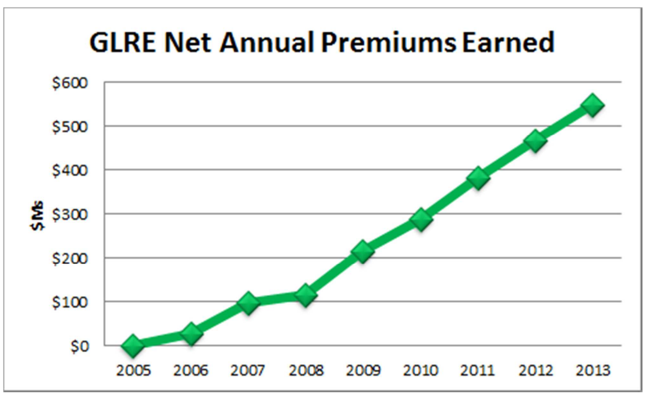
# Greenlight Capital Re's Bright Performance and Future

We have been following Greenlight Capital Reinsurance (GLRE) since September 2009. We are happy to see Greenlight's share price has reached a new all-time high as investors are recognizing its strengths. We acknowledge that being a reinsurance company; it will not have the book value premiums of many of our other core holdings. However, it should trade at a premium to book value considering it has David Einhorn (Greenlight Capital) as the general investment account manager and because it has shown rapid revenue growth from its core reinsurance franchise since its inception. At the same time, we are cautious about GLRE as we are worried about the equity market in general and investments that have a high correlation to equity assets.




*Source: Morningstar Direct*

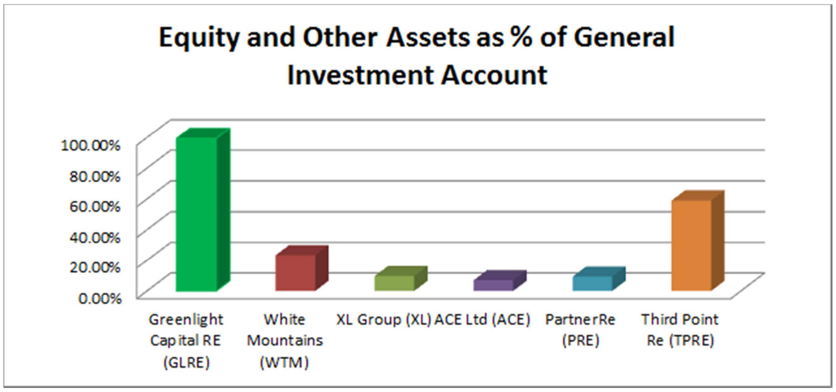
GLRE saw its net premiums increase by 18% in FY 2013 versus FY 2012 as higher gross premiums written offset decreases in gross premiums ceded and reductions during the period. GLRE's gross premiums written related to frequency events increased by $106.6M (26%) in 2013 versus 2012 levels and this was primarily as a result of $75.5M increase in non-standard automobile premiums (motor liability and motor physical damage). The increase in non-standard automobile premiums was a result of its ceding insurers experiencing hardening market conditions, with higher underlying insurance rates and premium retention levels that resulted in higher premiums ceded to GLRE, as well as the renewal of some of its existing contracts with higher quota share participation. GLRE's severity premiums written in 2013 were $23.6M versus $22.4M in Q3 2012 due to a new multi-line severity contract written during the first quarter of 2013 for which the underlying business incepts at various dates throughout the year.

The float portion consisting of unearned premiums at year-end 2013 declined by 8% versus 2012 and is now at $173.1M. The float for loss and loss adjustment reserves decreased by $26.6M and is now at $329.9M. GLRE's combined ratio for FY 2013 was 97.1%, which was a strong improvement from the 112.9% achieved in 2012. We are hoping GLRE's progress in reducing its combined ratio in FY 2013 on a year-over-year basis will not reverse itself in FY 2014. In Q3 2012, GLRE incurred losses on its commercial motor vehicle reinsurance portfolio, which wiped out underwriting improvements achieved in H1 2012 and we are not going to forget that for a long time.

We are interested in seeing GLRE's achieve and maintain a combined ratio that is less than 100% because it means that the company's insurance operations are at least breaking even and are less likely to need to draw on the company's $1.4B general investment account portfolio and cash holdings. It also enables Greenlight Capital to manage the general account with Einhorn's long-short strategy rather than investing in low-yielding bonds like other insurers. We are pleased that GLRE's maximum aggregate exposure to all events is $177.4M, which is 12% of its general account portfolio. We were happy that insurance losses decreased from $366.6M in FY 2012 to $338.5M in FY 2013. The decrease was primarily attributable to the elimination of loss reserves on contracts commuted during 2013.

