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Zacks Small-Cap Research

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Global Indemnity Group (GBLI-NYSE)

INITIATION: Smallcap specialty property & casualty insurance company entering a new and focused growth phase. The company operates in specialty areas primarily in excess and surplus lines.

Utilizing a scenario analysis methodology for future projections of book value per share, we believe GBLI is worth approximately $60.00 per share. Various industry wide dynamics could materially increase or decrease that value.

Current Price (09/12/22)	$24.52
Valuation	**$60.00**

OUTLOOK

Global Indemnity Group, LLC, provides specialty and niche insurance products nationwide. The company is led by an experienced management team, including CEO David Charlton, who has 35 years of experience in the property & casualty insurance business. GBLI focuses on small to middle market casualty business. The company's largest business, Penn-America Binding, targets small business written on an excess and surplus lines basis. Global Indemnity also has profitable and growing cannabis, programs and reinsurance businesses. The company has launched four new businesses in 2022, Environmental, Excess Casualty, InsurTech and Professional which are all led by newly hired experienced managers with strong track records of success.

SUMMARY DATA

52-Week High	**$27.99**
52-Week Low	**$23.32**
One-Year Return (%)	**-5.90**
Beta	**0.25**
Average Daily Volume (sh)	**7,337**
Shares Outstanding (mil)	**14.5**
Market Capitalization ($mil)	**$367**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**88**
Insider Ownership (%)	**44**
Annual Cash Dividend	**$1.00**
Dividend Yield (%)	**3.94**
5-Yr. Historical Growth Rates	
Sales (%)	**7.2**
Earnings Per Share (%)	**N/A**
Dividend (%)	**0.0**
P/E using TTM EPS	**N/A**
P/E using 2022 Estimate	**N/A**
P/E using 2023 Estimate	**12.0**
Zacks Rank	**N/A**

Risk Level	**Low**
Type of Stock	**Small-Value**
Industry	**Insurance**

ZACKS ESTIMATES

Revenue
(In millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020	87 A	179 A	160 A	158 A	584 A
2021	158 A	164 A	167 A	189 A	678 A
2022	130 A	148 A	188 E	143 E	609 E
2023	151 E	159 A	155 E	155 E	620 E

EPS / Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020	-$3.13 A	$2.61 A	-$1.06 A	$0.08 A	-$1.48 A
2021	$0.37 A	$0.43 A	-$0.54 A	$1.71 A	$1.97 A
2022	-$1.03 A	-$0.84 A	$1.45 E	$0.50 E	$0.08 E
2023	$0.58 E	$0.61 E	$0.66 E	$0.70 E	$2.54 E

Quarterly revenues may not equal annual revenues due to rounding. Quarterly EPS may not equal annual EPS due to rounding, dilution or intangibles.

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KEY INVESTMENT POINTS

- Global Indemnity Group, LLC (NYSE:GBLI) is a specialty property and casualty insurance company that has been operating nationwide since the early 2000's.
- The company is led by an experienced management team, including the Chief Executive, who has 35 years of experience in the property & casualty insurance business.
- The company operates through two primary segments: Commercial Specialty and Reinsurance Operations. It also has an Exited Lines segment.
- Commercial Specialty targets specific, defined groups of insureds predominantly in the excess and surplus lines, or non-admitted, small to middle marketplace.
- The Reinsurance Operations segment provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies.
- Exited Lines represents lines of business that are no longer being written or are in runoff.
- The company has a solid liquidity position as of the end of the 2nd quarter 2022 with $59.8 million in unrestricted cash and equivalents and $1.3 billion in investments primarily comprised of highly liquid fixed income investments.
- The company has no debt as $130 million of subordinated debt was retired in April 2022.
- GBLI currently has a market capitalization of $365 million and is expected to generate approximately $609 million in total revenues in 2022 and $644 million in net written premiums.
- Based on the most recent reported results as of 6/30/22, the company is selling at 57% of book value. Using a future book value scenario analysis valuation methodology, we place a value for GBLI at **$60.00** per share.



Source: gbli.com

OVERVIEW

GBLI provides insurance products across a distribution network that includes binding authority, program, brokerage, and reinsurance. The company manages the distribution of these products through two business segments. Commercial Specialty which offers specialty property and casualty products designed for product lines such as small business binding authority, professional lines, excess casualty, environmental, InsurTech business, and specialized programs. Reinsurance Operations provides reinsurance and insurance solutions through brokers and primary writers including insurance and reinsurance companies. The company also has an Exited Lines segment that contains lines of business that are no longer being written or are in runoff, including specialty personal lines and property and casualty products such as manufactured home, dwelling, motorcycle, watercraft, and certain homeowners business, certain business lines within property brokerage, property and catastrophe reinsurance treaties, and the farm, ranch and equine business.

From September 5, 2003, the date Fox Paine & Company acquired control of the Company, to December 31, 2021, the Company has generated cumulative net income of $582 million. $525 million has been returned to shareholders in the form of dividends, share repurchases and share redemptions since the initial public offering in December 2003.

David Charlton was recruited as Global Indemnity's Chief Executive in April 2021. Mr. Charlton is a well experienced and highly successful insurance industry leader with distinguished tenures at three of the industry's leading competitors (Philadelphia Consolidated, Berkshire Hathaway's USLI, and Chubb's Westchester Specialty operation). Mr. Charlton has been focused on hiring experienced insurance executives with long track records of success, growing core businesses, eliminating less profitable and higher risk businesses, improving technology, utilizing third party data and enhancing analytical capabilities.

Since becoming Chief Executive in April 2021, Mr. Charlton has already substantially improved the breadth and depth of the company's management team by recruiting Reiner Mauer as Global Indemnity's Chief Operations Officer. Mr. Mauer was formerly the president of the Property/Casualty division of Berkshire Hathaway's USLI operation. In addition, he has recruited eight other new executives as divisional and operational leaders, all of whom have had highly successful careers managing small business and middle market casualty underwriting operations.

