

SKILLSOFT PUBLIC LIMITED CO

Form SC 13G/A

February 11, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. 6)*

Skillsoft Public Limited Company

(Name of Issuer)

American Depositary Receipt

(Title of Class of Securities)

830928107

(CUSIP Number)

December 31, 2009

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

☐ Rule 13d-1(b)

☐ Rule 13d-1(c)

☐ Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1745 (3-06)

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CUSIP No.830928107.

1 NAME OF REPORTING PERSONS

I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY)

Westfield Capital Management Company, LP

#80-0175963

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Massachusetts

5 SOLE VOTING POWER

**NUMBER OF
SHARES**

2,896,040
6 SHARED VOTING POWER

BENEFICIALLY

**OWNED BY
EACH**

0
7 SOLE DISPOSITIVE POWER

REPORTING

**PERSON
WITH**

3,934,052
8 SHARED DISPOSITIVE POWER

0

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

3,934,052

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

4.15%

12 TYPE OF REPORTING PERSON*

IA

Item 1.

(a) Name of Issuer

Skillsoft Public Limited Company

(b) Address of Issuer's Principal Executive Offices

107 Northeastern Boulevard

Nashua, NH 03062

Item 2.

(a) Name of Person Filing

Westfield Capital Management Company, LP

(b) Address of Principal Business Office or, if none, Residence

1 Financial Center, Boston, Massachusetts 02111

(c) Citizenship

Massachusetts

(d) Title of Class of Securities

American Depositary Receipt

(e) CUSIP Number

830928107

Item 3. If this statement is filed pursuant to §§240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

(a)

..

Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).

(b)

..

Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).

(c)

..

Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c).

(d)

..

Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C 80a-8).

(e)

p

An investment adviser in accordance with §240.13d-1(b)(1)(ii)(E);

(f)

..

An employee benefit plan or endowment fund in accordance with §240.13d-1(b)(1)(ii)(F);

(g)

..

A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);

(h)

..

A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);

(i)

..

A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);

(j)

..

Group, in accordance with §240.13d-1(b)(1)(ii)(J).

Item 4. Ownership.

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

(a) Amount beneficially owned: 3,934,052

(b) Percent of class: 4.15%

(c) Number of shares as to which the person has:

(i) Sole power to vote or to direct the vote. 2,896,040

(ii) Shared power to vote or to direct the vote . 0

(iii) Sole power to dispose or to direct the disposition of . 3,934,052

(iv) Shared power to dispose or to direct the disposition of . 0

Instruction. For computations regarding securities which represent a right to acquire an underlying security *see* §240.13d-3(d)(1).

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following ☐.

Instruction: Dissolution of a group requires a response to this item.

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

If any other person is known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, such securities, a statement to that effect should be included in response to this item and, if such interest relates to more than five percent of the class, such person should be identified. A listing of the shareholders of an investment company registered under the Investment Company Act of 1940 or the beneficiaries of employee benefit plan, pension fund or endowment fund is not required.

The shares of the security listed in this Schedule are owned of record by clients of Westfield Capital Management Company, L.P. (Westfield Capital) in its capacity as investment adviser. Westfield Capital s clients have the right to receive, or the power to direct the receipt of, dividends or proceeds from the sale of the shares. To the best of Westfield Capital s knowledge, no client has such right or power with respect to more than five percent of this class of security.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company

If a parent holding company has filed this schedule, pursuant to Rule 13d-1(b)(ii)(G), so indicate under Item 3(g) and attach an exhibit stating the identity and the Item 3 classification of the relevant subsidiary. If a parent holding company has filed this schedule pursuant to Rule 13d-1(c) or Rule 13d-1(d), attach an exhibit stating the identification of the relevant subsidiary.

Not Applicable

Item 8. Identification and Classification of Members of the Group

If a group has filed this schedule pursuant to §240.13d-1(b)(1)(ii)(J), so indicate under Item 3(j) and attach an exhibit stating the identity and Item 3 classification of each member of the group. If a group has filed this schedule pursuant to §240.13d-1(c) or §240.13d-1(d), attach an exhibit stating the identity of each member of the group.

Not Applicable

Item 9. Notice of Dissolution of Group

Notice of dissolution of a group may be furnished as an exhibit stating the date of the dissolution and that all further filings with respect to transactions in the security reported on will be filed, if required, by members of the group, in their individual capacity. See Item 5.

Not Applicable

Item 10. Certification

(a) The following certification shall be included if the statement is filed pursuant to §240.13d-1(b):

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

February 11, 2010

Date

/s/ Brandi McMahon

Signature

Brandi McMahon, Senior Compliance Associate

Name/Title

The original statement shall be signed by each person on whose behalf the statement is filed or his authorized representative. If the statement is signed on behalf of a person by his authorized representative other than an executive officer or general partner of the filing person, evidence of the representative's authority to sign on behalf of such person shall be filed with the statement, provided, however, that a power of attorney for this purpose which is already on file with the Commission may be incorporated by reference. The name and any title of each person who signs the statement shall be typed or printed beneath his signature.

NOTE: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. *See* §240.13d-7 for other parties for whom copies are to be sent.

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (See 18 U.S.C. 1001)

reserve development related to Hurricane Harvey in the 2017 accident year and catastrophes in the 2016 accident year, partially offset by unfavorable prior accident year loss reserve development related to Hurricanes Maria and Irma in the 2017 accident year.

- (4) Primarily reflects favorable prior accident year loss reserve development in the 2017 accident year.
- (5) Primarily reflects favorable prior accident year loss reserve development in the 2013 through 2016 accident years.

The favorable prior accident year loss reserve development in the third quarter and first nine months of 2018 and 2017 reflects favorable loss emergence compared with loss emergence patterns assumed in earlier periods. The favorable prior accident year loss reserve development in the third quarter and first nine months of 2018 did not impact assumptions used in estimating TransRe's loss and LAE liabilities for business earned in the first nine months of 2018.

Casualty & other. The decreases in net loss and LAE in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect an absence of catastrophe losses and, for the nine month period only, higher favorable prior accident year loss reserve development, partially offset by higher non-catastrophe losses. Catastrophe losses in the third quarter and first nine months of 2017 relate primarily to the marine lines of business, and include \$20.3 million related to Hurricane Harvey in August 2017, \$33.3 million related to Hurricane Irma in September 2017, \$13.6 million related to Hurricane Maria in September 2017 and \$2.8 million related to earthquakes in Mexico in September 2017.

Net loss and LAE in the third quarter and first nine months of 2018 and 2017 include (favorable) unfavorable prior accident year loss reserve development as presented in the table below.

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(\$ in millions)			
Malpractice Treaties ⁽¹⁾	\$ -	\$ -	\$ (3.4)	\$ (2.0)
Ogden rate impact ⁽²⁾	-	-	-	24.4
Other	(38.7) ⁽³⁾	(41.7) ⁽⁴⁾	(102.5) ⁽⁵⁾	(100.6) ⁽⁶⁾
Total	\$ (38.7)	\$ (41.7)	\$ (105.9)	\$ (78.2)

- (1) Represents certain medical malpractice treaties pursuant to which the increased underwriting profits created by

the favorable prior accident year loss reserve development are largely retained by the cedants. As a result, the favorable prior accident year loss reserve development is largely offset by an increase in profit commission expense incurred when such favorable prior accident year loss reserve development occurs.

- (2) Represents unfavorable prior accident year loss reserve development related to the U.K. Ministry of Justice's significant reduction in the discount rate, referred to as the Ogden rate, used to calculate lump-sum bodily injury payouts in personal injury insurance claims in the U.K. to negative 0.75 percent as of March 20, 2017 from 2.50 percent.
- (3) Primarily reflects favorable prior accident year loss reserve development in the longer-tailed casualty lines of business in the 2007 and earlier accident years, partially offset by unfavorable prior accident year loss reserve development in the longer-tailed casualty lines of business in the 2014 through 2016 accident years.
- (4) Primarily reflects favorable prior accident year loss reserve development in the longer-tailed U.S. professional liability lines of business related to older accident years and shorter-tailed casualty lines of business in the U.K. related to recent accident years.

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- (5) Primarily reflects favorable prior accident year loss reserve development in the shorter-tailed casualty lines of business in the 2016 and 2017 accident years and in the longer-tailed casualty lines of business in the 2010 and earlier accident years, partially offset by unfavorable prior accident year loss reserve development in the longer-tailed casualty lines of business in the 2014 accident year.
- (6) Primarily reflects favorable prior accident year loss reserve development in longer-tailed U.S. professional liability lines of business in the 2005 through 2014 accident years, partially offset by unfavorable prior accident year loss reserve development in shorter-tailed casualty lines of business in the 2015 accident year in the U.S. and the U.K.

The favorable prior accident year loss reserve development in the third quarter and first nine months of 2018 and 2017 reflects favorable loss emergence compared with loss emergence patterns assumed in earlier periods. The favorable prior accident year loss reserve development in the third quarter and first nine months of 2018 did not impact assumptions used in estimating TransRe's loss and LAE liabilities for business earned in the first nine months of 2018.

Reinsurance Segment: Commissions, brokerage and other underwriting expenses. The following table presents commissions, brokerage and other underwriting expenses for the reinsurance segment:

	Three Months Ended September 30,		Percent Change	Nine Months Ended September 30,		Percent Change
	2018	2017		2018	2017	
(\$ in millions)						
Property						
Commissions, brokerage and other underwriting expenses	\$ 113.3	\$ 105.2	7.7%	\$ 301.2	\$ 283.7	6.2%
Expense ratio	34.7%	33.8%		33.7%	32.7%	
Casualty & other						
Commissions, brokerage and other underwriting expenses	\$ 211.6	\$ 203.7	3.9%	\$ 663.6	\$ 662.9	0.1%
Expense ratio	33.3%	31.7%		33.0%	33.7%	
Total						
Commissions, brokerage and other underwriting expenses	\$ 324.9	\$ 308.9	5.2%	\$ 964.8	\$ 946.6	1.9%
Expense ratio	33.8%	32.3%		33.2%	33.4%	

Property. The increases in commissions, brokerage and other underwriting expenses in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect higher short-term incentive compensation expense accruals arising from significantly lower catastrophe losses in the third quarter of 2018, the impact of higher net premiums earned and, for the nine month period only, higher commission rates.

Casualty & other. The increase in commissions, brokerage and other underwriting expenses in the third quarter of 2018 from the third quarter of 2017 primarily reflects higher short-term incentive compensation expense accruals arising from the absence of catastrophe losses in the third quarter of 2018 and, for the third quarter period only, higher commission rates, partially offset by the impact of lower net premiums earned.

