



2010 Auction Report

Auction Two, 14th/15th September 2010

Highlights

- A mixed bag but average prices fall.
- High quality syndicates continue to trade at a premium, although there were some falls in the members' core portfolio.
- Corporate purchases by Argo, Beaufort, Omega and Meacock.
- One-off bargains at well below average price on sought-after syndicates, including 386, 2010 and 2791.
- Major purchase by Beaufort increases aligned share to 83%, requiring a Mandatory Offer to remaining Members next year.

Auction Two Summary

	2010 Auction One	2010 Auction Two	2010 All Auctions	2009 Auctions One to Three
Capacity successfully traded	£55.3m	£55.5m	£110.8m	£161.5m
Subscription (buy) orders	£248.2m	£439.3m	£687.5m	£733.2m
Tender (sale) orders	£115.8m	£219.8m	£335.6m	£230.3m
Bilateral trades	0	£13.9m	£13.9m	£14.3m
No. of syndicates traded	23	23	23	23
Average paid to acquire capacity	22.3p	16.6p	19.1p	23.6p
Average of all Lloyd's capacity	28.7p	26.9p	28.0p	31.8p

Auction Two – an overview

Despite large increases in both volumes of capacity subscribed for and tendered, the volume of capacity changing hands was almost identical to Auction One. Tenders increased 90% and subscriptions nearly 80%, but volume traded went up less than 1%. Many high priced, popular syndicates continued to edge upwards, but there were falls for some of those seen less as part of the core portfolio. The averaging effect of the auction mechanism, whereby buyers pay the price they bid

but sellers receive the average price paid, meant that there were some unusually low successful bids for otherwise high priced syndicates. Just as in Auction One, all 23 eligible syndicates traded, with nine at a higher price and thirteen at a lower price.

The most significant trade was by Beaufort Dedicated, which arranged bilateral deals with the Hampden members' agency in order to acquire almost £13m of **Syndicate 318** capacity. Interaction between these bilaterals and capacity not allocated in the auction added just short of another £1m. Further open market purchases brought Beaufort's total shopping to more than £20m and increased its share of 2011 capacity to 82.9%. Under Lloyd's rules, once an aligned corporate member controls more than 75% of a syndicate's capacity, it must make a Mandatory Offer to all remaining Members of the syndicate at not less than the maximum price it has paid to acquire capacity over the past twelve months (currently the bilateral deal price of 7½p). Beaufort is expected to announce the terms and timing of this offer before Auction Three on 28th/29th September. We have expressed concern to Lloyd's Auction Official over Beaufort's conduct in entering into the bilateral deals and the fact that they also traded through the auction, giving rise to the very substantial difference in price between the two markets. Whilst we understand that Lloyd's is currently investigating the circumstances, its findings will not be determined before Auction Three.

Argo was another managing agent that secured capacity for its dedicated vehicle. Upping its Auction One bid of 5p for **Syndicate 1200** to 6.1p, it looked to have bid for £7.5m, although only managed to secure £300,000. Non-aligned bidders, including three individual bids of £300,000 each, bought the balance of £1.5 million.

Meacock Underwriting increased both its aligned capacity on **Syndicate 727** and also its spread portfolio with purchases on Syndicates 218 and 2791. The spread portfolio for 2010 consisted of only Syndicates 557 and 2791. Michael Meacock also added Syndicates 218 and 308 to his bespoke portfolio.

There was a liquid market for **Syndicate 218**, with £7.4m traded at an average price of 6.7p, down 2.7p on Auction One. Over £1m of buy orders remained unfilled at prices from 4p down to 0.1p, while £3.6m of sellers must choose whether to reduce their price or to retain the syndicate for next year. Some sellers were vainly hoping for as much as 30p.

There was less interest in the other motor operation, **Syndicate 260**. £1.7m changed hands, but no subscription bids went unsatisfied. A total of £13m of tenders (equivalent to 45% of the remaining unaligned share) remained unsold, the majority of which was available at the minimum price of 0.1p.

Jubilee **Syndicate 779** is another falling out of favour with third party capital. Although almost £1m found buyers, the price has fallen sharply from last year's 17p to 3.2p, and sellers continue to outstrip buyers. After Auction Two, £2.7m (10% of the total syndicate capacity) failed to find a buyer, with £270,000 being tendered at the lowest possible price of 0.1p.