For the first six months of 2022 gross written premium in the Commercial Specialty and Reinsurance segments, which are the core businesses, grew by 28.4% compared to the first six months of 2021. The increase was due to organic growth and rate increases. The combined ratio for these segments was 95.4%.

Several less profitable and higher risk businesses have been sold. GBLI disposed of American Reliable Insurance Company and its Farm, Ranch & Equine division in the 3rd quarter of 2022 and the Specialty Property division in the 4th quarter of 2021. These transactions generated $175 million in aggregate proceeds for GBLI, which includes the release of capital supporting these businesses, as compared to the price originally paid for American Reliable in 2015 of $100 million. American Reliable was the most volatile and poorest performing segment of GBLI due to the increasing frequency and severity of natural catastrophes (such as hurricanes, tornados, hailstorms, and monsoons) sweeping across the U.S. in the last five years.

The sale of the Farm, Ranch & Equine renewal rights completes the 5-year transformation of GBLI from a complex, offshore, property-catastrophe oriented insurer subject to considerable earnings volatility, to a simplified U.S. company focused on its highly profitable specialty commercial casualty business without the volatility from property-oriented books of business.

Recent corporate actions:

- Since 2017, shed 59% of 2017's gross written premium ($303 million of $516 million). The eliminated businesses had a combined ratio of 119.8% in 2017. Shed business includes the sale of Manufactured Homes & Dwelling and Farm, Ranch & Equine led by Fox Paine & Company for 1.8 times capital.

- From 2017 to 2021, the company grew Continuing Lines gross written premium from $213 million to $487 million, a 4.5-year Compound Annual Growth Rate (CAGR) of 24%. Gross written premiums for the six months ended June 30, 2022 were 28.4% higher when compared to the same period in 2021.

- Redomesticated to the United States in 2020.

- Eliminated 100% of outstanding subordinated debt.

- Reduced duration and investment risk by selling the common stock portfolio in the 1st quarter of 2022 and lowered the fixed income portfolio duration to 1.8 years as of the end of 2nd quarter 2022.

Results of this corporate activity:

- Continuing Lines have a Combined Ratio of 95.4% for the six-month period ending June 30, 2022 and a 5-year average Combined Ratio in the 80s.

- 80% reduction in 1-in-250 year Probable Maximum Loss (PML).

- Continuing Lines Net Earned Premiums were 72% casualty for the six months ended June 30, 2022 compared to 55% casualty in 2019.

As a result of a redomestication transaction, in which GBLI merged their Bermuda insurance operation into domestic businesses, GBLI was able to free up $250 million of unrestricted capital for the new unregulated parent company, Global Indemnity Group, LLC (treated as a partnership for federal income tax purposes). That capital is available to support all of GBLI's ongoing operations and to pay dividends to shareholders. In addition, the redomestication further simplified GBLI's corporate and operational structure resulting in over $5 million in recurring cost savings.

HISTORY

Fox Paine Fund II, an investment fund controlled by investment banker Saul Fox, founded the original Global Indemnity in September 2003. Today, together with Fox Paine's affiliates, the fund owns 6.0 million common shares representing approximately 41% of shares outstanding and an 83% voting interest.

The current corporate entity, Global Indemnity Group, LLC, a Delaware limited liability company, was formed on June 23, 2020, and replaced Global Indemnity Limited, a Cayman Islands entity, as part of a redomestication transaction that occurred in August 2020. This transaction also resulted in the redomestication of the company and its Bermuda subsidiary, Global Indemnity Reinsurance Company, to the U.S.

In August 2020, Global Indemnity Group, LLC became a publicly traded partnership for U.S. federal income tax purposes. As a publicly traded partnership, the company is generally not subject to federal

income tax and most state income taxes. For U.S. federal income tax purposes, a holder of Global Indemnity Group, LLC's common shares is treated as a partner in a publicly traded partnership.

Effective January 3, 2022, the company transferred the listing of its class A common shares from the NASDAQ to the New York Stock Exchange and trades under the ticker symbol GBLI. The company's predecessors have been publicly traded since 2003.

In October 2021, GBLI sold the renewal rights related to its manufactured home and dwelling products, which were part of the Specialty Property segment. In August 2022, GBLI also sold the renewal rights for the products in its Farm, Ranch & Equine segment. The company previously decided to stop writing certain property brokerage business, which was part of the Commercial Specialty segment, and exit certain property and catastrophe lines within the Reinsurance Operations segment.

Based on the decisions to exit these lines of business, GBLI changed the way it manages and analyzes its operating results. The chief operating decision makers decided to review the specific results of the Exited Lines separately. They also determined that the small amount of specialty property business that remained from the Specialty Property segment would be included as programs in the Commercial Specialty segment for the purpose of reviewing results and allocating resources. The Reinsurance Operations segment will continue to write casualty and professional treaties as well as individual excess policies.

SEGMENTS & BUSINESS UNITS

Commercial Specialty

Primary businesses under this segment include:

Penn-America Binding – This business distributes property and general liability products for small commercial businesses through a select network of wholesale general agents with specific binding authority. Examples of small businesses served are apartments, bars, contractors and other small retail operations. GBLI has the technology and the expertise to profitably underwrite over 1,000 classes in 50 states with an average premium of $2,800 per policy. The business is approximately 69% casualty and 31% property.

Programs – This business distributes property, general liability, and professional lines products through program administrators with specific binding authority. The group takes a narrow but deep focus on certain industries as it tries to cover all companies in that field. Examples of its programs include a national premier fast-food franchise, couriers, tattoo parlors, contractors and various other niche businesses. To support these programs, the company utilizes in-house analytics and artificial intelligence tools to allow for superior portfolio management. These programs have standalone multi-disciplinary teams that are engaged in underwriting, analytics, claims, actuarial, legal, and product development

InsurTech – The InsurTech division currently has two existing profitable product areas that the company is investing in to aggressively grow:

Collectibles Insurance Services – This business insures collections such as comic books, baseball cards, artwork, guns, and stamps. This is a digital, direct-to-consumer product supported by advanced technology and analytics.

