

GLOBAL INSURANCE STOCK REVIEW: FIRST QUARTER 2020

What a difference a quarter makes! The share price levels and robust percentage gain statistics shown in our year-end report now seem implausibly high in the pandemic-driven world we now occupy. Most major equities indexes actually rose from year end levels through February, before COVID-19 emerged to savage lives and economies. As its fury became widely understood, the S&P 500 Index, as a good example, fell 30% in less than a month, with other market measures around the world plunging in a like manner. Beginning March 9, global fear about the spread of the coronavirus, the precipitous drop in oil prices, and the general shock about a looming recession/depression sent investors into a panic.

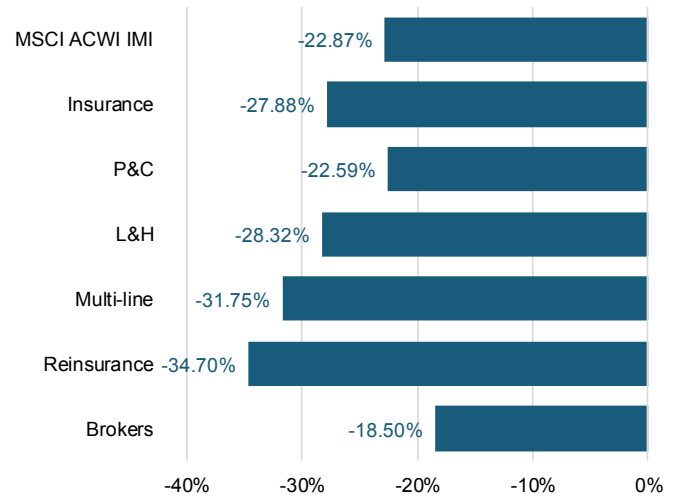
Insurance stocks did not escape this carnage, and actually performed worse than the overall markets. For the first quarter of 2020, the Morgan Stanley Capital International World Index declined 23%. The IIS Global Aggregate plunged 28% from year end 2019. All industry sectors, geographic areas and market cap tiers were down sharply. Globally, only a handful of insurance stocks even managed a gain; an unprecedented collapse.

The “least worst” industry sector for the quarter (I hesitate to call it the best) was Brokers, which were down nearly 19% as a group. EHealth was up 47% for the quarter, following a triple-digit gain in 2019, demonstrating that being a Medicare enrollment specialist is a safe place to be at this time. All the major brokers declined sharply; claims handler Crawford & Co. was the worst performer with a 37% drop in price.

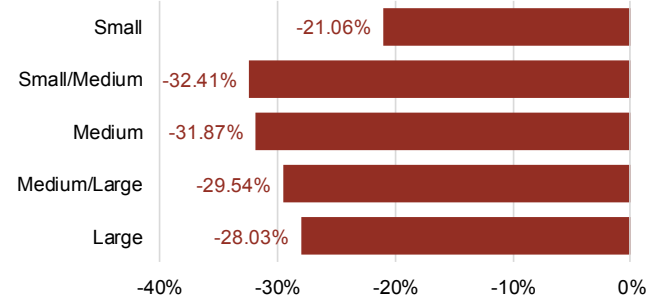
Property & Casualty stocks were the second ranking industry sector, with a 23% decline. The only true standout in the P&C group was Palomar Holdings, up 15%, whose narrow specialization in earthquake, wind and flood

