

# Alleghany

Bank of America Merrill Lynch 2015 Insurance Conference  
February 11, 2015

## Forward-Looking Statements

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*This presentation contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts but instead represent only Alleghany’s belief regarding future events, many of which, by their nature, are inherently uncertain and outside Alleghany’s control. Except for Alleghany’s ongoing obligation to disclose material information as required by federal securities laws, Alleghany is not under any obligation (and expressly disclaims any obligation) to update or alter any projections, goals, assumptions, or other statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise. Factors that could cause Alleghany’s actual results and experience to differ, possibly materially, from those expressed in the forward-looking statements include the factors set forth in Alleghany’s most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q filed with the United States Securities and Exchange Commission.*

# What Makes Alleghany Unique

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Semi-autonomous operating structure

Long-serving executive leadership

Investment-oriented holding company

Focus on *long-term* compounding of book value



**85+ Year History as a Public Company**

## Semi-Autonomous Operating Structure

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- Each subsidiary has complete operating management organization (CEO, CFO, etc.)
- Compensation systems aligned with individual company results, not Alleghany as a whole
- Parent company defines risk parameters, designs compensation plans, allocates capital, manages subsidiary investments, and monitors performance

## Semi-Autonomous Operating Structure

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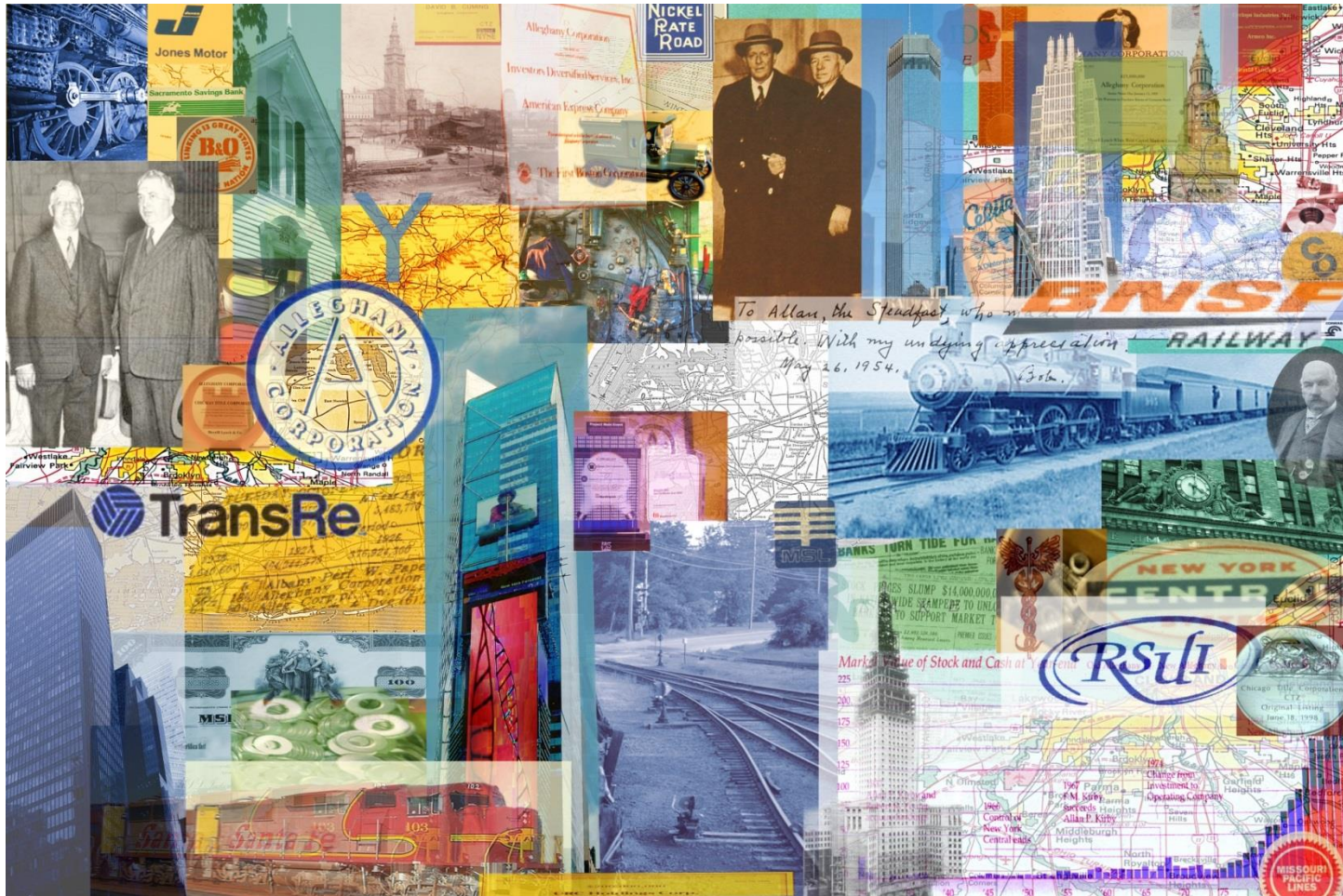
- Each subsidiary has complete operating management organization (CEO, CFO, etc.)
- Compensation systems aligned with individual company results, not Alleghany as a whole
- Parent company defines risk parameters, designs compensation plans, allocates capital, manages subsidiary investments, and monitors performance
- *And we intervene when necessary ...*