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Reinsurance Segment: Underwriting profit. The following table presents underwriting profit (loss) for the reinsurance segment:

	Three Months Ended September 30,		Percent Change	Nine Months Ended September 30,		Percent Change
	2018	2017		2018	2017	
(\$ in millions)						
Property						
Underwriting (loss)	\$ (174.4)	\$ (454.3)	(61.6%)	\$ (45.2)	\$ (320.2)	(85.9%)
Combined ratio	153.4%	246.1%		105.0%	136.9%	
Casualty & other						
Underwriting profit (loss)	\$ 2.0	\$ (20.6)	(109.7%)	\$ 41.4	\$ (38.9)	(206.4%)
Combined ratio	99.7%	103.2%		97.9%	102.0%	
Total						
Underwriting (loss)	\$ (172.4)	\$ (474.9)	(63.7%)	\$ (3.8)	\$ (359.1)	(98.9%)
Combined ratio	117.9%	149.8%		100.1%	112.6%	

Property. The decreases in underwriting loss in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect significantly lower catastrophe losses, partially offset by increases in non-catastrophe losses, all as discussed above.

Casualty & other. The underwriting profit in the third quarter and first nine months of 2018 compared with the underwriting loss from the corresponding 2017 periods primarily reflects the absence of catastrophe losses and, for the nine month period only, higher favorable prior accident year loss reserve development, all as discussed above.

Insurance Segment Underwriting Results

The insurance segment is comprised of AIHL's RSUI, CapSpecialty and PacificComp (prior to its sale on December 31, 2017) operating subsidiaries. RSUI also writes a modest amount of assumed reinsurance business, which is included in the insurance segment. For a more detailed description of our insurance segment, see Part I, Item 1, Business Segment Information Insurance Segment of the 2017 Form 10-K.

The underwriting results of the insurance segment are presented below.

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Three Months Ended September 30, 2018	RSUI	CapSpecialty (\$ in millions)	Total
Gross premiums written	\$ 260.8	\$ 83.9	\$ 344.7
Net premiums written	176.0	77.9	253.9
Net premiums earned	190.6	73.3	263.9
Net loss and LAE:			
Current year (excluding catastrophe losses)	97.9	42.3	140.2
Current year catastrophe losses	41.1	0.9	42.0
Prior years	(32.0)	(1.5)	(33.5)
Total net loss and LAE	107.0	41.7	148.7
Commissions, brokerage and other underwriting expenses	52.8	30.0	82.8
Underwriting profit ⁽¹⁾			
	\$ 30.8	\$ 1.6	\$ 32.4
Loss ratio ⁽²⁾ :			
Current year (excluding catastrophe losses)	51.4%	57.7%	53.1%
Current year catastrophe losses	21.6%	1.2%	15.9%
Prior years	(16.9%)	(2.1%)	(12.7%)
Total net loss and LAE	56.1%	56.8%	56.3%
Expense ratio ⁽³⁾	27.7%	40.9%	31.4%
Combined ratio ⁽⁴⁾	83.8%	97.7%	87.7%

Three Months Ended September 30, 2017	RSUI	CapSpecialty (\$ in millions)	PacificComp	Total
Gross premiums written	\$ 234.6	\$ 74.3	\$ 41.6	\$ 350.5
Net premiums written	170.8	69.5	41.5	281.8
Net premiums earned	179.0	66.1	41.4	286.5
Net loss and LAE:				
Current year (excluding catastrophe losses)	99.3	37.5	31.1	167.9
Current year catastrophe losses	214.7	1.8	-	216.5
Prior years	(8.6)	(2.3)	(0.8)	(11.7)
Total net loss and LAE	305.4	37.0	30.3	372.7
Commissions, brokerage and other underwriting expenses	50.3	28.4	10.6	89.3

Underwriting (loss) profit⁽¹⁾

\$ (176.7) \$ 0.7 \$ 0.5 \$ (175.5)

Loss ratio⁽²⁾:

Current year (excluding catastrophe losses)	55.5%	56.8%	75.2%	58.6%
Current year catastrophe losses	119.9%	2.7%	- %	75.6%
Prior years	(4.8%)	(3.5%)	(1.9%)	(4.1%)

Total net loss and LAE	170.6%	56.0%	73.3%	130.1%
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Expense ratio ⁽³⁾	28.1%	43.0%	25.5%	31.2%
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Combined ratio ⁽⁴⁾	198.7%	99.0%	98.8%	161.3%
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Nine Months Ended September 30, 2018	RSUI	CapSpecialty (\$ in millions)	Total
Gross premiums written	\$ 854.2	\$ 247.1	\$ 1,101.3
Net premiums written	579.8	229.6	809.4
Net premiums earned	556.2	211.0	767.2
Net loss and LAE:			
Current year (excluding catastrophe losses)	295.4	117.8	413.2
Current year catastrophe losses	58.7	1.7	60.4
Prior years	(44.5)	(4.6)	(49.1)
Total net loss and LAE	309.6	114.9	424.5
Commissions, brokerage and other underwriting expenses	160.0	91.2	251.2
Underwriting profit ⁽¹⁾			
	\$ 86.6	\$ 4.9	\$ 91.5

Loss ratio ⁽²⁾ :			
Current year (excluding catastrophe losses)	53.1%	55.8%	53.9%
Current year catastrophe losses	10.6%	0.8%	7.8%
Prior years	(8.0%)	(2.1%)	(6.4%)
Total net loss and LAE	55.7%	54.5%	55.3%
Expense ratio ⁽³⁾	28.8%	43.2%	32.7%
Combined ratio ⁽⁴⁾	84.5%	97.7%	88.0%

Nine Months Ended September 30, 2017	RSUI	CapSpecialty	PacificComp	Total
		(\$ in millions)		
Gross premiums written	\$ 794.1	\$ 213.2	\$ 124.2	\$ 1,131.5
Net premiums written	558.0	198.9	122.9	879.8
Net premiums earned	540.3	192.2	123.5	856.0
Net loss and LAE:				
Current year (excluding catastrophe losses)	279.1	104.8	93.1	477.0
Current year catastrophe losses	227.9	4.0	-	231.9
Prior years	(27.3)	(3.1)	(1.8)	(32.2)
Total net loss and LAE	479.7	105.7	91.3	676.7
Commissions, brokerage and other underwriting expenses	158.3	83.3	32.2	273.8

Underwriting profit (loss)⁽¹⁾

\$	(97.7)	\$	3.2	\$	-	\$	(94.5)
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Loss ratio⁽²⁾:

Current year (excluding catastrophe losses)	51.7%	54.5%	75.4%	55.8%
Current year catastrophe losses	42.2%	2.1%	- %	27.1%
Prior years	(5.1%)	(1.6%)	(1.5%)	(3.8%)

Total net loss and LAE	88.8%	55.0%	73.9%	79.1%
Expense ratio ⁽³⁾	29.3%	43.4%	26.1%	32.0%

Combined ratio ⁽⁴⁾	118.1%	98.4%	100.0%	111.1%
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- (1) Underwriting profit represents net premiums earned less net loss and LAE and commissions, brokerage and other underwriting expenses, all as determined in accordance with GAAP, and does not include net investment income, change in the fair value of equity securities, net realized capital gains, OTTI losses, noninsurance revenue, other operating expenses, corporate administration, amortization of intangible assets and interest expense. Underwriting profit is a non-GAAP financial measure and does not replace earnings before income taxes determined in accordance with GAAP as a measure of profitability. See Comment on Non-GAAP Financial Measures herein for additional detail on the presentation of our results of operations.
- (2) The loss ratio is derived by dividing the amount of net loss and LAE by net premiums earned, all as determined in accordance with GAAP.
- (3) The expense ratio is derived by dividing the amount of commissions, brokerage and other underwriting expenses by net premiums earned, all as determined in accordance with GAAP.
- (4) The combined ratio is the sum of the loss ratio and the expense ratio, all as determined in accordance with GAAP. The combined ratio represents the percentage of each premium dollar a reinsurance or an insurance company has to spend on net loss and LAE, and commissions, brokerage and other underwriting expenses.

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Insurance Segment: Premiums. The following table presents premiums for the insurance segment:

	Three Months Ended September 30,		Percent Change	Nine Months Ended September 30,		Percent Change
	2018	2017		2018	2017	
(\$ in millions)						
RSUI						
Premiums written:						
Gross premiums written	\$ 260.8	\$ 234.6	11.2%	\$ 854.2	\$ 794.1	7.6%
Net premiums written	176.0	170.8	3.0%	579.8	558.0	3.9%
Net premiums earned	190.6	179.0	6.5%	556.2	540.3	2.9%
CapSpecialty						
Premiums written:						
Gross premiums written	\$ 83.9	\$ 74.3	12.9%	\$ 247.1	\$ 213.2	15.9%
Net premiums written	77.9	69.5	12.1%	229.6	198.9	15.4%
Net premiums earned	73.3	66.1	10.9%	211.0	192.2	9.8%
PacificComp						
Premiums written:						
Gross premiums written	\$ -	\$ 41.6	(100.0%)	\$ -	\$ 124.2	(100.0%)
Net premiums written	-	41.5	(100.0%)	-	122.9	(100.0%)
Net premiums earned	-	41.4	(100.0%)	-	123.5	(100.0%)
Total						
Premiums written:						
Gross premiums written	\$ 344.7	\$ 350.5	(1.7%)	\$ 1,101.3	\$ 1,131.5	(2.7%)
Net premiums written	253.9	281.8	(9.9%)	809.4	879.8	(8.0%)
Net premiums earned	263.9	286.5	(7.9%)	767.2	856.0	(10.4%)

RSUI. The increases in gross premiums written in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect growth in most lines of business due to an increase in business opportunities and improved general market conditions, particularly in the property lines of business.

The increases in net premiums earned in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect an increase in gross premiums written in recent quarters, partially offset by higher ceded premiums earned related to reinstatement premiums on RSUI's per risk property reinsurance treaties and the impact of growth in the heavily-reinsured property lines of business.

CapSpecialty. The increases in gross premiums written in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect growth in the professional liability and miscellaneous medical lines of business due to CapSpecialty's distribution initiatives and expanded product offerings and the impact of CapSpecialty's February 20, 2018 purchase of certain renewal rights associated with a small environmental block of business.

The increases in net premiums earned in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect increases in gross premiums written in recent quarters.

PacificComp. The results shown for the third quarter and first nine months of 2018 reflect the sale of PacificComp as of December 31, 2017.

