

**CHOU ASSOCIATES MANAGEMENT INC.**  
**BEN GRAHAM INSURANCE EDITION**

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April 2026

# An Insurance Opportunity

May 2017

In May 2017, I was offered a chance to buy **Stonetrust Commercial Insurance Company**.

Stonetrust is a U.S. property-and-casualty insurance carrier that specializes in workers' compensation insurance, primarily serving small and mid-sized employers in the Southern United States.

So, I looked at the 2016 balance sheet, and what caught my eye was the ratio of Investable assets divided by shareholders' equity. **It was greater than 2 to 1.**

So, if I can make 5% on investable assets, it translates to more than 10% return on Shareholder's equity. If I make 10%, then it translates to more than 20% on equity.

**Can I utilize my value investment principles to make money on Stonetrust?**

# CONSOLIDATED FINANCIAL HIGHLIGHTS OF STONETRUST (2016)

(\$ in thousands)

<b>INCOME STATEMENT</b>	<b>2016</b>
Direct Written Premium	\$54,434
Gross Written Premium	55,367
Net Written Premium	53,130
Net Earned Premium	<b>54,909</b>
Loss & Loss Adjustment Exp.	(35,024)
Underwriting Expenses	(19,476)
<b>Underwriting Income</b>	<b>\$409</b>
Investment Income	2,089
Realized Capital Gains	(738)
Other Income	(168)
<b>Pre-tax Income</b>	<b>1,592</b>
Income Tax Expense (Benefit)	(165)
<b>Net Income (Loss)</b>	<b>\$1,427</b>

<b>BALANCE SHEET</b>	<b>2016</b>
Investable Assets	<b>\$128,943</b>
Receivables/Other Assets	24,295
<b>Total Assets</b>	<b>153,238</b>
Loss & Loss Adjustment Exp.	65,744
Unearned Premium Reserves	21,552
Other Liabilities	9,724
<b>Total Liabilities</b>	<b>97,021</b>
<b>Surplus</b>	<b>4,000</b>
<b>Shareholder's Equity</b>	<b>\$52,217</b>
<b>RATIO</b>	
Investable Assets/Shareholder's Equity	<b>2.47x</b>

## FIXED INCOME INSTRUMENTS OF STONETRUST (Q1 2021)

### Q1 2021

Company	Maturity	Coupon	Par Value	Cost Base	Bond Price*	% Change
Antero Resources Corp (SOLD)	2023-06-01	5.63%	\$4,000,000	\$43.25	\$67.38	35.81%
Continental Resources (SOLD)	2024-06-01	3.80%	2,000,000	50.50	96.50	47.67%
Occidental Petroleum (SOLD)	2022-08-15	2.70%	457,000	75.50	101.25	25.43%
Athabasca Oil Corp	2022-02-24	9.88%	8,235,000	22.04	78.00	71.74%
SRC Energy (formerly PDC Energy)	2025-12-01	6.25%	1,453,000	62.75	100.05	37.28%
PDC Energy (SOLD)	2026-05-15	5.75%	2,323,000	62.25	103.38	39.78%
Range Resources (SOLD)	2026-05-15	4.88%	2,000,000	59.00	98.62	40.17%
Southwestern Energy (SOLD)	2026-04-01	7.50%	1,200,000	75.75	105.50	28.20%
General Electric (SOLD)	2049-12-29	6.00%	3,500,000	69.60	94.00	25.96%
Peabody Energy	2022-03-31	6.00%	892,000	86.75	87.00	0.29%
PIC AU Holdings LLC	2024-12-31	10.00%	3,522,000	89.28	91.75	2.69%
MBIA	2028-10-01	6.63%	5,167,000	96.25	98.00	1.79%

\*Note: Bond prices are in USD as of March 31, 2021 or their selling price if the bond was sold prior to March 31, 2021.

