THE FIXED INCOME CONTRARIAN

April 22, 2020

Fairfax Financial Holdings Ltd.

Series C Preferred Stock (Perpetual)

(BUY)

Price (intraday):	CDN $13.72	**Shares Outstanding:**	6.016 million
Rating (DBRS):	Pfd-3H	**Total Value Outstanding:**	$82.5 million
Par:	$25.00	**Current Yield:**	8.53%
Coupon Rate:	4.709% ($1.17)	**Cusip:**	303901508
	CDN 5-yr + 3.15%	**Callable:**	12/31/24 @ $25.00
Ticker:	FFH CN Series C		12/31/29 @ $25.00
			12/31/34 @ $25.00

Data as of April 22, 2020

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Investment Thesis

Fairfax Financial is a Canadian-based provider of property and casualty insurance and reinsurance coverage. Over the course of its history, the company has become known for its ability to achieve high rates of investment returns. Led by V. Prem Watsa, a renowned investor who follows a value-oriented investment philosophy, Fairfax Financial has produced a compounded annual growth rate in its book value per share of approximately 18.5% since inception. This is a notable achievement, produced through a combination of disciplined underwriting and exceptional investment returns and is exemplified by the fact that the company has reported net losses in only six years out of 34. In addition, the company is conservatively positioned, having almost $1.1 billion of cash on hand and total debt of $7.2 billion, for an effective debt-to-assets ratio of just 10.2%. From this perspective, Fairfax Financial's credit worthiness is impeccable (it is assigned an investment-grade credit rating of Baa3/BBB- at the corporate level).

The Series C preferred share class that is the subject of this report is one among a variety of preferred stock series issued by the company. Although the preferreds stipulate a par value of CDN $25.00 per share, they are presently trading at less than CDN $14.00, representing a discount of about 45%. Its dividend rate converted from fixed (5.75% initially) to floating beginning on December 31, 2014, with the formula calling for a payout of 3.51 percentage points above the Canadian 5-year government bond rate. Thereafter, the rate adjusts every five years. Thus, on December 31, 2019, the dividend rate was reset to 4.709%, or $1.17 per share until December 31, 2024.

At this level, one would receive an annual dividend yield of 8.53% based on the current purchase price. Considering the low level of interest rates in the developed market economies, the yield could be considered quite generous. In this way, the investor would be protected from future increases in interest rates (although to a limited extent – see below), which is not possible with a traditional fixed rate bond. Also, if the dividend payout increases, the share price is also likely to rise, so that one could capture capital appreciation in addition to the income return, suggesting that the potential total return, at least in the contingency of higher interest rates, is meaningfully greater than the stated yield. Indeed, as recently as late-2018, the shares were trading at well over CDN $22. Finally, as the stock is callable at par, the holder would benefit should the company decide to reduce its leverage via redemptions.

In summary, the Fairfax Financial Series C preferred stock offers the income-oriented investor the opportunity to collect a yield in excess of 8.5%, with a mechanism in place that offers protection should interest rates begin to rise. Moreover, the available yield is generous when one considers the dearth of high-yield investments, especially among companies as credit worthy as Fairfax Financial. These factors contribute to a favorable risk/reward profile, and therefore, the Fairfax Financial Series C Perpetual Preferred Stock is recommended for purchase.

Details of the Preferred Stock

The Fairfax Financial Series C preferred shares were originally issued in September 2009 as a way for the company to raise capital without unduly expanding its leverage ratio as issuing debt would do. It is among several preferred share issuances completed by the company, totaling CDN $1.45 billion (par value) in the aggregate.

Certain provisions of the security are familiar to preferred stock investors. These include the perpetual nature of the issue, the quarterly distribution of dividends, and that, if dividends are not declared, they would be cumulative until the next payment is made. The company has never missed or postponed a quarterly dividend payment since its issuance.

The security also contains provisions that may be unfamiliar to U.S.-based investors, although they are not unusual for Canadian companies. For example, the Series C preferred shares were initially issued with a fixed coupon rate of 5.75% per annum, which is equivalent to dividend payments of CDN $1.43 per share. However, beginning on December 31, 2014, the dividend payment converted from a fixed rate to a floating rate based on the sum of the Government of Canada 5-Year bond yield plus 3.15%. In determining the Canadian bond rate, the indenture states that it will be based on the rate as displayed by Bloomberg, under the Bloomberg page, "GCAN5YR Index." Thereafter, the rate will reset every five years. On December 31, 2019, the rate was once again reset, to 4.709%, or CDN $1.17 per share. This dividend will remain in place until December 31, 2024. At today's 0.41% rate for the 5-Year Canadian Treasury Bond, the re-set rate would be 3.56%.