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Insurance Segment: Net loss and LAE. The following table presents net loss and LAE for the insurance segment:

	Three Months Ended September 30,		Percent Change	Nine Months Ended September 30,		Percent Change
	2018	2017		2018	2017	
(\$ in millions)						
RSUI						
Net loss and LAE:						
Current year (excluding catastrophe losses)	\$ 97.9	\$ 99.3	(1.4%)	\$ 295.4	\$ 279.1	5.8%
Current year catastrophe losses	41.1	214.7	(80.9%)	58.7	227.9	(74.2%)
Prior years	(32.0)	(8.6)	272.1%	(44.5)	(27.3)	63.0%
Total net loss and LAE	\$ 107.0	\$ 305.4	(65.0%)	\$ 309.6	\$ 479.7	(35.5%)

Loss ratio:

Current year (excluding catastrophe losses)	51.4%	55.5%		53.1%	51.7%	
Current year catastrophe losses	21.6%	119.9%		10.6%	42.2%	
Prior years	(16.9%)	(4.8%)		(8.0%)	(5.1%)	
Total net loss and LAE	56.1%	170.6%		55.7%	88.8%	

CapSpecialty

Net loss and LAE:						
Current year (excluding catastrophe losses)	\$ 42.3	\$ 37.5	12.8%	\$ 117.8	\$ 104.8	12.4%
Current year catastrophe losses	0.9	1.8	(50.0%)	1.7	4.0	(57.5%)
Prior years	(1.5)	(2.3)	(34.8%)	(4.6)	(3.1)	48.4%
Total net loss and LAE	\$ 41.7	\$ 37.0	12.7%	\$ 114.9	\$ 105.7	8.7%

Loss ratio:

Current year (excluding catastrophe losses)	57.7%	56.8%		55.8%	54.5%	
Current year catastrophe losses	1.2%	2.7%		0.8%	2.1%	
Prior years	(2.1%)	(3.5%)		(2.1%)	(1.6%)	
Total net loss and LAE	56.8%	56.0%		54.5%	55.0%	

PacificComp

Net loss and LAE:						
Current year (excluding catastrophe losses)	\$ -	\$ 31.1	(100.0%)	\$ -	\$ 93.1	(100.0%)

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Current year catastrophe losses	-	-	-	-	-	-
Prior years	-	(0.8)	(100.0%)	-	(1.8)	(100.0%)

Total net loss and LAE	\$	-	\$	30.3	(100.0%)	\$	-	\$	91.3	(100.0%)
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Loss ratio:

Current year (excluding catastrophe losses)	-	%	75.2%	-	%	75.4%
Current year catastrophe losses	-	%	-	%	-	%
Prior years	-	%	(1.9%)	-	%	(1.5%)

Total net loss and LAE	-	%	73.3%	-	%	73.9%
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Total

Net loss and LAE:

Current year (excluding catastrophe losses)	\$	140.2	\$	167.9	(16.5%)	\$	413.2	\$	477.0	(13.4%)
Current year catastrophe losses		42.0		216.5	(80.6%)		60.4		231.9	(74.0%)
Prior years		(33.5)		(11.7)	186.3%		(49.1)		(32.2)	52.5%

Total net loss and LAE	\$	148.7	\$	372.7	(60.1%)	\$	424.5	\$	676.7	(37.3%)
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Loss ratio:

Current year (excluding catastrophe losses)	53.1%	58.6%	53.9%	55.8%
Current year catastrophe losses	15.9%	75.6%	7.8%	27.1%
Prior years	(12.7%)	(4.1%)	(6.4%)	(3.8%)

Total net loss and LAE	56.3%	130.1%	55.3%	79.1%
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RSUI. The decreases in net loss and LAE in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect significantly lower catastrophe losses and, to a lesser extent, higher favorable prior accident year loss reserve development. The catastrophe losses in the third quarter and first nine months of 2018 include \$34.0 million related to Hurricane Florence, as well as losses related to flooding and severe weather in the Northeastern U.S. and the State of California. Catastrophe losses in the third quarter and first nine months of 2017 include \$83.3 million related to Hurricane Harvey, \$103.7 million related to Hurricane Irma and \$14.3 million related to Hurricane Maria. Catastrophe losses in the third quarter and first nine months of 2017 also reflect losses related to flooding in the State of California and severe weather primarily in the Southeastern and Midwestern U.S.

Net loss and LAE in the third quarter and first nine months of 2018 and 2017 include (favorable) unfavorable prior accident year loss reserve development as presented in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(\$ in millions)			
Casualty	\$ (4.3) ⁽¹⁾	\$ (6.9) ⁽²⁾	\$ (16.8) ⁽¹⁾	\$ (28.5) ⁽²⁾
Property and other	(27.7) ⁽³⁾	(1.7) ⁽⁴⁾	(27.7) ⁽³⁾	1.2 ⁽⁵⁾
Total	\$ (32.0)	\$ (8.6)	\$ (44.5)	\$ (27.3)

- (1) Primarily reflects favorable prior accident year loss reserve development in the umbrella/excess lines of business in the 2005 through 2012 accident years, partially offset by unfavorable prior accident year loss reserve development in the directors and officers liability lines of business in the 2009, 2012 and 2016 accident years.
- (2) Primarily reflects favorable prior accident year loss reserve development in the umbrella/excess lines of business in the 2005 through 2011 accident years.
- (3) Primarily reflects favorable prior accident year loss reserve development related to Hurricane Irma in the 2017 accident year and, to a lesser extent, Hurricane Matthew in the 2016 accident year, as well as various other losses not classified as catastrophes in recent accident years.
- (4) Primarily reflects favorable unallocated LAE development.
- (5) Primarily reflects unfavorable prior accident year property loss reserve development in the binding authority lines of business in the 2015 and 2016 accident years, partially offset by favorable prior accident year catastrophe loss reserve development in the 2016 accident year.

The favorable prior accident year loss reserve development in the third quarter and first nine months of 2018 and 2017 reflects favorable loss emergence compared with loss emergence patterns assumed in earlier periods. The favorable prior accident year loss reserve development in the third quarter and first nine months of 2018 did not impact assumptions used in estimating RSUI's loss and LAE liabilities for business earned in the first nine months of 2018.

CapSpecialty. The increases in net loss and LAE in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect the impact of higher net premiums earned and higher 2018 accident year losses due primarily to an increase in net premiums earned for certain lines of business with a higher loss ratio, partially offset by lower catastrophe losses. The increase in net loss and LAE in the third quarter of 2018 also reflects

a decrease in favorable prior accident year loss reserve development. The increase in net loss and LAE in the first nine months of 2018 was partially offset by an increase in favorable prior accident year loss reserve development.

Net loss and LAE in the first nine months of 2018 includes favorable prior accident year loss reserve development primarily in the surety lines of business primarily in the 2016 and 2017 accident years. The favorable prior accident year loss reserve development in the first nine months of 2018 and 2017 reflects favorable loss emergence compared with loss emergence patterns assumed in earlier periods. The favorable prior accident year loss reserve development in the first nine months of 2018 did not impact assumptions used in estimating CapSpecialty's loss and LAE liabilities for business earned in the first nine months of 2018. Net loss and LAE in the third quarter and first nine months of 2017 include favorable prior accident year loss reserve development primarily in the casualty lines of business in the 2010, 2014, 2015 and 2016 accident years.

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Insurance Segment: Commissions, brokerage and other underwriting expenses. The following table presents commissions, brokerage and other underwriting expenses for the insurance segment:

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2018	2017	Percent Change (\$ in millions)	2018	2017	Percent Change
RSUI						
Commissions, brokerage and other underwriting expenses	\$ 52.8	\$ 50.3	5.0%	\$ 160.0	\$ 158.3	1.1%
Expense ratio	27.7%	28.1%		28.8%	29.3%	
CapSpecialty						
Commissions, brokerage and other underwriting expenses	\$ 30.0	\$ 28.4	5.6%	\$ 91.2	\$ 83.3	9.5%
Expense ratio	40.9%	43.0%		43.2%	43.4%	
PacificComp						
Commissions, brokerage and other underwriting expenses	\$ -	\$ 10.6	(100.0%)	\$ -	\$ 32.2	(100.0%)
Expense ratio	- %	25.5%		- %	26.1%	
Total						
Commissions, brokerage and other underwriting expenses	\$ 82.8	\$ 89.3	(7.3%)	\$ 251.2	\$ 273.8	(8.3%)
Expense ratio	31.4%	31.2%		32.7%	32.0%	

RSUI. The increases in commissions, brokerage and other underwriting expenses in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect the impact of higher net premiums earned and higher short-term incentive compensation expense accruals arising from significantly lower catastrophe losses in the third quarter of 2018, partially offset by slightly lower commission expense incurred.

CapSpecialty. The increases in commissions, brokerage and other underwriting expenses in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect the impact of higher net premiums earned and relatively stable overhead expenses. The increases also reflect one-time acquisition expenses arising from

CapSpecialty s February 20, 2018 purchase of certain renewal rights associated with a small environmental block of business.

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Insurance Segment: Underwriting profit. The following table presents underwriting profit (loss) for the insurance segment:

	Three Months Ended September 30,		Percent Change	Nine Months Ended September 30,		Percent Change
	2018	2017		2018	2017	
(\$ in millions)						
RSUI						
Underwriting profit (loss)	\$ 30.8	\$ (176.7)	(117.4%)	\$ 86.6	\$ (97.7)	(188.6%)
Combined ratio	83.8%	198.7%		84.5%	118.1%	
CapSpecialty						
Underwriting profit	\$ 1.6	\$ 0.7	128.6%	\$ 4.9	\$ 3.2	53.1%
Combined ratio	97.7%	99.0%		97.7%	98.4%	
PacificComp						
Underwriting profit	\$ -	\$ 0.5	(100.0%)	\$ -	\$ -	-
Combined ratio	- %	98.8%		- %	100.0%	
Total						
Underwriting profit (loss)	\$ 32.4	\$ (175.5)	(118.5%)	\$ 91.5	\$ (94.5)	(196.8%)
Combined ratio	87.7%	161.3%		88.0%	111.1%	

RSUI. The underwriting profit in the third quarter and first nine months of 2018, compared with the underwriting loss in the corresponding 2017 periods, primarily reflects significantly lower catastrophe losses and, to a lesser extent, increases in favorable prior accident year loss reserve development, all as discussed above.

CapSpecialty. The increase in underwriting profit in the third quarter of 2018 from the third quarter of 2017 primarily reflects the impact of higher net premiums earned, partially offset by a decrease in favorable prior accident year loss reserve development, all as discussed above. The increase in underwriting profit in the first nine months of 2018 from the first nine months of 2017 primarily reflects an increase in favorable prior accident year loss reserve development and the impact of higher net premiums earned, all as discussed above.

