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Market Overview

There may be no better way to summarize 2022 for the (re)insurance industry than looking at the current state of property reinsurance renewals. The sharply increasing prices of year-end renewals is the cumulative result of losses caused by extreme weather events, economic/social inflation, and geo-political uncertainty. These stresses have led the US P&C industry to post its highest quarterly combined ratio (106.6%) in five years and drop the industry's total surplus by 11%. The P&C industry experienced a $24.3B net underwriting loss in the first nine months of 2022, partially driven by the estimated $115B of global insured natural catastrophe losses in the period. Many in the industry report this as the hardest market since at least Hurricane Andrew and the Northridge earthquake of 1992 and 1994. While property catastrophe treaties will experience the sharpest rate increases, casualty insurers have also been struggling with adverse development, slowing rate increases, and heighted costs driven by inflation and supply chain issues. In bull markets, carriers can offset some of these losses with investment gains. To date, all major indices have slid on the year, hurting insurers equity portfolios. Fixed income portfolios are also down on a mark-to-market basis.

Publicly Traded P&C Equities Performance by Sector - YTD

The Stonybrook – Weild&Co P&C Insurance Composite (although down 5.2%) still outperformed each of the major indices YTD: S&P 500 (down 20.8%), Nasdaq (down 35.1%), and Dow Jones Industrial (down 7.8%). Coastal insurers and Insurtechs faced the most headwinds in 2022, as the groups lost market support after large weather events and increased interest rates, respectively. Reinsurers rallied in Q4 as investors backed sellers in the hard renewal market.

As of Market Close 12/27/2022	% Change YTD			% of 52 Week High			Return on Equity		
	Weighted Avg.	Straight Avg.	Median	Weighted Avg.	Straight Avg.	Median	Weighted Avg.	Straight Avg.	Median
Standard Commercial	7.9%	5.4%	5.5%	92.5%	87.7%	88.8%	10.2%	8.9%	9.5%
Specialty Commercial	11.5%	(3.0%)	(0.3%)	89.2%	82.3%	89.6%	15.8%	12.2%	11.3%
Personal Lines Insurers	3.1%	3.0%	0.8%	86.5%	85.3%	87.7%	0.6%	(0.0%)	(0.0%)
Coastal Insurers	(48.7%)	(63.7%)	(72.9%)	46.1%	32.8%	24.0%	(28.1%)	(44.8%)	(27.3%)
Reinsurers	22.9%	1.2%	0.3%	96.9%	88.2%	91.4%	0.4%	(5.0%)	0.9%
Global P&C	11.0%	10.1%	10.1%	98.4%	97.9%	97.9%	16.4%	18.9%	18.9%
Micro Cap	19.0%	(27.1%)	(25.2%)	82.8%	58.6%	61.8%	161.7%	22.0%	(20.1%)
Insurtech	(74.2%)	(84.3%)	(89.1%)	22.5%	13.7%	8.9%	(44.8%)	(63.6%)	(72.5%)
Brokers	1.7%	(2.6%)	2.3%	90.2%	86.7%	88.5%	55.2%	55.2%	22.8%
P&C Composite	**(5.2%)**	**(17.2%)**	**(18.1%)**	**79.0%**	**71.5%**	**72.3%**	**19.4%**	**1.8%**	**(4.5%)**

Investment Yields

Over the last decade, interest rates in the US had remained low. In 2022, The Fed announced rate hikes on seven different occasions, bringing the benchmark rate to the highest level in 15 years. As interest rate rise, current bondholdings become less attractive, thus decreasing price and pushing down mark-to-market values for GAAP filing carriers. This accounting principle effects the reported capital figures for insurance carriers but will revert on bonds that are held to maturity.

	Medium Duration Bond Yields:		2022 Impact to Portfolio	
	12/31/2021	12/27/2022	Mark-to-Market Depreciation	Total Return
Risk Free	1.27%	3.94%	(8.74%)	(7.47%)
AAA Rated	1.78%	4.52%	(8.48%)	(6.70%)
A Rated	2.06%	5.08%	(9.18%)	(7.12%)
BB Rated	3.38%	6.88%	(9.51%)	(6.13%)

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Analysis of Select U.S. Lines of Business