Vacant Express – This business distributes products for dwellings that are currently vacant, undergoing renovations, or are under construction through aggregators, brokers, and retail agents. Production has been slow for residential policies recently due to the strong housing market, which has created high turnover of home sales and resulted in fewer vacancies. However, the commercial side of the business has been strong due to the work-from-home trend. Average premiums are typically less than $1,000 for these policies.

The InsurTech business will be actively bringing out additional new products utilizing state of the art technology to improve the insurance buying experience for consumers and agents.

Cannabis – This offering specializes in providing comprehensive property, premises liability, and product liability coverages for seed-to-sale cannabis operators, including dispensaries and retailers, indoor growers, manufacturers, and extractors/processors. This is a growing niche industry segment currently avoided by most standard carriers and has an expected market opportunity of approximately $40 billion in five years. This is also a highly profitable business with historical, industry combined ratios of under 90%.

Environmental – This business offers pollution and professional liability coverages for a range of small and middle-market contractor classes focusing on artisan and general contractors, construction managers, environmental consultants, and various specialty environmental contractors. This is a relatively new business line and the company is continuing to rollout new products aggressively to market.

Professional Lines – This is a new business that offers management liability products and professional errors and omissions (E&O) products. These include employment practices liability (EPL), non-profit directors and officers (D&O)/EPL, miscellaneous E&O (100+ classes), technology E&O, private company D&O/EPL, and fiduciary related lines. GBLI continues to aggressively market these offerings and build out its underwriting and claims teams.

Excess Casualty - This is a relatively new business that focuses on excess casualty policies in four key verticals: manufacturing, construction, real estate, and hospitality. The company's strategy for this segment is to establish a premier standalone excess casualty business that focuses on small-to-mid sized accounts. The company is focused on risk selection, pricing discipline, and the build out of underwriting and claims teams.

The Commercial Specialty segment distributes its insurance products primarily through a group of approximately 200 wholesale general agents, wholesale insurance brokers, and program administrators. Of Commercial Specialty's non-affiliated professional wholesale general agents, wholesale insurance brokers, and program administrators, the top five accounted for 47.7% of the segment's gross written premiums for 2021. Three agencies individually represented more than 10.0% of Commercial Specialty's gross written premiums.

In 2021, gross written premiums for the Commercial Specialty segment were $380.9 million compared to $324.0 million for 2020. For 2021, surplus lines business accounts for approximately 98.0% of the business written while specialty admitted business accounts for the remaining 2.0%.

For the six months ended June 30, 2022, gross written premiums for the Commercial Specialty segment were $214.1 million compared to $188.7 million for the same period in 2021.

Reinsurance Operations

The company's Reinsurance Operations segment provides reinsurance solutions through brokers and primary writers, including insurance and reinsurance companies. Prior to the redomestication transaction,

the company's Reinsurance Operations consisted solely of the operations of its Bermuda-based wholly owned subsidiary, Global Indemnity Reinsurance. As part of the redomestication transactions, Global Indemnity Reinsurance was merged into Penn-Patriot Insurance Company with Penn-Patriot being the surviving entity. The business is focused on using its capital capacity to write casualty and specialty-focused contracts.

In 2021, gross written premiums were $106.5 million compared to $55.6 million for 2020.

For the six months ended June 30, 2022, gross written premiums were $87.8 million compared to $46.4 million for the same period in 2021.

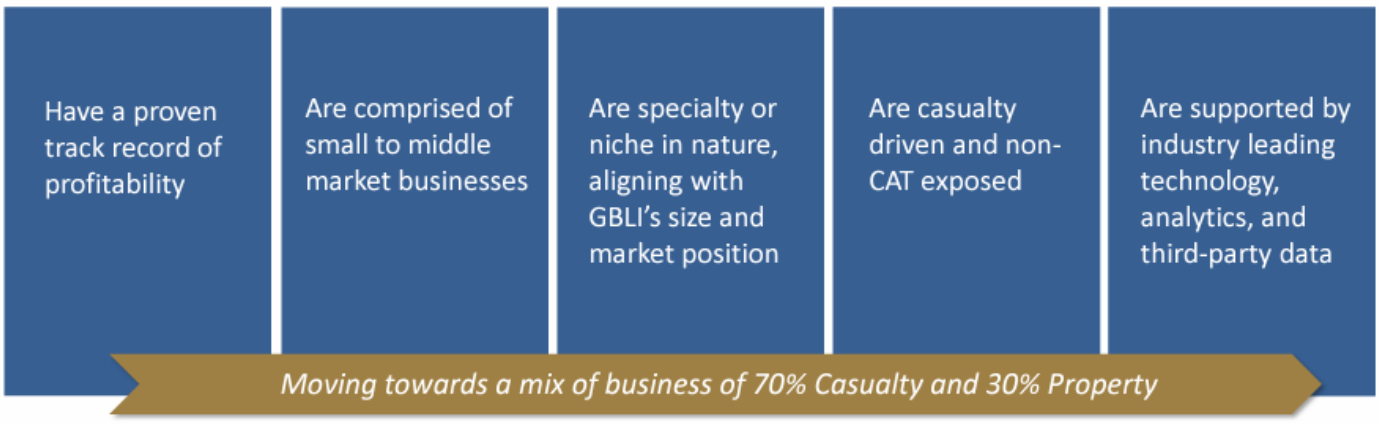
Exited Lines

The company's Exited Lines segment represents lines of business that are no longer being written or are in runoff. Exited Lines includes specialty personal lines and property and casualty products such as manufactured homes, dwelling, motorcycle, watercraft, certain homeowners' business, certain business within property brokerage, farm, ranch and equine business, and property and catastrophe reinsurance treaties. The renewal rights related to the company's manufactured home and dwelling products, which are included in Exited Lines, were sold during the fourth quarter of 2021. The renewal rights related to the farm, ranch and equine business were sold during the third quarter of 2022 and are also included in Exited Lines.