Investment Results for the Reinsurance and Insurance Segments

The following table presents the investment results for our reinsurance and insurance segments:

	Three Months Ended September 30,		Percent Change	Nine Months Ended September 30,		Percent Change
	2018	2017		2018	2017	
(\$ in millions)						

Net investment income	\$ 122.5	\$ 101.4	20.8%	\$ 362.0	\$ 311.7	16.1%
Change in the fair value of equity securities	373.9	-	-	506.7	-	-
Net realized capital gains	16.2	21.5	(24.7%)	66.8	90.8	(26.4%)
Other than temporary impairment losses	-	(6.1)	(100.0%)	(0.5)	(13.1)	(96.2%)

Net investment income. The increases in net investment income in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect increases in partnership income, increases in dividend income resulting from an increase in the size of the equity securities portfolio and, to a lesser extent, higher interest income. The increase in interest income primarily reflects higher yields on short-term investments and floating-rate debt securities, partially offset by the impact of the sale of PacificComp.

Partnership income in the first nine months of 2018 includes a \$12.9 million increase in the carrying value of AIHL's limited partnership interests in certain subsidiaries of Ares as of March 15, 2018. See Note 3(h) to Notes to Unaudited Consolidated Financial Statements set forth in Part I, Item 1, Financial Statements of this Form 10-Q for additional information.

Partnership income in the third quarter and first nine months of 2017 includes losses incurred on our equity interests in Pillar Holdings and related funds arising from significant catastrophe losses incurred in August and September 2017. Partnership income in the first nine months of 2017 also includes a \$12.6 million charge on our equity investment in Ares, reflecting our share of a one-time payment recorded by Ares related to an acquisition by its affiliated entity. In connection with this acquisition, Ares agreed to make certain transaction support payments to the sellers of the acquired entity.

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Change in the fair value of equity securities. In the first quarter of 2018, we adopted new investment accounting guidance which required changes in the fair value of equity securities, except those accounted for under the equity method, to be recognized in net earnings. In earlier periods, equity securities were considered to be AFS and were included in the analysis of OTTI. See Note 1(c) to Notes to Unaudited Consolidated Financial Statements set forth in Part I, Item 1, Financial Statements of this Form 10-Q for additional information regarding our adoption of this new guidance.

The changes in the fair value of equity securities in the third quarter and first nine months of 2018 reflect appreciation in the value of our equity securities portfolio, primarily from our holdings in the technology and industrial sectors. To a lesser extent, the changes in the fair value of equity securities in the third quarter and first nine months of 2018 also reflect appreciation in the value of our equity holdings in the healthcare and consumer discretionary sectors, respectively.

Net realized capital gains. The decreases in net realized capital gains in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect a lack of net realized capital gains from equity securities in the 2018 periods as a result of our adoption of the new investment accounting guidance discussed above. The decrease for the first nine months of 2018 was partially offset by a \$45.7 million gain on AIHL's conversion of its limited partnership interests in certain subsidiaries of Ares into Ares common units. See Note 3(h) to Notes to Unaudited Consolidated Financial Statements set forth in Part I, Item 1, Financial Statements of this Form 10-Q for additional information on AIHL's conversion.

Other than temporary impairment losses. OTTI losses in the first nine months of 2018 reflect \$0.5 million of unrealized losses on debt securities that were deemed to be other than temporary and, as such, were required to be charged against earnings.

OTTI losses in the first nine months of 2017 reflect \$13.1 million of unrealized losses that were deemed to be other than temporary and, as such, were required to be charged against earnings. Of the \$13.1 million of OTTI losses, \$11.8 million related to equity securities, primarily in the retail sector, and \$1.3 million related to debt securities. The determination that unrealized losses on the securities were other than temporary was primarily due to the duration of the decline in the fair value of equity and debt securities relative to their costs. Of the \$13.1 million of OTTI losses, \$6.1 million was incurred in the third quarter of 2017.

Upon the ultimate disposition of the securities for which OTTI losses have been recorded, a portion of the loss may be recoverable depending on market conditions at the time of disposition. After adjusting the cost basis of securities for the recognition of OTTI losses, the remaining gross unrealized investment losses for debt and equity securities as of September 30, 2018 were deemed to be temporary, based on, among other factors: (i) the duration of time and the relative magnitude to which the fair values of these securities had been below cost were not indicative of an OTTI loss; (ii) the absence of compelling evidence that would cause us to call into question the financial condition or near-term business prospects of the issuers of the securities; and (iii) our ability and intent to hold the securities for a period of time sufficient to allow for any anticipated recovery.

See Note 3 to Notes to Unaudited Consolidated Financial Statements set forth in Part I, Item 1, Financial Statements of this Form 10-Q for additional detail on gross unrealized investment losses for debt securities as of September 30, 2018.

Alleghany Capital Segment Results

The Alleghany Capital segment consists of: (i) industrial operations conducted through Bourn & Koch, Kentucky Trailer, W&WIAFCO Steel beginning April 28, 2017 (the date on which Alleghany Capital acquired approximately 80 percent of the equity thereof), and a 45 percent equity interest in Wilbert Funeral Services, Inc., or Wilbert, beginning August 1, 2017 (the date on which Alleghany Capital acquired its equity interest therein); (ii) non-industrial operations conducted through IPS and Jazwares; and (iii) corporate operations at the Alleghany Capital level.

On February 7, 2018, W&WIAFCO Steel acquired the outstanding equity of Hirschfeld, a fabricator of steel bridges and structural steel for stadiums, airports and other large commercial and industrial projects. Wilbert is accounted for under the equity method of accounting and is included in other invested assets.

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The results of the Alleghany Capital segment for the third quarter and first nine months of 2018 and 2017 are presented below.

	Three Months Ended September 30,							
	2018				2017			
	Industrial	Non-industrial	Corp. & other	Total	Industrial	Non-industrial	Corp. & other	Total
	(\$ in millions)							
Noninsurance revenue ⁽¹⁾	\$ 224.2	\$ 183.7	\$ (0.4)	\$ 407.5	\$ 137.9	\$ 150.9	\$ 0.5	\$ 289.3
Net investment income	0.7	-	-	0.7	0.8	0.1	0.7	1.6
Net realized capital gains	0.1	(0.1)	-	-	0.5	0.2	-	0.7
Total revenues	\$ 225.0	\$ 183.6	\$ (0.4)	\$ 408.2	\$ 139.2	\$ 151.2	\$ 1.2	\$ 291.6
Other operating expenses ⁽¹⁾	217.1	161.7	3.7	382.5	130.8	128.7	0.5	260.0
Amortization of intangible assets	2.4	3.4	-	5.8	1.9	4.1	-	6.0
Interest expenses	2.0	0.6	-	2.6	0.8	0.4	-	1.2
Earnings (losses) before income taxes	\$ 3.5	\$ 17.9	\$ (4.1)	\$ 17.3	\$ 5.7	\$ 18.0	\$ 0.7	\$ 24.4
Operating earnings (losses) before income taxes ⁽²⁾	\$ 5.8	\$ 21.4	\$ (4.1)	\$ 23.1	\$ 7.1	\$ 21.9	\$ 0.7	\$ 29.7
Add: net realized capital gains	0.1	(0.1)	-	-	0.5	0.2	-	0.7
Less: amortization of intangible assets	(2.4)	(3.4)	-	(5.8)	(1.9)	(4.1)	-	(6.0)
Earnings (losses) before income taxes	\$ 3.5	\$ 17.9	\$ (4.1)	\$ 17.3	\$ 5.7	\$ 18.0	\$ 0.7	\$ 24.4

	Nine Months Ended September 30,							
	2018				2017			
	Industrial	Non-industrial	Corp. & other	Total	Industrial	Non-industrial	Corp. & other	Total
	(\$ in millions)							
Noninsurance revenue ⁽¹⁾	\$ 591.6	\$ 387.9	\$ (0.3)	\$ 979.2	\$ 254.2	\$ 372.1	\$ 0.5	\$ 626.8

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Net investment income	3.6	0.1	-	3.7	0.8	0.2	1.1	2.1
Net realized capital gains	0.7	(0.1)	-	0.6	0.6	0.3	-	0.9
Total revenues	\$ 595.9	\$ 387.9	\$ (0.3)	\$ 983.5	\$ 255.6	\$ 372.6	\$ 1.6	\$ 629.8
Other operating expenses ⁽¹⁾	570.2	358.1	8.7	937.0	241.2	338.2	11.6	591.0
Amortization of intangible assets	6.7	10.3	-	17.0	2.9	12.5	-	15.4
Interest expenses	4.5	1.6	-	6.1	1.9	1.0	0.1	3.0
Earnings (losses) before income taxes	\$ 14.5	\$ 17.9	\$ (9.0)	\$ 23.4	\$ 9.6	\$ 20.9	\$ (10.1)	\$ 20.4
Operating earnings (losses) before income taxes ⁽²⁾	\$ 20.5	\$ 28.3	\$ (9.0)	\$ 39.8	\$ 11.9	\$ 33.1	\$ (10.1)	\$ 34.9
Add: net realized capital gains	0.7	(0.1)	-	0.6	0.6	0.3	-	0.9
Less: amortization of intangible assets	(6.7)	(10.3)	-	(17.0)	(2.9)	(12.5)	-	(15.4)
Earnings (losses) before income taxes	\$ 14.5	\$ 17.9	\$ (9.0)	\$ 23.4	\$ 9.6	\$ 20.9	\$ (10.1)	\$ 20.4

- (1) For industrial and non-industrial operations: (i) noninsurance revenue consists of the sale of manufactured goods and services; and (ii) other operating expenses consist of the cost of goods and services sold and selling, general and administrative expenses. Other operating expenses also includes finders fees, legal and accounting costs and other transaction-related expenses of \$0.3 million and \$0.8 million for the third quarter of 2018 and 2017, respectively, and \$3.2 million and \$6.8 million for the first nine months of 2018 and 2017, respectively.
- (2) Operating earnings before income taxes is a non-GAAP financial measure and does not replace earnings before income taxes determined in accordance with GAAP as a measure of profitability. See Comment on Non-GAAP Financial Measures herein for additional detail on the presentation of our results of operations. Operating earnings before income taxes represent noninsurance revenue less all operating expenses and does not include: (i) amortization of intangible assets; (ii) change in the fair value of equity securities; (iii) net realized capital gains; (iv) OTTI impairment losses; and (v) income taxes.

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The changes in Alleghany Capital's equity for the three and nine months ended September 30, 2018 and 2017 are presented below.

