

## GLOBAL INSURANCE STOCKS LAG OVERALL MARKET IN Q1 2018

The world's equities markets declined slightly in the first quarter of this year, and insurance stocks underperformed even that lackluster showing. The Morgan Stanley All Countries World Index slipped 0.8%, while the IIS Insurance Stock Aggregate declined 1.4%.

Globally, Reinsurance stocks far outpaced the overall market, and Brokers outperformed as well. Reinsurers are enjoying solid premium growth in spite of persistent soft market conditions. There is some evidence that reinsurers and some primary commercial insurers are benefitting from “the pie getting larger”, as governments, corporations and other entities seek to narrow the protection gap between rising total economic losses and what had previously been covered by insurance. An example: the California Earthquake Authority increased its reinsurance purchases by nearly 60% at January 1. The brokers, of course, benefit directly from this trend as well. Reinsurers popped 7.8% in the first quarter, and Brokers gained 2.8%.

All other industry sectors fell in price. Property & Casualty shares slipped just fractionally (-0.2%), but Multi Line carriers were down 1.3% and Life & Health insurers, the industry worst performing sector by a wide margin, tumbled 3.8%.

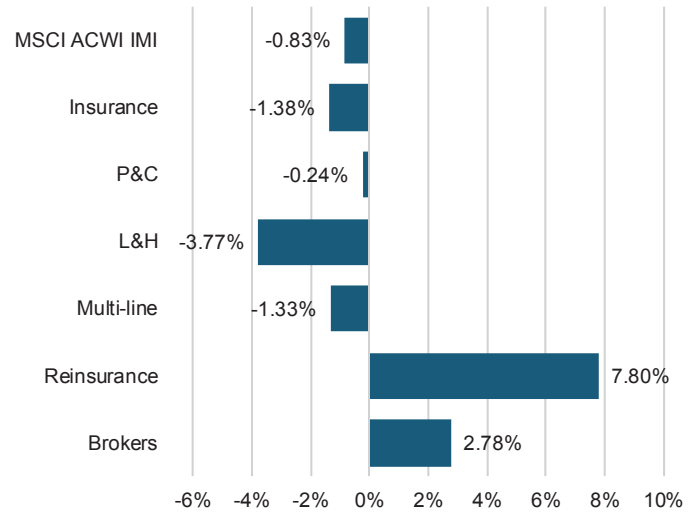
In terms of standard definition Market Types, US insurance stocks gained 1.2% for the quarter, while Developed Market insurance shares lost 0.3% and Emerging Markets insurers were down 0.6%.

The amplitude between the best and worst performing geographic regions was particularly wide in the first quarter. Americas' (excluding US) insurance shares rose 2.9%, but Asia Pacific insurers fell 3.7%. Chinese life insurers, under much greater scrutiny in the new regulatory regime, dominated the biggest loser tables.

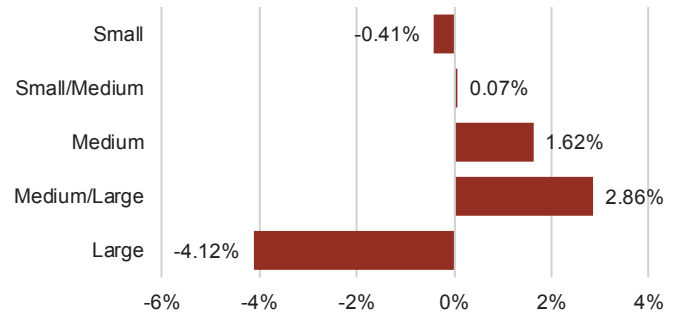
The amplitude of performance spread between best and worst performers was strikingly larger than usual in Q1. For instance, there were 12 insurance stocks in our aggregate up more than 20% in the period, led by takeover targets XL Group (up 58%) and Validus (up 45%), as well as more than 30 with double-digit declines.

### RETURNS BY SECTOR

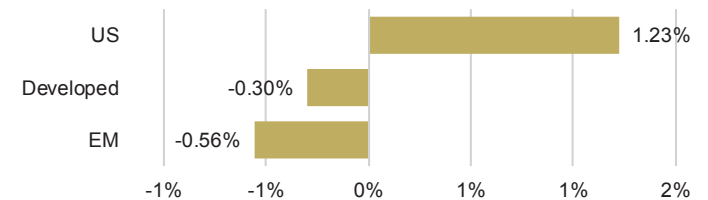
\*Weighted Return



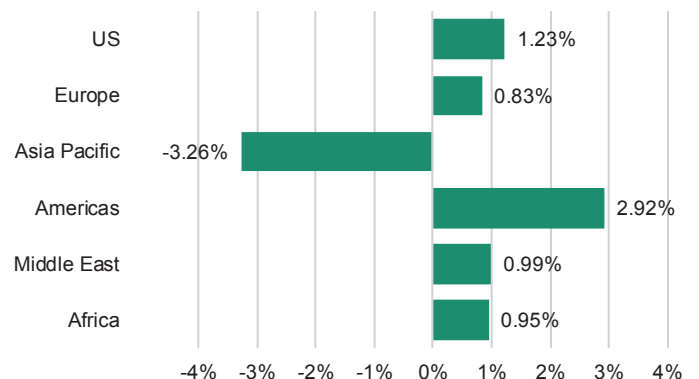
### RETURNS BY MARKET CAP



### RETURNS BY MARKET TYPE



### RETURNS BY REGION



There is no rising tide that lifts all ships in the insurance business these days; the performance gap between the innovative winners and the less progressive losers is widening.