## Long-Serving Executive Leadership

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- ✓ Otis & Mantis Van Sweringen (1929) – **Founders**
- ✓ Robert Young (1937-1958) – **21 years**
- ✓ Allan Kirby (1958-1967) – **9 years**
- ✓ F.M. Kirby (1967-1992) – **25 years**
- ✓ John J. Burns, Jr. (1992-2004) – **12 years**
- ✓ Weston M. Hicks (2004-present) – **10+ years**

# From Railroads to Financial Services



## Railroads

Nickel Plate Railroad  
 Chesapeake & Ohio Railroad  
 New York Central

## Industrials

MSJ Industries  
 Jones Motor  
 World Minerals

## Financials

Investors Diversified Services  
 Chicago Title & Trust  
 Sacramento Savings Bank  
 Underwriters Re

## Lessons from Alleghany's Past

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1. Acquisitions should be opportunistic – *buy when seller has to sell*
2. Be willing to sell when it's the right move for stockholders
3. Maintain excess capital and holding company liquidity for opportunistic acquisitions
4. Preserve capital in times of stress



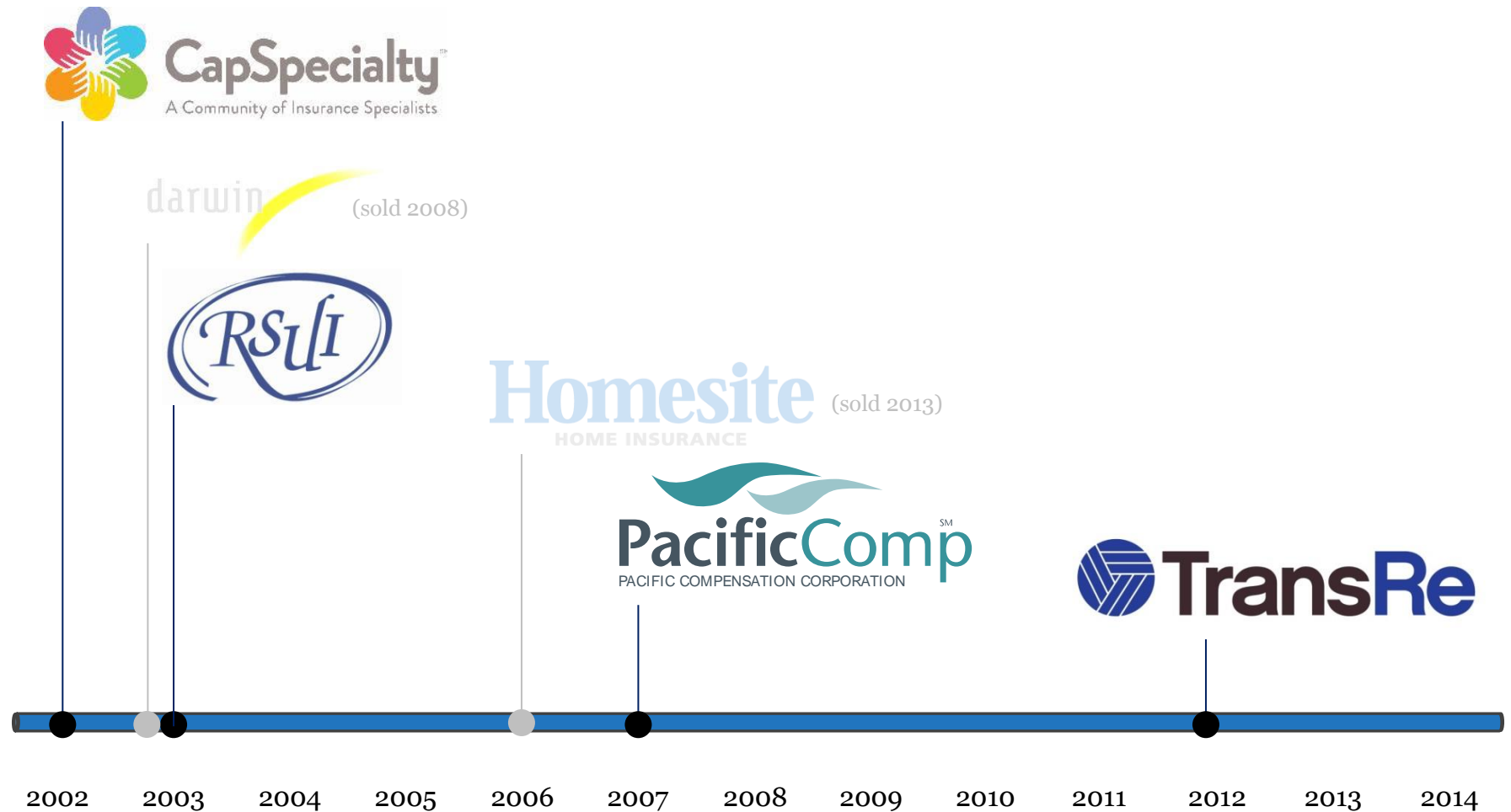
## The Alleghany Value Proposition

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- Underwriting subsidiaries compete with “giants” by being more nimble & creative
- Holding company model frees operating management to focus exclusively on their business
- Parent company sets incentives, allocates capital, and adds value through investment function
- The power of compounding growth in book value per share without excessive leverage or undo risk leads to outperformance over the long-term

# Major Insurance Transactions

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# Alleghany Transformed: 2002-2014

## Parent Company Balance Sheet

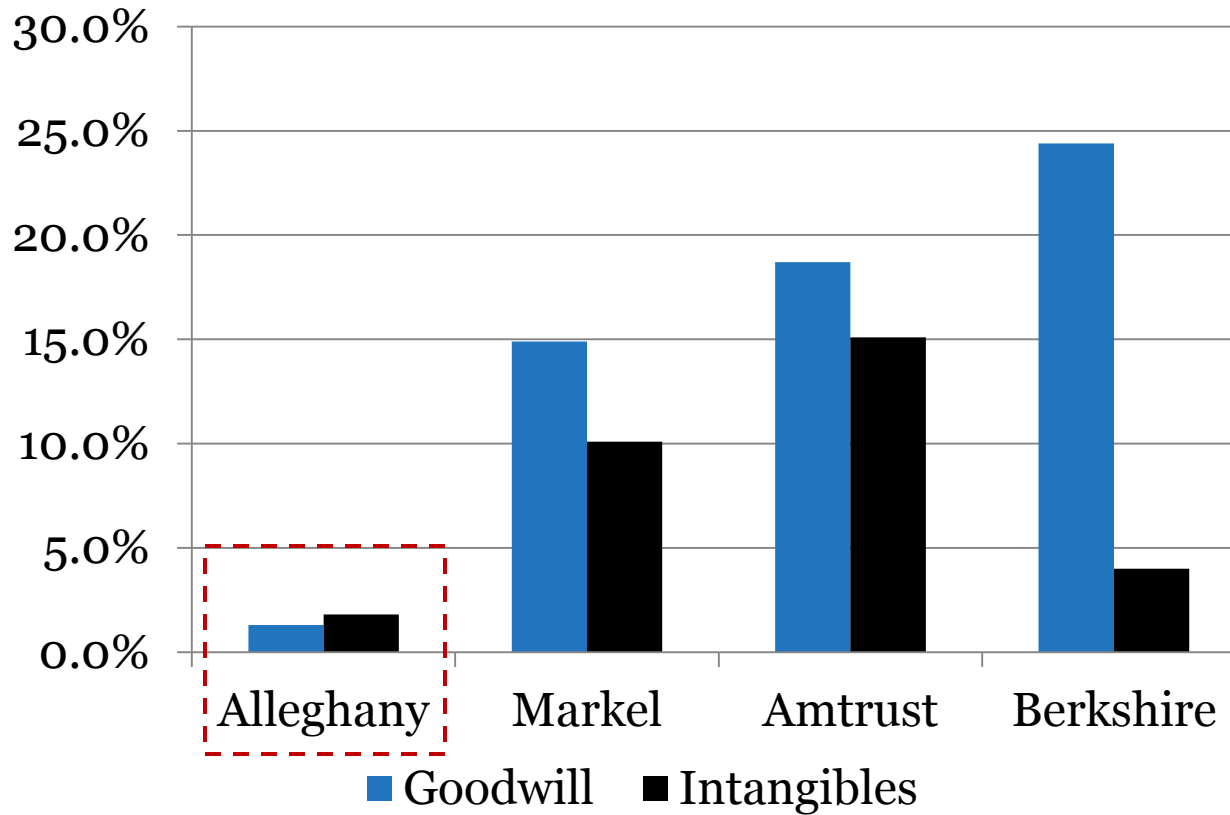
(\$ billions)