The manufactured home, dwelling, motorcycle, watercraft, certain homeowners, and farm, ranch and equine products within Exited Lines operated primarily in the standard or admitted markets. These insurance products were either underwritten through limited binding authority or by internal personnel. The property brokerage product within Exited Lines operated predominantly in the excess and surplus lines or non-admitted markets. The property and catastrophe reinsurance treaties within Exited Lines were distributed through brokers on a direct basis. GBLI made a concerted effort to reduce its catastrophe exposure, particularly in areas prone to hurricanes and wildfires.

In 2021, gross written premiums and net written premiums for the Exited Lines segment were $194.7 million and $118.1 million, respectively, compared to $227.0 million and $192.2 million, respectively, for 2020.

For the six months ended June 30, 2022, gross written premiums and net written premiums for the Exited Lines were $85.9 million and $39.3 million, respectively, compared to $103.6 million and $88.1 million, respectively, for the same period in 2021. Net written premiums for exited lines includes the Farm, Ranch and Equine business that was reclassified to Exited Lines as a result of the sale of the renewal rights announced in August 2022. Post the sale of this business, net premiums written within the Exited Lines segment are expected to be very low.



Source: GBLI Investor Presentation

STRATEGY & OBJECTIVES

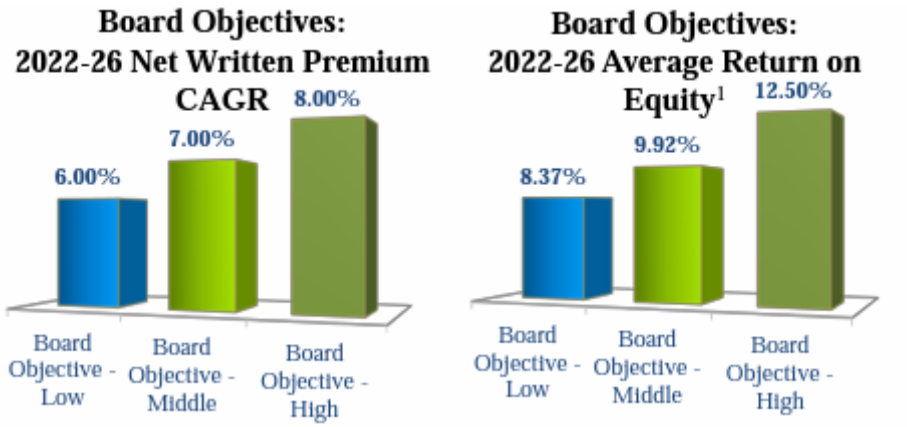
Global Indemnity has outlined a four-pillar strategic road map involving People, Revenue, Operations, and Investments. GBLI has greatly enhanced its existing team with experienced insurance executives with long track records of business and operating success. This includes a new Chief Executive, Chief Operating Officer, and new business leaders.

GBLI has been developing and begun to implement detailed plans to grow the current core businesses while also creating new ones. The company continues to decrease or eliminate less profitable or high-risk business lines such as catastrophic coverage. Advanced technologies and analytics will play an increased role in guiding the company's growth and will be supported by a continued emphasis on scalable architecture and data processing efficiencies.

After the redomestication event and hiring new management, the GBLI Board of Directors implemented new growth and performance objectives. These objectives are incorporated into the compensation plans for certain senior executives.

The first goal includes Net Written Premium growth targets over a 5-year period (2022-2026) of 6.0% on the low end, 7.0% in the middle range, and 8.0% on the high end. These Net Written Premium growth targets are based on the last 10 years' historical performance of property & casualty companies with the low target being the median performance and the high-end target being the top quartile of excess & surplus lines companies.

The second goal includes Return on Equity targets over a 5-year period (2022-2026) of 8.37% on the low end, 9.92% in the middle range, and 12.50% on the high end. These average, Return on Equity targets are based on the last 10 years' historical performance of property & casualty companies with the low target being the median performance and the high-end target being the top quartile of excess & surplus lines companies.



Source: GBLI Investor Presentation

GEOGRAPHIC CONCENTRATION AND SEGMENT BREAKDOWN

	For the Years Ended December 31,			
	2021		2020	
(Dollars in thousands)	Amount	Percent	Amount	Percent
California	$ 65,357	9.6%	$ 57,542	9.5%
Texas	52,245	7.7	55,045	9.1
Florida	53,633	7.9	49,122	8.1
New York	50,780	7.4	42,183	7.0
Louisiana	25,664	3.8	22,590	3.7
Arizona	23,241	3.4	22,045	3.6
Massachusetts	19,700	2.9	19,349	3.2
North Carolina	18,339	2.7	19,221	3.2
Georgia	17,659	2.6	15,971	2.6
New Jersey	16,697	2.4	14,840	2.4
Subtotal	343,315	50.3	317,908	52.4
All other states	232,267	34.1	228,018	37.6
Reinsurance Operations	106,540	15.6	60,677	10.0
Total	$ 682,122	100.0%	$ 606,603	100.0%

	For the Year Ended December 31, 2021			
(Dollars in thousands)	Commercial Specialty	Reinsurance Operations	Exited Lines	Total
Gross written premiums	$ 380,879	$ 106,540	$ 194,703	$ 682,122
Net written premiums	$ 355,428	$ 106,540	$ 118,100	$ 580,068
Net earned premiums	$ 340,029	$ 77,802	$ 177,779	$ 595,610
Other income	1,028	(95)	882	1,815
Total revenues	341,057	77,707	178,661	597,425
Losses and expenses:				
Net losses and loss adjustment expenses	212,936	48,709	123,319	384,964
Acquisition costs and other underwriting expenses	123,436	27,086	72,319	222,841
Underwriting loss	$ 4,685	$ 1,912	$ (16,977)	$ (10,380)

Source: GBLI SEC filings

FINANCIAL REVIEW

Fiscal year 2021 showed strong premium growth with net written premiums increasing 29.8% when excluding the Exited Lines segment. Consolidated net written premiums increased 5.8% for the year. Underwriting income, excluding Exited Lines, was $6.6 million. Investment income was $37.0 million in 2021 compared to $28.4 million in 2020. The increase was largely due to increased returns from alternative investments offset by a decrease in the effective yield on the fixed income portfolio.