As a consequence of this mechanism, the investor would be protected during a rising interest rate environment, although it is somewhat blunted by the five-year period between rate resets. Although it is not as beneficial as a more frequent (e.g., quarterly, or even yearly) reference interval, it nonetheless offers better protection against interest rate risk than traditional bonds. Likewise, the preferreds are callable at the same time the dividends reset: every five years at par, beginning on December 31, 2014, at which time they are callable only on those respective dates (i.e., they are not continuously callable).

As mentioned, there are nine additional series of preferred stock outstanding, all of which are similar in composition. This publication has specifically highlighted the Series C class because of the recent rate reset, which provides certainty on the dividend rate for an almost five-year time frame, before another reset is to occur.

The company also recently reset the rates on its Series E and Series M preferred stock. The Series E now pays a dividend rate of 3.183% (CAD 0.795; CDN 9.78 share price; 8.13% current yield) per year, while the Series M is set at 5.003% (CAD 1.250; CDN 16.05 share price; 7.79% current yield) per annum, both of which commenced on April 1st and lasting for five years, ending March 31, 2025. Since they are structurally similar (aside from the dividend rates and maturity dates), these shares could be considered alternatives or in conjunction to the Series C, depending upon the availability of purchase.

Company Description

Based in Toronto, Canada, Fairfax Financial is a holding company that provides insurance, reinsurance, and other financial services worldwide. Its insurance business is conducted through several subsidiaries, including Northbridge Financial (Canadian property and casualty insurance), Odyssey Group (treaty and facultative reinsurance worldwide), Crum & Forster (U.S. property and casualty insurance) and Zenith National (U.S. workers compensation insurance).

The company's strategy includes diversifying the insurance business (as well as gaining exposure in more growth-oriented markets) by establishing operations in Asia under its Fairfax Asia subsidiary. This segment houses multiple insurance operators, such as Falcon Insurance (Hong Kong), Pacific Insurance (Malaysia), AMAG Insurance (Indonesia), and Fairfirst Insurance (Sri Lanka). As well, it operates a runoff business that manages insurance contracts in runoff mode. Recently, the company announced an agreement to sell 40% of its European Runoff group and contribute it to a newly-created entity (RiverStone Barbados Ltd.) that will be jointly managed with OMERS, or the Ontario Municipal Employee Retirement System, in return for a cash payment of $598 million.

The following enumerates Fairfax's insurance subsidiaries:

Insurance and Reinsurance

- **Northbridge Financial**: Based in Toronto, Canada, Northbridge Financial provides property and casualty insurance products in the Canadian market through its Northbridge Insurance and Federated subsidiaries. It is one of the largest commercial property and casualty insurers in Canada based on gross premiums written. In 2018, Northbridge's net premiums written were Cdn$1,520.8 million.
- **Odyssey Group:** Based in Stamford, Connecticut, Odyssey Group underwrites treaty and facultative reinsurance as well as specialty insurance, with principal locations in the United States, Toronto, London, Paris, Singapore and Latin America. In 2018, its net premiums written were US$2,897.8 million.
- **Crum & Forster (C&F):** Crum & Forster, based in Morristown, New Jersey, is a national commercial property and casualty insurance company in the United States writing a broad range of commercial, principally specialty, coverages. In 2018, C&F's net premiums written were US$1,977.8 million.

- **Zenith National**: Based in Woodland Hills, California, Zenith National is primarily engaged in the workers compensation insurance business in the United States. In 2018, Zenith National's net premiums written were US$789.2 million.
- **Brit**: Based in London, England, Brit is a global Lloyd's of London specialty insurer and reinsurer. In 2018, Brit's net premiums written were US$1,494.2.
- **Allied World**: Allied World is a Zug, Switzerland-based provider of property, casualty and specialty insurance and reinsurance provider, with principal locations in the U.S., Bermuda, London, Singapore and Canada. In 2018, it had net premiums written of US$2,368.8 million.

