

GLOBAL INSURANCE STOCK REVIEW: FIRST NINE MONTHS OF 2019

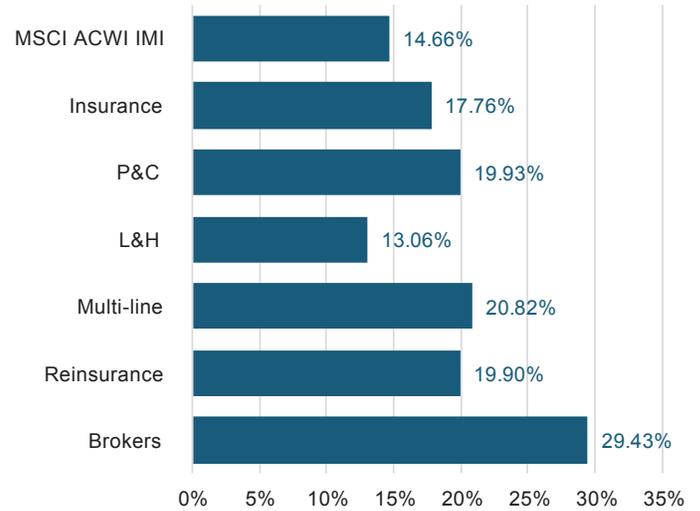
Insurance stocks around the world felt the markets' malaise in the third quarter of this year, and in fact significantly underperformed the overall market in most places. While the Morgan Stanley All Countries World Index edged downward just 1% for the quarter, insurance stocks lost more than 5%, a significant drop for any three month period. It should be noted, though, that the third quarter is most often the poorest performing quarter of the year for insurance stocks, as it includes peak hurricane season. For the first nine months of 2019 the MSCI index was up just under 15% and the IIS global aggregate increased about 18% thanks to its strong first half showing.

Although slipping just a bit in the third quarter, Insurance Brokers were far and away the industry's best performing sector for the nine months, advancing 29%. Medicare enrollment specialist EHealth soared 74% and Brazilian intermediary Wiz Solucoes jumped 68% to lead the group. Even the "laggards" among the Brokers were strong; for instance, at the very bottom of the sector were Arthur J Gallagher and Crawford & Co, which were both up 24%.

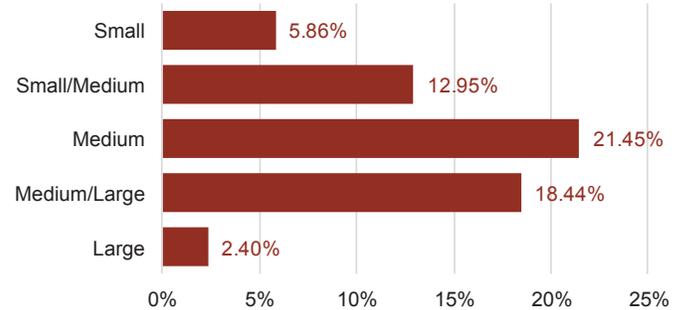
In a near tie for second and third place among industry sectors were Multi Line (+22%) and Life & Health (+21%) insurers. Brazilian Sul America gained 59% and Menorah Mivtachim of Israel was up 47%, both on strong first half earnings reports, to pace the Multi Lines. Asian insurers dominated the L&H sector. Private sector Indian carrier HDFC Life soared 54% as it continued to take share of market from the government owned life insurer, and China's giant Ping An continues to press its technology edge and rose 53% to pace the L&H sector.