	<u>2002</u>	<u>09/14</u>	<u>Change</u>
CapSpecialty	\$ 0.2	\$ 0.3	\$ 0.1
TransRe	-	4.7	4.7
RSUI	-	1.6	1.6
Other	<u>0.3</u>	<u>0.1</u>	<u>(0.2)</u>
Operating subsidiaries	\$ 0.5	\$ 6.7	\$ 6.2
Parent investments	\$ <u>1.0</u>	\$ 1.7	\$ 0.7
Parent debt, other	<u>(0.1)</u>	<u>(1.0)</u>	<u>(0.9)</u>
Parent, net	\$ 0.9	\$ 0.7	\$ (0.2)
Stockholders' equity	\$ 1.4	\$ 7.4	\$ 6.0
Book value per share	\$ 162.75	\$ 456.10	\$ 293.35

# Minimal Goodwill & Intangibles

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As % of Stockholders' Equity (9/30/14)



- Acquired March 6, 2012 for \$3.5 billion in cash and stock
- Leading specialty professional reinsurer with highly diversified business
- \$866 million of underwriting profits from acquisition date through 3Q 2014; on track for record underwriting profits in 2014
- Over \$5 billion of equity capital today

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"I know people like to talk about these mega deals, but that's not really how you make money in the media business .."

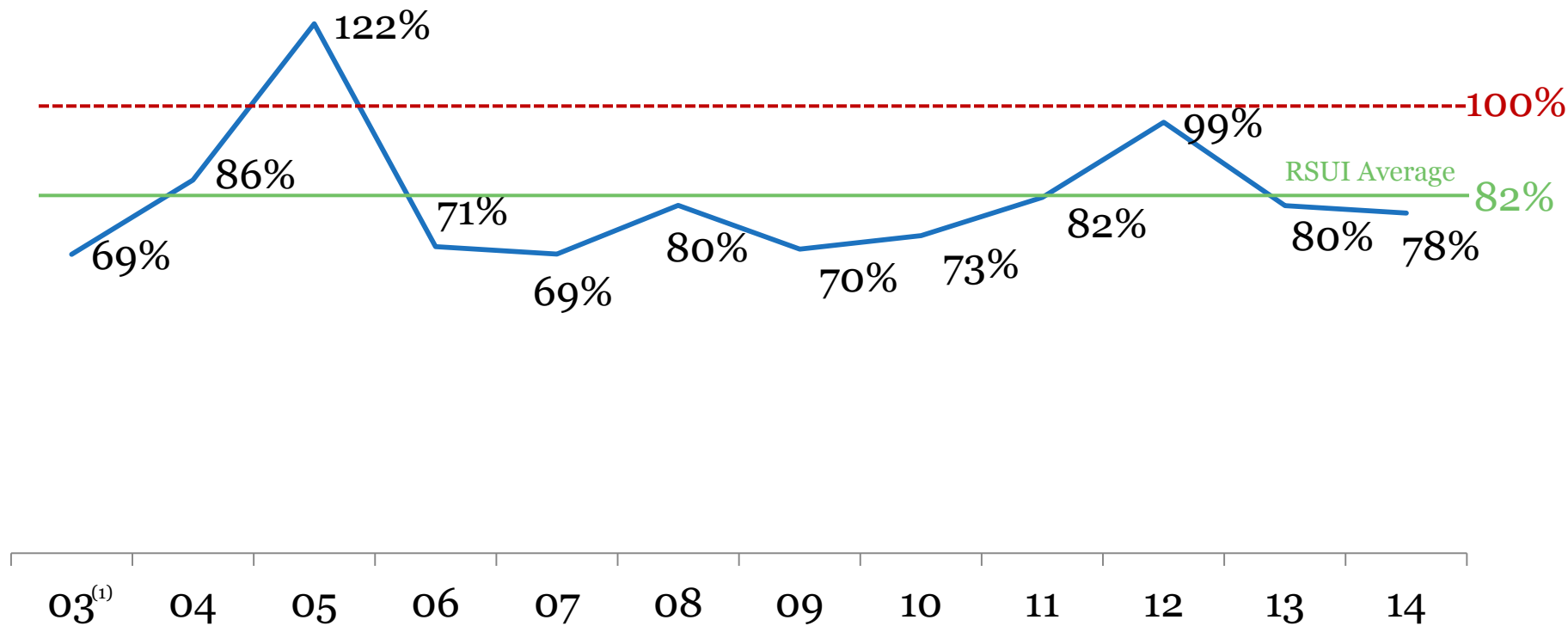
- Jeff Bewkes  
President & CEO  
Time Warner Inc.