Other syndicates available to anyone prepared to stump up the minimum purchase price were **Kiln 807**, **Flagstone Re 1969** ("Apollo") and **Argenta 2121**.

At the other end of the scale, sought-after syndicates increased in price. Having failed with a bid at 20p in Auction One, Omega trumped all-comers with an increased bid for **Syndicate 958** at 30p, and mopped up all the £4.7m on offer. Hiscox and Beazley had less success, Hiscox placing its



now traditional under-bid for £20m of **Syndicate 33** at 10p, and Beazley repeating with Auction One's price of 25p for £100m of **Syndicate 623**. Neither matched successfully, with the two core syndicates both increasing in average price; Syndicate 33 up 2½p to 44.4p and Syndicate 623 up 0.9p to 35p. Argenta and Hampden MAPAs were amongst the buyers.

Atrium was another empty handed corporate, bidding for £10m on both **Syndicate 570** and **Syndicate 609** at a price of 20p. Syndicate 570 edged up 0.5p to 46.4p, while 609 dropped back 1p to 37p. Atrium also disposed of part of its remaining share on unaligned **Syndicate 2791**. It had made almost £8m available in Auction One at 30p, but priced the tender too high and failed to sell any. For Auction Two, it dropped the price to 25p and sold half of its £8m share. We expect the balance to be available again in Auction Three or perhaps sold by way of a bilateral deal. Despite the published 31p average price, anomalies in the bidding allowed one lucky bidder to pick up £200,000 of this syndicate at 2p per £1. It is possible for a number of higher bids to subsidise one or two smaller bids, especially when the auction is as illiquid as it has been this year. Over half of the successful bids for Syndicate 2791 were at prices in excess of 28p, with just over 10% of the traded capacity going to bidders under 20p.

Low bidders also got lucky on high valued **Syndicate 386** and **Syndicate 2010**. Syndicate 386 again recorded an average in excess of £1, albeit representing a drop of almost 10% on Auction One's £1.12p per £1 to £1.02p. The highest bidder paid more than £1.35p, while a very small parcel of less than £1,000 went to a bid at just 40p. Similarly, with Cathedral not bidding for Syndicate 2010, and most bidders targeting around Auction One's price of 44.7p, there was success for a couple of speculative bids at less than 20p.

Alterra unloaded a second parcel of pre-emption capacity on **Syndicate 2526**. Management of the syndicate is due to transfer to Whittington for 2011 and, although Alterra has committed to maintain the same level of support for next year, it does not propose to take up its 57% pre-emption rights. Despite shedding a total of £4.5m in two auctions, the price for the syndicate has held steady at around 30p. Sister **Syndicate 2525**, also due to transfer to Whittington, recorded a 2p rise to 35.4p on lower volume.

The four Kiln syndicates split into two distinct groups. **Syndicate 510** and **Syndicate 807** appear to offer good value. 510 traded down more than 40% at 10.5p, but was picked up by many at much less than this. With the Kiln group again showing no sign of bidding for managed capacity, it seems that last year's 46% pre-emption has left most existing members with a full line on this core syndicate, meaning that only new members have much appetite for purchasing its capacity. Conversely, **Syndicate 308** and **Syndicate 557** look expensive. With concerns over the outlook for Syndicate 779, the only alternative in the life market is **Syndicate 308**. A single large seller with a £2m tender has set the price at 15p in both auctions to date. Buyers of **Syndicate 557** are expected to have their capacity rights de-empted by almost 50% on approval of the 2011 business plan, so the effective price of capacity is closer to 20p rather than the published 10p – a case of buy two, get one taken away?

Finally, nuclear Syndicate 1176 continues to set the pace. Capacity remains very tightly held, and although volumes traded doubled to £94,000 in Auction Two, the average price increased 12p to a new high for any syndicate of 239p.

What to expect in Auction Three?

Auction Three starts on Tuesday 28 September.