RETURNS BY SECTOR*

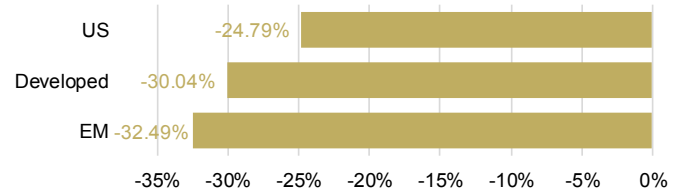
*Weighted Return



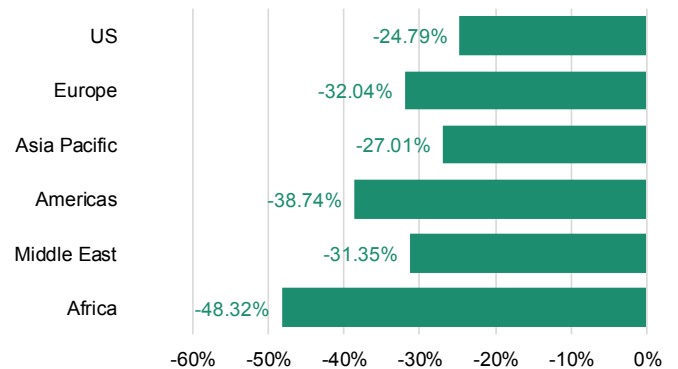
RETURNS BY MARKET CAP



RETURNS BY MARKET TYPE



RETURNS BY REGION



coverage was deemed relatively insulated from pandemic exposure by investors. The worst performing P&C stock was French credit insurer COFACE, which dropped an alarming 48%. Trade credit insurance is directly hit by the sharp decline in global trade related to the pandemic, and COFACE is totally dependent on that coverage.

There are many subsectors to the P&C sector, and performance diverged widely between them in Q1. Auto insurers fared relatively well: as the number of miles driven around the world plunged, as did accident frequency. Workers Comp insurers, on the other hand, are experiencing a sharp decline in premiums as policyholders' payrolls and inventories declined suddenly, requiring premium returns. P&C investors are also fearful that policymakers may force insurers to provide business interruption coverage to customers in this time of extraordinary economic stress, even though such coverage was not included or priced for in their policies.

The Life & Health sector ranked third in the industry with a 28% decline in value. Canada's Power Financial can claim a Pyrrhic victory for the quarter, as their 1% share rise was the only L&H issue to show any gain. L&H insurers in every part of the world were stricken, and in every industry niche. Suffering most of all was US bellwether Lincoln National, which fell an improbable 55% for the quarter. Mortality and morbidity levels are clearly soaring above long-term trends right now, and L&H investors are naturally spooked.

Multiline insurers fell nearly 32% for the quarter, relegating them to fourth place among industry sectors. Not a single ML insurer managed a gain; in fact, not one ML insurer was down less than 13%. Zurich Financial had the dubious distinction of "leading" the group, with a 13% drop. At the other end of the spectrum, UK older age specialist SAGA plc plummeted 70%, as being an insurer of older people in UK/Europe right now is not a good place to be, given their policyholders' increased exposure to the pandemic. Fifteen ML insurers were down more than 40% for the quarter, an historic rout.

The industry's worst performing sector for the quarter was Reinsurance, which slid 35%. There were only two kinds of performance within the group: bad and terrible. No reinsurer was down less than 23%. Enstar was the sector "leader" with that decline. Worst of all was former Brazilian state-owned reinsurer IRB Brasil Re, which collapsed 81%, rendering this privatization decision questionable. Not even the industry revered European pillars of the reinsurance business were spared the rout, as investors spurned anything related to the mainstream of the industry.

On a geographic basis, the US actually managed the least decline, with its shares down 25% in the aggregate. The Asia Pacific region saw its insurance stocks drop 27%, while European insurers fell 32%. Middle Eastern insurers were down 31%, and African insurers suffered an existential threatening 48% drop.

When I wrote, in my last quarterly review, "Continued strong performance for insurance stocks cannot be assured", I certainly never dreamed of the world and the stock market that would occur in the last few months. I am a five-decade long term investor in insurance stocks who has, over time, benefitted greatly from Baron Rothschild's 18th century maxim "Buy when there is blood in the streets", and I am utterly convinced that well managed and well financed insurance companies can design winning strategies for our changing world. But the post-pandemic world will look different than the one in which our industry has been operating recently. Think of our industry's customer base in retailing, hospitality, transportation, oil & gas, education, sports and entertainment, healthcare, the sharing economy and other sectors undergoing fundamental change. It's going to be a whole new world for insurers, and for those who invest in them.