January 30<sup>th</sup>, 2015 on CNBC



- Acquired July 1, 2003 from Royal & Sun Alliance; initial investment \$626 million
- Cumulative underwriting profits of almost \$1.4 billion under Alleghany ownership
- Stockholder's equity \$1.6 billion at the end of 2014 compared to *net investment* of ~\$4 million
- Long-term average combined ratio of 82% (July 2003-2014)

# RSUI's Combined Ratio

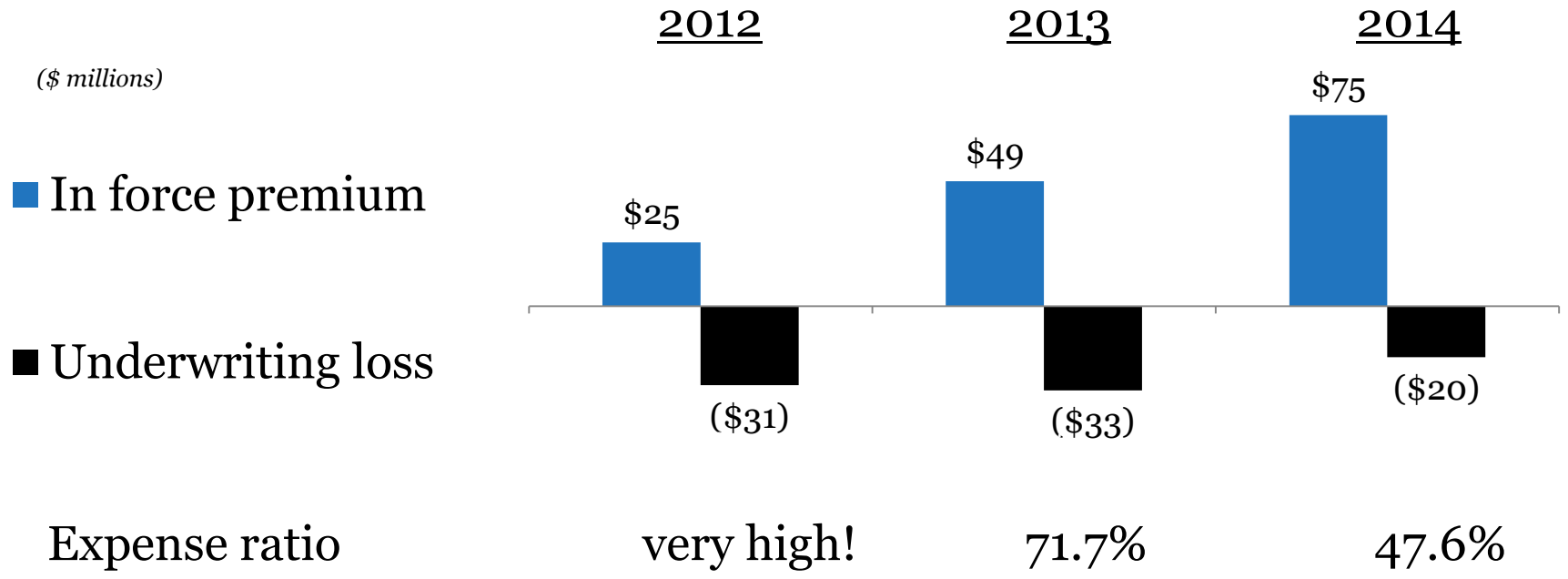


(1) 2003 represents period from acquisition date of July 1, 2003 to December 31, 2003.



