

# PhiloSmith Investment Management



## Overview

CELEBRATING

**50** *Years* Est. 1962

Specializing in Insurance and  
Financial Services Businesses

PHILOSMITH

## **PhiloSmith & Co.**

### **Insurance as a Long-Term Investment**

### **The PhiloSmith Investments**

Investment Objective and Opportunity

Investment Approach

Methodology & Strategy

Long-Term Performance

Risk Management & Portfolio Highlights

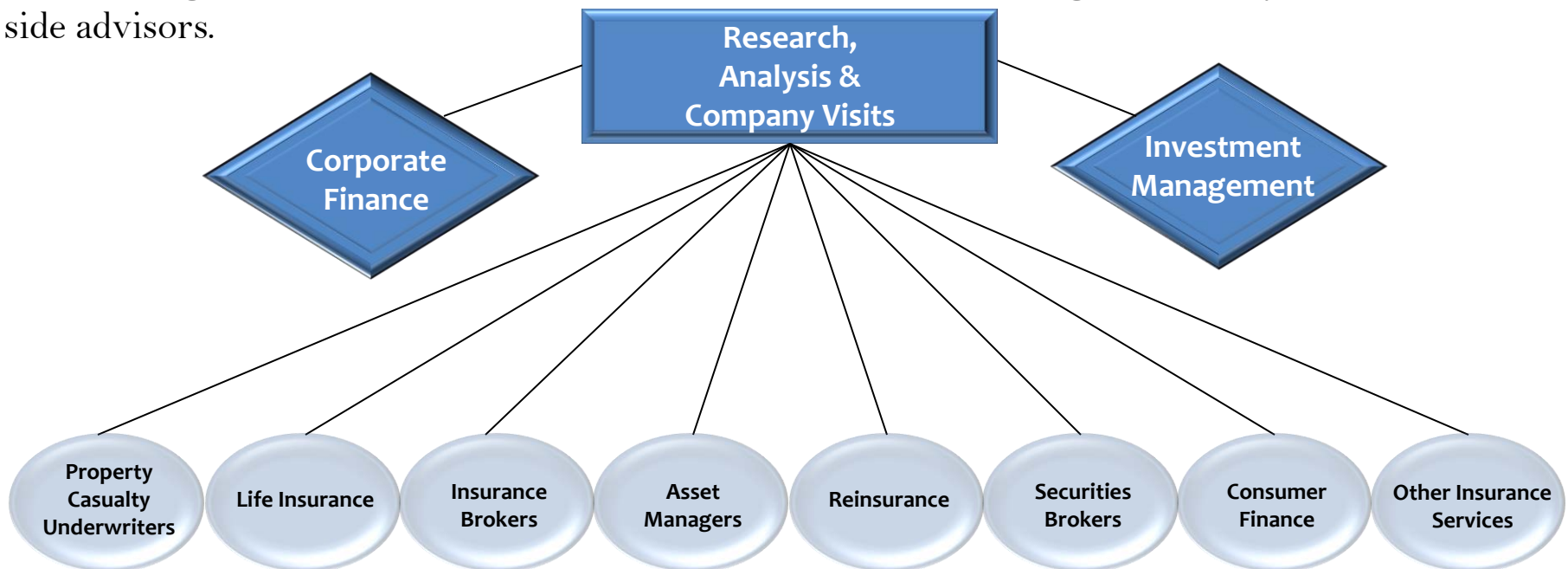
Fit in Your Portfolio

### **Key Investment Management Personnel**

- Founded in 1962 in Stamford, CT
- A principal independent investment management and banking firm
- Long history of investment research, investment management and merger & acquisition advisory focused on insurance and financial services
- PhiloSmith & Co. believes, on the basis of its analysis, that the dramatic changes that continually occur within the insurance industry create important investment opportunities that offer the potential for attractive investment returns

# CORPORATE FINANCE

- Corporate finance services include merger and acquisition advisory, mutual company advisory, private debt and equity placements, seed capital raising, demutualization and ESOP appraisals, and fairness opinions.
- In conjunction with these services, we evaluate strategic alternatives and provide advice to management teams and Boards of Directors relative to value maximization.
- PhiloSmith consistently ranks as a top M&A advisor for insurance companies and insurance agents and brokers under \$500 million in value. Working as both buy and sell-side advisors.