Mike Morrissey, CFA

President and CEO

April 2020

Leaders and Laggards: **Life & Health**

LEADERS		
POWER FINANCIAL CORP	Americas	1.1%
ORANGE LIFE INSURANCE LTD	Asia Pacific	-3.2%
CITIZENS INC CLASS A	US	-3.4%
MERCURIES AND ASSOCIATES LTD	Asia Pacific	-6.6%
BUPA ARABIA	MAPPING REQUIRED	-11.1%
AIA GROUP LTD	Asia Pacific	-13.8%
JAPAN POST HOLDINGS LTD	Asia Pacific	-14.3%
FBL FINANCIAL GROUP INC CLASS A	US	-16.6%
PING AN INSURANCE (GROUP) CO OF CH	Asia Pacific	-16.9%
HUBEI BIOCAUSE PHARMACEUTICAL LTD	Asia Pacific	-17.3%
CATHAY FINANCIAL HOLDING LTD	Asia Pacific	-18.0%
FUBON FINANCIAL HOLDING LTD	Asia Pacific	-20.0%
NEW CHINA LIFE INSURANCE LTD A	Asia Pacific	-20.4%
PING AN INSURANCE (GROUP) OF CHINA	Asia Pacific	-20.4%
PHOENIX GROUP HOLDINGS PLC	Europe	-21.8%

LAGGARDS		
LINCOLN NATIONAL CORP	US	-55.1%
LIBERTY HOLDINGS LTD	Africa	-53.0%
OLD MUTUAL LIMITED LTD	Africa	-52.7%
CNP ASSURANCES SA	Europe	-50.8%
SANLAM LIMITED LTD	Africa	-49.3%
STOREBRAND	Europe	-49.2%
DISCOVERY LTD	Africa	-48.5%
UNUM	US	-48.0%
BANGKOK LIFE ASSURANCE PCL	Asia Pacific	-47.4%
ATHENE HOLDING LTD CLASS A	US	-47.2%
SAMSUNG LIFE LTD	Asia Pacific	-45.2%
AEGON NV	Europe	-44.4%
TONG YANG LIFE INSURANCE LTD	Asia Pacific	-44.2%
RAND MERCHANT INSURANCE HOLDING LT	Africa	-43.9%
PRUDENTIAL FINANCIAL INC	US	-43.7%

Leaders and Laggards: **Property & Casualty**

LEADERS		
PALOMAR HOLDINGS INC	US	15.2%
PROGRESSIVE CORP	US	5.3%
DONEGAL GROUP INC CLASS A	US	3.6%
KINSALE CAPITAL GROUP INC	US	2.9%
ANICOM HOLDINGS INC	Asia Pacific	-1.7%
AMERISAFE INC	US	-1.9%
RLI CORP	US	-2.1%
EMPLOYERS HOLDINGS INC	US	-2.4%
KEMPER CORP	US	-3.7%
HASTINGS GROUP HOLDINGS PLC	Europe	-3.8%
SAFETY INSURANCE GROUP INC	US	-7.7%
ZHONGAN ONLINE P & C INSURANCE COR	Asia Pacific	-8.5%
ADMIRAL GROUP PLC	Europe	-9.7%
STATE AUTO FINANCIAL CORP	US	-10.1%
ERIE INDEMNITY CLASS A	US	-10.2%
HCI GROUP INC	US	-11.1%
JAMES RIVER GROUP HOLDINGS LTD	US	-11.3%
DIRECT LINE INSURANCE PLC	Europe	-11.5%
SABRE INSURANCE PLC	Europe	-12.0%
GLOBAL INDEMNITY LTD CLASS A	US	-13.0%

LAGGARDS		
COFACE SA	Europe	-47.9%
ASSURED GUARANTY LTD	US	-47.1%
FIDELITY NATIONAL FINANCIAL INC	US	-44.5%
ARGO GROUP INTERNATIONAL HOLDINGS	US	-43.3%
HANWHA GENERAL INSURANCE LTD	Asia Pacific	-43.0%
AMBAC FINANCIAL GROUP INC	US	-42.8%
QBE INSURANCE GROUP LTD	Asia Pacific	-40.6%
LOTTE NON-LIFE INSURANCE LTD	Asia Pacific	-40.0%
SAMSUNG FIRE & MARINE INSURANCE LT	Asia Pacific	-39.9%
PROSIGHT GLOBAL INC	US	-39.6%
HISCOX LTD	Europe	-39.3%
QUALITAS CONTROLADORA	Americas	-38.3%
SUNCORP GROUP LTD	Asia Pacific	-36.9%
DB INSURANCE LTD	Asia Pacific	-36.9%
UNIVERSAL INSURANCE HOLDINGS INC	US	-35.5%
MERITZ FIRE & MARINE INSURANCE LTD	Asia Pacific	-35.1%
AXIS CAPITAL HOLDINGS LTD	US	-34.3%
STEWART INFO SERVICES CORP	US	-34.0%
ARCH CAPITAL GROUP LTD	US	-33.6%
LOEWS CORP	US	-33.6%