## EQUITY SECURITIES OF STONETRUST (Q1 2021)

### Q1 2021

Equity Holdings	Shares	Cost Base	Market Value	Unrealized gains +/-
Lumen Technologies Inc	1,210,000	\$ 13,248,058	\$ 15,185,500	\$ 1,937,442
Berkshire Hathaway Inc	25	7,901,245	11,266,550	3,365,305
Alphabet Inc	3,832	1,999,885	11,088,237	9,088,352
Resolute Forest Products Inc	685,000	2,179,236	10,459,950	8,280,714
Exor N V	90,021	4,000,022	8,050,128	4,050,106
Stellantis N V	426,388	3,495,030	7,999,039	4,504,009
Apple Inc	44,000	1,862,693	7,813,080	5,950,387
Pool Corp	10,636	1,253,830	6,019,976	4,766,146
MBIA Inc	321,000	2,030,024	5,068,590	3,038,566
Liberty Global Plc	142,500	3,444,220	3,952,950	508,730
Moody's Corp	5,899	583,551	2,304,031	1,720,480

## EQUITY SECURITIES OF STONETRUST (Q4 2025)

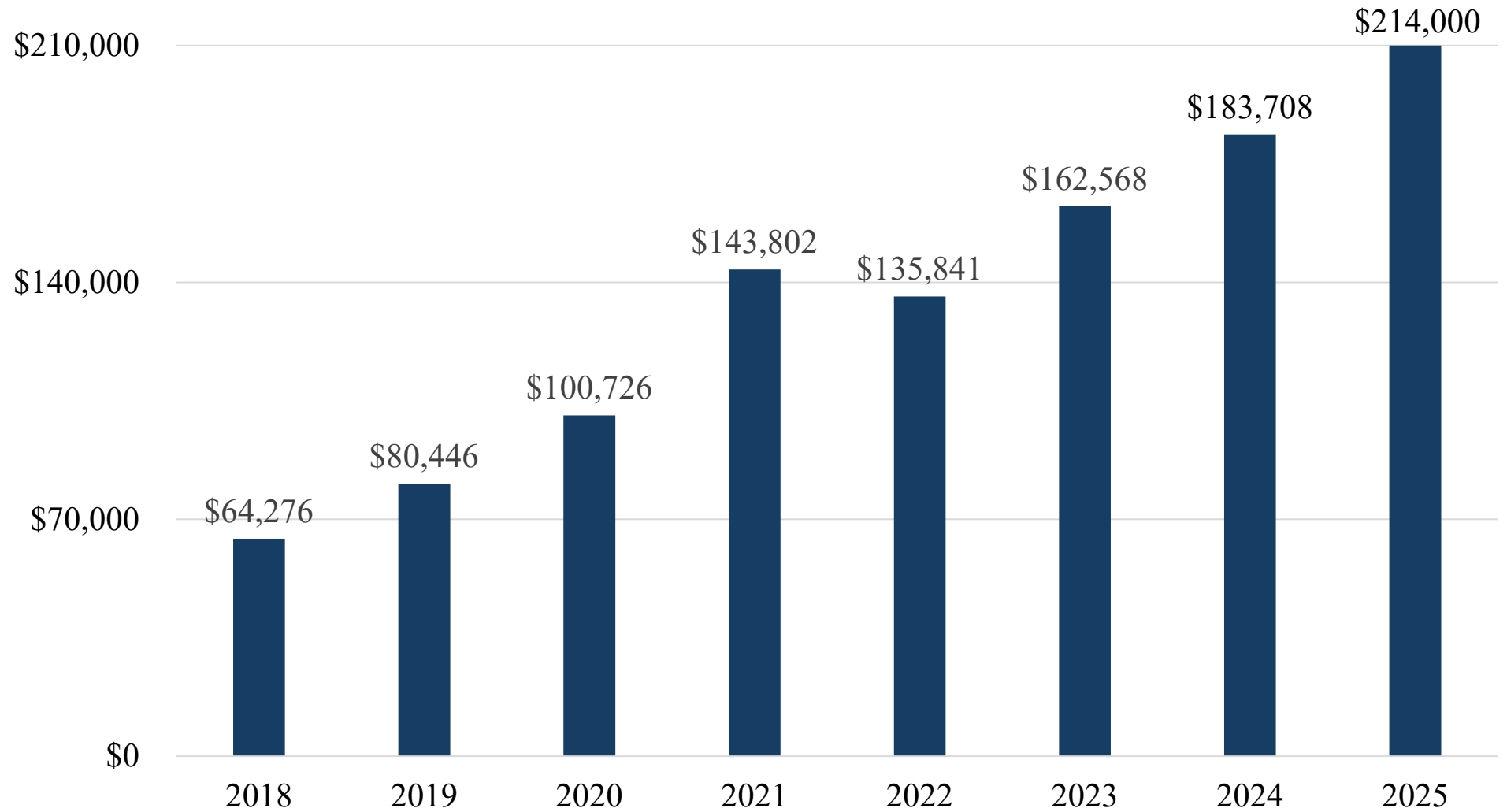
### Q4 2025

Equity Holdings	Shares	Cost Base	Market Value	Unrealized gains +/-
Alphabet Inc	66,640	\$ 1,738,895	\$ 20,911,632	\$ 19,172,737
Berkshire Hathaway Inc	25	7,901,245	18,870,000	10,968,755
Apple Inc	44,000	1,862,693	11,961,840	10,099,147
Exor N V	90,021	4,000,022	7,606,775	3,606,753
Stellantis	662,000	6,465,158	7,209,180	744,022
Occidental Petroleum Corporation	147,000	5,996,086	6,044,640	48,554
Alibaba Group Holding	38,500	2,920,835	5,643,330	2,722,495
Synchrony Financial	62,000	2,016,798	5,172,660	3,155,862
Wells Fargo	40,000	1,027,529	3,728,000	2,700,471
Bank of America	50,000	1,359,510	2,750,000	1,390,490
Pool Corp	10,636	1,253,830	2,432,985	1,179,155
EXCO Resources Inc	133,377	1,597,954	2,427,461	829,508