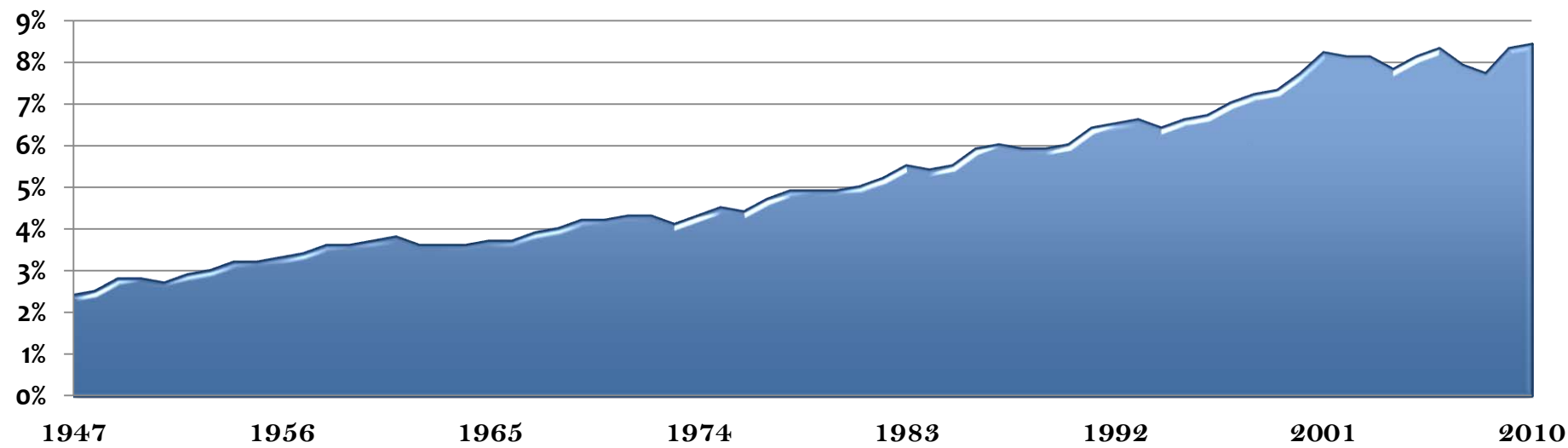
# INSURANCE STOCKS TODAY AND FOR THE LONG RUN

**The current environment facing the insurance and financial services business is positive**

- 1) The Insurance Business has shown above average growth and stability.
- 2) The expected long-term growth rate for insurance and financials is better than most other industry groups.
- 3) Price to book ratios for insurance and financial companies are near the lowest in decades.

# INSURANCE AND FINANCIAL SERVICES AS A LONG-TERM INVESTMENT

**Finance and Insurance as a Percent of U.S. Gross Domestic Product**

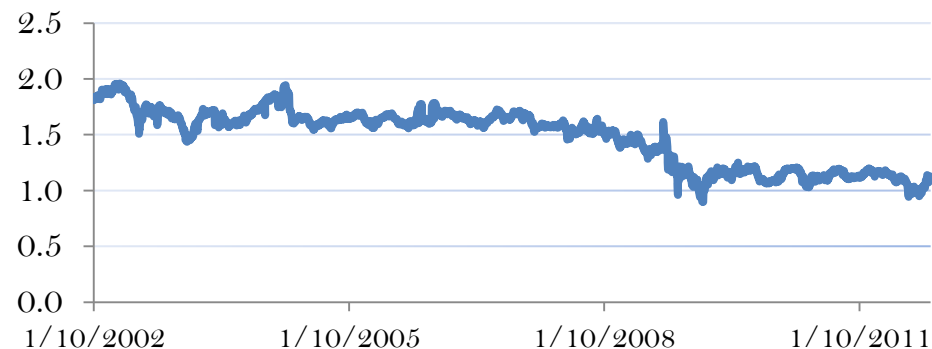


Source: U.S. Department of Commerce Bureau of Economic Analysis

The insurance and financial services sector represents over 8% of the economy, expanding at a rate that has outpaced GDP for decades. This growth is expected to continue because insurance and financial services companies play a crucial role in protecting, managing, and financing personal and commercial assets.

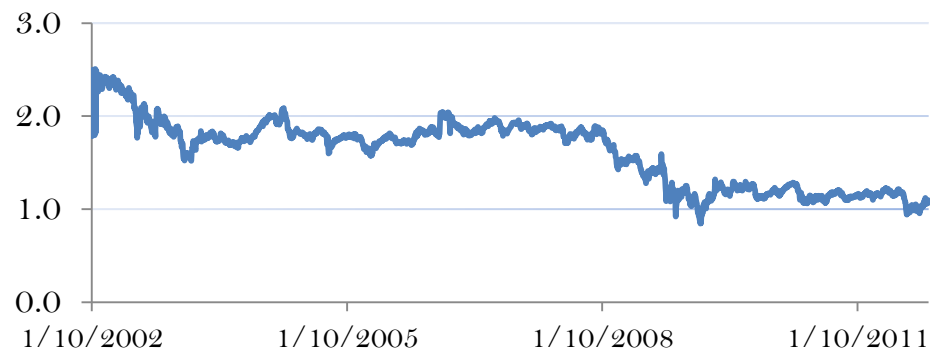
# INSURANCE P/B VALUATIONS NEAR 10+ YEAR LOWS