Leaders and Laggards: **Multi-line**

LEADERS		
ZURICH INSURANCE GROUP AG	Europe	-13.3%
HORACE MANN EDUCATORS CORP	US	-15.4%
TOPDANMARK	Europe	-18.3%
GJENSIDIGE FORSIKRING	Europe	-18.9%
ASSURANT INC	US	-20.2%
PHOENIX HOLDINGS LTD	Middle East	-20.7%
THE COOPERATIVE INSURANCE	MAPPING REQUIRED	-21.3%
MENORAH MIVTACHIM HOLDINGS LTD	Middle East	-22.8%
CHINA PACIFIC INSURANCE (GROUP) LT	Asia Pacific	-23.2%
UNIQA INSURANCE GROUP AG	Europe	-24.0%
AL RAJHI COMPANY FOR COOPERATIVE I	MAPPING REQUIRED	-24.3%
NATIONAL GENERAL HOLDINGS CORP	US	-24.9%
IDI INSURANCE COMPANY LTD	Middle East	-26.4%
CHINA PACIFIC INSURANCE (GROUP) LT	Asia Pacific	-26.7%
BALOISE HOLDING AG	Europe	-27.3%

LAGGARDS		
SAGA PLC	Europe	-70.1%
PROTECTOR FORSIKRING	Europe	-61.9%
SUL AMERICA UNITS SA	Americas	-56.1%
BAJAJ FINSERV LTD	Asia Pacific	-53.8%
AMERICAN INTERNATIONAL GROUP INC	US	-52.2%
SYARIKAT TAKAFUL MALAYSIA KELUARGA	Asia Pacific	-46.0%
PORTO SEGURO SA	Americas	-44.7%
CLAL INSURANCE ENTERPRISES LTD	Middle East	-44.5%
MIGDAL INSURANCE AND FINANCIAL HOL	Middle East	-44.4%
BB SEGURIDADE SA	Americas	-44.3%
GRUPO CATALANA OCCIDENTE SA	Europe	-41.9%
WATFORD HOLDINGS LTD	US	-41.8%
HARTFORD FINANCIAL SERVICES GROUP	US	-41.6%
AVIVA PLC	Europe	-40.1%
UNIPOL GRUPPO FINANZIARIO	Europe	-40.0%

Leaders and Laggards: **Reinsurance**

LEADERS		
ENSTAR GROUP LTD	US	-23.1%
RENAISSANCERE HOLDING LTD	US	-23.6%
KOREAN REINSURANCE	Asia Pacific	-23.9%
HANNOVER RUECK	Europe	-26.7%
CHINA REINSURANCE (GROUP) CORP H	Asia Pacific	-29.3%

LAGGARDS		
IRB BRASIL RESSEGUROS SA	Americas	-80.8%
REINSURANCE GROUP OF AMERICA INC	US	-48.2%
SCOR	Europe	-47.6%
GREENLIGHT CAPITAL LTD CLASS A	US	-41.1%
MUENCHENER RUECKVERSICHERUNGS-GESE	Europe	-32.7%

Leaders and Laggards: **Brokers**

LEADERS		
EHEALTH INC	US	47%
GOOSEHEAD INSURANCE INC CLASS A	US	5%
TQM CORPORATION PCL	Asia Pacific	-5%

LAGGARDS		
CRAWFORD CLASS A	US	-37%
FANHUA ADR INC	Asia Pacific	-23%
MARSH & MCLENNAN INC	US	-22%

** Source

* Source: MSCI/BBG/BlackRock; sector based on GICS; market type and region based on MSCI classifications; returns are simple average returns unless otherwise stated and may differ from other data sources; data as of 3/31/2020

** Source: MSCI/BBG/BlackRock; returns may differ from other data sources due to various considerations such as FX, (reverse) stock splits, dividends, and tax regime; returns in USD data as of 3/31/20