MBIA Inc*	321,000	-	2,298,360	2,298,360
Ally Financial	49,839	1,196,085	2,257,208	1,061,123
Paypal Holdings	34,200	2,003,576	1,996,596	(6,980)

\*Note: For MBIA Inc. our cost was US\$6.32 per share. Stonetrust took \$6.32 per share as a return of capital and, thus, the cost base is zero.

# GROWTH IN STONETRUST'S BOOK VALUE

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# INSURANCE FOUNDATION BEHIND CAPITAL ALLOCATION

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What was needed to give me the freedom to take advantage of the mispricing in the stock and bond markets?

As hard as it is to believe, it is mostly insurance-related.

1. It starts with a strong underwriting culture.
2. Management prioritizes underwriting profit over premium growth.
3. Reserves are set with integrity, not optimism.
4. Chronic under-reserving destroys long-term investment flexibility.
5. Strong balance sheet creates strategic optionality.
6. Investable assets compound meaningfully over time.

Without underwriting profit and disciplined reserves, rating agencies like AM Best force insurers into defensive, low-return investments like triple-A treasury bills/bonds when great bargains are available in the bond and the stock market.

# A Florida Opportunity

June 2022

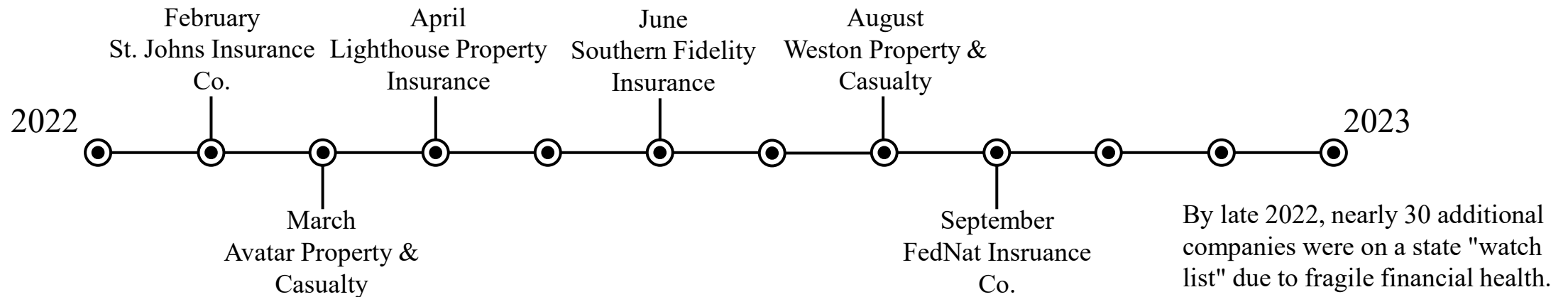
In 2022, Florida's insurance market stood on the brink of collapse, shaken by mounting insolvencies, rampant litigation, and the devastating impact of Hurricane Ian.