Realized gains were $15.9 million in 2021 compared to a ($14.7) million loss in 2020. Realized losses in 2020 were primarily due to the impact of changes in fair value on equity securities and derivatives due to disruption in the global financial markets related to the COVID-19 pandemic. For 2021, the continuing

lines business had a combined ratio of 98.6% (Loss Ratio 62.6% and Expense Ratio 36.0%) as compared to 89.8% (Loss Ratio 53.2% and Expense Ratio 36.6%) in 2020. The consolidated combined ratio was 102.1% in 2021 (Loss Ratio 64.7% and Expense Ratio 37.4%) compared to 97.2% (Loss Ratio 59.2% and Expense Ratio 38.0%) in 2020.

For the continuing lines business, the accident year casualty loss ratio increased by 3.4 points to 61.4% in 2021 from 58.0% in 2020 due to higher claims frequency and severity driven primarily by two programs that have since been cancelled. The consolidated accident year casualty loss ratio increased by 3.4 points to 60.8% in 2021 from 57.4% in 2020.

For the continuing lines business, the accident year property loss ratio improved by 2.4 points to 62.2% in 2021 from 64.6% in 2020. The consolidated accident year property loss ratio improved by 4.3 points to 65.5% in 2021 from 69.8% in 2020. The improvement in the property loss ratios is primarily due to lower catastrophe claims frequency and severity which was partially offset by higher claim frequency and severity for non-catastrophe property claims.

The company posted a strong first six months of 2022 with gross written premiums increasing 28.4% (excluding exited lines). Consolidated net written premiums increased 5.9% and consolidated net earned premiums increased 3.9%. The company also posted strong underwriting results with the consolidated combined ratio coming at 96.9% (loss ratio of 58.2% and expense ratio of 38.7%) for the six months ended June 30, 2022 as compared to 100.2% (loss ratio of 62.0% and expense ratio of 38.2%) for the same period in 2021.

Adjusted operating income was $0.48 per share for the six months ended June 30, 2022 (which excludes after-tax net realized investment gains or losses) compared to $0.76 for the same period in 2021.

The company's loss reserve estimates as of June 30, 2022 were $804.7 million on a gross basis and $710.5 million on a net basis (net does not include reinsurance receivables).

	Gross Reserves		
(Dollars in thousands)	Case	IBNR (1)	Total
Commercial Specialty	$ 163,650	$ 316,635	$ 480,285
Reinsurance Operations	6,249	138,272	144,521
Continuing Lines	169,899	454,907	624,806
Exited Lines	83,667	96,188	179,855
Total	$ 253,566	$ 551,095	$ 804,661

	Net Reserves (2)		
(Dollars in thousands)	Case	IBNR (1)	Total
Commercial Specialty	$ 140,566	$ 284,090	$ 424,656
Reinsurance Operations	6,249	138,272	144,521
Continuing Lines	146,815	422,362	569,177
Exited Lines	63,867	77,432	141,299
Total	$ 210,682	$ 499,794	$ 710,476

Source: GBLI SEC filings

INVESTMENTS

Global Indemnity's investment policy is determined by the Investment Committee of the Board of Directors. The company engages third-party investment advisors to oversee and manage its investments and to make recommendations to the Investment Committee. GBLI's investment policy allows it to invest in taxable and tax-exempt fixed income investments including corporate bonds as well as publicly traded equities and private equity and private debt investments. Regarding fixed income investments, the maximum exposure per issuer varies as a function of the credit quality of the security. The allocation between taxable and tax-exempt bonds is determined based on market conditions and tax considerations.

	June 30, 2022	
(Dollars in thousands)	**Estimated Fair Value**	**Percent of Total**
Cash and Cash Equivalents	$ 59,842	4.5%
U.S. treasuries	240,327	18.0%
Obligations of states and political subdivisions	32,374	2.4%
Mortgage-backed securities	61,839	4.6%
Asset-backed securities	137,530	10.3%
Commercial mortgage-backed securities	108,898	8.2%
Corporate bonds	331,371	24.8%
Foreign corporate bonds	205,790	15.4%
Total fixed maturities	1,118,129	83.7%
Equity Securities	17,870	1.3%
Other invested assets	140,197	10.5%
Total investments and cash and cash equivalents	**$ 1,336,038**	**100.0%**

Source: GBLI SEC filings

As of June 30, 2022, the average duration of the Company's fixed maturities portfolio, excluding the agency mortgage-backed securities, was 1.8 years as of June 30, 2022, compared with 4.7 years as of June 30, 2021. The actions to shorten duration were taken in anticipation that interest rates would rise. Book values of property casualty companies generally declined in 2022 as rates rose, however many companies took little to no action to reposition their portfolios.

Global Indemnity incurred $35.3 million of realized losses during the first six months of 2022 as a result of its efforts to enhance liquidity, provide investment flexibility, and buffer market volatility. Including cash and short-term investments, the average duration of the Company's fixed maturities portfolio, excluding agency mortgage-backed securities, was 1.7 years and 4.5 years as of June 30, 2022 and June 30, 2021, respectively. The Company's embedded book yield on its fixed maturities, not including cash, was 2.7% as of June 30, 2022, compared to 2.3% as of June 30, 2021

In January 2022, the company sold substantially all of its equity portfolio resulting in a gain of $10.9 million, however most of the gain was recognized in the prior year due to mark-to-market accounting.

