December 2013 - Market Outlook

PhiloSmith was up 40.1 percent in 2013, nicely ahead of the 32.4 percent gain of the S&P TR. Our performance was the result of above-average returns by many of our core holdings, and was spread across the sectors in which we invest. Eight holdings accounted for almost half of the total performance.

PhiloSmith's results in 2013 were significantly helped by the strong performance of specialty companies. In addition, asset managers, up 85.4 percent on average, and life and annuity companies, up 71.7 percent, reported the strongest absolute performance, but together represented roughly 12 percent of the portfolio. Gains from primary property casualty stocks also had an important impact on performance. The pickup in economic growth coupled with the year over year increases in premium rates created a compounding effect on revenues. At the same time, 2013 was a year with relatively low catastrophe losses. Inflation was low so there wasn't much upward pressure on claims costs. In the face of rising revenues and little upward movement of claims costs, profit margins and returns on equity rose in 2013. The most significant development affecting the property casualty business, alternative capital vehicles, has not impacted our holdings. Some portfolio companies utilize alternative vehicles to their advantage, while a couple of portfolio reinsurance companies actively participate in the formation and management of alternative vehicles. The property casualty industry is far more focused on underwriting profitability than a few years ago in part because of the low investment yield environment. PhiloSmith has traditionally owned the stocks of companies whose management teams were always narrowly focused on underwriting profits and in the current environment these holdings have performed exceptionally. Finally, in a period of strong profitability, active capital management strategies, including stock buybacks and special dividends, have increased the ROE of many holdings.

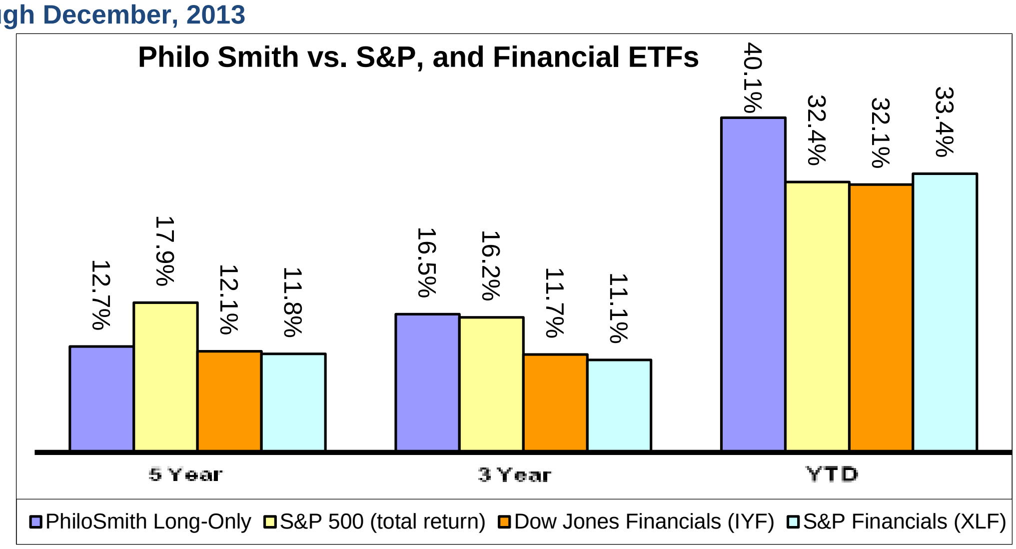
The Portfolio

Specialty companies accounted for 31% of PhiloSmith's holdings. The performance of specialty stocks had the greatest impact on overall performance. The top performing holdings, Hiscox and RLI, continue to benefit from excellent underwriting results. Primary property casualty stocks, accounting for 16% of the portfolio, also reported strong gains. Horace Mann continues to gain market share in its core business. The Hanover Group, benefitting from a more focused strategy as well as operational improvements, was up 54% in 2013. Asset managers Ameriprise Financial and Waddell & Reed's above-average performance was helped by the strong financial markets. At the same time, both company's strategies have led to market share gains. Annuity writer American Equity Investment Life was up 116% percent in 2013. With American Equity's growth and gain in market share the stock now trades in line with the market, up from a deep discount. The other life insurance holdings performed well.

Outlook and Strategy

PhiloSmiths' holdings trade at reasonable valuations and are expected to generate above-average growth. In addition, the return on equity of portfolio companies is projected to improve materially. Our property casualty holdings are seeing the benefits of premium rates gains, but still trade at roughly book value. Specialty property casualty holdings trade at a small premium to book value, but still trade at material discounts to long-term average valuations, which gives us continued optimism. Life insurers should continue to benefit from the steady rise in interest rates. Sales should remain strong because of the appeal of life company product guarantees. We maintain a bottom-up, company specific investment style, so our portfolio's are well diversified and continue to hold high quality companies with real competitive advantages. We believe the superior attributes of our holdings will translate into above-average growth and profitability. The rebalancing of our portfolios have only occurred when holdings have reached above-average relative valuations. In those cases we have lightened positions but not exited as we continue to believe those companies will generate above-average, long-term gains. The relative quality of the portfolio companies, when viewed relative to the general market, gives us confidence that there exists considerable upside going forward.

Performance through December, 2013



PHILOSMITH Six Landmark Square, Stamford, CT 06901 203.348.7365