# FLORIDA'S HOMEOWNERS INSURANCE IN 2022

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## 1. Record Insurer Insolvencies

In 2022, six insurers collapsed, hundreds of thousands lost coverage, and nearly 30 more were placed on a state watchlist.



## 2. The Litigation Nightmare

Florida's legal environment was a primary driver of these failures.

In 2022, Florida generated 79% of U.S. homeowners' insurance lawsuits, despite having only 9% of the nation's claims, costing insurers \$2.9 billion.

# FLORIDA'S HOMEOWNERS INSURANCE IN 2022 (CONT.)

## 3. Impact of Hurricane Ian

Hurricane Ian struck in September 2022, causing \$25–\$65 billion in insured losses.

Reinsurance Crisis: Hurricane Ian triggered a global reinsurance crisis, sharply increasing costs for Florida insurers to secure the coverage needed to stay solvent.

## 4. Market Shift to Citizens

As private insurers collapsed, Citizens Property Insurance Corporation (the state-run "insurer of last resort") doubled in size, exceeding 1.14 million policies by the end of 2022 (roughly doubling its size in just two years).



# FLORIDA'S LEGISLATIVE ACTION TO PREVENT MARKET COLLAPSE

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What was needed was major legislative reforms, and I was convinced that it had to be implemented, or else, Florida would be left with no insurance companies insuring any houses in Florida.

With all the chaos going around, **just like in value investing**, it was a perfect time to form a homeowners' insurance company.

And so, Loggerhead Reciprocal Interinsurance Exchange (LRIE) was created to start operating on December 31, 2022.

Just like luck would have it, two weeks later, there was a Major Legislative Reforms (December 15, 2022) in Florida.

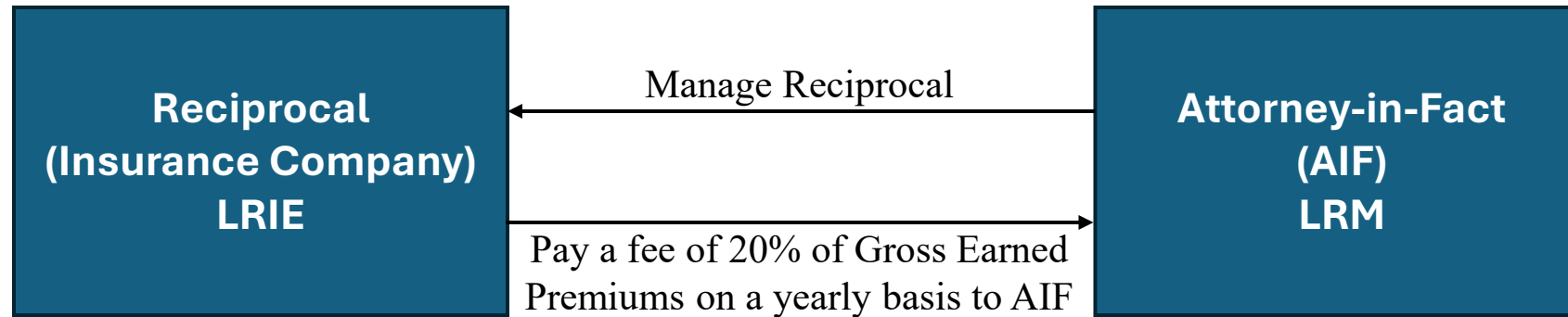
1. Reinsurance Relief: Created the \$2 billion **Reinsurance to Assist Policyholders (RAP)** program to help insurers manage rising costs.
2. Litigation Limits: Eliminated "**one-way attorney fees**" and restricted "**Assignment of Benefits**" (AOB), which were cited as the main drivers of frivolous lawsuits.

# LOGGERHEAD RECIPROCAL INTERINSURANCE EXCHANGE (LRIE)

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Why did we choose this corporate format? The biggest benefit is that you get a freebie from Members' Contributions Owned by Policyholders. That builds up the shareholders' equity or in insurance language: Surplus

The Attorney-in-Fact manages the Reciprocal, and for that, it charges fees equal to 20% of Gross Earned Premiums for the year. If we are going to make money, this AIF will be the goose that lays the golden eggs. This AIF is named Loggerhead Risk Management (LRM)



Funded by Surplus Notes and Members' Contributions Owned by policyholders

LRM was Capitalized with \$10 million, of which Wintai America owns 90%.