P&C



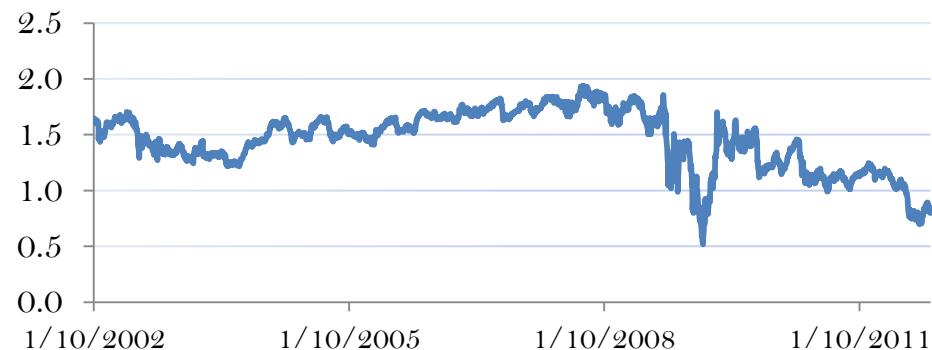
Source: SNL Financial, SNL U.S. Insurance P&C Index

Underwriters



Source: SNL Financial, SNL U.S. Insurance Underwriter Index

Life & Health



Source: SNL Financial, SNL U.S. Insurance L&H Index

Reinsurance



Source: SNL Financial, SNL U.S. Reinsurance Index

***ROEs are attractive, yet concerns with financials have kept insurance valuations down***

## INVESTMENT OBJECTIVE

- 1) Provide superior long-term growth and achieve a superior return relative to more conventional investments
- 2) Produce consistent returns with a low correlation to the general stock market.
- 3) Invest in equities of insurance and other financial services companies using a “growth at reasonable value” approach



# INVESTMENT OPPORTUNITY

## Continuous Change

Continuing structural changes and consolidation sweeping the insurance and financial services industries create opportunities that most investors would not have the ability to monitor or discover

## Multi-Cap Investing

Investments at all capitalizations of insurance and financial stocks that create unique opportunities

- The largest financial services companies in the United States account for a substantial share of the total business in their sub-sectors, but there are many smaller and medium sized publicly traded insurers, banks and other financial services companies that perform very well or have the potential to perform well.
- Smaller companies, under-followed by institutions, may not be priced efficiently
- Special developments in larger companies present opportunity for above average growth.

# INVESTMENT UNIVERSE

## Industry

### Insurance

## Sub-Industry

### Insurance Brokers

Insurance and reinsurance brokerage firms

### Life & Health Insurance

Companies providing primarily life, disability, indemnity or supplemental health insurance

### Multi-line Insurance

Insurance Companies with diversified interests in life, health and property and casualty insurance

### Reinsurance

Companies providing primarily reinsurance

### Capital Markets

### Asset Management & Custody Banks

Financial institutions engaged in investment management and/or related custody and securities fee-based services

### Investment Banking & Brokerage

Financial institutions primarily engaged in investment banking and brokerage services

### Thriffs & Mortgage Finance

### Thriffs & Mortgage Finance

Financial institutions providing mortgage and mortgage related services

### Diversified Financial Services

### Specialized Finance

Providers of specialized financial services. Includes credit agencies, stock exchanges and specialty boutiques.

### Other Diversified Financial Services

Providers of a diverse range of financial services, but with no dominant business line

### Consumer Finance

### Consumer Finance

Providers of consumer finance services, including personal credit, credit cards and lease financing

### Regional Banks

### Regional Banks

Regional banks tend to operate in limited geographic regions.

# INVESTMENT METHODOLOGY

At Philo Smith & Co., the investment management decision-making process has been essentially unchanged since inception.

- 1) **Detailed Bottom-up Research** As long-term, growth-oriented yet value-based investors, we seek to identify fundamentally sound companies undervalued relative to their intrinsic value.
- 2) **Fundamental Research and Long-Term Investing** are key Philo Smith & Co. principles. Every analysis starts with an understanding of a company's competitive position in their market space and making a judgment on the management quality within the particular organization.
- 3) **Knowing When to Sell** an insurance stock is just as important as knowing when to buy one. Our disciplined sell strategy constantly monitors companies looking for “red flags” such as a change in overall strategy or management, a failure to execute, or when stock meets a stated price target.