Private Auto

- Private passenger auto carriers have struggled to achieve underwriting profitability as rate increases fail to catch up with trends. The loss ratio for the 1H of 2022 reached 75.4%, marking a 13.2-point increase from the 1H of 2021
- Economic inflation factors such as higher replacement parts, labor costs, and increased values of used vehicles, has severely impacted the sector
- Frequency has rebounded from the lower levels seen during lockdown

Commercial Auto

- Commercial Auto carriers posted a sub 100% combined ratio (98.9%), a marked improvement driven by rate increases
- Since the turn of the century, crash rates for both large and light trucks have decreased with advancements in technology, however, increased costs of litigation and spikes in large jury rewards have heightened claim severity

Property

- Natural catastrophes and increased frequency of secondary perils have put pressure on property carriers across the nation, and especially coastal regions and the upper Midwest
- Rate-adjusted rate increases for property reinsurance renewals this year-end have averaged north of 35%

Workers Compensation

- Workers Comp remained the most profitable P&C line of business through 2022 due to favorable loss development, increasing payrolls, and benefits from "work from home" policies
- Workers Comp carriers going forward should be mindful of a potential recession's impact on premium volume, and how inflation impacts medical costs and wage loss

E&S

- The E&S market is on course to surpass $100B in premium volume in 2022 marking a 25%+ increase for the second consecutive year
- The recent growth is tied to both the heightened underwriting standards in the admitted market, as well as the growing programs sector where specialized MGAs/Wholesalers are capitalizing on underwriting niche risks at adequate prices

Major Losses in 2022

Event	Insured Loss	Date	Commentary
Hurricane Ian	~$50B+	Sept 23 - Oct 1	The hurricane made landfall as a high-end Category 4 storm with winds of 155mph on September 28th in southwest Florida. The estimated losses from the devastation in Florida and South Carolina is between $53 and 74bn, with LAE in addition to some estimates. The majority of the claims were driven by wind and flood damage.
Winter Storm Elliot	Single-digit $Bs	Dec 21-26	Elliot hit the US and Canada as an extratropical "bomb cyclone" causing damage and casualties across the entire US, excluding the West Coast. Northern NY, particularly Buffalo, experienced the worst loss. The damages are being compared to the 2021 Texas Freeze, which together with power grid failures drove a $15B industry loss.
Australian Floods	$3.8B	Feb 23 - March 8	The east coast of Australia experienced an intense period of rainfall resulting in major flooding, especially in South-East Queensland and the northern regions of New South Wales. The estimated $3.8 billion (USD) loss was the most expensive natural catastrophe in Australia's history.
European Winter Storms	$4.1B	Feb 16-22	Three major windstorms struck Europe accumulating a loss of $4.1B with the majority of losses resulting in Germany, the U.K. and the Netherlands. The storms thrashed residential, commercial, industrial and agricultural properties/automobiles.

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Major Trends in 2022 & 2023

Growth in the Programs Market

The U.S. MGA market is expected to have exceeded $70B in 2022, as insurance companies continue to find ways to achieve profitability by utilizing niche and often tech-enabled underwriting partners. Investors, such as private equity and venture capital firms, have deployed capital into these entities attracted by the earnings-based model without balance sheet risk. While there is a wide range of fronting carriers available to serve MGA's, reinsurers have become increasingly selective.

Headwinds of Economic Inflation

In November, consumer prices rose last month at the slowest 12-month pace since December 2021 but still climbed 7.1%. Increases in demand for goods, materials, and labor, combined with ongoing supply chain disruptions have been raising claim costs for all types of property losses. Increased prices include construction materials, rental vehicles, and auto parts. Inflation also causes adverse development on liability reserves, as costs become higher than originally anticipated.

Insurtechs Struggle

Following an incredible year in 2021, Insurtech fundraising rounds and valuations both fell off in 2022. In Q3 several insurtechs announced large layoffs and strategy pivots. Insurtechs have struggled in the public equity markets as investors grow wary of top line valuations and aggressive growth plans of tech companies generally, as well as the insurtechs specifically. Private company valuations may have held up better.

M&A Activity Cools Down

Increased borrowing costs, inflation, and economic uncertainly slowed M&A activity in 2022. Brokers and MGAs remain targets for acquisition in part due to roll up strategies and platform expansion.

Florida Residential Market at an Inflection Point

In 2022, several Florida carriers declared insolvencies, national carriers continued to avoid the market, and reinsurers announced withdrawals from market altogether. On 12/16/22, a special legislative session took action to eliminate assignment of benefits and one way attorney's fees. The new legislation aims to fix the costly litigious environment in the state which hosts 80% of all US litigated homeowners claims.