Fairfax Asia

- **Falcon Insurance:** Falcon Insurance writes property and casualty insurance in niche markets in Hong Kong. In 2018, Falcon's net premiums written were HK$258.3 million (approximately US$33.1 million).
- **Pacific Insurance:** Pacific Insurance writes all classes of general insurance and medical insurance in Malaysia. In 2018, Pacific Insurance's net premiums written were MYR 276.6 million (approximately US$69.1 million).
- **AMAG Insurance**: Writes all classes of general insurance in Indonesia. In 2018, Fairfax Indonesia's net premiums written were IDR 784.8 billion (approximately US$55.2 million).
- **Fairfirst Insurance**: Based in Sri Lanka, Fairfirst writes general insurance, specializing in automobile and personal accident lines of business. In 2018, net premiums written were LKR 5,701.7 million (approximately US$35.1 million).

Insurance and Reinsurance – Other

- **Group Re**: The Group Re subsidiary primarily constitutes the participation by CRC Re and Wentworth (both based in Barbados) in the reinsurance of Fairfax's subsidiaries by quota share or through participation in those subsidiaries' third party reinsurance programs on the same terms and pricing as the third party reinsurers. Group Re also writes third party business. In 2018, Group Re's net premiums written were US$163.9 million.
- **Bryte Insurance**: Based in South Africa, the company writes property and casualty insurance in South Africa and Botswana. In 2018, Advent's net premiums written were ZAR 3.6 billion (approximately US$272.7 million.
- **Fairfax Central and Eastern Europe**: This division is comprised of Colonnade Insurance and Polish Re. Colonnade Insurance is based in Luxembourg and writes general insurance in the Czech Republic, Hungary, Slovakia, Bulgaria, Poland and Romania. Based in Warsaw, Polish Re writes reinsurance in the Central and Eastern European regions. In 2018, Colonnade Insurance and Polish Re's net premiums

written were US$86.1 million and PLN 236.5 million (approximately US$65.7 million), respectively.

- **Fairfax Latin America**: Fairfax Latin America is comprised of Fairfax Brasil and Fairfax Latam. Fairfax Brasil writes general insurance, with 2018 net premiums written of BRL 222.2 million (US$61.7 million). Based in Miami, Fairfax Latam writes property and casualty insurance through operating companies in Chile, Colombia, Argentina, and Uruguay. Net premiums written in 2018 totaled US$317.6 million.

Runoff

The runoff business comprises the U.S. and the European runoff groups. This business involves the acquisition of insurance lines that have ceased operations, but against which claims are still being made. The company produces earnings by generating investment returns on funds reserved for future payments on claims. However, Fairfax recently agreed to sell a 40% interest in its European runoff business to OMERS.

- **The Resolution Group (TRG)** and the **RiverStone Group** (run by TRG management) manage runoff under the RiverStone name.

Other

- **Pethealth:** Based in Toronto, Pethealth provides pet medical insurance and pet-related management software and database management services in North America and the United Kingdom. In 2018, Pethealth produced gross premiums written of CDN $92.2 million.

Underwriting and Investing Strategy

Fairfax Financial runs its business much in the same way that Berkshire Hathaway operates its insurance operations, although at a smaller scale. It uses the float provided by insurance premiums as capital to fund its investment operations. This has been the expressed strategy since 1985, when Fairfax Financial's Chairman and Chief Executive, V. Prem Watsa, took control of the company.

Prem Watsa is a highly regarded value investor who is to Fairfax Financial as Warren Buffett is to Berkshire Hathaway. Mr. Watsa is considered to be the "Warren Buffett of Canada," an indication of his investment acumen and business success. It should not be surprising, then, to learn that Mr. Watsa has a 42.5% controlling interest in the company through his ownership of super-voting shares, which translates into a 6.7% economic interest in the company.

Fairfax Financial's long term goal is to compound its book value per share by 15% per annum (shareholders' equity at year-end 2019 was $70.5 billion, or $486.10 per share). It aims to achieve this by producing underwriting profits as well as generating sufficient returns on its investment portfolio.

Underwriting

At the outset, it should be understood that producing consistent underwriting profits is a difficult endeavor. The business of property and casualty insurance can be very cyclical. Periods of underwriting losses (that might be the result of adverse events or pricing competition) can be followed by profits (care of premium increases). The normal metric to judge this success is through the combined ratio.