# INVESTMENT STRATEGY

“Successful insurance investing requires a disciplined, methodical approach that adds value over time within acceptable risk tolerance.”

- Philo Smith



- Bottom-up stock picking
- Invest in enterprises that have or are developing a competitive advantage.
- Seek companies with an above-average outlook selling at price/earnings and price/book ratios below sector averages
- Buy stocks in which the risk of loss is relatively limited and the chances of success are superior to the market
- Ownership by Management/Insiders should be meaningful
- Will become an active shareholder and establish a plan for realizing value if necessary

# THE PHILOSMITH ADVANTAGE

PhiloSmith industry expertise provides a competitive edge and superior results to indexing

- **Specific industry focus** provides higher level of expertise in an extremely fragmented, diversified sector
- **Extensive network** of insurance companies & executives
- **Experience & continuity** of portfolio managers
- **Skills & knowledge** for identifying potential investment opportunities that generalists may be unable to recognize
- **An in-depth understanding** of Private and Public market valuations
- **Proven performance** - demonstrated and documented ability to produce excellent results for nearly 40 years

# LONG-TERM PERFORMANCE DATA

**PhiloSmith investment funds have had above-average performance since inception nearly 37 years ago. . .**

<b>Average Annualized*</b>	<b>PhiloSmith % Change**</b>	<b>Benchmark Indexes % Change</b>	<b>S&amp;P 500 % Change</b>	<b>Nasdaq Insurance % Change</b>
<b>1 Year</b>	<b>-4.35%</b>	<b>2.49%</b>	<b>5.12%</b>	<b>3.17%</b>
<b>3 Years</b>	<b>12.5%</b>	<b>19.0%</b>	<b>25.6%</b>	<b>17.3%</b>
<b>5 Years</b>	<b>0.4%</b>	<b>0.6%</b>	<b>1.6%</b>	<b>1.6%</b>
<b>10 Years</b>	<b>6.1%</b>	<b>4.6%</b>	<b>4.2%</b>	<b>6.0%</b>
<b>20 Years</b>	<b>10.1%</b>	<b>7.8%</b>	<b>10.3%</b>	<b>9.9%</b>
<b>30 Years</b>	<b>15.8%</b>	<b>8.0%</b>	<b>11.5%</b>	<b>10.1%</b>
<b>From Inception (1975)</b>	<b>16.8%</b>	<b>9.6%</b>	<b>12.6%</b>	<b>11.9%</b>

\*Net Return 2/29/12

\*\*Long Only Fund

Performance Benchmark consists of the arithmetic average of the S&P 500 Index, the Nasdaq Insurance Index, and the Value Line Geometric Index

## PORTFOLIO HIGHLIGHTS

Larger Holdings	Sector
	Market Cap
<b>Brown &amp; Brown</b> Insurance agency and brokerage CEO: J. Powell Brown	Insurance Broker \$3.44B
<b>RLI</b> diversified portfolio serving niche or underserved markets CEO: Jonathan Edward Michael	Specialty \$1.66B
<b>Navigators Group</b> International specialty insurance holding company CEO: Stanley Adam Galanski	Specialty \$843M
<b>Reinsurance Group America</b> Global life reinsurance provider CEO: Albert Greig Woodring	Reinsurance \$6.25B
<b>Ameriprise</b> Financial planning services, investments, insurance & annuity CEO: James M. "Jim" Cracchiolo	Asset Manager \$11.6B
<b>Hiscox plc</b> Property and casualty insurance and reinsurance CEO: Bronislaw Edmund Mosajada	Reinsurance \$1.51B
<b>Raymond James Financial</b> Securities Broker and Asset Management CEO: Paul C. Reilly	Securities Broker \$3.09B

Typical Number of Positions Held = 20-25

Turnover Ratio = 20%

Beta\* vs. S&P 500 = 0.6

\* Since Inception

### SECTOR BREAKDOWN

Specialty	32%
Property Casualty	19%
Reinsurance	14%
Insurance	8%
Agency/Brokers	
Asset Managers	8%
Securities Brokers	8%
Other Financial Services	6%
Cash	5%
<b>Total</b>	<b>100%</b>