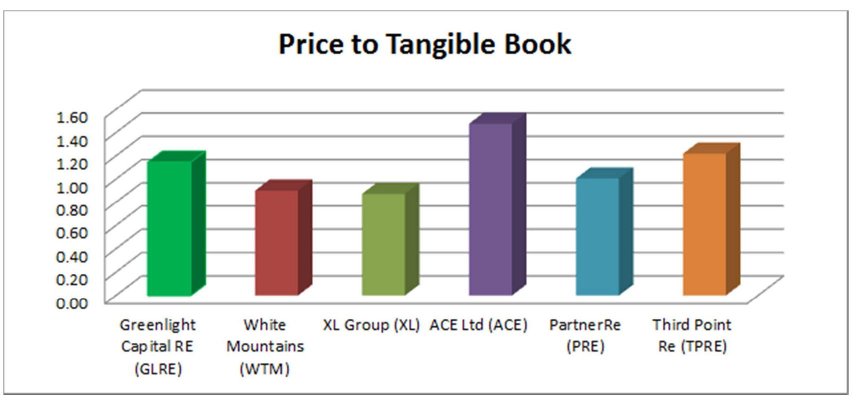
We are enamored with GLRE's balance sheet. GLRE boasts a higher proportion of shareholders' equity to assets than traditional insurance companies, just like many of its reinsurance peers. Unlike many of its immediate reinsurance peers, GLRE has a much higher proportion of its general investment account assets (its float) in equity securities and alternative assets than its larger, more well-known peers. We believe that this will enable GLRE to provide greater potential future returns to its shareholders than its competition. We concede that there will be increased volatility of investment results due to the nature of equity investments.

The first thing we noticed in the press release was that GLRE generated $218.1M from its investment account during 2013. GLRE earned a 6.6% total return in Q4 2013 (19.6% during 2013) in spite of the volatile and choppy market due to the European debt crisis and the soft macroeconomic conditions in the US and other Western markets. GLRE's 19.6% total return on its investment account in 2013 was its highest total investment return since 2009 (32.2%)




*Sources: Reinsurance Company Most Recent Earnings Reports As Applicable*

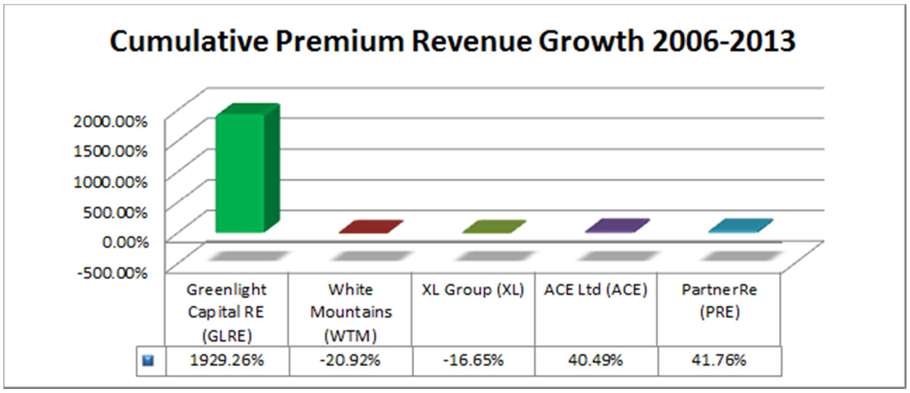
GLRE saw its book value per share increase by 26.8% on a year-over-year basis, from $22.01 in FY 2012 to $27.91 in FY 2013. GLRE share price previously peaked at $29.96 in November 2010, bottomed out at $20.01 in October 2011, registered unremarkable growth from October 2011 to December 2012 but increased by 39% since then. We have seen a narrowing of the book value premium per share in GLRE. GLRE's market price was previously at a near 51% premium to its book value in November 2010, but now it is at about 15% premium to book. We think that a 15% premium to book value is still an undervalued price to pay for the fastest growing major reinsurance company in the world. The value associated with GLRE is amplified further due to its general float investment account being managed by well-known, well-respected hedge fund manager David Einhorn and Greenlight Capital. The spectacular growth that GLRE has enjoyed prompted Daniel Loeb of Third Point Capital to start up his own reinsurance firm (Third Point Reinsurance (TPRE)).