The combined ratio is calculated by taking the sum of the company's incurred losses and operating expenses and then dividing them by earned premium, expressed as a percentage[1]. A ratio below 100% indicates that the company is making underwriting profit; that is, it is receiving more in premiums than it is paying out in claims and the cost of running the business. Conversely, a ratio above 100% means the opposite. However, even if a company's combined ratio exceeds 100%, it does not necessarily mean that it is unprofitable, since the company also generates income from its investment portfolio.

In terms of underwriting profits, Fairfax Financial has been relatively successful, having produced combined ratios of under 100% for the past several years. In its latest fiscal year of 2019, the company achieved a combined ratio of 96.9%, It also resulted in record earnings for the company, producing slightly more than $2.0 billion in net income.

In fact, the company has consistently produced underwriting profits since 2012, although it did suffer from a series of catastrophes that impacted earnings, causing the company to produce a combined ratio of 106.6% that year. These events include Hurricane Harvey, Hurricane Irma, Hurricane Maria, and earthquakes in Mexico, which produced some of the largest catastrophe losses in history. Nevertheless, when viewed from a longer-term perspective, it can be seen that Fairfax has markedly improved its underwriting results. For example, between 1996 and 2002, the company consistently had combined ratios of over 100% (2001's ratio of 121% was impacted by the September 11 Word Trade Center attack). Since then, the company has improved its underwriting results, alternating between underwriting profits and underwriting losses; however, it has produced underwriting profits in 7 of the last 10 years.

[1] The combined ratio can be further broken down into the loss ratio (which measures incurred losses relative to earned premium) and the expense ratio (which is the ratio of expenses incurred to manage the underwriting business to earned premium).

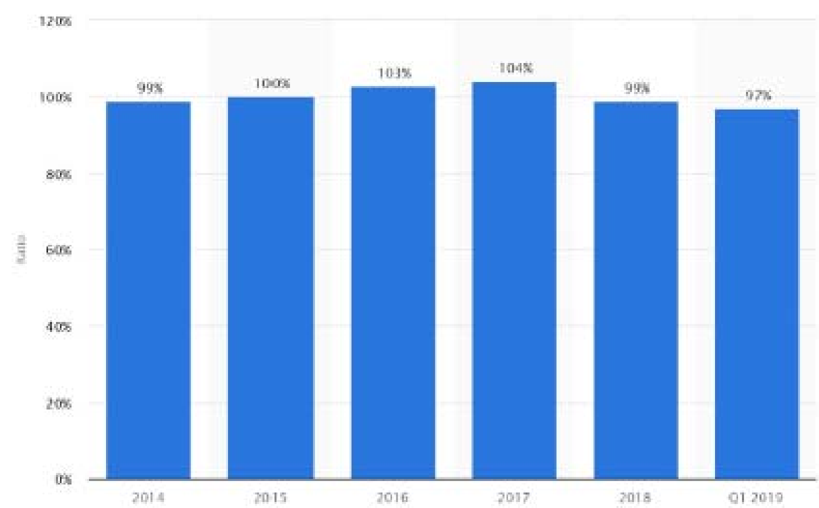
Exhibit 1: Fairfax Financial Historical Combined Ratio (1996-2019)

Year	Combined Ratio	Year	Combined Ratio
1996	109.7%	2008	106.2%
1997	104.7%	2009	99.8%
1998	113.0%	2010	105.2%
1999	114.6%	2011	114.2%
2000	116.3%	2012	99.9%
2001	121.0%	2013	92.7%
2002	101.5%	2014	90.8%
2003	97.6%	2015	89.9%
2004	96.9%	2016	92.5%
2005	107.7%	2017	106.6%
2006	95.5%	2018	97.3%
2007	94.0%	2019	96.9%

Source: Company reports

Over the past few years, this has not been substantially different from the property and casualty insurance industry as a whole. According to Statista, the combined ratio from 2016 to 1Q2019 was: 103%, 104%, 99% and 97%, respectively.

Exhibit 2: Combined Ratio of U.S. P&C Insurance Industry (2014-1Q2019)



Source: Statista

As the scope of the insurance operations continue to grow, the realized combined ratios will have a bigger impact on reported earnings, given that earned premiums exceeded $13.2 billion in 2019.

Likewise, Fairfax's use of leverage is not radically different from its peers. For example, at year-end 2019, its assets/shareholders' equity ratio was 3.93x. As comparison, the assets/equity ratio was 4.61x for Allstate Corp., 4.01x for Progressive Corp., and 3.19x for Chubb Limited.