### CAPITALIZATION BREAKDOWN

Small Cap	12%
Medium Cap	61%
Large Cap	27%

# PHILOSMITH FIT IN YOUR PORTFOLIO

**An alternative to traditional equity investments you can understand**

- Long only, fundamental approach means PhiloSmith funds fit within many traditional investment guidelines, but lack of correlation to the larger market can help your portfolio maintain more consistent returns
- Superior return substitute for financial services segment of a full market portfolio
- Low turnover, tax efficiency, and long-term focus ideal for those with long-term goals
- Moderate risk level equity investment for transitions out of low yielding fixed income
- Boutique company structure allows for adaptability and customization of investment products
- Access to portfolio managers, investment committee and advisors so you can understand investment decisions



# INVESTMENT OPTIONS

**PhiloSmith offers a variety of account structures to meet the needs of your organization's investment strategy**

1. Separate Accounts (Custodian - State Street or client's preference)
2. PSCO Partners Limited Partnership, a Connecticut LP, our oldest running account since 1975
3. Investment structures designed to meet your particular needs

# Separate Account Program

**The PhiloSmith Separate Account Program allows investors to own a professionally managed portfolio directly. This approach offers insurance companies and institutional investors substantial advantages over partnerships and mutual funds.**

**The key advantages of the Account include:**

- A low cost and practical vehicle to invest with one of the industry's leading portfolio managers
- Simplified accounting and daily valuations
- Securities are directly owned by the investor
- Investor is not subject to the undesirable consequences of asset flow (excess subscriptions or redemptions)
- The investor has better understanding of their taxable position
- Daily reporting of all realized and unrealized gains or losses
- Securities that are owned with their own cost basis

# KEY INVESTMENT MANAGEMENT PERSONNEL

**JAMES A. AMEN**, *Managing Director & Partner*

Mr. Amen manages the firm's investment management and corporate finance businesses. He has counseled insurance clients in strategic transactions, capital funding needs, and long-range planning, specializing in financial analysis, valuation, and mergers and acquisitions.

Prior to joining PhiloSmith in 1988, Mr. Amen was in the Financial Services Group at Bear Stearns & Co. He began his career at AT&T Corp. in finance and marketing. Mr. Amen received a B.A. in Economics and Computer Science from the State University of New York and an M.B.A. in Finance from the University of Chicago Graduate School of Business.

# KEY INVESTMENT MANAGEMENT PERSONNEL

**JAMES E. INGLIS**, *Managing Director & Partner*

Mr. Inglis, Portfolio Manager and a professional investment analyst, has been responsible for the analysis and investment in companies of every sector of the insurance business as well as other financial services companies. His extensive knowledge of the financial services industry has contributed to the firms above average long term investment performance. Prior to his current responsibilities, Mr. Inglis served as Director of the firm's research department, in which he continues to play an integral role.

Mr. Inglis began his financial career as a banking officer with National Westminster Bank USA and subsequently served as an investment analyst with Metropolitan Life Insurance Company. Mr. Inglis joined PhiloSmith in 1984. Mr. Inglis graduated *summa cum laude* from Boston University and received an M.B.A. from New York University Graduate School of Business.

# KEY INVESTMENT MANAGEMENT PERSONNEL

**MICHELE O'GRADY**, *Managing Director & Partner*

Ms. O'Grady joined PhiloSmith in 1998 and has primary responsibility for the financial and administrative affairs of all the managed investment accounts and Partnerships. Ms. O'Grady oversees the financial accounting and operations for the firm and maintains financial data and performance calculations for the firm's investment vehicles. She is also President and Chief Compliance Officer of PSCO International Distributors, an affiliated NASD broker-dealer.

Ms. O'Grady began her financial career as an associate at Capital Partners, an LBO firm. In 1994, she became Chief Financial Officer of Oxford Bioscience Partners, a venture capital firm with over \$300 million under management.

Ms. O'Grady graduated *magna cum laude* from Marymount College and received her M.B.A. with honors from the University of Bridgeport.

# KEY INVESTMENT MANAGEMENT PERSONNEL

## **DAVID M. UNCLES**, *Vice President*

Mr. Uncles is responsible for institutional sales of PhiloSmith's investment management business. Prior to joining PhiloSmith, he worked in the private banking group at Credit Suisse and was with International Paper's corporate sales & marketing division for four years. He has consulted for State Street Associates currency management division and volunteers with a team to manage a portion of the Boston College endowment.

Mr. Uncles graduated with a B.B.A in Marketing from the University of Georgia and received his MBA from Boston College with a specialization in Corporate Finance.

# CONTACT INFORMATION



**PHILOSMITH**

*Insurance Investors Since 1962*

Six Landmark Square

Stamford, CT 06901

Phone: 203-348-7365

Fax: 203-348-4553

[www.philosmith.com](http://www.philosmith.com)