	Three Months Ended September 30, 2018				2017			
	Industrial	Non-industrial	Corp. & other	Total	Industrial	Non-industrial	Corp. & other	Total
	(\$ in millions)							
Equity, beginning of period	\$ 439.2	\$ 312.1	\$ 25.9	\$ 777.2	\$ 284.0	\$ 323.5	\$ (5.2)	\$ 602.3
Earnings (losses) before income taxes	3.5	17.9	(4.1)	17.3	5.7	18.0	0.7	24.4
Income taxes ⁽¹⁾	(0.2)	(0.7)	(2.2)	(3.1)	(0.6)	(0.1)	(5.2)	(5.9)
Net earnings attributable to noncontrolling interests ⁽²⁾	(0.5)	(4.1)	-	(4.6)	(0.7)	(3.5)	-	(4.2)
Capital contributions (returns of capital) and other ⁽³⁾	5.9	(4.1)	67.2	69.0	70.5	(3.7)	0.7	67.5
Equity, end of period	\$ 447.9	\$ 321.1	\$ 86.8	\$ 855.8	\$ 358.9	\$ 334.2	\$ (9.0)	\$ 684.1

	Nine Months Ended September 30, 2018				2017			
	Industrial	Non-industrial	Corp. & other	Total	Industrial	Non-industrial	Corp. & other	Total
	(\$ in millions)							
Equity, beginning of period	\$ 363.6	\$ 331.3	\$ 11.2	\$ 706.1	\$ 122.7	\$ 330.7	\$ (12.1)	\$ 441.3
Earnings (losses) before income taxes	14.5	17.9	(9.0)	23.4	9.6	20.9	(10.1)	20.4
Income taxes ⁽¹⁾	(0.8)	(1.4)	(2.4)	(4.6)	(0.8)	(0.1)	(3.6)	(4.5)
Net earnings attributable to noncontrolling interests ⁽²⁾	(1.8)	(5.7)	-	(7.5)	(1.3)	(3.9)	-	(5.2)
Capital contributions (returns of capital) and other ⁽³⁾	72.4	(21.0)	87.0	138.4	228.7	(13.4)	16.8	232.1
Equity, end of period	\$ 447.9	\$ 321.1	\$ 86.8	\$ 855.8	\$ 358.9	\$ 334.2	\$ (9.0)	\$ 684.1

- (1) Federal income taxes for most Alleghany Capital subsidiaries are incurred at the Alleghany Capital corporate level. Estimated federal income tax (expense) benefit incurred at the Alleghany Capital corporate level attributable to industrial and non-industrial operations for the third quarter of 2018 were (\$0.7) million and (\$3.8) million, respectively, for the third quarter of 2017 were (\$1.9) million and (\$6.3) million, respectively, for the first nine months of 2018 were (\$2.8) million and (\$3.8) million, respectively, and for the first nine months of 2017 were (\$3.3) million and (\$7.3) million, respectively.

- (2) During the first nine months of 2018, the noncontrolling interests outstanding were approximately as follows: Bourn & Koch - 11 percent; Kentucky Trailer - 21 percent; W&WIAFCO Steel - 20 percent; IPS - 15 percent; and Jazwares - 23 percent.
- (3) For the third quarter and first nine months of 2018, primarily reflects funding provided by Alleghany to Alleghany Capital for an acquisition in October 2018 and, for the first nine months only, reflects funding provided by Alleghany Capital for the acquisition of Hirschfeld by W&WIAFCO Steel. For the third quarter and first nine months of 2017, primarily reflects funding provided by Alleghany Capital for the investment in Wilbert in August 2017 and, for the nine month period only, the acquisition of W&WIAFCO Steel.

Noninsurance revenue. The increases in noninsurance revenue in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect increases in industrial operations, due primarily to the acquisition of Hirschfeld and, for the first nine months of 2018, the acquisition of W&WIAFCO Steel. To a lesser extent, the increases in the third quarter and first nine months of 2018 also reflect higher sales at Kentucky Trailer. With respect to non-industrial operations, the increase in noninsurance revenue in the third quarter of 2018 from the third quarter of 2017 primarily reflects higher sales at IPS and the increase in noninsurance revenue in the first nine months of 2018 from the first nine months of 2017 primarily reflects higher sales at Jazwares.

Net investment income. The increases in net investment income in the first nine months of 2018 from the first nine months of 2017 primarily reflect Alleghany Capital's earnings from its investment in Wilbert.

Net realized capital gains. Net realized capital gains in first nine months of 2018 and 2017 primarily reflect gains from the sale of certain investments and equipment, as well as certain foreign currency exchange rate impacts.

Other operating expenses. The increases in other operating expenses in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect significant increases in industrial operations, due primarily to the acquisition of Hirschfeld and, for the first nine months of 2018, the acquisition of W&WIAFCO Steel. To a lesser extent, the increase in other operating expenses in the third quarter and first nine months of 2018 also reflects higher costs related to higher sales and facility consolidation activities at Kentucky Trailer, as well as higher costs for non-industrial operations. The increase in non-industrial operations' other operating expenses in the third quarter of 2018 primarily reflects higher costs at IPS related to higher sales. The increase in non-industrial operations' other operating expenses in the first nine months of 2018 primarily reflects higher costs at Jazwares related to higher sales, increased marketing expenditures and the impact of certain Toys 'R Us Inc. liquidation-related charges. The increase in other operating expenses in the third quarter of 2018 also reflects an increase in long-term incentive compensation expense accruals at Alleghany Capital.

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Other operating expenses in the first nine months of 2018 and 2017 also reflect significant finders' fees, legal and accounting costs and other transaction-related expenses, primarily related to W&WIAFCO Steel's acquisition of Hirschfeld and Alleghany Capital's acquisition of W&WIAFCO Steel.

Amortization of intangible assets. The increase in amortization expense in the first nine months of 2018 from the first nine months of 2017 primarily reflects the acquisition of Hirschfeld and, for the first nine months of 2018, the acquisition of W&WIAFCO Steel.

Interest expense. The increases in interest expense in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect borrowings at W&WIAFCO Steel and Hirschfeld.

Earnings (losses) before income taxes. The decrease in earnings before income taxes in the third quarter of 2018 from the third quarter of 2017 primarily reflects a loss for corporate & other compared with earnings in the third quarter of 2017 and, to a lesser extent, a decrease in the industrial operations' earnings before income taxes. The loss for corporate & other primarily reflects an increase in long-term incentive compensation expense accruals at Alleghany Capital. The decrease in the industrial operations' earnings before income taxes primarily reflects higher interest expense and amortization expenses at W&WIAFCO Steel and expenses related to facility consolidation activities at Kentucky Trailer, all as discussed above, as well as the timing of certain large projects at W&WIAFCO Steel.

The increase in earnings before income taxes in the first nine months of 2018 from the first nine months of 2017 primarily reflects increased earnings in the industrial operations, partially offset by lower earnings in the non-industrial operations. The increase in the industrial operations' earnings before income taxes primarily reflects Alleghany Capital's earnings from its investment in Wilbert, as well as the impact of increased sales at Kentucky Trailer, all as discussed above. The increase in earnings before income taxes from the acquisitions of W&WIAFCO Steel and Hirschfeld was offset by an increase in amortization expense. The decrease in non-industrial operating earnings before income taxes in the first nine months of 2018 primarily reflects higher expenses at Jazwares, as discussed above.

Corporate Activities Results

The primary components of corporate activities are Alleghany Properties, SORC and activities at the Alleghany parent company. The following table presents the results for corporate activities:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(\$ in millions)			
Net premiums earned	\$ -	\$ -	\$ -	\$ -
Net investment income	4.1	1.7	12.0	8.1
Change in the fair value of equity securities	(3.7)	-	6.1	-
Net realized capital gains	-	10.7	(0.2)	10.1
Other than temporary impairment losses	-	-	-	-
Noninsurance revenue	24.6	2.3	36.8	13.1

Total revenues	25.0	14.7	54.7	31.3
Net loss and loss adjustment expenses	-	-	-	-
Commissions, brokerage and other underwriting expenses	-	-	-	-
Other operating expenses	9.2	9.6	25.9	29.8
Corporate administration	17.8	(3.2)	39.2	26.4
Amortization of intangible assets	-	-	-	-
Interest expense	12.9	13.0	39.4	39.5
Earnings (losses) before income taxes	\$ (14.9)	\$ (4.7)	\$ (49.8)	\$ (64.4)

Net investment income. The increases in net investment income in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect higher dividend income resulting from an increase in the size of the equity security portfolio held at the Alleghany parent company-level.

Change in the fair value of equity securities. In the first quarter of 2018, we adopted new investment accounting guidance which required changes in the fair value of equity securities, except those accounted for under the equity method, to be recognized in net earnings. See Note 1(c) to Notes to Unaudited Consolidated Financial Statements set forth in Part I, Item 1, Financial Statements of this Form 10-Q for additional information regarding our adoption of this new guidance.

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The changes in the fair value of equity securities in the third quarter and first nine months of 2018 reflect depreciation and appreciation, respectively, in the value of the equity securities held at the Alleghany parent company-level, primarily from holdings in the energy sector.

Net realized capital gains. The net realized capital gains in the third quarter and first nine months of 2017 primarily reflect gains on the sale of certain exchange-traded funds.

Noninsurance revenue. The increases in noninsurance revenue in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect increases in property sales at Alleghany Properties and, to a lesser extent, increases in oil sales at SORC. Noninsurance revenue includes the sale in September 2018 of 68 acres of land located in Sacramento, California for approximately \$20 million.

Other operating expenses. The decreases in other operating expenses in the third quarter and first nine months of 2018 from the corresponding 2017 periods primarily reflect the impact of the sale of a SORC legacy oil field in December 2017.

Corporate administration. The corporate administration expense in the third quarter of 2018, compared with negative corporate administration expense in the third quarter of 2017, and the increase in corporate administration expense in the first nine months of 2018 from the first nine months of 2017, primarily reflect increases in Alleghany's long-term incentive compensation accruals. Such increases in accruals primarily reflect the impact of significantly lower catastrophe losses and increases in the price per share of our common stock during the 2018 periods, partially offset by the impact of declines in unrealized appreciation on our debt securities portfolio in the third quarter and first nine months of 2018.

Earnings (Losses) before income taxes. The increase in losses before income taxes in the third quarter of 2018 from the third quarter of 2017 primarily reflects the corporate administration expense in the third quarter of 2018, compared with negative corporate administration expense in the third quarter of 2017 and, to a lesser extent, gains on the sale of certain exchange-traded funds in the third quarter of 2017, partially offset by an increase in sales at Alleghany Properties, all as discussed above. The decrease in losses before income taxes in the first nine months of 2018 from the first nine months of 2017 primarily reflects an increase in sales at Alleghany Properties, partially offset by an increase in corporate administration expense, all as discussed above.

Reserve Review Process

Our reinsurance and insurance subsidiaries analyze, at least quarterly, liabilities for unpaid loss and LAE established in prior years and adjust their expected ultimate cost, where necessary, to reflect favorable or unfavorable development in loss experience and new information, including, for certain catastrophe events, revised industry estimates of the magnitude of a catastrophe. Adjustments to previously recorded liabilities for unpaid loss and LAE, both favorable and unfavorable, are reflected in our financial results in the periods in which these adjustments are made and are referred to as prior accident year loss reserve development. The following table presents the reserves established in connection with the loss and LAE of our reinsurance and insurance segments on a gross and net basis by line of business. These reserve amounts represent the accumulation of estimates of ultimate loss (including for losses that have been incurred but not reported and LAE.