Catastrophe Reinsurers are in the Driver Seat

Reinsurers on year-end renewals are pushing retentions, rates, and terms and conditions onto their cedants. Reinsurers are generally getting 35% or greater risk-adjusted rate increases, and anecdotally up to 150%. Many reinsurers will not support any layer below the 1:10 attachment point, resulting in cedants taking meaningful retention increases. Reinsurers are also often restricting cover to "named perils." The harsh renewals for primary insurers is driven by an even more restricted retro market. With a harder retro market, reinsurers are hesitant to authorize lines not knowing the capacity available to cede their own risks. Other factors include years of consistent losses in the US, surplus declines, a weaker euro, a recent trend by reinsurers to de-risk their assumed portfolios, and a surprising absence of new entrants.

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2023 Outlook

To recover from a poor underwriting year in 2022, the insurance industry should count on widespread rate increases, higher fixed-income yields, and renewed attention to business fundamentals in risk selection, production design, and claims. High inflation and the increasing costs of natural catastrophes still pose a threat to the industry in 2023. We expect many of the defining industry trends in 2022 to continue into 2023, such as the growth of the Programs market, shifts to surplus lines, and the shortfall of reinsurance capacity. Insurtechs who struggle to raise capital in the current environment may consider acquisitions or partnership models to trade ahead. Traditional carriers and other strategic investors will likely have opportunities to add value to their current platform by acquiring tech companies at more attractive prices. We expect reinsurers to remain in the driver seat and for the hard market to continue well into 2023. 2022 loss experience has reduced industry surplus by 11% in the first 9 months of 2022 increasing the needs for consolidations, new affiliations, demutualizations, reciprocal conversions, and surplus notes.

Stonybrook Services | Global presence – HQ in NYC and team members in London & Bermuda

Stonybrook's Advisory Services | Investment Banking

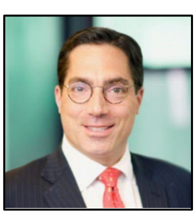
- **Middle market insurance specialist with a focus on:**
  - M&A, raising capital, mutual insurers, coastal state carriers, MGAs, divesting non-core assets, and valuation analyses

Stonybrook Alternative Investments

- **Placement agent for a variety of insurance related funds:**
  - Insurtech Funds, Lloyd's Capacity, and Surplus Notes

Stonybrook Risk Management | Reinsurance Broking

- **Services provided include:**
  - Treaty negotiation and placement
  - Prospective carrier/MGA identification, product development, alternative risk, captive services, strategic advisory, and reinsurance placement
  - Fronting expertise



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Source: SNL Financial, Industry White Papers, Press Releases

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Stonybrook Capital Transaction Update

May 2022	April 2022	March 2022	November 2021
Bees360 Series A Financing	AmeriTrust Acquired by AF Group Exclusive Buy-Side Financial Advisor	SummitSpecialty $7,500,000 Capital Raise	Cypress Loss Portfolio Transfer Maiden Holdings, Ltd
September 2021	**June 2021**	**May 2021**	**December 2020**
CSE Insurance Group Acquired by Porch Group Exclusive Advisor to CSE's Management	Florida Peninsula Insurance Company $20,000,000 Capital Raise	Sportscover Europe Acquired by Resolution Underwriting Exclusive Buy-Side Financial Advisor	Cypress Acquired by Milestone Partners Exclusive Sell-Side Financial Advisor
December 2020	**November 2020**	**October 2020**	**May 2020**
Xchange Group LLC Acquired by Ambac Exclusive Sell-Side Financial Advisor	JFG Program Agreement Applied Underwriters	AUI, Inc. Acquired by Northeast Coverages Exclusive Buy-Side Financial Advisor	Anchor Insurance Acquired by Weston Insurance Exclusive Sell-Side Financial Advisor

Recent Stonybrook Risk Management Placements

Market Finding Assignment **Multi-State Surety**	**US and EU Retro Protection** **$25M Excess of Loss Limit**	**Start-Up Coastal Homeowner Carrier** **Gross Account Quota Share**	**Northeast Regional Carrier** **Multiple Line, Catastrophe and Clash Excess of Loss**	**Dental and Medical Malpractice Insurer** **Excess of Loss**