INDUSTRY OUTLOOK

Our outlook for the insurance industry is neutral. In the property/casualty insurance segment which is considered to be in a hard market currently, sharp premium rate increases in the past few years have translated into strong increases in premiums and underwriting income, which we are now witnessing in the companies' results. However, with higher profitability due to higher premiums and benign losses, the industry's capital has built up. This should lead to increasing pricing competition going forward, particularly with the moderate loss trends on both the commercial and personal sides. Slower premium growth will eventually translate into slower earnings growth for the industry.

In addition, as prevailing interest rates continue to rise at a rapid pace, increased investment income could be leveraged to compete for underwriting market share spurring a price war in certain lines of business. With inflation still at near record highs and an economic recession a near-term possibility, rates will likely remain strong but possibly taper off and stabilize at some point.

Across most commercial lines, higher hazard risks will continue to see rate increases that exceed the average rate increases in the commercial sector. wind-exposed cat, heavy auto fleets, and distressed healthcare accounts are just a few examples of classes that should expect higher-than-normal rate impact.

The focus for commercial players is on pricing curves, margin expansion, and casualty loss trends. While we expect commercial pricing stabilization and even deceleration to continue, current casualty loss trends in combination with rising financial and social inflation may lead to an inflection point. Although some lines of business continue to meet rate adequacy and as a result should continue to see margin expansion.

MANAGEMENT

DAVID CHARLTON
Chief Executive

Mr. Charlton is a 35-year veteran Property & Casualty insurance industry senior executive, with particular expertise in Excess and Surplus lines, binding authority, small business, and other specialty insurance businesses. He was employed at Chubb for seven years where he had been recruited to expand their Westchester Specialty Excess and Surplus small business division. In addition, he served for over 20 years at USLI, a Berkshire Hathaway company, in the roles of Executive Vice President and Chief Underwriting Officer. Mr. Charlton is a graduate of Babson College, a former chairman of the Mid-Atlantic Professional Liability Underwriting Society, and a registered professional liability underwriter.

JONATHAN OLTMAN
President, Insurance Operations

Mr. Oltman has served as President of Insurance Operations since January 2021. Prior to his current role, he was the Executive Vice President – Commercial Lines from February 2019 until January 2020. From June 2015 until February 2019, Mr. Oltman was the Senior Vice President and Chief Underwriting Officer – Commercial Lines. Mr. Oltman also had senior executive roles at Harleysville Group and Selective Insurance. Mr. Oltman received a B.S. in Business Administration from Bucknell University and a Master of Business Administration from Lehigh University.

THOMAS M. MCGEEHAN
Chief Financial Officer

Mr. McGeehan has served as Executive Vice President – Finance and Chief Financial Officer since August 2011. From December 2009 until August 2011, Mr. McGeehan was Senior Vice President and Chief Financial Officer at the company. Prior to that, Mr. McGeehan served as United America Indemnity, Ltd.'s Corporate Controller beginning in September 2005. He joined Global Indemnity's predecessor companies in May 2001 as vice president and controller from Colonial Penn Insurance Company, a subsidiary of General Electric Financial Assurance, where he worked from 1985 until 2001. Mr. McGeehan received a Bachelor of Business Administration from Temple University; a Master of Business Administration from La Salle University; and a Master of Taxation from Villanova University.

REINER R. MAUER
Chief Operating Officer

Mr. Mauer has served as Chief Operating Officer since May of 2021. From October 2005 to May 2021, Mr. Mauer served at Berkshire Hathaway's United States Liability Insurance Company ("USLI") with increasing roles of responsibility and concluding as President of the Property/Casualty Division. Prior to USLI, Mr. Mauer served as Senior Vice President of Business Operations and as a member of the senior management team at Talk America Holdings, Inc. Previously, he was with Old Guard Insurance Group for 13 years and during that time served as Executive Vice President for Personal Lines. Mr. Mauer earned a Bachelor of Arts degree from Widener University and a Juris Doctor degree from the Delaware Law School – Widener University. He is a member of the Pennsylvania Bar and holds the Chartered Property Casualty Underwriter (CPCU), Associate in Surplus Line Insurance and Associate in Claims designations.

RISKS

- If actual claims payments exceed the company's reserves for losses and loss adjustment expenses, the company's financial condition and results of operations could be adversely affected. The company's ultimate success depends upon its ability to accurately assess the risks associated with the insurance and reinsurance policies that it writes. The company establishes reserves on an undiscounted basis to cover its estimated liability for the payment of all losses and loss adjustment expenses incurred with respect to premiums earned on the insurance policies that it writes. Reserves do not represent an exact calculation of liability, but reserves are estimates of what the company expects to be the ultimate cost of resolution and administration of claims under the insurance policies that it writes.

- The occurrence of natural or man-made disasters, as well as global pandemics, could result in declines in business and increases in claims that could adversely affect the company's business, financial condition, and results of operations. The company is exposed to various risks arising out of natural disasters, including earthquakes, hurricanes, fires, floods, landslides, tornadoes, typhoons, tsunamis, hailstorms, explosions, climate events, public health crises, illness, epidemics or pandemic health events. In addition, man-made disasters may occur which include acts of terrorism, military actions, cyber-terrorism, explosions, and biological, chemical or radiological events.

- A decline in ratings for any of the company's insurance or reinsurance subsidiaries could adversely affect its position in the insurance market by making it more difficult to sell its insurance products which would cause premiums and earnings to decrease. If the rating of any of the company's insurance companies is reduced from its current level of "A" (Excellent) by AM Best, the company's competitive position in the insurance industry could suffer, and it could be more difficult to market its

insurance products. A downgrade could result in a significant reduction in the number of insurance contracts the company writes and in a substantial loss of business as that business could move to other competitors with higher ratings.

- The company's investment performance may suffer as a result of adverse capital market developments or other factors, which would in turn adversely affect its financial condition and results of operations. The company derives a significant portion of its income from its invested assets, therefore, the company's overall operating results depend, in part, on the performance of its investment portfolio. The company's operating results are subject to a variety of investment risks, including risks relating to general economic conditions, market volatility, interest rate fluctuations, liquidity risk and credit and default risk.