Although many members firmly believe that prices peak in the final auction, this view is not borne out by the facts. In the 2002, 2003, 2005, 2006 and 2009 auctions prices rose consistently through the season, but fell consecutively in 2004, 2007 and 2008. With the exception of the unique 2001 season, prices have always continued to move in the same direction once momentum has been established. This means prices peaked in auction three in 2002, 2003, 2005, 2006 and 2009 but reached a yearly low at Auction Three in 2004, 2007 and 2008.

There is still plenty of unsold capacity on a number of good syndicates, but in many cases this is because the prices did not reach the levels sellers had hoped. For example £7m of capacity remained unsold on Syndicate 2791 at prices starting at 25p, and £8m on Syndicate 510 starting at 10p. Sellers must decide whether they are prepared to price their capacity to sell, which will mean dramatically reducing their floor prices, perhaps even to 0.1p to ensure priority in the queue. If they do not, it is unlikely that they will move capacity on, in which case we expect they will continue to support these syndicates at the 2010 levels. Given the widely reported comparatively poor returns expected from underwriting in 2011, there are few very determined buyers. Many members will pick up capacity if they consider the price is acceptable, but Auction Two showed a marked reluctance to chase prices up.

Given the re-emergence of some true bargains in the most recent auction, it seems reasonable to expect bargain hunters to be out in force, which will probably mitigate quite such extreme bargains this time.

Auction Two – In Numbers

Top five price rises

<i>Syndicate</i>	<i>Managing Agent</i>	<i>Auction One Price</i>	<i>Auction Two Price</i>	<i>Price Increase</i>
1200	Argo	5.4p	7.2p	32.0%
958	Omega	24.6p	30.0p	22.2%
1176	Chaucer	222.7p	239.0p	7.3%
2525	Alterra	33.2p	35.4p	6.5%
33	Hiscox	41.9p	44.4p	6.1%

Top five price falls

<i>Syndicate</i>	<i>Managing Agent</i>	<i>Auction One Price</i>	<i>Auction Two Price</i>	<i>Price Decrease</i>
1969	Flagstone Re	1.3p	0.1p	(92.2%)
260	Canopus	1.3p	0.3p	(80.0%)
807	Kiln	3.1p	0.8p	(73.9%)
2121	Argenta	2.2p	0.6p	(72.6%)
779	Jubilee	9.6p	3.2p	(66.5%)



Auction Summary

Synd	Man Agent	Un - adjusted 2009 Average Price	Adjusted 2009 Average Price	Proposed Pre/(De)-emption	Aligned Capacity	Auction One Price p/£1	Auction One Volume (£000s)	Auction Two Price p/£1	Auction Two Volume (£000s)	Average Price p/£1	Total Volume (£000s)
0033	Hiscox	46.61	34.95	(10.0%)	72.5%	41.87	4,437	44.41	2,809	42.85	7,245
0218	Equity	43.26	40.25		64.0%	9.43	5,282	6.74	7,376	7.86	12,658
0260	Canopus	6.76	6.30		58.8%	1.34	1,520	0.27	1,684	0.78	3,204
0308	Kiln	21.64	15.87		52.1%	15.00	691	15.00	1,175	15.00	1,866
0318	Beaufort	12.72	11.40		82.9%	5.09	1,555	4.91	23,797	4.92	25,353
0386	QBE	107.51	100.11		69.6%	112.56	1,027	102.00	906	107.61	1,933
0510	Kiln	17.07	11.69		52.8%	18.22	6,594	10.53	2,295	16.24	8,890
0557	Kiln	7.40	7.40	(49.8%)	0.0%	11.84	1,097	10.00	2,789	10.52	3,886
0570	Atrium	45.67	39.50		24.8%	45.90	1,253	46.41	853	46.11	2,106
0609	Atrium	38.98	28.31		25.8%	38.00	2,425	37.00	2,162	37.53	4,587
0623	Beazley	34.46	22.91		82.5%	34.13	3,322	35.04	3,004	34.56	6,326
0727	Meacock	41.07	37.90		<25%	47.81	625	50.09	504	48.83	1,129
0779	Jubilee	17.01	18.90		<25%	9.59	1,027	3.22	958	6.52	1,986
0807	Kiln	4.24	3.65		51.1%	3.10	2,448	0.81	2,094	2.04	4,542
0958	Omega	37.20	33.15		40.5%	24.55	2,702	30.00	4,678	28.00	7,380
1176	Chaucer	166.99	166.99		54.8%	222.69	47	239.00	94	233.58	141
1200	Argo	2.98	2.98	(7.1%)	82.4%	5.42	6,075	7.15	1,798	5.81	7,873
1969	Flagstone			23.9%	26.9%	1.29	476	0.10	123	1.05	599
2010	Cathedral	43.34	37.15		57.8%	44.69	1,416	39.80	1,400	42.26	2,816
2121	Argenta	2.10	1.56	14.3%	29.3%	2.23	3,388	0.61	1,013	1.85	4,401
2525	Altterra	31.22	31.22		2.0%	33.22	521	35.39	154	33.71	675
2526	Altterra	27.07	27.07	57.2%	22.3%	29.53	3,483	31.15	1,621	30.04	5,103
2791	MAP	26.12	21.10		20.9%	29.90	3,884	25.81	6,082	27.40	9,966