Some of the first quarter's standout winners and losers attaining that status were event driven, like XL Group being acquired by AXA and Validus being taken over by AIG. Most very good or very bad stock movements were driven simply by fundamental trends evident in year end 2017 reported results.

In the case of P&C companies, the winners tended to be those who have demonstrated that they are still achieving real price increases via sophisticated rating models (e.g. HCI Group, Navigators, Kinsale, Axis). Losers tended to be those suffering a disproportionate share of catastrophe and non-cat property losses, like Global Indemnity, Heritage and Lancashire. There were quite a few earnings disappointments related at least in part to the dwindling ability to release reserves from prior years. For many, that earnings smoothing tactic is running out.

In the Life & Health area, the better performers tended to be those succeeding in attracting assets to manage through the sale of savings and retirement products, like Taiwan's Shin Kong, France's CNP and London's Old Mutual.

The poorer performers tended to be those selling interest rate spread products experiencing negative margins in this protracted low interest rate environment. Examples include New China Life, former MetLife agency unit Brighthouse Financial and Consec successor CNO Financial. Although rates and portfolio yields have bottomed out and are now rising, the gap will take years to close. The troubling backdrop to short term Life Insurer performance is a long term trend of weakening demand. Younger buyers, millennials in particular, simply don't ascribe the same value to life insurance as previous generations did, a problem the industry is struggling mightily to overcome.

**Mike Morrissey, CFA**  
May 2018

#### Leaders and Laggards: **Multi-line**

LEADERS		
PORTO SEGURO SA	Americas	33.8%
NATIONAL GENERAL HOLDINGS CORP	US	24.0%
SUL AMERICA UNITS SA	Americas	20.0%
UNIQA INSURANCE GROUP AG	Europe	9.4%
TOPDANMARK A/S	Europe	8.9%
VIENNA INSURANCE GROUP AG	Europe	7.9%
HAREL INSURANCE INVESTMENTS & FINA	Middle East	7.6%
ZURICH INSURANCE GROUP AG	Europe	7.5%
BB SEGURIDADE SA	Americas	6.1%
HELVETIA HOLDING AG	Europe	5.6%
AGEAS SA	Europe	5.4%
ASSICURAZIONI GENERALI	Europe	5.1%
UNIPOL GRUPPO FINANZIARIO SPA	Europe	4.0%
VITTORIA ASSICURAZIONI S.P.A.	Europe	4.0%
AMERICAN FINANCIAL GROUP INC	US	3.7%

LAGGARDS		
KEMPER CORP	US	-16.9%
AXA SA	Europe	-10.7%
ASSURANT INC	US	-8.8%
AMERICAN NATIONAL INSURANCE	US	-8.2%
AMERICAN INTERNATIONAL GROUP INC	US	-8.1%
HARTFORD FINANCIAL SERVICES GROUP	US	-8.0%
SAGA PLC	Europe	-7.2%
CHINA PACIFIC INSURANCE (GROUP) LT	Asia Pacific	-6.8%
MIGDAL INSURANCE LTD	Middle East	-5.0%
FAIRFAX FINANCIAL HOLDINGS SUB VOT	Americas	-3.5%
SYARIKAT TAKAFUL MALAYSIA BHD	Asia Pacific	-3.3%
GJENSIDIGE FORSIKRING ASA	Europe	-3.3%
BAJAJ FINSERV LTD	Asia Pacific	-3.1%
HORACE MANN EDUCATORS CORP	US	-2.4%
BALOISE-HOLDING LTD	Europe	-2.0%

### Leaders and Laggards: **Property & Casualty**

LEADERS		
XL GROUP LTD	US	57.8%
QUALITAS CONTROLADORA	Americas	48.8%
ANADOLU ANONIM TURK SIGORTA SIRKET	Middle East	32.3%
ANICOM HOLDINGS INC	Asia Pacific	29.9%
HCI GROUP INC	US	28.9%
MBIA INC	US	26.5%
AMTRUST FINANCIAL SERVICES INC	US	23.9%
NAVIGATORS GROUP INC	US	18.5%
UNIVERSAL INSURANCE HOLDINGS INC	US	17.2%
AXIS CAPITAL HOLDINGS LTD	US	15.3%
KINSALE CAPITAL GROUP INC	US	14.2%
BEAZLEY PLC	Europe	12.7%
INFINITY PROPERTY AND CASUALTY CORP	US	12.2%
UNITED INSURANCE HOLDINGS CORP	US	11.3%
ASPEN INSURANCE HOLDINGS LTD	US	11.2%
LOTTE NON-LIFE INSURANCE LTD	Asia Pacific	10.9%
SHINKONG INSURANCE CO. LTD.	Asia Pacific	10.8%
PROGRESSIVE CORP	US	10.5%
HANOVER INSURANCE GROUP INC	US	9.6%
ARGO GROUP INTERNATIONAL HOLDINGS	US	7.6%

