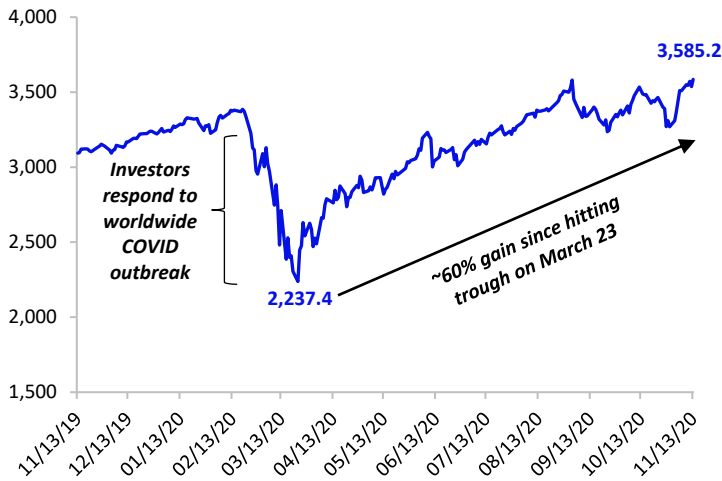


# STONYBROOK CAPITAL

## Looking Back: 2020 P&C Results

2020 has been a challenging year to date for many companies in the industry, due to COVID and an active catastrophe season, but most covered their cost of capital. Markets are beginning to rebound as equity indexes are back up, close to record territory. The S&P 500 (including dividend reinvestments), returned 18.1% over the 12 months through November 13. Bonds also did well, but perceptions of credit risk in non-government debt held prices down relative to treasuries. Returns averaged ~9% for 5-year investment grade bonds and about 2 points less for high yield bonds. US insurer asset portfolios had total returns in the low double digits, including unrealized gains before an accounting change.

## S&P 500 Performance



SPX 3,585.15 USD		DLY Nov 13, 4:59:01 PM ET
Index Market Cap		\$29.7 Trillion
Index Value (Latest Close)		3,585.15
LTM Change (%)		15.87%
LTM Total Return (%)		18.09%
YTD Change (%)		10.97%
YTD Total Return (%)		12.77%
52 Week High		3,585.15
52 Week Low		2,237.40
% of 52W High (%)		100.00%
% of 52W Low (%)		160.24%

## Looking Forward: 2021 Outlook

### Lasting COVID-19 Effects

- The key economic factor in 2021 will be the length and depth of continuing lockdowns following what appears to be a growing second wave of infections in the cooler weather
- There is real progress toward vaccines and more effective courses of therapies
- Even without a vaccine, we estimate that over a quarter of all Americans, and well over 40% of the employed would have had had the coronavirus by next spring and many of them will gain some level of resistance
- With more outdoor activity and brighter sunlight come next spring, we expect to see much lower spread of the virus and greater herd immunity, perhaps even before the vaccines are widely available

### 2020 Election

- The election results may also be a positive factor
- Debt and equity markets successfully managed the uncertainty before and after November 3<sup>rd</sup>
- President Biden's platform included significant tax increases on high earners, capital gains and corporations, and also proposed to tighten regulations
- With a 3-point margin of victory, few "coat-tails", and a split Congress, those proposals will be moderated

### Economic Commentary

- Considering the two factors mentioned above, Stonybrook generally agrees with the OECD's recent economic projections of no significant rebound during the next two quarters
- We expect the latter half of 2021 to improve as the year goes on, but remain overall below 2019 levels, and 2022 to be above 2019

### P&C Industry Commentary

- The timing on premium volumes will be similar, although boosted by rate increases in most commercial lines, but also lagging by the timing of renewals and audits
- Workers' Compensation will rebound slower than other lines
- Classes of business will have their own response to specific lockdown and recovery issues

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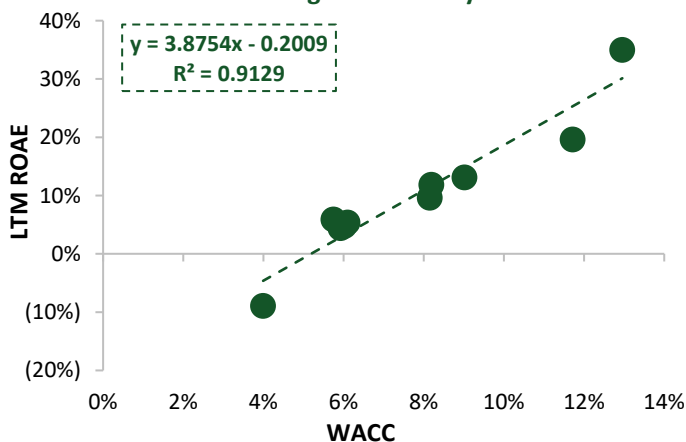
## Quantitative Analysis: P&C Industry Meeting Cost of Capital

For the analysis below, we have compared the Weighted Average Cost of Capital (“WACC”) & Last Twelve Month’s Return on Average Equity (“LTM ROAE”) as of 09/30/2020 for the ten largest insurance companies on the NYSE (excluding Berkshire Hathaway and Loews Corporation due the nature of the diverse businesses within their overall enterprise).

