more than 20%. Standouts included Erie Indemnity (up an astounding 93%), E&S specialist Kinsale (+65%) and both Arch and Progressive, which added about 38% each. By contrast, the list of P&C laggards was dominated by Asian insurers. Korean insurers slid precipitously: Hyundai M&F and Hanwha General were each down 33%, DB (previously Dongbu) was down 19% and Lotte Nonlife fell 14%. Rate competition is ruinous in the Korean market currently.

Reinsurers were the industry's least impressive performers for the first half, but even they were strong. Catastrophe experience was light, while rates were up following a storm driven poor 2018. Additionally, what seems like a long-term uptrend in extreme weather events has influenced many primary insurers to purchase higher reinsurance limits. Cat specialist Renaissance Re gained 34% and Hannover Re added 25% to pace the group. Maiden Holdings continues to struggle and fell 61% for the half. The only other double-digit decline was China Re, which slipped 11%. The fundamental and stock market performance of reinsurers is best viewed after "hurricane season", which only starts after mid-year, so first half performance doesn't count for very much.

Geographic performance differences were, as usual, widely dispersed. The Americas category had the top geo ranking (+26%), due entirely to Canada's Intact, Mexico's Qualitas Controladora and Brazil's IRB Re. The US added 16% and Europe was up 14%, led by many companies mentioned earlier. The Asia Pacific Region and the Middle East both lagged the averages, gaining approximately 9%. Africa was the outlier, where insurance stocks were up just 2%.

There is a great deal of concern now about the duration and valuation level of global equities markets. Stock performance has been so good for so long that a correction or reversion to mean performance is seen by many market watchers as inevitable. We certainly cannot forecast the stock market. We can observe that insurance stocks have, over the long term, tended to underperform in rising markets, especially when valuations are stretched, and to outperform when markets decline.

Despite their recent favorable performance, insurance stocks are in most cases moderately valued in terms of price/earnings and price/book value metrics. They may be viewed by the institutional investors who dominate the equities markets as relatively defensive holdings versus high flying and potentially vulnerable groups like technology, healthcare or energy.

Insurers around the world undoubtedly face major challenges, including extreme weather events, cyber security, chronic low interest rates, shifting demographics, providing a 21st century customer experience, attracting and retaining talent in a changing workplace, and the overarching imperative to narrow the protection gap: provide more protection to more people against more perils. How they deal with these fundamental issues will determine whose names we will most often see on either our Leaders or Laggards lists in future editions.

Mike Morrissey, CFA
President and CEO
August 2019

Leaders and Laggards: **Multi-Line**

LEADERS		
MENORAH MITTACHIM HOLDINGS LTD	Middle East	45.3%
AMERICAN INTERNATIONAL GROUP INC	US	37.0%
GJENSIDIGE FORSIKRING	Europe	36.1%
SUL AMERICA UNITS SA	Americas	35.4%
BALOISE HOLDING AG	Europe	33.1%
BAJAJ FINSERV LTD	Asia Pacific	33.1%
AXA SA	Europe	28.7%
CHINA PACIFIC INSURANCE (GROUP) LT	Asia Pacific	28.6%
TOPDANMARK	Europe	26.8%
HARTFORD FINANCIAL SERVICES GROUP	US	26.8%
UNIPOL GRUPPO FINANZIARIO	Europe	26.0%
CHINA PACIFIC INSURANCE (GROUP) LT	Asia Pacific	25.6%
ALLIANZ	Europe	25.1%
PHOENIX HOLDINGS LTD	Middle East	24.9%
ZURICH INSURANCE GROUP AG	Europe	23.9%

LAGGARDS		
SAGA PLC	Europe	-61.0%
AL RAJHI COMPANY FOR COOPERATIVE I	MAPPING REQ	-23.4%
IDI INSURANCE COMPANY LTD	Middle East	-23.4%
AMERICAN NATIONAL INSURANCE	US	-7.3%
NATIONAL GENERAL HOLDINGS CORP	US	-4.9%
PZU SA	Europe	0.1%
GRUPO CATALANA OCCIDENTE SA	Europe	0.5%
PORTO SEGURO SA	Americas	2.9%
HELVETIA HOLDING AG	Europe	4.9%
ASR NEDERLAND NV	Europe	5.8%
HORACE MANN EDUCATORS CORP	US	9.2%
UNIQA INSURANCE GROUP AG	Europe	10.4%
HELVETIA HOLDING AG	Europe	11.7%
MAPFRE SA	Europe	13.5%
FAIRFAX FINANCIAL HOLDINGS SUB VOT	Americas	13.7%

Leaders and Laggards: **Property & Casualty**

LEADERS		
ERIE INDEMNITY CLASS A	US	93.0%
KINSALE CAPITAL GROUP INC	US	65.0%
ARCH CAPITAL GROUP LTD	US	38.8%
PROGRESSIVE CORP	US	37.7%
QUALITAS CONTROLADORA	Americas	35.8%
CINCINNATI FINANCIAL CORP	US	35.5%
WR BERKLEY CORP	US	35.3%
TRYG	Europe	31.7%
KEMPER CORP	US	30.8%
ICICI LOMBARD GENERAL INSURANCE CO	Asia Pacific	30.5%
FIDELITY NATIONAL FINANCIAL INC	US	30.3%
JAMES RIVER GROUP HOLDINGS LTD	US	30.2%
INTACT FINANCIAL CORP	Americas	28.7%
TRAVELERS COMPANIES INC	US	26.3%
RLI CORP	US	25.0%
ALLSTATE CORP	US	24.4%
MERCURY GENERAL CORP	US	23.7%
SELECTIVE INSURANCE GROUP INC	US	23.6%
FIRST AMERICAN FINANCIAL CORP	US	22.3%
ALM BRAND	Europe	21.2%

