

9 MONTHS OF 2018: INSURANCE STOCKS CONTINUE TO UNDERPERFORM

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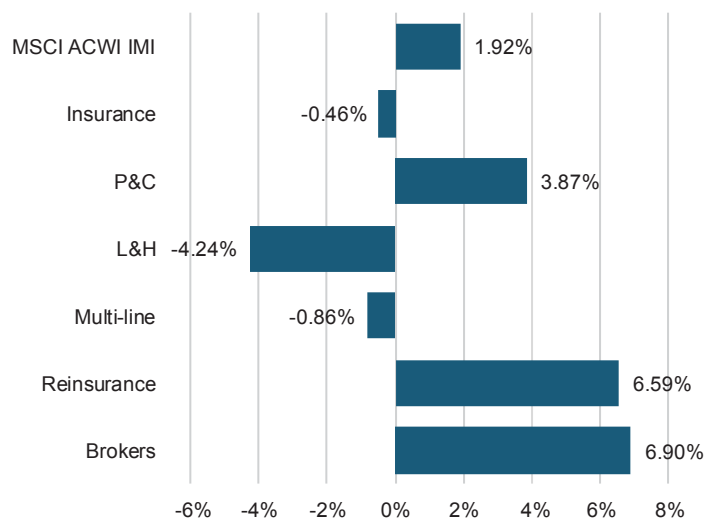
Global insurance stocks rallied modestly in the third quarter of this year, narrowing their substantial mid-year underperformance, but still falling short of broad market indexes for the first three quarters of 2018. The Morgan Stanley All Countries World Index, capturing more than 95% of the world's equity market capitalization, rose 1.9% for the first nine months of this year. Insurance stocks were down nearly 0.5% in the aggregate. This performance is nothing to celebrate, but at least the third quarter itself was positive for insurance stocks, after three consecutive quarters of lagging the overall market. As always, there were wide differences in performance by industry sector, geography and size, which we will comment upon herein.

Sectors related to Property & Casualty world continued to be the industry's best performers by far. Insurance Brokers advanced 6.9%, led by Aon's nearly 20% rise. Reinsurers added 6.6%, led by event-driven situations. IRB Brasil went public over the summer, and has soared 67% since its IPO. Validus rose 47%, due to its takeover by AIG, and SCOR gained 21% as speculation about its unwelcome takeover bid swirled. Conventional P&C insurers gained 3.9%, led by one takeover stock surge (XL rose 65% due to its takeover by AXA) and two small cap Florida homeowners insurance specialists: Universal Insurance (+80%) and HCI Group (+50%). Takeover surges were evident among the P&C leaders in addition to XL Group; Navigators and Infinity were also top performers. Consolidation in the industry is accelerating. As the accompanying charts show, the list of P&C laggards was heavily populated by US and European insurers, but led by China's all online innovator Zhong An, which plunged 54%, as rapid growth has not yet produced underwriting profits.

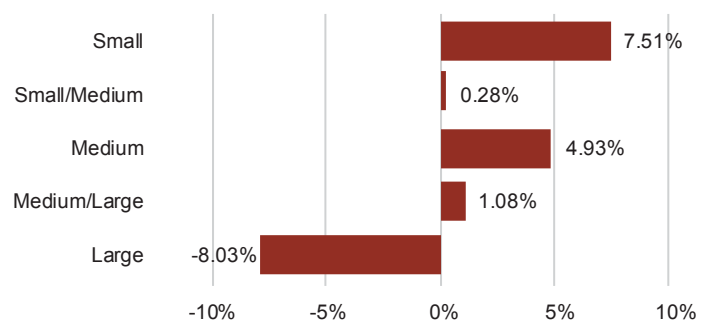
Life and Health related sectors have fared poorly thus far in 2018. Life stocks dropped 4.2%, and Multi Lines lost 0.9% of their market cap. Industry