RETURNS BY SECTOR*

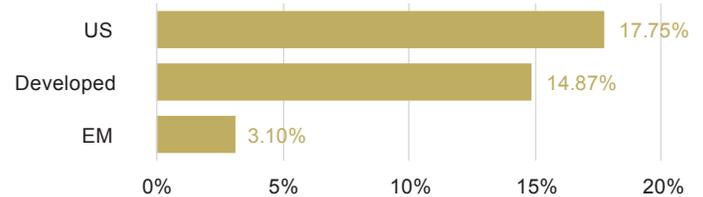
*Weighted Return



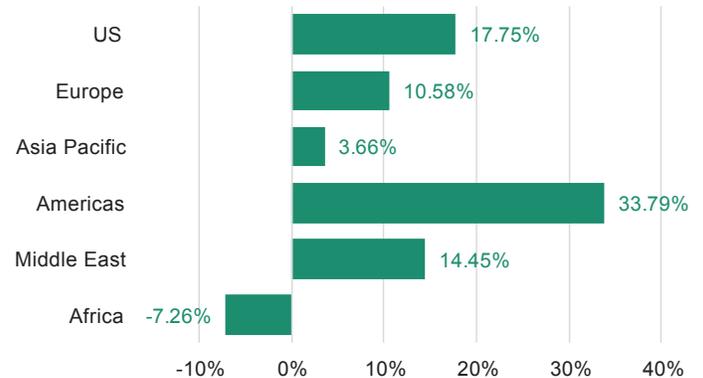
RETURNS BY MARKET CAP



RETURNS BY MARKET TYPE



RETURNS BY REGION



At the other end of the spectrum, both the ML and L&H sectors saw some sharp declines as well. British older age ML specialist Saga Group plunged 52%, and Korea's Hanwha Life dropped nearly 48% as new sales lagged. This amplitude of performance between best and worst performers is unusual.

Also tightly bunched in performance were the fourth ranked Property & Casualty group (+16%) and the fifth ranked Reinsurance group (+15%). These groups are typically closely linked. Emerging Excess and Surplus lines specialist Kinsale jumped nearly 87% as its earnings growth accelerated, and Mexican auto insurer Qualitas Controladora gained 74% after its initial move into the United States. Renaissance Re paced the Reinsurer group with a 46% gain, as it once again showed its expertise in arranging third party capital facilities.

P&C laggards were heavily represented by Korean insurers. Hanwha General, Hyundai F&M, DB Insurance, Lotte Non-Life and Samsung F&M were all down more than 20%. The only big loser among Reinsurers was beleaguered Maiden Holdings, which fell another 55% as its loss reserve troubles continue.

Thanks to the aforementioned outperformances by Brazilian and Mexican insurers in the third quarter, the Americas was by far the best performing geographic region, advancing 34% for the nine months. The US, which accounts for over 30% of the global insurance stock market capitalization, rose 18% through September. The Middle East gained over 14%, primarily on the strength of Israeli insurers' strong showing. Europe was up nearly 11%, and the previously mentioned free-fall in Korea reduced the performance of the Asia-Pacific region to a gain of just 9%. The small African insurance stock market continues to languish, declining 7% for the nine months. As in our comment about industry sectors, it is noteworthy that the range of performance between the spectacular showing of the Americas being up 34% and the 7% slide in Africa is most unusual.

Investors also showed a curious aversion to both the biggest and the smallest insurance stocks, as measured by market capitalization. The two worst performing Market Cap sectors were Large Cap (+2%) and Small Cap (+6%). Medium and Medium Large Cap insurers were up 21% and 18% respectively, as investors seemed to seek out values in less well-known companies and markets. This is evident in the relatively unfamiliar group of names that dominate the sector leader boards, as seen in the accompanying tables.

While we are not in the business of making market predictions, it is fair to make a few observations about the valuation of insurance stocks as an industry. First of all, the fourth quarter is most often the best performing quarter of the year for insurance stocks, as peak storm season is behind them. Second, insurance stocks are generally awarded lower price/earnings and price/book value multiples than the overall market, and are better, more defensive performers in flat to down markets.

At this late stage of the stock market's run (more than ten years on an upward trajectory, the longest bull market in history), more market strategists are recommending that their institutional fund manager clients rotate away from the recently high-flying growth stocks into more modestly priced value stocks. Value stocks, including most insurance stocks, are deemed to have attractive current valuations relative to their solid performance, with room to rise. Let's hope this view prevails!