- The company cannot guarantee that its reinsurers will pay in a timely fashion, if at all, and as a result, the company could experience losses. The company cedes a portion of gross written premiums to third-party reinsurers under reinsurance contracts. Although reinsurance makes the reinsurer liable to the company to the extent the risk is transferred, it does not relieve the company of its liability to its policyholders.

- The company faces significant competitive pressures in its business that could cause demand for its products to fall and adversely affect the company's profitability. The company competes with a large number of major U.S. and international companies, as well as mutual companies, specialty insurance companies, reinsurance companies, underwriting agencies, and diversified financial services companies. The company's competitors may include American International Group, Argo Group International Holdings, Berkshire Hathaway, Everest Re Group, Great American Insurance Group, Hallmark Financial Services, HCC Insurance Holdings, IFG Companies, James River Group Holdings, Kinsale Capital Group, Markel Corporation, Nationwide Insurance, RLI Corporation, Selective Insurance Group, The Hartford, The Travelers Companies, and W.R. Berkley Corporation.

INSIDER TRADING AND OWNERSHIP

Fox Paine, an investment fund controlled and managed by Saul Fox, founded Global Indemnity in September 2003 and today, together with Fox Paine's affiliates, owns 5 9 million common shares representing 40.5% of shares outstanding and an 82.8% voting interest.

Name and address of Beneficial Owner**	Class A Common Shares		Class B Common Shares		Total Voting Power(2)	% As-Converted Ownership(3)
	Shares	%	Shares	%	%	%
Saul A. Fox(4)	5,882,995	40.5	3,880,724	98.3	7.4	40.5
Fox Paine & Company, LLC and affiliated investment funds(5)	3,774,267	26.0	3,774,267	95.6	75.4	26.0
Richmond Hill Investments, LLC(6)	1,400,038	13.4	—	—	2.8	9.7
Hotchkis & Wiley Capital Management(7)	1,166,172	11.1	—	—	2.3	8.1
Richmond Hill Investment Co., LP(8)	997,188	9.5	—	—	2.0	6.9
Dimensional Fund Advisors LP.(9)	726,059	6.9	—	—	1.5	5.0
Harbert Fund Advisors LP (10)	706,602	6.7	—	—	1.4	4.9
Seth J. Gersch (11)	165,471	1.6	—	—	*	1.1
Jonathan E. Oltman (12)	137,839	1.3	—	—	*	*
Joseph W. Brown	113,960	*	—	—	*	*
Thomas M. McGeehan (13)	64,556	*	—	—	*	*
David C. Elliott (13)	32,721	*	—	—	*	*
Thomas P. Gibbons (13)	25,638	*	—	—	*	*
James R. Holt, Jr.	1,243	*	—	—	*	*
David S. Charlton	0	*	—	—	*	*
Reiner R. Mauer	0	*	—	—	*	*
All directors and executive officers as a group (consists of 10 persons)	6,424,423	44.2	3,880,724	98.3	82.8	44.5

Source: GBLI SEC filings

VALUATION

We believe Global Indemnity can continue to generate profitable growth and produce Net Written Premium growth within the 6.0%-8.0% range that the Board of Directors has set as a goal. This is due to the company's ability to create new lines of businesses in niche markets and as well as continuing to efficiently operate and nurture the core and legacy businesses. We expect the company's total combined ratio to decline going forward from current levels.

We create four different growth cases based on the management objectives provided in 2021 in order to create future book value projections.

Bull Case – The company is able to achieve the high end of performance objectives which is 8.0% compound annual growth rate (CAGR) of net written premiums over the five-year period between 2022 and 2026. That produces EPS in 2026 of approximately $5.92 and book value per share of $61.05. Return on equity would be in the range of 10.0%-10.5% towards the end of that time frame. We apply a probability factor of 25% for this scenario.

Base Case – The company is able to achieve the mid-range of performance objectives which is 7.0% compound annual growth rate (CAGR) of net written premiums for the five-year period between 2022 and 2026. That produces EPS in 2026 of approximately $5.84 and book value per share of $59.53. Return on equity would be in the range of 9.5%-10.0% towards the end of that time frame. We apply a probability factor of 40% for this scenario.

Bear Case – The company is able to achieve the low range of performance objectives which is 6.0% compound annual growth rate (CAGR) of net written premiums over the five-year period between 2022 and 2026. That produces EPS in 2026 of approximately $5.77 and book value per share of $58.00. Return on equity would be in the range of 9.0%-9.5% towards the end of that time frame. We apply a probability factor of 25% for this scenario.

Bad Case – In a worst-case scenario, a severe soft market occurs in the P&C industry, or the company materially fails to execute on its growth plans and does not meet any of the Boards objectives. In this case we estimate that book value per share will not grow from todays levels. We apply a probability factor of 10% for this scenario.

The weighted average future book value projections in 2026 is approximately $53.579, or 20% higher than today's book value. Currently, GBLI is currently selling a 57% of book value based on shareholders' equity of $641.3 million as of June 30, 2022. Average industry Price/Book multiples are approximately 1.50x for quality large cap operators and closer to 1.0x for small cap insurers with a sector median of 1.15x.

In addition, companies with low-mid double-digit ROE's often trade at a premium to industry averages. Currently Price/Book industry valuations for high ROE companies is approximately 1.50x.

Simply achieving the sector median of 1.15x to the weighted average future BVPS estimate would produce a value of approximately **$60.00**, which is our initial target valuation.

The company currently pays an annualized dividend of $1.00 which equates to a dividend yield of 3.94%. The payout ratio is below 50% based on 2023 estimated EPS and is expected to decrease significantly over time as the company's earnings continue to grow.

SUMMARY

We believe Global Indemnity is entering a robust new growth phase based on new business lines, actively developing its core business, and by utilizing the expertise of its new management team. If the company was to meet the low end of performance objectives, a substantial amount of shareholder equity would be created over the next five years.