LAGGARDS		
ALM BRAND	Europe	-22.1%
GLOBAL INDEMNITY LTD CLASS A	US	-17.3%
QATAR INSURANCE CO.	Middle East	-16.9%
HYUNDAI MARINE & FIRE INSURANCE LT	Asia Pacific	-16.4%
HERITAGE INSURANCE HOLDINGS INC	US	-15.6%
HASTINGS GROUP HOLDINGS PLC	Europe	-15.3%
PROASSURANCE CORP	US	-14.5%
MERCURY GENERAL CORP	US	-13.0%
QBE INSURANCE GROUP LTD	Asia Pacific	-11.0%
LANCASHIRE HOLDINGS LTD	Europe	-10.8%
JAMES RIVER GROUP HOLDINGS LTD	US	-10.6%
AMERISAFE INC	US	-10.0%
INTACT FINANCIAL CORP	Americas	-9.8%
ESURE GROUP HOLDINGS PLC	Europe	-9.7%
MERITZ FIRE & MARINE INSURANCE LTD	Asia Pacific	-9.5%
ALLSTATE CORP	US	-9.0%
PICC PROPERTY AND CASUALTY LTD H	Asia Pacific	-8.9%
EMPLOYERS HOLDINGS INC	US	-8.4%
DONEGAL GROUP INC CLASS A	US	-7.9%
DB INSURANCE LTD	Asia Pacific	-7.8%

### Leaders and Laggards: **Life & Health**

LEADERS		
POSTE ITALIANE	Europe	20.9%
SHIN KONG FINANCIAL HOLDING CO. LT	Asia Pacific	11.6%
MMI HOLDINGS LTD	Africa	9.4%
CNP ASSURANCES	Europe	8.8%
OLD MUTUAL PLC	Europe	7.0%
SONY FINANCIAL HOLDINGS INC	Asia Pacific	6.0%
LIBERTY HOLDINGS LTD	Africa	5.5%
AEGON NV	Europe	5.3%
JAPAN POST HOLDINGS LTD	Asia Pacific	5.1%
PHOENIX GROUP HOLDINGS	Europe	4.6%
SANLAM LIMITED LTD	Africa	2.5%
FBL FINANCIAL GROUP INC CLASS A	US	2.3%
TRUPANION INC	US	2.1%
CHINA LIFE INSURANCE CO. LTD.	Asia Pacific	2.1%
NN GROUP NV	Europe	2.0%

LAGGARDS		
NEW CHINA LIFE INSURANCE COMPANY L	Asia Pacific	-31.9%
MAX FINANCIAL SERVICES LTD	Asia Pacific	-25.0%
JUST GROUP PLC	Europe	-17.2%
WUESTENROT & WUERTTENBERGISCHE AG	Europe	-15.8%
ING LIFE INSURANCE KOREA LTD	Asia Pacific	-15.6%
INDUSTRIAL ALLIANCE INSURANCE AND	Americas	-13.4%
PRINCIPAL FINANCIAL GROUP INC	US	-13.0%
UNUM	US	-12.9%
CHINA LIFE INSURANCE LTD H	Asia Pacific	-12.4%
BRIGHTHOUSE FINANCIAL INC	US	-12.3%
CNO FINANCIAL GROUP INC	US	-11.9%
CHINA TAIPING INSURANCE HLDGS LTD	Asia Pacific	-11.8%
MEDIBANK PRIVATE LTD	Asia Pacific	-11.3%
POWER CORPORATION OF CANADA	Americas	-10.8%
MANULIFE FINANCIAL CORP	Americas	-10.6%

### Leaders and Laggards: **Reinsurance**

LEADERS		
VALIDUS HOLDINGS LTD	US	44.6%
EVEREST RE GROUP LTD	US	16.7%
RENAISSANCE HOLDING LTD	US	10.6%
HANNOVER RUECKVERSICHERUNG	Europe	8.8%
SWISS RE AG	Europe	8.4%

LAGGARDS		
GREENLIGHT CAPITAL A LTD	US	-20.1%
THIRD POINT REINSURANCE LTD	US	-4.8%
REINSURANCE GROUP OF AMERICA INC	US	-0.9%
MAIDEN HOLDINGS LTD	US	0.8%
SCOR SE	Europe	1.4%

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