Note

In addition to auction trades of £9.9m, there were bilateral deals (i.e. non-Auction trades) for capacity on Syndicate 318 of £12,840,359 at a price of 7.5p per £1. A further £963,027 of capacity tendered in the auction interacted with these bilateral deals, bringing the total capacity traded on the syndicate to £23,797,383 and at an average price of 4.91p.

Connected Party Trades

The table below shows Auction Two transactions that were successfully entered into by Members with Argenta Private Capital (APCL) connected person status.

<i>Syndicate</i>	<i>Type</i>	<i>Capacity</i>	<i>Member</i>	<i>Status</i>
218	Subscription	100,000	Aardvark Underwriting Ltd (David Newton)	Third party Advisor
218	Tender	53,875	Antelope Underwriting Ltd (Malcolm Robinson)	Argenta shareholder ²
260	Subscription	100,000	BHC Winton Underwriting II Ltd	²
623	Tender	185,521	BHC Winton Underwriting II Ltd	²
260	Subscription	200,000	BHC Winton Underwriting III Ltd	²
218	Subscription	60,000	C G Harman	Council Member
2791	Subscription	21,009	C G Harman	Council Member
218	Tender	57,242	Dearborn Underwriting Ltd (Malcolm Robinson)	Argenta shareholder
807	Subscription	75,000	E S Harborne	Consultant
2526	Subscription	18,000	E S Harborne	Consultant
2791	Subscription	26,216	Greylands Underwriting Ltd (Chris Harman)	Council Member
510	Subscription	200,000	Kensington Underwriting Ltd (Rona Delves Broughton)	Council Member
2121	Subscription	200,000	Kensington Underwriting Ltd (Rona Delves Broughton)	Council Member
2791	Subscription	300,000	Kensington Underwriting Ltd (Rona Delves Broughton)	Council Member
2791	Subscription	10,000	Minhotex LLP (David Harrison)	Director
33	Tender	182,457	Romsey Underwriting Ltd (Lord Braborne)	Director
958	Tender	104,111	Romsey Underwriting Ltd (Lord Braborne)	Director
2010	Tender	105,423	Romsey Underwriting Ltd (Lord Braborne)	Director
2121	Tender	162,504	Romsey Underwriting Ltd (Lord Braborne)	Director
2791	Tender	59,702	Romsey Underwriting Ltd (Lord Braborne)	Director
779	Subscription	200,000	Rona Delves Broughton	Council Member
386	Subscription	27,609	Talisman Corporate Underwriting 2000 Ltd	¹
570	Subscription	100,000	Talisman Corporate Underwriting 2000 Ltd	¹
609	Subscription	50,000	Talisman Corporate Underwriting 2000 Ltd	¹
2010	Subscription	100,000	Talisman Corporate Underwriting 2000 Ltd	¹
958	Tender	200,000	The Silent Scorpion LLP	Council Member
218	Tender	121,219	Wren Properties Underwriting Ltd (Malcolm Robinson)	Argenta shareholder

Notes

¹ David Monksfield and Paul Sandilands (respectively executive and non-executive director of APCL) are directors of Talisman Corporate Underwriting 2000 Ltd.

² Alan Tucker (executive director of APCL and non-executive director of Argenta Syndicate Management Limited) is a director of the BHC corporate members.

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