- Small business specialty company with regional binding authority, professional liability, and commercial surety business
- Binding authority business has low loss ratio, but expense ratio is too high
- Commercial surety has excellent long-term underwriting record, averaging a combined ratio of 86%
- Stephen Sills new CEO in 2013; plans in place to grow into expense structure

- Jan Frank has transformed the company to largely non-LA basin specialist
- New chief underwriting officer, new chief actuary, new head of claims
- Annualized premium has grown from \$25 million at end of 2012 to close to \$75 million at end of 2014
- Achieving expense scale will be a key metric for PCC's success



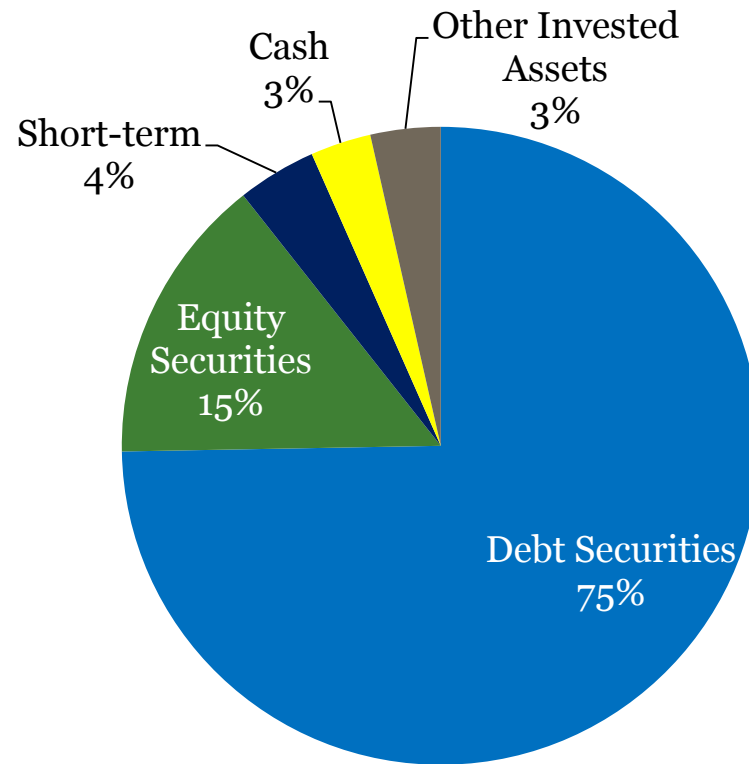
**Making progress in restoring profitability**

# Investments

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## Portfolio Composition (9/30/14)

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# World Class Outside Fixed Income Managers

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GR-NEAM®

BLACKROCK

 ARES

# Largest Equity Positions

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## Highlighted Current Positions

### Sectors

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### Top Names

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*Technology*



*Energy*



*Industrials*



*Consumer*



*Health Care*



*Financials*



## **Alleghany Capital Corporation**

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- Major investments include Stranded Oil Resources Corporation (“SORC”), Bourn & Koch, and Kentucky Trailer
- Expect to make 1-2 acquisitions per year in the \$50-\$100 million enterprise value range
- Goal is to have a portfolio of unregulated businesses producing steady stream of cash flow to holding company

## ACC Major Investments

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STRANDED OIL  
RESOURCES CORPORATION

Commissioned first oil recovery project in Fredonia, Kansas and beginning production in 2015



Down year in 2014, but large order backlog for 2015



Made two tuck-in acquisitions in 2014 in mobile medical and service



Rapidly-growing, innovative toy licensing company



# Challenges

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- Low interest rates reduces nominal ROE potential of all insurance businesses
- Property market seeing increased competition
- New non-traditional entrants to property reinsurance market and falling demand from large clients
- Specialty insurance markets increasingly competitive