Investment Operations

While the company has done a respectable job in underwriting, the investment operations have also contributed to its financial results. The investment portfolio is managed by Hamblin Watsa Investment Counsel, which is an investment management firm wholly-owned by Fairfax Financial. Hamblin Watsa's chief portfolio manager is V. Prem Watsa.

Hamblin Watsa follows a self-described value style investment philosophy that emphasizes the preservation of invested capital. Typically, this is expressed in contrarian types of investments, leaning towards out-of-favor securities that are believed to be selling at discounts to intrinsic value. Over the long term, this approach has served the company well, culminating in an average total return of 8.0% per annum since 1986. More importantly, it should be noted that over this period, the investment portfolio experienced losses in only four years (1990, 1999, 2013 and 2016), as the following table illustrates:

Exhibit 3: Fairfax Financial Historical Total Return on Investments (1986-2019)

Year	Total Return on Avg. Investments	Year	Total Return on Avg. Investments	Year	Total Return on Avg. Investments
1986	8.4%	1997	10.0%	2008	15.0%
1987	8.9%	1998	9.1%	2009	13.1%
1988	22.9%	1999	-2.7%	2010	3.5%
1989	16.3%	2000	12.2%	2011	6.1%
1990	-4.4%	2001	7.3%	2012	4.2%
1991	14.6%	2002	11.2%	2013	-4.3%
1992	4.7%	2003	11.3%	2014	8.6%
1993	13.1%	2004	6.5%	2015	1.2%
1994	3.0%	2005	6.5%	2016	-2.2%
1995	12.9%	2006	8.1%	2017	6.8%
1996	15.5%	2007	15.1%	2018	3.1%
				2019	6.9%
				Average:	8.0%

Source: Company reports

The advantage of Fairfax Financial's contrarian approach came into play in 2008, when the investment portfolio generated a return of 15.0% during the Financial Crisis, a radically different result than the S&P 500's net loss of 37.0%, including dividends, while a broad-based bond market index, such as the iShares Core U.S. Aggregate Bond ETF experienced a total return of (0.05)%. At the time, the investment portfolio benefited from the ownership of a credit default swap book with a notional amount of $18.5 billion. The CDS was purchased by Prem Watsa as protection from a housing bubble, which he believed existed as early as 2003 (which was when the CDS position was initiated). Moreover, the investment portfolio was greatly assisted by hedges that were placed on its equity positions. Care of these actions, Fairfax Financial's book value expanded by 21% that year.

Readers will no doubt notice that returns in the past several years appear subpar, as compared to the overall market. This can be attributed to its value-oriented investment philosophy. While the company focuses on purchasing undervalued companies, the general equity market has appreciated with the help of the indexation phenomenon. As increasingly more money flows into index products, the exchange-traded funds are required to purchase equities in a formulaic manner. Thus, the most liquid and largest capitalization companies have been the primary beneficiaries, with their market capitalizations increasing at tremendous rates disproportionate to their underlying financial results. In other words, the market appreciation has been the result of indiscriminate buying pressure from price-indifferent investors (ETFs), causing valuation levels to become unduly, if not dangerously, high. Justifiably, value-conscious investors have been reluctant to purchase those overvalued companies, resulting in relative underperformance.

In addition, Fairfax Financial has sought to protect itself from deflation, which it sees as a credible threat, by entering into CPI-linked derivative contracts with a notional amount of $100 billion. These contracts reference consumer price indexes in multiple geographic regions (U.S., E.U., U.K., and France) to serve as a hedge against the potential impact of decreasing price levels and pay out at maturity if there is cumulative deflation over the life of the contract. Thus far, they have remained "out-of-the-money," detracting from returns. Nonetheless, they are intended to be protection from a "black swan" event that would pay off if a deflationary shock were to hit. This is not unlike when the investment portfolio experienced sub-par returns in the years before the 2008 market break, when the hedges that were in place then had incurred interim losses before the housing bubble burst.

Recent events, though, specifically the massive money creation and bond buying programs of the world's central banks, to both support their economies during the COVID-19 pandemic and to keep interest rates from rising, are likely to be inflationary, not deflationary. At the moment, the contracts have an average remaining term to maturity of approximately 2.8 year and are carried at $7 million on the books.