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	As of September 30, 2018			As of December 31, 2017		
	Gross Loss and LAE Reserves	Reinsurance Recoverables on Unpaid Losses	Net Loss and LAE Reserves	Gross Loss and LAE Reserves	Reinsurance Recoverables on Unpaid Losses	Net Loss and LAE Reserves
(\$ in millions)						
Reinsurance Segment						
Property	\$ 1,832.7	\$ (598.9)	\$ 1,233.8	\$ 1,758.0	\$ (493.7)	\$ 1,264.3
Casualty & other ⁽¹⁾	7,309.4	(247.9)	7,061.5	7,370.0	(251.0)	7,119.0
	9,142.1	(846.8)	8,295.3	9,128.0	(744.7)	8,383.3
Insurance Segment						
Property	448.5	(173.0)	275.5	545.9	(225.9)	320.0
Casualty ⁽²⁾	2,154.5	(691.5)	1,463.0	2,078.6	(671.8)	1,406.8
Workers Compensation	3.1	-	3.1	1.5	-	1.5
All other ⁽³⁾	173.6	(72.4)	101.2	185.1	(75.5)	109.6
	2,779.7	(936.9)	1,842.8	2,811.1	(973.2)	1,837.9
Eliminations	(66.9)	66.9	-	(67.8)	67.8	-
Total	\$ 11,854.9	\$ (1,716.8)	\$ 10,138.1	\$ 11,871.3	\$ (1,650.1)	\$ 10,221.2

- (1) Primarily consists of the following reinsurance lines of business: directors and officers liability; errors and omissions liability; general liability; medical malpractice; ocean marine and aviation; auto liability; accident and health; surety; asbestos-related illness and environmental impairment liability; and credit.
- (2) Primarily consists of the following direct lines of business: umbrella/excess; directors and officers liability; professional liability; and general liability.
- (3) Primarily consists of commercial multi-peril and surety lines of business, as well as loss and LAE reserves for terminated lines of business and loss reserves acquired in connection with prior acquisitions for which the sellers provided loss reserve guarantees.

Changes in Gross and Net Loss and LAE Reserves between September 30, 2018 and December 31, 2017. Gross and net loss and LAE reserves as of September 30, 2018 decreased from December 31, 2017, primarily reflecting payments on catastrophe losses incurred in 2017 and favorable prior accident year loss reserve development, partially offset by catastrophe losses in September 2018. Such 2018 catastrophe losses, net of reinsurance, include \$87.7 million related to Typhoon Jebi, \$80.2 million related to Hurricane Florence and \$38.5 million related to Typhoon Trami.

Reinsurance Recoverables

Our reinsurance and insurance subsidiaries reinsure portions of the risks they underwrite in order to reduce the effect of individual or aggregate exposure to losses, manage capacity, protect capital resources, reduce volatility in specific lines of business, improve risk-adjusted portfolio returns and enable them to increase gross premium writings and risk capacity without requiring additional capital. Our reinsurance and insurance subsidiaries purchase reinsurance and

retrocessional coverages from highly-rated third-party reinsurers. If the assuming reinsurers are unable or unwilling to meet the obligations assumed under the applicable reinsurance agreements, our reinsurance and insurance subsidiaries would remain liable for such reinsurance portion not paid by these reinsurers. As such, funds, trust agreements and letters of credit are held to collateralize a portion of our reinsurance and insurance subsidiaries' reinsurance recoverables, and our reinsurance and insurance subsidiaries reinsure portions of the risks they underwrite or assume with multiple reinsurance programs.

As of September 30, 2018, our reinsurance and insurance subsidiaries had total reinsurance recoverables of \$1,768.8 million, consisting of \$1,716.8 million of ceded outstanding loss and LAE and \$52.0 million of recoverables on paid losses. See Part I, Item 1, Business Reinsurance Protection of the 2017 Form 10-K for additional information on the reinsurance purchased by our reinsurance and insurance subsidiaries.

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The following table presents information regarding concentration of our reinsurance recoverables and the ratings profile of our reinsurers as of September 30, 2018:

Reinsurer ⁽¹⁾	Rating ⁽²⁾	Amount (\$ in millions)	Percentage
Syndicates at Lloyd's of London	A (Excellent)	\$ 126.7	7.2%
PartnerRe Ltd	A (Excellent)	112.2	6.3%
Swiss Reinsurance Company	A+ (Superior)	107.7	6.1%
Fairfax Financial Holdings Ltd	A (Excellent)	96.0	5.4%
RenaissanceRe Holdings Ltd	A+ (Superior)	89.9	5.1%
W.R. Berkley Corporation	A+ (Superior)	87.7	5.0%
Chubb Corporation	A++ (Superior)	79.6	4.5%
Kane SAC Ltd, Rondout Segregated Account ⁽³⁾	not rated	75.5	4.3%
Liberty Mutual	A (Excellent)	67.7	3.8%
Kane SAC Ltd, Bowery Segregated Account ⁽³⁾	not rated	52.1	2.9%
All other reinsurers		873.7	49.4%
Total reinsurance recoverables ⁽⁴⁾		\$ 1,768.8	100.0%
Secured reinsurance recoverables ⁽³⁾		\$ 613.3	34.7%

(1) Reinsurance recoverables reflect amounts due from one or more reinsurance subsidiaries of the listed company.

(2) Represents the A.M. Best Company, Inc. financial strength rating for the applicable reinsurance subsidiary or subsidiaries from which the reinsurance recoverable is due.

(3) Represents reinsurance recoverables secured by funds held, trust agreements or letters of credit.

(4) Approximately 73 percent of our reinsurance recoverables balance as of September 30, 2018 was due from reinsurers having an A.M. Best Company, Inc. financial strength rating of A (Excellent) or higher.

We had no allowance for uncollectible reinsurance as of September 30, 2018.

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about future events that directly affect our reported financial condition and operating performance. More specifically, these estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. We rely on historical experience and on various other assumptions that we believe to be reasonable under the circumstances to make judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from reported results to the extent that estimates and assumptions prove to be inaccurate.

We believe our most critical accounting estimates are those with respect to the liability for unpaid loss and LAE reserves, fair value measurements of certain financial assets, OTTI losses on investments, goodwill and other intangible assets and reinsurance premium revenues, as they require management's most significant exercise of

judgment on both a quantitative and qualitative basis. The accounting estimates that result require the use of assumptions about certain matters that are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, our financial condition, results of operations and cash flows would be affected, possibly materially.

See Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates of the 2017 Form 10-K for a more complete description of our critical accounting estimates.

Financial Condition

Parent Level

General. In general, we follow a policy of maintaining a relatively liquid financial condition at our unrestricted holding companies. This policy has permitted us to expand our operations through internal growth at our subsidiaries and through acquisitions of, or substantial investments in, operating companies. As of September 30, 2018, we held total marketable securities and cash of \$1,421.1 million, compared with \$1,383.4 million as of December 31, 2017. The increase in the nine months ended September 30, 2018 primarily reflects the receipt of dividends from TransRe and RSUI and appreciation in the value of the equity securities held at the holding company-level, partially offset by a special dividend and repurchases of shares of our common stock, each as discussed below, as well as contributions to Alleghany Capital to fund the acquisition of Hirschfeld by its subsidiary W&WIAFCO Steel. The \$1,421.1 million is comprised of \$405.8 million at the Alleghany parent

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company, \$959.2 million at AIHL and \$56.1 million at the TransRe holding company. We also hold certain non-marketable investments at our unrestricted holding companies. We believe that we have and will have adequate internally generated funds, cash resources and unused credit facilities to provide for the currently foreseeable needs of our business, and we had no material commitments for capital expenditures as of September 30, 2018.

Stockholders' equity attributable to Alleghany stockholders was approximately \$8.6 billion as of September 30, 2018, compared with approximately \$8.5 billion as of December 31, 2017. The increase in stockholders' equity in the first nine months of 2018 primarily reflects net earnings, partially offset by a decline in unrealized appreciation on our debt securities portfolio due to an increase in interest rates in the first nine months of 2018, as well as a special dividend and repurchases of our common stock, all as discussed below. As of September 30, 2018, we had 14,918,380 shares of our common stock outstanding, compared with 15,390,500 shares of our common stock outstanding as of December 31, 2017.

Sale of Subsidiary. On September 12, 2017, AIHL signed a definitive agreement to sell PacificComp to CopperPoint Mutual Insurance Company for total cash consideration of approximately \$158 million. The transaction closed on December 31, 2017, at which time: (i) approximately \$442 million of PacificComp assets, consisting primarily of debt securities, and approximately \$316 million of PacificComp liabilities, consisting primarily of loss and LAE reserves, were transferred; and (ii) AIHL recorded an after-tax gain of approximately \$16 million, which included a tax benefit. In connection with the transaction, AIHL Re will continue to provide adverse development reinsurance coverage on PacificComp's pre-acquisition claims, subject to certain terms and conditions. AIHL Re's obligations, which are guaranteed by Alleghany, are subject to: (i) an aggregate limit of \$150.0 million; and (ii) a final commutation and settlement as of December 31, 2024.

Debt. On September 9, 2014, we completed a public offering of \$300.0 million aggregate principal amount of our 4.90% senior notes due on September 15, 2044. On June 26, 2012, we completed a public offering of \$400.0 million aggregate principal amount of our 4.95% senior notes due on June 27, 2022. On September 20, 2010, we completed a public offering of \$300.0 million aggregate principal amount of our 5.625% senior notes due on September 15, 2020. See Note 8 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2017 Form 10-K for additional information on the senior notes.

Credit Agreement. On July 31, 2017, we entered into a five-year credit agreement, or the Credit Agreement, with certain lenders party thereto, which provides for an unsecured revolving credit facility in an aggregate principal amount of up to \$300.0 million. The credit facility is scheduled to expire on July 31, 2022, unless earlier terminated. Borrowings under the Credit Agreement will be available for working capital and general corporate purposes, including permitted acquisitions and repurchases of Common Stock. Borrowings under the Credit Agreement bear a floating rate of interest based in part on our credit rating, among other factors. The Credit Agreement contains representations, warranties and covenants customary for bank loan facilities of this nature.

There were no borrowings under the Credit Agreement from inception through September 30, 2018.

The Credit Agreement replaced our previous four-year credit agreement, or the Prior Credit Agreement, which provided for an unsecured revolving credit facility in an aggregate principal amount of up to \$200.0 million. The Prior Credit Agreement was terminated on July 31, 2017 in advance of its scheduled October 15, 2017 expiration date. There were no borrowings under the Prior Credit Agreement in the seven months ended July 31, 2017.