Mike Morrissey, CFA
President and CEO
November 2019

Leaders and Laggards: **Multi-Line**

LEADERS		
SUL AMERICA UNITS SA	Americas	59.1%
MENORAH MITTACHIM HOLDINGS LTD	Middle East	46.6%
AMERICAN INTERNATIONAL GROUP INC	US	44.0%
ASSURANT INC	US	43.1%
HAREL INSURANCE INVESTMENTS & FINA	Middle East	40.5%
HARTFORD FINANCIAL SERVICES GROUP	US	38.7%
UNIPOL GRUPPO FINANZIARIO	Europe	37.9%
ZURICH INSURANCE GROUP AG	Europe	36.3%
PHOENIX HOLDINGS LTD	Middle East	35.6%
MIGDAL INSURANCE AND FINANCIAL HOL	Middle East	35.2%
BALOISE HOLDING AG	Europe	34.8%
GJENSIDIGE FORSIKRING	Europe	34.2%
BAJAJ FINSERV LTD	Asia Pacific	29.7%
AGEAS SA	Europe	29.5%
HORACE MANN EDUCATORS CORP	US	26.3%

LAGGARDS		
SAGA PLC	Europe	-52.1%
IDI INSURANCE COMPANY LTD	Middle East	-21.3%
PZU SA	Europe	-14.2%
GRUPO CATALANA OCCIDENTE SA	Europe	-13.1%
PROTECTOR FORSIKRING	Europe	-9.6%
NATIONAL GENERAL HOLDINGS CORP	US	-4.6%
ASR NEDERLAND NV	Europe	-1.6%
SAMPO	Europe	-1.5%
AMERICAN NATIONAL INSURANCE	US	-0.8%
AL RAJHI COMPANY FOR COOPERATIVE I	MAPPING REQ	0.6%
FAIRFAX FINANCIAL HOLDINGS SUB VOT	Americas	2.1%
MAPFRE SA	Europe	4.7%
UNIQA INSURANCE GROUP AG	Europe	7.1%
CLAL INSURANCE ENTERPRISES LTD	Middle East	7.1%
PORTO SEGURO SA	Americas	8.0%

Leaders and Laggards: **Property & Casualty**

LEADERS		
KINSALE CAPITAL GROUP INC	US	86.5%
QUALITAS CONTROLADORA	Americas	73.6%
ARCH CAPITAL GROUP LTD	US	57.1%
CINCINNATI FINANCIAL CORP	US	53.3%
WR BERKLEY CORP	US	48.5%
FIDELITY NATIONAL FINANCIAL INC	US	44.6%
JAMES RIVER GROUP HOLDINGS LTD	US	43.1%
ERIE INDEMNITY CLASS A	US	41.4%
INTACT FINANCIAL CORP	Americas	41.0%
ICICI LOMBARD GENERAL INSURANCE CO	Asia Pacific	38.4%
COFACE SA	Europe	36.5%
RLI CORP	US	35.8%
FIRST AMERICAN FINANCIAL CORP	US	35.3%
ALLSTATE CORP	US	33.6%
PROGRESSIVE CORP	US	33.3%
AXIS CAPITAL HOLDINGS LTD	US	31.0%
SOMPO HOLDINGS INC	Asia Pacific	27.6%
SAFETY INSURANCE GROUP INC	US	27.2%
CHUBB LTD	US	26.9%
TRAVELERS COMPANIES INC	US	26.3%

LAGGARDS		
HANWHA GENERAL INSURANCE LTD	Asia Pacific	-52.6%
HYUNDAI MARINE & FIRE INSURANCE LT	Asia Pacific	-40.2%
DB INSURANCE LTD	Asia Pacific	-31.8%
GLOBAL INDEMNITY LTD CLASS A	US	-29.3%
ZHONGAN ONLINE P & C INSURANCE COR	Asia Pacific	-26.2%
LOTTE NON-LIFE INSURANCE LTD	Asia Pacific	-25.3%
SAMSUNG FIRE & MARINE INSURANCE LT	Asia Pacific	-22.9%
UNIVERSAL INSURANCE HOLDINGS INC	US	-19.6%
MERITZ FIRE & MARINE INSURANCE LTD	Asia Pacific	-18.7%
HCI GROUP INC	US	-14.9%
UNITED INSURANCE HOLDINGS CORP	US	-14.7%
UNITED FIRE GROUP INC	US	-13.5%
CHOLAMANDALAM FINANCIAL HOLDINGS L	Asia Pacific	-7.9%
STEWART INFO SERVICES CORP	US	-4.1%
STATE AUTO FINANCIAL CORP	US	-4.0%
QATAR INSURANCE	Middle East	-2.6%
DIRECT LINE INSURANCE PLC	Europe	-0.9%
HISCOX LTD	Europe	0.9%
THE PEOPLES INSURANCE CO (GROUP)	Asia Pacific	1.3%
PROASSURANCE CORP	US	1.8%