Presently, Fairfax Financial maintains a fairly liquid balance sheet, holding $1.1 billion in corporate level cash. It also has about $10.0 billion in subsidiary cash and short-term investments, representing 26% of its portfolio investments, with the view of taking advantage of investment opportunities when they appear. Including Treasury Bills and short-term, high-quality corporate bonds, Fairfax holds approximately $19 billion of cash and short-dated securities—almost 50% of its investment portfolio—which can be deployed when appropriate opportunities arise and/or when interest rates increase (which should enable Fairfax to increase its investment income).

Fairfax India and Fairfax Africa

In recent years, Fairfax Financial has increasingly looked internationally for investment opportunities, most notably in India and Africa.

Fairfax India was created in December 2014 and has made ten investments during this time. Its most significant investment is the Bangalore International Airport, which is the third-largest airport in India and the second-fastest growing airport in the world. Is it in the process of expanding by adding a second runway and another terminal that is intended to increase passenger capacity from 30 million to 65 million annually.

Fairfax Africa, which was created in 2016, has a total of six investments, including:

- AFGRI Group Holdings: a holding company with businesses in agri-services, processed foods operations, and a financial services provider
- Atls Mara Ltd: a sub-Saharan financial services group that operates banks in six countries (Botswana, Mozambique, Rwanda, Tanzania, Zambia and Zimbabwe), as well as a bank in Nigeria.
- Consolidated Infrastructure Group: a pan-African infrastructure-focused company with diversified operations including services and materials in power and electrical, oil and gas, building materials and the railway sector.
- GroCapital Holdings: a bank holding company
- Nova Pioneer Education Group: a pan-African independent school network offering preschool through secondary education/
- Philafrica Foods: food processing

Fairfax Financial's overall investment portfolio is arranged as follows:

Exhibit 4: Fairfax Financial Investment Portfolio (as of 12/31/19)

	12/31/2019		12/31/2018	
Cash and short term investments	$ 10,021.3	*26.3%*	$ 6,722.0	*18.0%*
Bonds	15,618.1	*41.0%*	19,256.4	*51.4%*
Preferred stock	578.2	*1.5%*	260.1	*0.7%*
Common stock	5,287.6	*13.9%*	4,431.4	*11.8%*
Investments in associates	3,195.8	*8.4%*	3,471.9	*9.3%*
Derivatives	759.1	*2.0%*	563.6	*1.5%*
Assets pledged for short sale	146.9	*0.4%*	164.6	*0.4%*
Fairfax India and Fairfax Africa investments	2,504.6	*6.6%*	2,562.9	*6.8%*
	$ 38,111.6	*100.0%*	$ 37,432.9	*100.0%*

($ in millions)

Source: Company reports

The company's portfolio allocation differs from the average property and casualty insurance company portfolio in that the weight of its common stock component is typically higher and the bond portion is lower. For example, the Allstate investment portfolio was arranged as follows at year-end 2019:

Exhibit 5: Allstate Corp. Investment Portfolio (as of 12/31/19)

	12/31/2019	
Fixed income securiites	$ 59,044.0	*66.8%*
Equity securities	8,162.0	*9.2%*
Mortgage loans	4,817.0	*5.5%*
Limitged partnership interests	8,078.0	*9.1%*
Short-term interests	4,256.0	*4.8%*
Other	4,005.0	*4.5%*
	$ 88,362.0	*100.0%*

($ in millions)

Source: Company reports

As can be viewed above, P&C insurance companies usually concentrate their investment portfolios towards fixed income securities—and less on equities—as a means to lower investment risk. This is not unreasonable; however, the low interest rate environment experienced over the past decade raises the question of whether fixed income investments are truly low risk. After all, most (if not all) so-called investment grade corporate bonds trade at premiums to par value, which ultimately guarantees capital losses as their maturity dates approach. Additionally, the low yields offered by these bonds barely exceed the inflation rate, and thus offer no real rate of return.

While Fairfax Financial takes on more risk in the form of a higher equity exposure, it is mitigated through the judicious and disciplined security selection prescribed by the value investing ethos. Part and parcel to this methodology is the conscious decision to hold a larger cash balance when valuations are high. At the end of 2019, Fairfax's cash exceeded one-quarter of its investment portfolio.

However, despite the drag on returns from a large cash position, Fairfax Financial has nonetheless succeeded in attaining its goal of compounding its book value per share by 15% annually, achieved by a combination of profitable underwriting activity and modest investment returns.

