

GLOBAL INSURANCE STOCK REVIEW: THE YEAR 2019

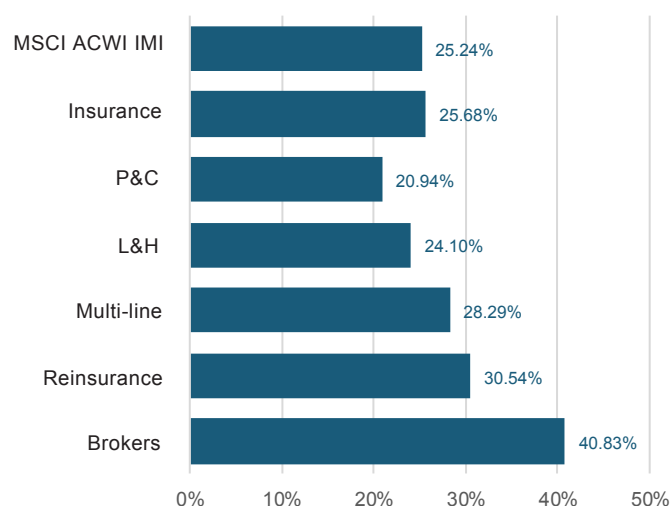
As has frequently occurred over the years, insurance stocks surged in the fourth quarter of 2019 after the “storm season” third quarter proved benign. Last year, however, the industry didn’t outperform the general market during this period as it usually does, but rather just seemed to go along for the ride as world equities markets advanced almost in unison. When markets closed on December 31, the best measure of global stock performance, the MSCI All Countries World Index, had gained 25.2% for the full year, while the IIS Global Aggregate added 25.7%. It may be a bit of a stretch to say our industry outperformed the overall market last year, then, but at least we kept pace.

The industry’s best performing sector globally in 2019 was Insurance Brokers, posting a stellar 41% gain. Rising rate levels and continued economic expansion stimulated strong revenue gains and margin expansion at most brokerage firms, in both developed and emerging markets. The leaders in this group were small mostly cap emerging markets firms. TQM Corporation of Thailand soared 222% as it experienced rapid growth from a small base. EHealth, an American Medicare enrollment specialist, finished the year up 150%, and Brazilian intermediary Wiz Solucoes gained 121% for the year. 2019 was the kind of year for brokers in which Arthur J. Gallagher was the group’s worst performer in spite of recording a gain of 32%.

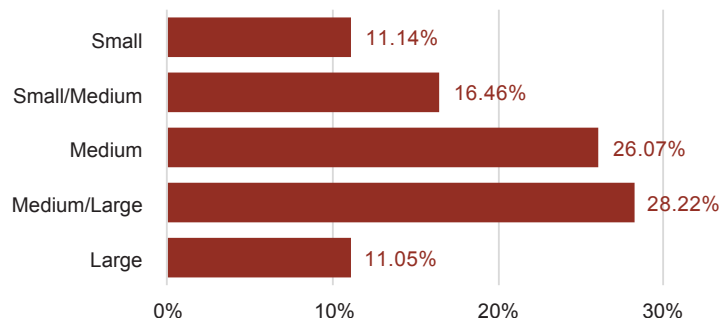
Also benefitting from rising rates were the Reinsurers, the second ranking sector for 2019. The group rose 30.5%, with a strong fourth quarter performance: reinsurers ranked dead last among industry sectors for the first nine months of the year. Three Reinsurers added more than 40% for the year (Hannover Re, up 49%; Renaissance Re, up 48% and Munich Re, up 41%). Other than beleaguered Maiden Holdings (down 55%), the only significant