RETURNS BY SECTOR

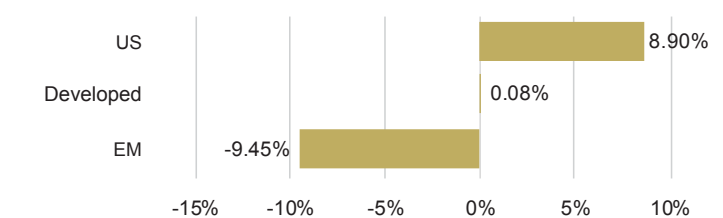
*Weighted Return



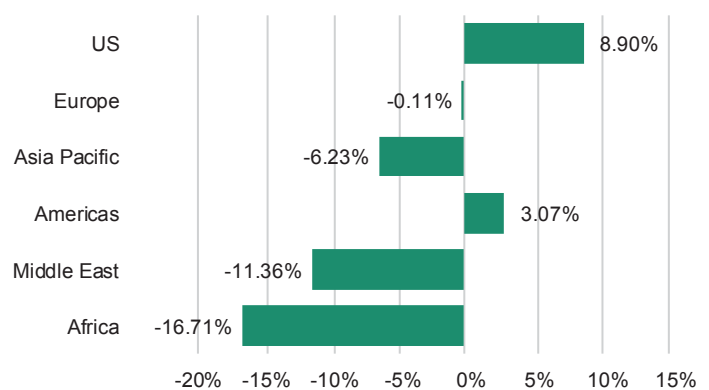
RETURNS BY MARKET CAP



RETURNS BY MARKET TYPE



RETURNS BY REGION



conditions are very challenging, with respect to both growth and profitability. Most of the relatively positive stock performances have come from restructurings and/or bouncebacks from earlier plunges. Top showings were by Genworth (+34% YTD) and Independence Holdings (+31%), both US insurers, and Japan's Sony Financial, which rose 28%. Rising interest rates will help the profitability of this sector, but the growth outlook remains problematic. In the Multi Line subsector, Brazil's Porto Seguro soared 42% as its InsurTech and other innovation initiatives show great promise. The list of Life & Health laggards was dominated by Asian and Middle Eastern insurers.

Geographic results were sharply different. The flagging bull market in the US did not diminish the performance of its insurance stocks, which rose 8.9% overall. By contrast, Developed Market insurance stocks ex-US were flat for the nine months, and Emerging Markets insurance issues fell 9.5%. If this trend continues, it will likely accelerate large, developed market insurer purchases of emerging market companies due to wide valuation disparities. This makes many African and Middle Eastern insurers vulnerable since they are considered to be in attractive growth areas for the long term by US and European giants.

Insurance stocks have typically underperformed a rising market and outperformed a declining market. Not surprisingly, then, they have lagged the market in the late phase of the decade-long bull period we in the US have been enjoying. It is likely that returns from the equity markets over the next few years will not be as robust as in recent years. Perhaps there will be a further correction and negative overall market returns. I am no longer in the market or insurance stock prediction business and so I will refrain from making explicit recommendations here. I will say, however, that several industry sector and geographic areas of the insurance industry are well positioned for profitable growth from this point forward, with growth outlooks that compare favorably with technology, energy or other financial sectors. As the gap between the industry's winners and losers widens, insurance winners will prove to be excellent investments.

Leaders and Laggards: **Multi-line**

LEADERS		
PORTO SEUGRO SA	Americas	41.9%
NATIONAL GENERAL HOLIDNGS CORP	US	37.3%
ASR NEDERLAND NV	Europe	22.8%
SUL AMERICA UNITS SA	Americas	17.7%
VITTORIA ASSICURAZIONI S.P.A	Europe	17.6%
AGEAS NV	Europe	15.2%
PHOENIX HOLDINGS LTD	Middle East	13.7%
HELVETIA HOLDING AG	Europe	13.0%
TOPDANMARK	Europe	12.7%
ZURICH INSURANCE GROUP AG	Europe	10.6%
ASSURANT INC	US	8.9%
UNIPOLSAI	Europe	8.2%
HAREL INSURANCE INVESTMENTS & FINA	Middle East	7.6%
CLAL INSURANCE ENTERPRISES LTD	Middle East	5.3%
SAGA PLC	Europe	4.8%

LAGGARDS		
PROTECTOR FORSIKRING ASA	Europe	-40.8%
BB SEGURIDADE SA	Americas	-25.8%
CHINA PACIFIC INSURANCE (GROUP) LT	Asia Pacific	-17.3%
CHINA PACIFIC INSURANCE (GROUP) LT	Asia Pacific	-16.8%
HARTFORD FINANCIAL SERVICES GROUP	US	-9.8%
AMERICAN INTERNATIONAL GROUP INC	US	-9.1%
MENORA MIVTACHIM HOLDINGS LTD.	Middle East	-8.0%
GJENSIDIGE FORSIKRING ASA	Europe	-6.2%
PZU SA	Europe	-5.7%
VIENNA INSURANCE GROUP AG	Europe	-4.5%
AXA SA	Europe	-4.5%
AVIVA PLC	Europe	-1.3%
UNIPOL GRUPPO FINANZIARIO	Europe	-1.0%
SAMPO	Europe	-0.3%
GRUPO CATALANA OCCIDENTE S.A.	Europe	-0.3%

Leaders and Laggards: **Property & Casualty**

LEADERS		
UNIVERSAL INSURANCE HOLDING INC	US	79.9%
XL GROUP LTD	US	65.1%
HCI GROUP INC	US	50.4%
AMTRUST FINANCIAL SERVICES INC	US	46.2%
MBIA INC	US	46.0%
QUALITAS CONTROLADORA	Americas	45.7%
SHINKONG INSURANCE CO. LTD.	Asia Pacific	44.5%
KINSALE CAPITAL GROUP INC	US	42.5%
NAVIGATORS GROUP INC	US	42.4%
INFINITY PROPERTY AND CASUALTY COR	US	35.9%
UNITED INSURANCE HOLDING CORP	US	30.9%
RLI CORP	US	30.8%
PROGRESSIVE CORP	US	28.8%
AMBAC FINANCIAL GROUP INC	US	27.8%
ASSURED GUARANTY LTD	US	26.3%
UNITED FIRE GROUP INC	US	19.3%
ARGO GROUP INTERNATIONAL HOLIDINGS	US	19.2%
KEMPER CORP	US	18.0%
AXIS CAPTIAL HOLDINGS LTD	US	16.4%
HANOVER INSURANCE GROUP INC	US	15.7%

