

June 2015 – Market Outlook

PhiloSmith was up 7.2 percent in the first half of 2015, nicely ahead of the 1.0 percent increase of the three-index benchmark against which we measure performance and the 1.2 percent increase of the S&P 500 Total Return. The performance of PhiloSmith reflected strong gains of several core holdings and above average performance by most of the holdings. In addition, HCC Insurance the third largest holding was up 44% in the first half of the year as a result of a recent signing an agreement to sell to Tokyo Fire & Marine. Insurance and financial services stocks continue to exhibit the same level of volatility seen by the overall market.

What was different about this period is that despite the volatility, companies with a history of strong operating results outperformed their peers over the six month period. PhiloSmith benefited by the noticeable increase in announced acquisitions of both reinsurance (PartnerRe) and primary insurance companies (HCC) in the first half of the year. In addition, several holdings have been revalued as investors considered valuations of the implied acquisition value based on the publicly announced deals. Specialty companies once again performed well as a reflection of strong underwriting performance. Specialty companies have been following long term successful underwriting strategies of raising rates when and where needed as well as pulling back or even exiting unprofitable lines. The ability of high quality specialty companies to generate underwriting profits in the face of low investment income is what sets them apart from the general market while also allowing them to maintain above average returns on equity. Reinsurance companies also performed well, in part the result of benign catastrophe losses. Worldwide insured catastrophe losses were only \$6B in the second quarter, materially below the ten year average of \$9B. Title insurance holdings had another strong quarter. The gradually improving economy and low interest rate environment continues to support home sales and mortgage refinancings.

The Portfolio

Specialty property casualty insurers accounted for 20 percent of the holdings, down from 29 percent of the portfolio at the end of March, but the position in HCC was sold after it announced an agreement to sell. Specialty companies again were the strongest performing sector as a result of HCC's performance as well as good performance by several other holdings. Reinsurance companies were also a smaller segment of the portfolio and good performers reflecting the disposition of PartnerRe after the announcement of its merger with Axis. Life insurance and annuity companies became a larger part of the overall portfolio as a reflection of the addition of one new holding and increased positions in other long term holdings.

Outlook and Strategy

The environment for property casualty insurance is good at the present time. Steady, albeit relatively slow economic growth in the face of low inflation provides high quality companies the opportunity to maintain returns. At the same time, valuations have not changed so we continue to be optimistic about the portfolio.

Performance through June, 2015