RETURNS BY SECTOR*

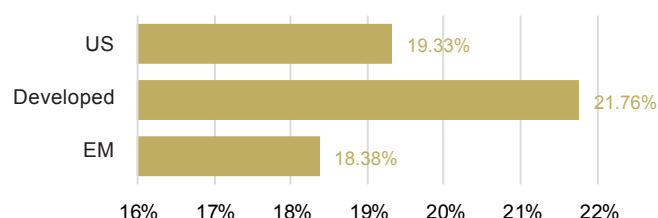
*Weighted Return



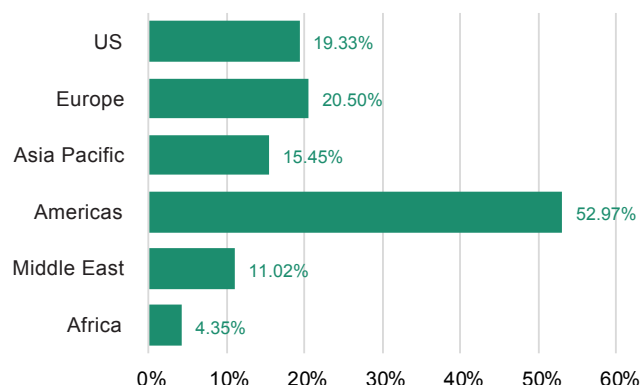
RETURNS BY MARKET CAP



RETURNS BY MARKET TYPE



RETURNS BY REGION



reinsurers to suffer share price declines were China Re (down 18%) and SCOR (down 2%).

Multi Line insurers secured third place among industry sector performance for last year, gaining 28%. The gains were widespread and strong, as the top eight leaders in the group were each up more than 40% and hailed from eight different countries. Most impressive were Sul America of Brazil, adding 108% and Syarikat Takaful of Malaysia, which was up 57%. Laggards in the ML sector were Saga, the UK older-age market specialist (down 44%) and IDI Insurance of Israel, which slipped 25% on declining revenues.

The Life & Health group ranked fourth for 2019 with a 24% gain. In spite of lower-for-longer interest rates' damaging effect on investment portfolio yields, a number of life insurers have managed heartening premium gains, and investors' gloomy mood about the sector is lifting. IA Financial, better known in Canada as Industrial Alliance, soared 77% to lead the L&H sector last year. Asian giant China Life was up 70% as revenues continued to grow faster than the country's underlying economy. HDFC, an Indian insurer affiliated with a leading mortgage bank, gained 60%. While these and 15 other life insurers were up more than 40% in 2019, all did not flourish. Hanwha Life of Korea plunged 47% and Japan Post Insurance dropped 22%, as many traditional insurers struggled to cope with higher customer demands on products and customer service.

It is a very good year indeed for insurance stocks when the worst performing sector is up 21%. That was the case in 2019, when the Property & Casualty group enjoyed such a gain and found themselves in the cellar of our industry rankings. Sixteen issues from six different countries were up more than 30% in the widespread favorable period. Mexican auto insurer Qualitas Controladora continued its torrid pace, advancing 103% for the year. American Excess & Surplus Lines specialist Kinsale gained 84%, as its focus on medium-sized, high hazard accounts has found a profitable niche. Far removed from the performance of these and other leaders, the laggard list was dominated last

year by Korean insurers, namely Hanwha General (down 54%), Hyundai Marine & Fire (down 37%), DB Insurance (down 28%) and Lotte Nonlife (down 24%). Meritz and Samsung Fire were also on the laggards list, making it a complete rout for the Korean issues last year.

Regional performance differences were relatively small in 2019. Developed markets ex-US were up 22%, largely because of European and Americas (in this case South America) issues in Property & Casualty and Asian stocks in Life & Health. US insurance stocks added 19% and Emerging Markets insurers gained 18%, so differences were scant. The only performance outliers were Africa, which only eked out a 4% gain, and the Middle East, which was up 11%.

There was an unusual pattern of performance by market capitalization last year. Small Cap and Large Cap insurers performed the worst, each gaining 11%. Medium and Medium Large Cap issues, by contrast, were up 26% and 28% respectively. Not all, but many of the largest insurers are struggling to grow in the rapidly changing insurance market, burdened with legacy IT systems, bloated infrastructures and outdated product lines. Nimble smaller competitors are gaining market share rapidly, and these developments are evident in the stock price performance described herein.

With the S&P 500 at a record level and many international equities markets at or near all time highs, continued strong performance for insurance stocks cannot be assured even with solid fundamentals and below-market valuations. A long overdue stock market correction would not leave insurance stock unscathed. This would seem to be a good time to play it safe with respect to insurance stocks: concentrate on the companies with the strongest balance sheets and the most battle-tested management teams. Caution advised!

