

June 2012 - Market Outlook

Our performance was up 10.1% in the first six months of 2012, compared to an increase of 9.5% in the S&P 500 Total Return and a 12.6% increase in the financial index (XLF). The core portfolio of insurance stocks performed better than the overall market and insurance stocks generally. At the same time, our performance was held back by exposure to securities brokers and asset managers.

Our results in the first half of 2012 reflected continued strength in most of our core insurance holdings. Our performance was significantly helped by gains in property casualty stocks. All sub-sectors in property casualty: primary, specialty, personal lines, commercial lines, and reinsurance showed gains. The property casualty stock performance followed the upswing in premium rates reported in most lines of business. We continue to adjust the portfolio to take further advantage of the upswing cycle. So far the anemic growth of the economy has not negatively impacted insurance stock performance in a significant way.

Outlook and Strategy

Specialty property casualty insurers now account for 38% of our holdings. We still believe that specialty insurers in the portfolios are well placed to take advantage of what appears to be a market upturn that is gaining momentum.

The property casualty market is in the early stages of a market upturn. The highest quality companies with real competitive advantages are gaining market share. We believe the holdings in the portfolio are undervalued relative to intrinsic value. Many property casualty stocks, for example, currently sell for tangible book value or less. These valuations give us continued optimism.

If you have questions regarding the financial services sector, or would like to discuss our investment approach, please contact us at the phone number below, or visit our website. (www.PhiloSmith.com)

Performance through June, 2012