*Source: Morningstar Direct*

We noted that GLRE has a slight premium to tangible book value of 15% while Ace Ltd (ACE) is trading at a premium to tangible book value of 48%, TPRE has a premium to tangible book value of 22% and its three other reinsurer peers have P/TB ratios ranging from 0.87X to 1.01X.

However, we also noted that GLRE is growing much faster than those companies. GLRE earned its first reinsurance premium in 2006 and earned $27M in reinsurance premiums for the year. In 2013, we projected that GLRE would $537M in net reinsurance premiums, up from $467M in 2012 and it ended up earning $548M. White Mountains (WTM) and XL Group (XL) saw insurance premiums earned decline by 21% and 17% during this period. ACE and Partner Re saw moderate growth of 40.5% and 41.75% respectively.

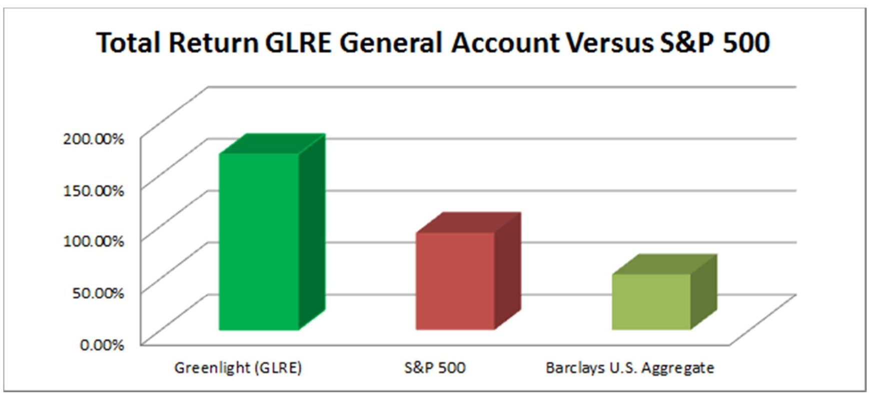



*Source: Morningstar Direct*

David Einhorn owns 100% GLRE's class B shares, which represents an economic interest of 17% in the company. Other notable active managers according to Morningstar include Fiduciary Management Inc (5.02% stake in GLRE), M.A. Weatherbie (2.23%), Royce & Associates LLC (2.48%), Horizon Kinetics Asset Management (1.19%) and Ruane, Cunniff and Goldfarb (1.19%). GLRE is trading at a P/B ratio of 1.14X, which is slightly below its historical average. GLRE has also learned its lesson from the losses incurred on its commercial vehicle reinsurance policies and we believe that GLRE's P/B should exceed its historical P/B considering it has been improving its underwriting practices.

We were a little disappointed to see that TPRE had a better investment return recently than GLRE (17.7% versus 7.1% in 2012 and 16.9% versus 12.2% in the first nine months of 2013) even though it has 41% exposure to cash and fixed income versus 8% for GLRE. At least GLRE (1.15X) slightly lower P/B versus TPRE (1.22X). After further review, we still prefer GLRE versus TPRE because GLRE has been around since 2004 and sold its first reinsurance policy in 2006. TPRE has been around since 2011 and sold its first reinsurance policy in 2012. This resulted in GLRE has a better Combined Underwriting Ratio than TPRE (97.1% versus 107.7%) in YTD 2013.

In conclusion, we are pleased with GLRE's results. We believe that investors who want to invest in the insurance business, especially the reinsurance subsector should consider Greenlight Capital Re. Not only does Greenlight Capital Re have a fast growing reinsurance book, but we like its general investment account portfolio. Unlike other insurance companies who devote 90-99% of the general investment account float portfolio in low-yielding "high-grade" bonds, Greenlight Capital Re is managed by hedge fund manager David Einhorn of Greenlight Capital. Einhorn invests GLRE's general account in a long-short equity strategy, which we believe is a much more appropriate place to be considering the ultra-low interest rates on bonds and the potential for interest rate increases once the central banks stop debauching the major currencies of the world. We like the fact that Einhorn's strategy has not only been profitable for GLRE, it has beaten the S&P 500 equity index from 2005-2009 and equaled the S&P 500 in 2011. It also beat the Barclays U.S. Aggregate Index during this time period even though the Barclays Aggregate benefitted from an easy monetary policy from the Federal Reserve in response to the economic crises since 2000.




*Source: Greenlight Investor Relations and Morningstar Direct (7/13/04-1/31/14)*

## DISCLOSURES

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