Mike Morrissey, CFA

President and CEO

February 2020

Leaders and Laggards: **Multi-Line**

LEADERS		
SUL AMERICA UNITS SA	Americas	108.2%
SYARIKAT TAKAFUL MALAYSIA KELUARGA	Asia Pacific	56.8%
ASSURANT INC	US	49.8%
UNIPOL GRUPPO FINANZIARIO	Europe	48.4%
ZURICH INSURANCE GROUP AG	Europe	46.0%
MENORAH MIVTACHIM HOLDINGS LTD	Middle East	42.3%
BAJAJ FINSERV LTD	Asia Pacific	41.9%
GJENSIDIGE FORSIKRING	Europe	41.6%
HARTFORD FINANCIAL SERVICES GROUP	US	39.7%
BB SEGURIDADE SA	Americas	38.6%
AXA SA	Europe	38.3%
AGEAS SA	Europe	38.1%
BALOISE HOLDING AG	Europe	36.0%
CHINA PACIFIC INSURANCE (GROUP) LT	Asia Pacific	35.0%
AMERICAN INTERNATIONAL GROUP INC	US	33.6%

LAGGARDS		
SAGA PLC	Europe	-44.2%
IDI INSURANCE COMPANY LTD	Middle East	-25.2%
NATIONAL GENERAL HOLDINGS CORP	US	-8.0%
AL RAJHI COMPANY FOR COOPERATIVE I	MAPPING REQUIRED	-5.1%
AMERICAN NATIONAL INSURANCE	US	-5.0%
WATFORD HOLDINGS LTD	US	-5.0%
GRUPO CATALANA OCCIDENTE SA	Europe	-3.8%
PZU SA	Europe	-3.0%
ASR NEDERLAND NV	Europe	-0.2%
HELVETIA HOLDING AG	Europe	4.9%
MAPFRE SA	Europe	5.6%
CLAL INSURANCE ENTERPRISES LTD	Middle East	6.8%
SAMPO	Europe	8.0%
FAIRFAX FINANCIAL HOLDINGS SUB VOT	Americas	8.8%
PROTECTOR FORSIKRING	Europe	8.8%

Leaders and Laggards: **Property & Casualty**

LEADERS		
QUALITAS CONTROLADORA	Americas	103.2%
KINSALE CAPITAL GROUP INC	US	83.7%
ARCH CAPITAL GROUP LTD	US	60.5%
ICICI LOMBARD GENERAL INSURANCE CO	Asia Pacific	57.9%
INTACT FINANCIAL CORP	Americas	52.3%
FIDELITY NATIONAL FINANCIAL INC	US	48.7%
COFACE SA	Europe	48.0%
WR BERKLEY CORP	US	43.8%
CINCINNATI FINANCIAL CORP	US	38.9%
ALLSTATE CORP	US	38.8%
FIRST AMERICAN FINANCIAL CORP	US	34.6%
LANCASHIRE HOLDINGS LTD	Europe	34.3%
QBE INSURANCE GROUP LTD	Asia Pacific	34.1%
RLI CORP	US	33.2%
WHITE MOUNTAINS INSURANCE GROUP LT	US	30.2%
ASSURED GUARANTY LTD	US	30.1%
ERIE INDEMNITY CLASS A	US	27.1%
HANOVER INSURANCE GROUP INC	US	26.8%
AMBAC FINANCIAL GROUP INC	US	25.1%
PROGRESSIVE CORP	US	25.1%

LAGGARDS		
HANWHA GENERAL INSURANCE LTD	Asia Pacific	-53.9%
HYUNDAI MARINE & FIRE INSURANCE LT	Asia Pacific	-36.7%
DB INSURANCE LTD	Asia Pacific	-28.4%
LOTTE NON-LIFE INSURANCE LTD	Asia Pacific	-24.2%
UNIVERSAL INSURANCE HOLDINGS INC	US	-24.2%
UNITED INSURANCE HOLDINGS CORP	US	-22.8%
MERITZ FIRE & MARINE INSURANCE LTD	Asia Pacific	-21.3%
UNITED FIRE GROUP INC	US	-18.9%
GLOBAL INDEMNITY LTD CLASS A	US	-15.3%
SAMSUNG FIRE & MARINE INSURANCE LT	Asia Pacific	-12.8%
HERITAGE INSURANCE HOLDINGS INC	US	-8.5%
QATAR INSURANCE	Middle East	-8.1%
PROASSURANCE CORP	US	-7.9%
STATE AUTO FINANCIAL CORP	US	-7.8%
PROSIGHT GLOBAL INC	US	-7.1%
CHOLAMANDALAM FINANCIAL HOLDINGS L	Asia Pacific	-6.8%
HCI GROUP INC	US	-6.8%
HISCOX LTD	Europe	-6.6%
PALOMAR HOLDINGS INC	US	-3.3%
SUNCORP GROUP LTD	Asia Pacific	-1.8%