The company is currently selling at a Price/Book value that does not reflect the future growth opportunities for the company over the next 3-5 years. GBLI may likely experience multiple expansion that approaches industry averages. Even with potential volatile earnings that can often be associated with P&C insurance companies, Global Indemnity can continue to add earnings to shareholders equity and increase book value over time.

The company's pays a dividend that offers an above market average dividend yield which should offer some level of stability for equity investors.

Investors may be getting the rare opportunity to get in on the ground floor of a dynamic P&C insurance company that is poised for rapid growth and increase in book value. With the company trading at such a large discount to book value, a margin of safety appears to exist at this time.



Source: GBLI.com

PROJECTED INCOME STATEMENT & BALANCE SHEET

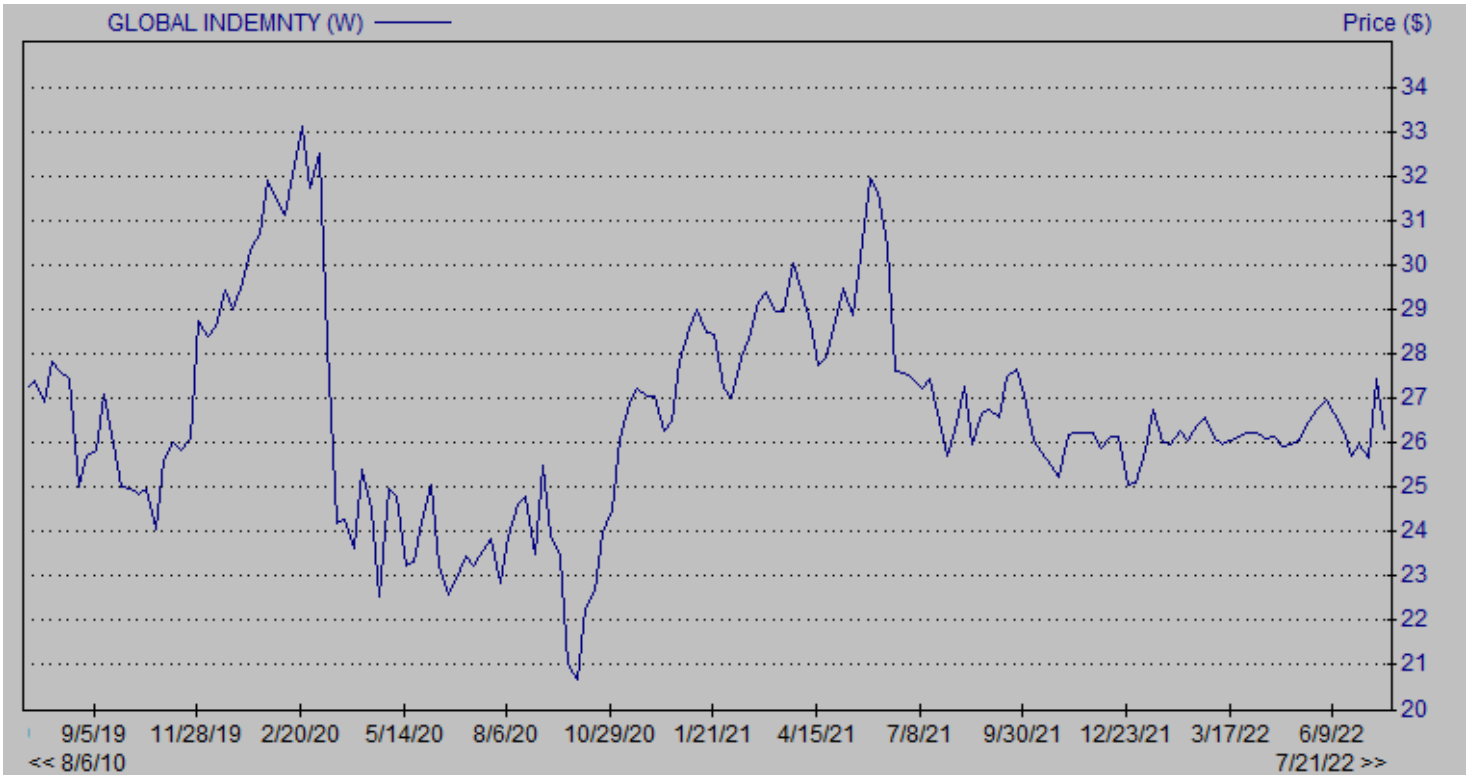
Global Indemnity Group

Income Statement and Balance Sheet

(Dollars in millions, except EPS data)

	12/20A	12/21A	12/22E	12/23E	12/24E	12/25E
Net Written Premiums	548.2	580.1	644.3	769.5	823.3	881.0
Net Earned Premiums	567.7	595.6	600.0	715.6	765.7	819.3
Investment Income & G/L	15.8	82.6	9.1	16.5	39.6	43.49
TOTAL REVENUES	583.5	678.3	609.1	732.1	805.3	862.8
Net Losses and LAE	336.2	385.0	349.0	405.1	429.6	455.6
Acq. Cost / Underwriting	215.6	222.8	231.1	265.8	280.5	296.1
Corporate	42.0	27.2	17.2	19.7	20.9	20.6
Interest Expense	0.4					
Net Income	-21.2	28.9	1.0	30.5	57.2	70.4
FD reported EPS	-1.47	2.00	0.08	2.10	3.94	4.85
Cash & Equivalents	67.4	78.2	8.1	74.1	98.3	146.1
Insurance Investments	1,387.2	1.454.4	1498.1	1,514.6	1.554.2	1,597.7
Unpaid Losses and LAE	662.8	759.9	807.4	928.5	1,067.7	1,227.9
Total Debt	126.3	126.4	0	0	0	0
Shareholder's Equity	718.3	706.6	693.2	715.5	761.7	815.2
Combined Ratio	*97.2*	*102.0*	*96.6*	*93.7*	*92.7*	*91.8*

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