Nevertheless, the company recently reported that in the first quarter of 2020, it expects to report a net loss of $1.4 billion, resulting from mark-to-market (unrealized) net losses in the fair value of its common stock and bond portfolio resulting from the COVID-19 emergency. However, it continues to have strong underwriting performance, with a consolidated combined ratio of under 100%. Given the shock the capital markets suffered from the pandemic, such a performance by the company should not be surprising.

Conversely, the market decline brings with it lower equity valuations. One can only imagine how much more profitable the company could be when more suitable investment opportunities arise. Given the recent sharp drop in equity prices in response to the COVID-19 worldwide epidemic, one could expect Fairfax to begin deploying its cash balance opportunistically as equity valuations contract. Such is the history of the company.

Investment Summary

Fairfax Financial is an insurance company with a history of operational excellence. Led by V. Prem Watsa, the company has managed the impressive feat of increasing its book value per share by 18% per annum since its formation. Revenues have increased 24.5% per year, from $12.2 million in 1985 to $21.5 billion in 2019. At present, the company has positioned its investment portfolio defensively, with a large cash balance, a hedged book for its equity investments, and even derivative contracts that would be highly valuable if deflation were to arise. In totality, it is evident that the company is a prudent steward of capital.

As such, the company's Series C preferred stock appears to be an appropriate investment for income-oriented investors. They currently trade at a large discount to par value and offer an immediate yield in excess of 8.5% per year, at least for the next five years. Thereafter, the payout could increase if Canadian short-term rates rise. In effect, the preferred shares enable one to capture a relatively high yield without taking undue credit risk. In summary, the

Fairfax Financial Series C preferred stock benefit from a combination of an attractive yield, highly regarded management and low credit risk, and therefore is recommended for purchase.

Fairfax Financial Holdings Limited

CONSOLIDATED BALANCE SHEETS
as at December 31, 2019 and December 31, 2018
(unaudited - US$ millions)

	December 31, 2019	December 31, 2018
Assets		
Holding company cash and investments (including assets pledged for short sale and derivative obligations – $5.5; December 31, 2018 – $21.5)	**1,098.9**	1,557.2
Insurance contract receivables	**5,435.0**	5,110.7
Portfolio investments		
Subsidiary cash and short term investments (including restricted cash and cash equivalents - $664.8; December 31, 2018 - $560.9)	**10,021.3**	6,722.0
Bonds (cost $15,353.9; December 31, 2018 – $19,281.8)	**15,618.1**	19,256.4
Preferred stocks (cost $241.3; December 31, 2018 – $327.2)	**578.2**	260.1
Common stocks (cost $5,533.7; December 31, 2018 – $5,014.2)	**5,287.6**	4,431.4
Investments in associates (fair value $3,357.3; December 31, 2018 – $3,279.1)	**3,195.8**	3,471.9
Derivatives and other invested assets (cost $1,168.7; December 31, 2018 – $971.3)	**759.1**	563.6
Assets pledged for short sale and derivative obligations (cost $146.7; December 31, 2018 – $164.8)	**146.9**	164.6
Fairfax India and Fairfax Africa cash, portfolio investments and investments in associates	**2,504.6**	2,562.9
	38,111.6	37,432.9
Assets held for sale	**2,785.6**	—
Deferred premium acquisition costs	**1,344.3**	1,127.3
Recoverable from reinsurers (including recoverables on paid losses – $637.3; December 31, 2018 – $651.0)	**9,155.8**	8,400.9
Deferred income taxes	**375.9**	497.9
Goodwill and intangible assets	**6,194.1**	5,676.9
Other assets	**6,007.3**	4,568.3
Total assets	**70,508.5**	64,372.1
Liabilities		
Accounts payable and accrued liabilities	**4,814.1**	3,020.0
Short sale and derivative obligations (including at the holding company – $0.3; December 31, 2018 – $6.6)	**205.9**	149.5
Liabilities associated with assets held for sale	**2,035.1**	—
Insurance contract payables	**2,591.0**	2,003.1
Insurance contract liabilities	**35,722.6**	35,353.9
Borrowings – holding company and insurance and reinsurance companies	**5,156.9**	4,855.2
Borrowings – non-insurance companies	**2,075.7**	1,625.2
Total liabilities	**52,601.3**	47,006.9
Equity		
Common shareholders' equity	**13,042.6**	11,779.3
Preferred stock	**1,335.5**	1,335.5
Shareholders' equity attributable to shareholders of Fairfax	**14,378.1**	13,114.8
Non-controlling interests	**3,529.1**	4,250.4
Total equity	**17,907.2**	17,365.2
	70,508.5	64,372.1
Book value per basic share	**$ 486.10**	$ 432.46