### Key Takeaways

- Four of the top ten insurers did not “cover” their cost of capital for the twelve-month period from Sept. 30, 2019 – Sept. 30, 2020, with only one company materially missing
- Our data set has a high degree of fit, with a .9129 R-Square
- Median LTM ROAE is approximately 0.6% above the median WACC for the insurers, with the average being ~2.3% above WACC
- The six companies who did “cover” have generated value for their shareholders over the last twelve months amid overall economic turbulence and uncertainty
- **Important to note:** LTM ROAE numbers are calculated excluding unrealized capital gains – which helped all but one insurer, as many experienced unrealized losses driven by disruption in global financial markets associated with COVID-19
- All ten insurers also adopted new accounting standards that can also affect unrealized capital gains (losses): **Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments**, which requires changes to the recognition of credit losses on financial instruments not accounted for at fair value through the Company’s results of operations
  - For financial assets measured at cost, the expected credit loss model requires immediate recognition of estimated credit losses over the life of the asset

### Regression Analysis



### WACC<sup>1</sup> vs. ROAE

Company	WACC	LTM ROAE	Variance
Progressive	12.95%	34.97%	22.02%
Chubb	5.92%	4.40%	(1.52%)
Allstate	11.72%	19.59%	7.88%
Travelers	8.15%	9.61%	1.46%
AIG	3.99%	(8.93%)	(12.92%)
Markel	6.02%	4.76%	(1.26%)
Hartford	8.19%	11.83%	3.64%
W. R. Berkley	5.75%	5.88%	0.13%
RenaissanceRe	9.02%	13.12%	4.10%
CNA	6.10%	5.37%	(0.73%)
<b>Average</b>	<b>7.78%</b>	<b>10.06%</b>	<b>2.28%</b>
<b>Median</b>	<b>7.13%</b>	<b>7.74%</b>	<b>0.62%</b>

### 2020 Catastrophe Activity

2020 has been an active catastrophe year, with a record six US hurricane landfalls and a further six tropical storm landfalls. It has also been a very active inland weather season, with a notable Derecho event in August causing losses of \$7.5bn+.

#### Other large loss events thus far

- **Hurricane Laura:** Category 4 made landfall in Louisiana, RMS forecasting insured losses between \$9bn - \$13bn
- **Beirut Harbor explosion:** ~\$5B in insured loss and effected global insurers and reinsurers
- **Hurricane Isaias:** Category 1 made landfall in North Carolina, RMS forecasting insured losses between \$3bn - \$5bn
- **Hurricane Sally:** Category 2 made landfall in Alabama, RMS forecasting insured losses between \$2bn - \$3.5bn
- **Hurricane Delta:** Category 4 made landfall in Yucatan Peninsula, RMS forecasting insured losses between \$1.8bn - \$3.5bn
- **Hurricane Zeta:** Category 2 made landfall in Yucatan Peninsula, RMS forecasting insured losses between \$3bn - \$5bn

1. WACC calculated by taking the average of an unlevered industry weighted three-year beta CAPM calculation & sustainable growth method calculation and using weighted average cost of debt and preferred shares (if applicable). Compiled with publicly available data, internal models may differ.

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## Notable Stonybrook Transactions

November 2020	October 2020	May 2020	March 2020
 Program Agreement with  STONYBROOK RISK MANAGEMENT	 Acquired by  Amount undisclosed	 Acquired by  Amount undisclosed	 Acquired by  Amount undisclosed
February 2020	February 2020	August 2019	July 2019
 \$45,000,000 Capital Raise	 Acquires the assets of  Amount Undisclosed	 \$30,000,000 Capital Raise	 Announced Sale of Sandell Re  Exclusive sell-side financial advisor
May 2019	March 2019	February 2019	December 2018
 \$20,000,000 Capital Raise	 Triangle Surety Agency, Inc. Capital raise amount undisclosed	 \$10,000,000 Capital Raise	 Pillars of Strength and Character. \$125,000,000 Capital Raise
October 2018	July 2018	December 2017	December 2017
 Sale of Boston Indemnity Company  Exclusive sell-side financial advisor	 \$12,500,000 Capital Raise	 \$50,000,000 Capital Raise	 Sale to  Exclusive sell-side financial advisor
December 2017	October 2017	September 2017	September 2017
 Capital raise amount undisclosed	MARK EDWARD PARTNERS Capital raise amount undisclosed	 Conifer Holdings Inc. \$30,000,000 Capital Raise	  Valuation analysis