Common Stock Repurchases. In November 2015, the Alleghany Board of Directors authorized the repurchase of shares of our common stock at such times and at prices as management determines to be advisable, up to an aggregate of \$400.0 million, or the 2015 Repurchase Program. In June 2018, the Alleghany Board of Directors authorized, upon

the completion of the 2015 Repurchase Program, the repurchase of additional shares of our common stock, at such times and at prices as management determines to be advisable, up to an aggregate of \$400.0 million. As of September 30, 2018, we had \$481.1 million remaining under both share repurchase authorization programs.

The following table presents the shares of our common stock that we repurchased in the three and nine months ended September 30, 2018 and 2017 pursuant to the 2015 Repurchase Program:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Shares repurchased	76,299	15,916	479,922	15,916
Cost of shares repurchased (in millions)	\$ 46.0	\$ 8.5	\$ 282.1	\$ 8.5
Average price per share repurchased	\$ 602.24	\$ 537.14	\$ 587.70	\$ 537.14

Special Dividend. In February 2018, the Alleghany Board of Directors declared a special dividend of \$10.00 per share for stockholders of record on March 5, 2018. On March 15, 2018, we paid dividends to stockholders totaling \$154.0 million.

Investments in Certain Other Invested Assets. In December 2012, TransRe obtained an ownership interest in Pillar Holdings, a Bermuda-based insurance asset manager focused on collateralized reinsurance and catastrophe insurance-linked securities. Additionally,

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TransRe invested \$175.0 million and AIHL invested \$25.0 million in limited partnership funds managed by Pillar Holdings, or the Funds. The objective of the Funds is to create portfolios with attractive risk- reward characteristics and low correlation with other asset classes, using the extensive reinsurance and capital market experience of the principals of Pillar Holdings. We have concluded that both Pillar Holdings and the Funds, or collectively, the Pillar Investments, represent variable interest entities and that we are not the primary beneficiary, as we do not have the ability to direct the activities that most significantly impact each entity's economic performance. Therefore, the Pillar Investments are not consolidated and are accounted for under the equity method of accounting. Our potential maximum loss in the Pillar Investments is limited to our cumulative net investment. As of September 30, 2018, our carrying value in the Pillar Investments, as determined under the equity method of accounting, was \$201.3 million, which is net of returns of capital received from the Pillar Investments.

In July 2013, AIHL invested \$250.0 million in Ares, an asset manager, in exchange for a 6.25 percent equity stake in Ares, with an agreement to engage Ares to manage up to \$1.0 billion in certain investment strategies. In May 2014, Ares completed an initial public offering of its common units. Upon completion of the initial public offering, Alleghany's equity investment in Ares converted into limited partnership interests in certain Ares subsidiaries that were convertible into Ares common units. On March 15, 2018, most of AIHL's limited partnership interests were converted into Ares common units. As a result of the conversion and with respect to the limited partnership interests that were converted into Ares common units, AIHL: (i) reclassified its converted interests from other invested assets to equity securities; (ii) increased its carrying value to \$208.2 million to reflect the fair value of Ares common units; and (iii) recorded the \$45.7 million increase in carrying value as a realized capital gain as of March 15, 2018. As a result of the conversion and with respect to the unconverted limited partnership interests, AIHL: (i) changed its accounting from the equity method to fair value; (ii) increased its carrying value to \$58.7 million to reflect the fair value of Ares limited partnership interests; and (iii) recorded the \$12.9 million increase in carrying value as a component of net investment income as of March 15, 2018. On September 24, 2018, AIHL's remaining Ares limited partnership interests were converted into Ares common units and, as a result, AIHL reclassified the remaining \$56.9 million of its converted interests from other invested assets to equity securities.

Investments in Commercial Mortgage Loans. As of September 30, 2018, the carrying value of our commercial mortgage loan portfolio was \$695.9 million, representing the unpaid principal balance on the loans. As of September 30, 2018, there was no allowance for loan losses. The commercial mortgage loan portfolio consists primarily of first mortgages on commercial properties in major metropolitan areas in the U.S. The loans earn interest at fixed- and floating-rates, mature in two to ten years from loan origination and the principal amounts of the loans were no more than approximately two-thirds of the property's appraised value at the time the loans were made.

Energy Holdings. As of September 30, 2018, we had holdings of \$896.8 million, comprised of \$294.0 million of debt securities, \$483.5 million of equity securities and \$119.3 million of Alleghany's equity attributable to SORC.

Subsidiaries

Financial strength is also a high priority of our subsidiaries, whose assets stand behind their financial commitments to their customers and vendors. We believe that our subsidiaries have and will have adequate internally generated funds, cash resources and unused credit facilities to provide for the currently foreseeable needs of their businesses. Our subsidiaries had no material commitments for capital expenditures as of September 30, 2018.

The obligations and cash outflow of our reinsurance and insurance subsidiaries include claim settlements, commission expenses, administrative expenses, purchases of investments, and interest and principal payments on TransRe's 8.00% senior notes due on November 30, 2039. In addition to premium collections, cash inflow is obtained from interest and dividend income, maturities and sales of investments and reinsurance recoveries. Because cash inflow from premiums

is received in advance of cash outflow required to settle claims, our reinsurance and insurance operating units accumulate funds which they invest pending the need for liquidity. As the cash needs of a reinsurance or an insurance company can be unpredictable due to the uncertainty of the claims settlement process, the portfolios of our reinsurance and insurance subsidiaries consist primarily of debt securities and short-term investments to ensure the availability of funds and maintain a sufficient amount of liquid securities.

Included in Alleghany Capital is debt associated with its operating subsidiaries, which totaled \$197.7 million as of September 30, 2018. The \$197.7 million includes \$102.3 million of borrowings by W&WAFCO Steel under its available credit facility and term loans (including borrowings incurred and assumed from its acquisition of Hirschfeld), \$43.0 million of borrowings by Jazwares under its available credit facility, \$21.5 million of term loans at Kentucky Trailer primarily related to borrowings to finance small acquisitions and borrowings under its available credit facility, \$16.5 million of borrowings by IPS under its available credit facility, and \$14.4 million of term loans at Bourn & Koch related to borrowings to finance an acquisition and borrowings under its available credit facility. None of these liabilities are guaranteed by Alleghany or Alleghany Capital.

With respect to corporate activities, SORC has relied on Alleghany almost entirely to support its operations. From its formation in 2011 through September 30, 2018, we have invested \$293.8 million in SORC.

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Investment Strategy and Holdings. Our investment strategy seeks to preserve principal and maintain liquidity while trying to maximize our risk-adjusted, after-tax rate of return. Our investment decisions are guided mainly by the nature and timing of expected liability payouts, management's forecast of cash flows and the possibility of unexpected cash demands, for example, to satisfy claims due to catastrophe losses. Our consolidated investment portfolio currently consists mainly of highly rated and liquid debt and equity securities listed on national securities exchanges. The overall credit quality of the debt securities portfolio is measured using the lowest rating of Standard & Poor's Ratings Services, Moody's Investors Service, Inc. or Fitch Ratings, Inc. In this regard, the overall weighted-average credit quality rating of our debt securities portfolio as of September 30, 2018 and December 31, 2017 was AA-. Although a portion of our debt securities, which consist predominantly of municipal bonds, are insured by third-party financial guaranty insurance companies, the impact of such insurance was not significant to the debt securities credit quality rating as of September 30, 2018. The following table presents the ratings of our debt securities portfolio as of September 30, 2018:

Ratings as of September 30, 2018						
	AAA / Aaa	AA / Aa	A	BBB / Baa	Below BBB / Baa or Not Rated ⁽¹⁾	Total
(\$ in millions)						
U.S. Government obligations	\$ -	\$ 1,028.6	\$ -	\$ -	\$ -	\$ 1,028.6
Municipal bonds	253.0	1,693.4	542.6	114.4	0.9	2,604.3
Foreign government obligations	458.6	259.4	174.9	9.1	-	902.0
U.S. corporate bonds	12.5	99.0	856.4	1,038.4	437.4	2,443.7
Foreign corporate bonds	319.3	154.2	556.4	330.7	58.2	1,418.8
Mortgage and asset-backed securities:						
Residential mortgage-backed securities (RMBS)	15.1	1,045.1	-	48.5	6.9	1,115.6
Commercial mortgage-backed securities (CMBS)	155.1	308.2	59.6	1.0	-	523.9
Other asset-backed securities	833.9	422.3	352.0	417.6	8.5	2,034.3
Total debt securities	\$ 2,047.5	\$ 5,010.2	\$ 2,541.9	\$ 1,959.7	\$ 511.9	\$ 12,071.2

Percentage of debt securities	17.0%	41.5%	21.1%	16.2%	4.2%	100.0%
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- (1) Consists of \$157.2 million of securities rated BB / Ba, \$209.8 million of securities rated B, \$44.8 million of securities rated CCC, \$0.4 million of securities rated CC, \$4.3 million of securities rated below CC and \$95.4 million of not-rated securities.

Our debt securities portfolio has been designed to enable management to react to investment opportunities created by changing interest rates, prepayments, tax and credit considerations or other factors, or to circumstances that could result in a mismatch between the desired duration of debt securities and the duration of liabilities and, as such, is classified as AFS.

Effective duration measures a portfolio's sensitivity to changes in interest rates. In this regard, as of September 30, 2018 and December 31, 2017, our debt securities portfolio had an effective duration of approximately 4.3 years and 4.4 years, respectively. As of September 30, 2018, approximately \$3.2 billion, or 27 percent, of our debt securities portfolio represented securities with maturities of five years or less. See Note 3(b) to Notes to Unaudited Consolidated Financial Statements set forth in Part I, Item 1, Financial Statements of this Form 10-Q for additional detail on the contractual maturities of our consolidated debt securities portfolio. We may increase the proportion of our debt securities portfolio held in securities with maturities of more than five years should the yields of these securities provide, in our judgment, sufficient compensation for their increased risk. We do not believe that this strategy would reduce our ability to meet ongoing claim payments or to respond to significant catastrophe losses.

In the event paid losses accelerate beyond the ability of our reinsurance and insurance subsidiaries to fund these paid losses from current cash balances, current operating cash flow, dividend and interest receipts and security maturities, we would need to liquidate a portion of our investment portfolio, make capital contributions to our reinsurance and insurance subsidiaries, and/or arrange for financing. Strains on liquidity could result from: (i) the occurrence of several significant catastrophe events in a relatively short period of time; (ii) the sale of investments into a depressed marketplace to fund these paid losses; (iii) the uncollectibility of reinsurance recoverables on these paid losses; (iv) the significant decrease in the value of collateral supporting reinsurance recoverables; or (v) a significant reduction in our net premium collections.

We may, from time to time, make significant investments in the common stock of a public company, subject to limitations imposed by applicable regulations.