Leaders and Laggards: **Life & Health**

LEADERS		
IA FINANCIAL INC	Americas	77.4%
CHINA LIFE INSURANCE LTD A	Asia Pacific	69.9%
HDFC LIFE INSURANCE COMPANY LTD	Asia Pacific	58.9%
SBI LIFE INSURANCE COMPANY LTD	Asia Pacific	57.9%
PING AN INSURANCE (GROUP) OF CHINA	Asia Pacific	54.0%
POWER CORPORATION OF CANADA	Americas	51.2%
POSTE ITALIANE	Europe	50.8%
POWER FINANCIAL CORP	Americas	50.4%
MANULIFE FINANCIAL CORP	Americas	49.1%
PHOENIX GROUP HOLDINGS PLC	Europe	48.3%
TRUPANION INC	US	47.1%
ICICI PRUDENTIAL LIFE INSURANCE CO	Asia Pacific	46.3%
LEGAL AND GENERAL GROUP PLC	Europe	45.5%
SUN LIFE FINANCIAL INC	Americas	42.7%
GLOBE LIFE INC	US	42.3%

LAGGARDS		
HANWHA LIFE INSURANCE LTD	Asia Pacific	-47.2%
JAPAN POST INSURANCE LTD	Asia Pacific	-21.9%
DISCOVERY LTD	Africa	-21.0%
TONG YANG LIFE INSURANCE LTD	Asia Pacific	-19.2%
JAPAN POST HOLDINGS LTD	Asia Pacific	-14.1%
MIRAE ASSET LIFE LTD	Asia Pacific	-13.5%
SAMSUNG LIFE LTD	Asia Pacific	-12.0%
BANGKOK LIFE ASSURANCE PCL	Asia Pacific	-11.7%
JUST GROUP PLC	Europe	-10.4%
CITIZENS INC CLASS A	US	-10.2%
RAND MERCHANT INSURANCE HOLDING LT	Africa	-9.9%
CHINA TAIPING INSURANCE HLDGS LTD	Asia Pacific	-9.2%
GENWORTH FINANCIAL A INC	US	-5.6%
FBL FINANCIAL GROUP INC CLASS A	US	-5.4%
CHINA LIFE INSURANCE LTD	Asia Pacific	-4.9%

Leaders and Laggards: **Reinsurance**

LEADERS		
HANNOVER RUECK	Europe	49.3%
RENAISSANCE HOLDING LTD	US	47.8%
MUENCHENER RUECKVERSICHERUNGS-GESE	Europe	41.1%
IRB BRASIL RESSEGUROS SA	Americas	39.4%
EVEREST RE GROUP LTD	US	30.2%

LAGGARDS		
MAIDEN HOLDINGS LTD	US	-54.5%
CHINA REINSURANCE (GROUP) CORP H	Asia Pacific	-17.5%
SCOR	Europe	-2.4%
KOREAN REINSURANCE	Asia Pacific	1.4%
THIRD POINT REINSURANCE LTD	US	9.1%

Leaders and Laggards: **Brokers**

LEADERS		
TQM CORPORATION PCL	Asia Pacific	222%
EHEALTH INC	US	150%
WIZ SOLUCOES E CORRETAGEM DE SEGUR	Americas	121%

LAGGARDS		
ARTHUR J GALLAGHER	US	32%
CRAWFORD CLASS A	US	33%
WILLIS TOWERS WATSON PLC	US	35%

** 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 12/31/19 | **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 12/31/19