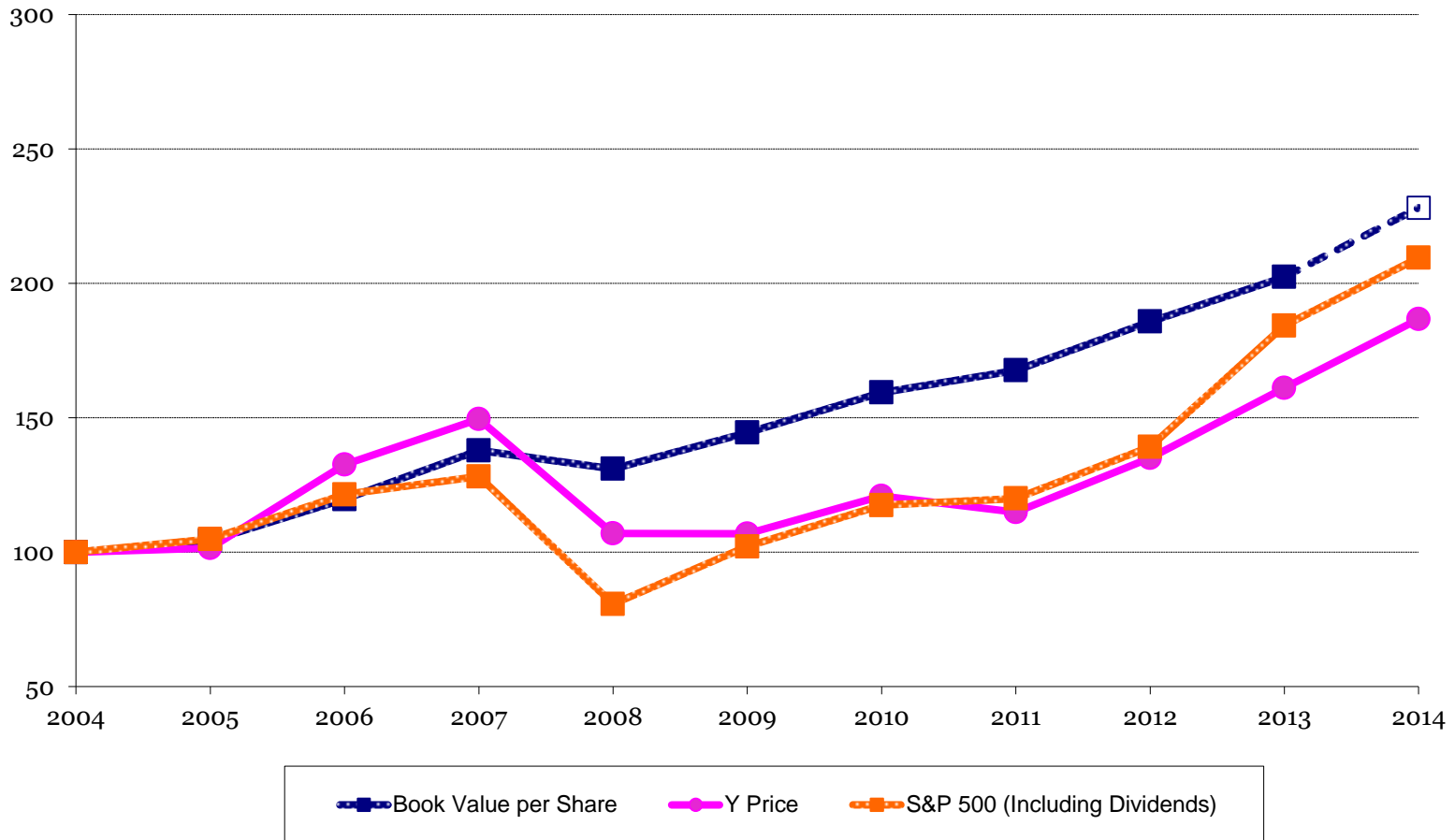
## Opportunities

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- ACC investments provide parent company with steady cash flow
- SORC moving from development losses to oil production over next few years
- Growth initiatives at CapSpecialty and potential turnaround at PacificComp
- Share repurchases at a discount to book value are accretive to book value per share growth

# Goal: 7-10% Long-term Growth In Book Value Per Share

Allegheny Corporation  
Indexed Performance 2004 = 100



Alleghany