On a consolidated basis, our invested assets increased to approximately \$19.0 billion as of September 30, 2018 from approximately \$18.8 billion as of December 31, 2017, primarily reflecting appreciation in the fair value of equity securities, partially offset by a decline in unrealized appreciation on our debt securities portfolio due to an increase in interest rates in the first nine months of 2018,

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contributions to Alleghany Capital to fund the acquisition of Hirschfeld by its subsidiary, W&WIAFCO Steel, and repurchases of shares of our common stock, all as discussed above. The special dividend was funded by the proceeds from the sale of PacificComp at December 31, 2017.

Fair Value. The following table presents the carrying values and estimated fair values of our consolidated financial instruments as of September 30, 2018 and December 31, 2017:

	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(\$ in millions)			
Assets				
Investments (excluding equity method investments and loans) ⁽¹⁾	\$ 17,791.3	\$ 17,791.3	\$ 17,406.5	\$ 17,406.5
Liabilities				
Senior Notes and other debt ⁽²⁾	\$ 1,581.7	\$ 1,701.8	\$ 1,484.9	\$ 1,614.6

- (1) This table includes debt and equity securities, as well as partnership and non-marketable equity investments carried at fair value that are included in other invested assets. This table excludes investments accounted for using the equity method and commercial mortgage loans that are carried at unpaid principal balance. The fair value of short-term investments approximates amortized cost. The fair value of all other categories of investments is discussed below.
- (2) See Note 8 to Notes to Consolidated Financial Statements set forth in Part II, Item 8, Financial Statements and Supplementary Data of the 2017 Form 10-K for additional information on the senior notes and other debt.
- Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date. Fair value measurements are not adjusted for transaction costs. In addition, a three-tiered hierarchy for inputs is used in management's determination of fair value of financial instruments that emphasizes the use of observable inputs over the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are market participant assumptions based on market data obtained from sources independent of the reporting entity. Unobservable inputs are the reporting entity's own assumptions about market participant assumptions based on the best information available under the circumstances. In assessing the appropriateness of using observable inputs in making our fair value determinations, we consider whether the market for a particular security is active or not based on all the relevant facts and circumstances. A market may be considered to be inactive if there are relatively few recent transactions or if there is a significant decrease in market volume. Furthermore, we consider whether observable transactions are orderly or not. We do not consider a transaction to be orderly if there is evidence of a forced liquidation or other distressed condition; as such, little or no weight is given to that transaction as an indicator of fair value.

Although we are responsible for the determination of the fair value of our financial assets and the supporting methodologies and assumptions, we employ third-party valuation service providers to gather, analyze and interpret market information and derive fair values based upon relevant methodologies and assumptions for individual instruments. When those providers are unable to obtain sufficient market observable information upon which to

estimate the fair value for a particular security, fair value is determined either by requesting a quote, which is generally non-binding, from brokers who are knowledgeable about these securities or by employing widely accepted internal valuation models.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of widely accepted internal valuation models, provide a single fair value measurement for individual securities for which a fair value has been requested under the terms of service agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, currency rates and other market observable information, as applicable. The valuation models take into account, among other things, market observable information as of the measurement date as well as the specific attributes of the security being valued including its term, interest rate, credit rating, industry sector and, when applicable, collateral quality and other issue or issuer specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

The three-tiered hierarchy used in management's determination of fair value is broken down into three levels based on the reliability of inputs as follows:

Level 1: Valuations are based on unadjusted quoted prices in active markets that we have the ability to access for identical, unrestricted assets and do not involve any meaningful degree of judgment. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Our Level 1 assets include publicly traded common stocks and mutual funds (which are included on the balance sheet in equity securities) where our valuations are based on quoted market prices.

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Level 2: Valuations are based on direct and indirect observable inputs other than quoted market prices included in Level 1. Level 2 inputs include quoted prices for similar assets in active markets and inputs other than quoted prices that are observable for the asset, such as the terms of the security and market-based inputs. Terms of the security include coupon, maturity date and any special provisions that may, for example, enable the investor, at its election, to redeem the security prior to its scheduled maturity date (such provisions may apply to all debt securities except U.S. Government obligations). Market-based inputs include interest rates and yield curves that are observable at commonly quoted intervals and current credit rating(s) of the security. Market-based inputs may also include credit spreads of all debt securities except U.S. Government obligations, and currency rates for certain foreign government obligations and foreign corporate bonds denominated in foreign currencies. Fair values are determined using a market approach that relies on the securities relationships to quoted prices for similar assets in active markets, as well as the other inputs described above. In determining the fair values for the vast majority of CMBS and other asset-backed securities, as well as a small portion of RMBS, an income approach is used to corroborate and further support the fair values determined by the market approach. The income approach primarily involves developing a discounted cash flow model using the future projected cash flows of the underlying collateral, and the terms of the security. Level 2 assets generally include short-term investments and most debt securities. Our Level 2 liabilities consist of the senior notes.

Level 3: Valuations are based on techniques that use significant inputs that are unobservable. The valuation of Level 3 assets requires the greatest degree of judgment. These measurements may be made under circumstances in which there is little, if any, market activity for the asset. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, we consider factors specific to the asset. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assets classified as Level 3 principally include certain RMBS, other asset-backed securities (primarily, collateralized loan obligations), U.S. and foreign corporate bonds (including privately issued securities), partnership investments and non-marketable equity investments.

Mortgage-backed and asset-backed securities are initially valued at the transaction price. Subsequently, we use widely accepted valuation practices that produce a fair value measurement. The vast majority of fair values are determined using an income approach. The income approach primarily involves developing a discounted cash flow model using the future projected cash flows of the underlying collateral, as well as other inputs described below. A few Level 3 valuations are based entirely on non-binding broker quotes. These securities consist primarily of mortgage-backed and asset-backed securities where reliable pool and loan level collateral information cannot be reasonably obtained, and as such, an income approach is not feasible.

Since Level 3 valuations are based on techniques that use significant inputs that are unobservable with little or no market activity, the fair values under the market approach for Level 3 securities are less credible than under the income approach; however, the market approach, where feasible, is used to corroborate the fair values determined by the income approach. The market approach primarily relies on the securities' relationships to quoted transaction prices for similarly structured instruments. To the extent that transaction prices for similarly structured instruments are not available for a particular security, other market approaches are used to corroborate the fair values determined by the income approach, including option adjusted spread analyses.

Unobservable inputs, significant to the measurement and valuation of mortgage-backed and asset-backed securities, are generally used in the income approach, and include assumptions about prepayment speed and collateral performance, including default, delinquency and loss severity rates. Significant changes to any one of these inputs, or

combination of inputs, could significantly change the fair value measurement for these securities.

The impact of prepayment speeds on fair value is dependent on a number of variables including whether the securities were purchased at a premium or discount. A decrease in interest rates generally increases the assumed rate of prepayments, and an increase in interest rates generally decreases the assumed speed of prepayments. Increased prepayments increase the yield on securities purchased at a discount and reduce the yield on securities purchased at a premium. In a decreasing prepayment environment, yields on securities purchased at a discount are reduced but are increased for securities purchased at a premium. Changes in default assumptions on underlying collateral are generally accompanied by directionally similar changes in other collateral performance factors, but generally result in a directionally opposite change in prepayment assumptions.

Our Level 3 liabilities consist of the debt of Alleghany Capital's operating subsidiaries.

We employ specific control processes to determine the reasonableness of the fair values of our financial assets and liabilities. Our processes are designed to ensure that the values received or internally estimated are accurately recorded and that the data inputs and the valuation techniques used are appropriate, consistently applied and that the assumptions are reasonable and consistent with the objective of determining fair value. We assess the reasonableness of individual security values received from valuation service providers through various analytical techniques. In addition, we validate the reasonableness of fair values by comparing information obtained from our valuation service providers to other third-party valuation sources for selected securities. We also validate prices obtained from brokers for selected securities through reviews by those who have relevant expertise and who are independent of those charged with executing investing transactions.

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In addition to such procedures, we review the reasonableness of our classification of securities within the three-tiered hierarchy to ensure that the classification is consistent with GAAP.

The following tables present the estimated fair values of our financial instruments measured at fair value and the level of the fair value hierarchy of inputs used as of September 30, 2018 and December 31, 2017:

	Level 1	Level 2	Level 3	Total
	(\$ in millions)			
As of September 30, 2018				
Equity securities:				
Common stock	\$ 5,016.7	\$ 3.5	\$ -	\$ 5,020.2
Preferred stock	-	-	8.4	8.4
Total equity securities	5,016.7	3.5	8.4	5,028.6
Debt securities:				
U.S. Government obligations	-	1,028.6	-	1,028.6
Municipal bonds	-	2,604.3	-	2,604.3
Foreign government obligations	-	902.0	-	902.0
U.S. corporate bonds	-	2,040.7	403.0	2,443.7
Foreign corporate bonds	-	1,310.4	108.4	1,418.8
Mortgage and asset-backed securities:				
RMBS ⁽¹⁾	-	1,115.6	-	1,115.6
CMBS	-	523.9	-	523.9
Other asset-backed securities ⁽²⁾	-	654.4	1,379.9	2,034.3
Total debt securities	-	10,179.9	1,891.3	12,071.2
Short-term investments	-	690.6	-	690.6
Other invested assets ⁽³⁾	-	-	0.9	0.9
Total investments (excluding equity method investments and loans)	\$ 5,016.7	\$ 10,874.0	\$ 1,900.6	\$ 17,791.3
Senior Notes and other debt	\$ -	\$ 1,504.1	\$ 197.7	\$ 1,701.8

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	Level 1	Level 2	Level 3	Total
	(\$ in millions)			
As of December 31, 2017				
Equity securities:				
Common stock	\$ 4,090.7	\$ 3.8	\$ -	\$ 4,094.5
Preferred stock	-	3.1	1.9	5.0
Total equity securities	4,090.7	6.9	1.9	4,099.5
Debt securities:				
U.S. Government obligations	-	948.0	-	948.0
Municipal bonds	-	3,682.1	-	3,682.1
Foreign government obligations	-	1,006.6	-	1,006.6
U.S. corporate bonds	-	2,173.0	260.0	2,433.0
Foreign corporate bonds	-	1,424.6	75.2	1,499.8
Mortgage and asset-backed securities:				
RMBS ⁽¹⁾	-	833.8	161.8	995.6
CMBS	-	550.1	1.6	551.7
Other asset-backed securities ⁽²⁾	-	503.3	1,101.3	1,604.6
Total debt securities	-	11,121.5	1,599.9	12,721.4
Short-term investments	-	578.1	-	578.1
Other invested assets ⁽³⁾	-	-	7.5	7.5
Total investments (excluding equity method investments and loans)	\$ 4,090.7	\$ 11,706.5	\$ 1,609.3	\$ 17,406.5