LAGGARDS		
HYUNDAI MARINE & FIRE INSURANCE LT	Asia Pacific	-33.3%
HANWHA GENERAL INSURANCE LTD	Asia Pacific	-32.6%
UNIVERSAL INSURANCE HOLDINGS INC	US	-25.6%
DB INSURANCE LTD	Asia Pacific	-18.9%
HCI GROUP INC	US	-18.9%
ZHONGAN ONLINE P & C INSURANCE COR	Asia Pacific	-14.1%
LOTTE NON-LIFE INSURANCE LTD	Asia Pacific	-13.6%
UNITED INSURANCE HOLDINGS CORP	US	-13.5%
GLOBAL INDEMNITY LTD CLASS A	US	-13.2%
UNITED FIRE GROUP INC	US	-11.4%
CHOLAMANDALAM FINANCIAL HOLDINGS L	Asia Pacific	-10.2%
PROASSURANCE CORP	US	-9.5%
MERITZ FIRE & MARINE INSURANCE LTD	Asia Pacific	-8.8%
ANADOLU ANONIM TURK SIGORTA SIRKET	Middle East	-5.7%
SAMSUNG FIRE & MARINE INSURANCE LT	Asia Pacific	-4.1%
AMBAC FINANCIAL GROUP INC	US	-2.3%
THE PEOPLES INSURANCE CO (GROUP)	Asia Pacific	-1.3%
STEWART INFO SERVICES CORP	US	-0.8%
NAVIGATORS GROUP INC	US	0.8%
EMPLOYERS HOLDINGS INC	US	1.8%

Leaders and Laggards: **Life & Health**

LEADERS		
PING AN INSURANCE (GROUP) OF CHINA	Asia Pacific	60.5%
NIB HOLDINGS LTD	Asia Pacific	50.5%
TRUPANION INC	US	41.9%
CHINA LIFE INSURANCE LTD A	Asia Pacific	40.0%
MEDIBANK PRIVATE LTD	Asia Pacific	39.1%
PING AN INSURANCE (GROUP) CO OF CH	Asia Pacific	38.1%
POSTE ITALIANE	Europe	37.9%
PRINCIPAL FINANCIAL GROUP INC	US	33.9%
SWISS LIFE HOLDING AG	Europe	33.4%
SONY FINANCIAL HOLDINGS INC	Asia Pacific	32.8%
AIA GROUP LTD	Asia Pacific	31.6%
MANULIFE FINANCIAL CORP	Americas	30.7%
NEW CHINA LIFE INSURANCE LTD A	Asia Pacific	30.5%
PHOENIX GROUP HOLDINGS PLC	Europe	29.7%
IA FINANCIAL INC	Americas	29.6%

LAGGARDS		
JUST GROUP PLC	Europe	-38.9%
HANWHA LIFE INSURANCE LTD	Asia Pacific	-25.3%
GENWORTH FINANCIAL A INC	US	-20.4%
ANADOLU HAYAT EMEKLILIK A	Middle East	-19.3%
NATIONAL WESTERN LIFE GROUP INC CL	US	-14.5%
TONG YANG LIFE INSURANCE LTD	Asia Pacific	-11.9%
CHINA LIFE INSURANCE LTD	Asia Pacific	-10.9%
MASSMUTUAL MERCURIES LIFE INSURANC	Asia Pacific	-9.9%
CATHAY FINANCIAL HOLDING LTD	Asia Pacific	-9.8%
MIRAE ASSET LIFE LTD	Asia Pacific	-8.1%
MAX FINANCIAL SERVICES LTD	Asia Pacific	-7.5%
T&D HOLDINGS INC	Asia Pacific	-4.7%
DISCOVERY LTD	Africa	-4.2%
FUBON FINANCIAL HOLDING LTD	Asia Pacific	-4.0%
RAND MERCHANT INSURANCE HOLDING LT	Africa	-3.7%

Leaders and Laggards: **Reinsurance**

LEADERS		
RENAISSANCERE HOLDING LTD	US	33.7%
HANNOVER RUECK	Europe	24.8%
IRB BRASIL RESSEGUROS SA	Americas	22.3%
MUENCHENER RUECKV ERSICHERUNGS-GESE	Europe	20.3%
SWISS RE AG	Europe	17.3%

LAGGARDS		
MAIDEN HOLDINGS LTD	US	-61.2%
CHINA REINSURANCE (GROUP) CORP H	Asia Pacific	-10.7%
KOREAN REINSURANCE	Asia Pacific	-3.1%
GREENLIGHT CAPITAL LTD CLASS A	US	-1.5%
SCOR	Europe	1.7%

Leaders and Laggards: **Brokers**

LEADERS		
EHEALTH INC	US	124%
WIZ SOLUCOES E CORRETAGEM DE SEGUR	Americas	79%
FANHUA ADR INC	Asia Pacific	55%

LAGGARDS		
ARTHUR J GALLAGHER	US	20%
CRAWFORD CLASS A	US	20%
BROWN & BROWN INC	US	22%

** Source