LAGGARDS		
ZHONGAN ONLINE P & C INSURANCE COR	Asia Pacific	-54.0%
ALM BRAND	Europe	-31.5%
MERITZ FIRE & MARINE INSURANCE LTD	Asia Pacific	-20.5%
HASTINGS GROUP HOLDINGS PLC	Europe	-20.5%
HERITAGE INSURANCE HOLDINGS INC	US	-16.9%
HANWHA GENERAL INSURANCE LTD	Asia Pacific	-16.8%
PROASSURANCE CORP	US	-16.1%
QATAR INSURANCE CO.	Middle East	-15.8%
DONEGAL GROUP INC CLASS A	US	-15.5%
HYUNDAI MARINE & FIRE INSURANCE LT	Asia Pacific	-13.8%
LANCASHIRE HOLDINGS LTD	Europe	-12.4%
EMC INSURANCE GROUP INC	US	-11.7%
ANADOLU ANONIM TURK SIGORTA SIRKET	Middle East	-10.8%
DIRECT LINE INSURANCE PLC	Europe	-9.5%
RSA INSURANCE GROUP PLC	Europe	-9.4%
GLOBAL INDEMNITY LTD CLASS A	US	-8.5%
LOTTE NON-LIFE INSURANCE LTD	Asia Pacific	-8.5%
COFACE SA	Europe	-8.4%
THE PEOPLES INSURANCE CO (GROUP)	Asia Pacific	-7.5%
CHUBB LTD	US	-7.1%

Leaders and Laggards: **Life & Health**

LEADERS		
GENWORTH FINANCIAL A INC	US	34.1%
INDEPENDENCE HOLDING	US	31.3%
SONY FINANCIAL HOLDINGS INC	Asia Pacific	28.3%
TRUPANION INC	US	22.1%
PRIMERICA INC	US	19.6%
SHIN KONG FINANCIAL HOLDING CO. LT	Asia Pacific	15.5%
AMERICAN EQUITY INVESTMENT LIFE HO	US	15.1%
CITIZENS INC CLASS A	US	14.3%
STOREBRAND	Europe	13.6%
FBL FINANCIAL GROUP CLASS A	US	12.3%
POSTE ITALIANE	Europe	12.0%
SWISS LIFE HOLDING AG	Europe	11.7%
MASSMUTUAL MERCURIES LIFE INSURANC	Asia Pacific	10.2%
AFLAC INC	US	9.1%
CNP ASSURANCES SA	Europe	8.5%

LAGGARDS		
AVIVASA EMEKLILIK VE HAYAT AS	Middle East	-59.5%
JUST GROUP PLC	Europe	-49.1%
ANADOLU HAYAT EMEKLILIK A	Middle East	-48.4%
MAX FINANCIAL SERVICES LTD	Asia Pacific	-39.4%
ORANGE LIFE INSURANCE LTD	Asia Pacific	-36.8%
NEW CHINA LIFE INSURANCE LTD A	Asia Pacific	-31.1%
NEW CHINA LIFE INSURANCE COMPANY L	Asia Pacific	-28.4%
CHINA LIFE INSURANCE LTD A	Asia Pacific	-28.2%
MMI HOLDINGS LTD	Africa	-27.7%
UNUM	US	-27.7%
CHINA LIFE INSURANCE LTD H	Asia Pacific	-26.1%
HANWHA LIFE INSURANCE LTD	Asia Pacific	-26.1%
RAND MERCHANT INSURANCE HOLDING LT	Africa	-25.7%
HUBEI BIOCAUSE PHARMACUETICAL LTD	Asia Pacific	-25.2%
SAMSUNG LIFE LTD	Asia Pacific	-24.6%

Leaders and Laggards: **Reinsurance**

LEADERS		
IRB BRASIL RESEGUROS SA	Americas	66.9%
VALIDUS HOLDINGS LTD	US	46.6%
SCOR	Europe	20.8%
HANNOVER RUECK	Europe	16.4%
ALLEGHANY CORP	US	11.3%

LAGGARDS		
MAIDEN HOLDINGS LTD	US	-54.2%
GREENLIGHT CAPTIAL LTD CLASS A	US	-38.3%
THIRD POINT REINSURANCE LTD	US	-11.3%
CHINA REINSURANCE (GROUP) CORP H	Asia Pacific	-10.1%
KOREAN REINSURANCE	Asia Pacific	-8.3%

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