Leaders and Laggards: **Life & Health**

LEADERS		
HDFC LIFE INSURANCE COMPANY LTD	Asia Pacific	53.8%
PING AN INSURANCE (GROUP) OF CHINA	Asia Pacific	52.8%
POSTE ITALIANE	Europe	49.1%
IA FINANCIAL INC	Americas	46.0%
NIB HOLDINGS LTD	Asia Pacific	41.4%
SUN LIFE FINANCIAL INC	Americas	38.6%
MEDIBANK PRIVATE LTD	Asia Pacific	35.8%
PRINCIPAL FINANCIAL GROUP INC	US	33.5%
POWER CORPORATION OF CANADA	Americas	33.5%
MANULIFE FINANCIAL CORP	Americas	33.4%
PING AN INSURANCE (GROUP) CO OF CH	Asia Pacific	33.2%
BUPA ARABIA	MAPPING REQ	33.2%
BRIGHTHOUSE FINANCIAL INC	US	32.8%
PRIMERICA INC	US	31.3%
CHINA LIFE INSURANCE LTD A	Asia Pacific	30.5%

LAGGARDS		
HANWHA LIFE INSURANCE LTD	Asia Pacific	-47.5%
JUST GROUP PLC	Europe	-44.4%
DISCOVERY LTD	Africa	-31.9%
TONG YANG LIFE INSURANCE LTD	Asia Pacific	-25.5%
RAND MERCHANT INSURANCE HOLDING LT	Africa	-21.1%
SAMSUNG LIFE LTD	Asia Pacific	-19.0%
CHINA TAIPING INSURANCE HLDGS LTD	Asia Pacific	-18.3%
JAPAN POST HOLDINGS LTD	Asia Pacific	-16.1%
BANGKOK LIFE ASSURANCE PCL	Asia Pacific	-15.2%
OLD MUTUAL LTD	Africa	-13.6%
ANADOLU HAYAT EMEKLILIK A	Middle East	-13.4%
AMERICAN EQUITY INVESTMENT LIFE HO	US	-13.4%
MIRAE ASSET LIFE LTD	Asia Pacific	-12.7%
CHINA LIFE INSURANCE LTD	Asia Pacific	-12.0%
CATHAY FINANCIAL HOLDING LTD	Asia Pacific	-11.4%

Leaders and Laggards: **Reinsurance**

LEADERS		
RENAISSANCERE HOLDING LTD	US	45.6%
HANNOVER RUECK	Europe	30.6%
IRB BRASIL RESEGUROS SA	Americas	29.2%
ALLEGHANY CORP	US	28.0%
EVEREST RE GROUP LTD	US	24.4%

LAGGARDS		
MAIDEN HOLDINGS LTD	US	-54.5%
CHINA REINSURANCE (GROUP) CORP H	Asia Pacific	-18.7%
KOREAN REINSURANCE	Asia Pacific	-14.0%
SCOR	Europe	-4.0%
THIRD POINT REINSURANCE LTD	US	3.6%

Leaders and Laggards: **Brokers**

LEADERS		
EHEALTH INC	US	73.8%
WIZ SOLUCOES E CORRETAGEM DE SE	Americas	68.2%
AON PLC CLASS A	US	34.1%

LAGGARDS		
ARTHUR J GALLAGHER	US	23.4%
CRAWFORD CLASS A	US	24.9%
FANHUA ADR INC	Asia Pacific	25.1%

** Source