## LOGGERHEAD RECIPROCAL INTERINSURANCE EXCHANGE (LRIE)

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In 2023, Loggerhead Reciprocal Interinsurance Exchange (LRIE) signed a deal with Progressive to acquire the renewal rights to approximately 100,000 policies they had set for non-renewal beginning May 1<sup>st</sup>, 2024. From that 100,000, LRIE will accept only those policies that meet its underwriting standards. We believe that a conversion ratio of 60% is achievable. Along with organic growth, the Progressive deal made LRIE's grow to \$204 million in 2025

### LRIE's actual and projected gross written premiums

(\$ millions)	----- Forecasted -----				
	2024A	2025A	2026	2027	2028
Gross written premiums	163.4	204.2	210.9	221.6	233.0
Surplus	53.2	73.1	81.8	93.2	105.2

# LOGGERHEAD RISK MANAGEMENT, LLC (LRM)

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## LRM's projected income statement

(\$ 000s)	----- Forecasted -----				
<b>Income Statement:</b>	<b>2024A</b>	<b>2025A</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>
Total revenue	19.0	39.3	41.1	44.7	47.0
<b>Pre-tax Income</b>	4.2	18.3	19.5	20.1	21.2

The quality of earnings is really high at LRM given the following:

- 1) The after-tax earnings are cash earnings. They are not tied up in inventories, receivables, or fixed assets. Therefore, they can be paid out as dividends/distributions to the shareholders.
- 2) LRIE requires minimal capital to grow its premiums at a fairly good clip. The capital is provided by Members' Contributions – a portion of their insurance premiums is set aside as capital or surplus for LRIE. Therefore, the fee generated by LRM grows proportionately, resulting in much higher pre-tax earnings.

## LRIE SURPLUS AND LRM DISTRIBUTION PROJECTIONS (2025-2028)

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### LRIE Surplus

(\$ millions)	----- Forecasted -----			
	2025A	2026	2027	2028
Members Contribution	29.3	50.2	71.8	93.3
Other	43.8	31.6	21.4	11.9
<b>Total Surplus</b>	<b>73.1</b>	<b>81.8</b>	<b>93.2</b>	<b>105.2</b>

### LRM Distributions/Dividends

(\$ millions)	----- Forecasted -----			
	2025A	2026	2027	2028
Distributions	12.9	15.0	15.0	15.0

# A Reinsurance Opportunity

December 2024

After several hurricanes in Florida over the last couple of years, reinsurance prices have increased dramatically. So, what will value investors do?

## WIN RE HOLDINGS INC.

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The table below shows the current pricing when insurance companies buy reinsurance from reinsurers.

### **Pricing Summary - CATASTROPHE - EXCESS OF LOSS Reinsurance**

<b>Maximum Loss Occurrence</b>	<b>Layers</b>	<b>Limit</b>		<b>Retention</b>	<b>Premiums ceded (Rate on Line)</b>
<b>1-in-10 Years</b>	Layer 1	\$ 14,000,000	in excess of	\$ 10,000,000	110%
<b>1-in-50 Years</b>	Layer 2	\$ 96,000,000	in excess of	\$ 24,000,000	60%

When a catastrophic event hits, layer 1 may be activated if the insurer's damages exceed \$10 million. In insurance parlance, it is called \$14 million in excess of \$10 million.

In the case of layer 1, the insurer is paying \$15.4 million to cover losses up to \$14 million. This layer only covers one reinstatement. This means that the reinsurer is also responsible for a second catastrophe loss of up to \$14 million if it happens in the same 12 months after the contract is signed. It is rare for the second event to happen within the 12-month period.

How often does layer 1 get triggered? The probability of maximum loss happens once in 10 years.

The current reinsurance prices more than compensate for the catastrophic risk in Florida.

## WIN RE FINANCIAL REPORT

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- To capitalize on the high Reinsurance pricing, Win Re raised \$34 million USD with 41 shareholders. The company is domiciled in Cayman Islands.
- I expected to report \$5 million USD in losses because it was a start-up but Win Re made \$10.3 million USD in operating income after deducting all expenses.
- As a result, the return on shareholders' capital was 30.6%