Fairfax Financial Holdings Limited

CONSOLIDATED STATEMENTS OF EARNINGS
for the three and twelve months ended December 31, 2019 and 2018
(unaudited - US$ millions except per share amounts)

	Fourth quarter		Year ended December 31,	
	2019	2018	**2019**	2018
Income				
Gross premiums written	**4,237.6**	3,765.3	**17,511.2**	15,528.3
Net premiums written	**3,221.5**	3,054.3	**13,835.6**	12,431.0
Gross premiums earned	**4,269.7**	4,036.9	**16,611.0**	15,001.4
Premiums ceded to reinsurers	**(987.3)**	(777.4)	**(3,381.3)**	(2,935.4)
Net premiums earned	**3,282.4**	3,259.5	**13,229.7**	12,066.0
Interest and dividends	**207.8**	200.9	**880.2**	783.5
Share of profit (loss) of associates	**(245.5)**	94.2	**169.6**	221.1
Net gains (losses) on investments	**640.4**	(664.3)	**1,716.2**	252.9
Other revenue	**1,647.9**	1,289.6	**5,537.1**	4,434.2
	5,533.0	4,179.9	**21,532.8**	17,757.7
Expenses				
Losses on claims, gross	**3,475.6**	3,412.7	**11,758.9**	10,598.6
Losses on claims, ceded to reinsurers	**(1,311.8)**	(1,124.3)	**(3,070.8)**	(2,775.2)
Losses on claims, net	**2,163.8**	2,288.4	**8,688.1**	7,823.4
Operating expenses	**654.7**	619.7	**2,476.3**	2,444.7
Commissions, net	**582.0**	553.6	**2,206.8**	2,051.0
Interest expense	**117.0**	87.2	**472.0**	347.1
Other expenses	**1,576.4**	1,179.7	**5,456.9**	4,229.4
	5,093.9	4,728.6	**19,300.1**	16,895.6
Earnings (loss) before income taxes	**439.1**	(548.7)	**2,232.7**	862.1
Provision for (recovery of) income taxes	**(63.6)**	(95.5)	**261.5**	44.2
Net earnings (loss)	**502.7**	(453.2)	**1,971.2**	817.9
Attributable to:				
Shareholders of Fairfax	**672.0**	(477.6)	**2,004.1**	376.0
Non-controlling interests	**(169.3)**	24.4	**(32.9)**	441.9
	502.7	(453.2)	**1,971.2**	817.9
Net earnings (loss) per share	**$ 24.62**	$ (17.89)	**$ 72.80**	$ 12.03
Net earnings (loss) per diluted share	**$ 23.58**	$ (17.89)	**$ 69.79**	$ 11.65
Cash dividends paid per share	**$ —**	$ —	**$ 10.00**	$ 10.00
Shares outstanding (000) (weighted average)	**26,826**	27,327	**26,901**	27,506

HORIZON KINETICS

Fairfax Financial Historical Performance Summary

Fairfax Corporate Performance

(in US$ millions, except as otherwise indicated)[1]

As at and for the years ended December 31[3]	Book value per share[2]	Closing share price[1]	Revenue	Net earnings (loss)	Total assets	Invest-ments	Net debt[5]	Common share-holders' equity	Shares out-standing	Earnings (loss) per share
1985	1.52	3.25[4]	12.2	(0.6)	30.4	23.9	–	7.6	5.0	(1.35)
1986	4.25	12.75	38.9	4.7	93.4	68.8	3.7	29.7	7.0	0.98
1987	6.30	12.37	86.9	12.3	139.8	93.5	4.9	46.0	7.3	1.72
1988	8.26	15.00	112.0	12.1	200.6	111.7	27.3	60.3	7.3	1.63
1989	10.50	18.75	108.6	14.4	209.5	113.1	21.9	76.7	7.3	1.87
1990	14.84	11.00	167.0	18.2	461.9	289.3	83.3	81.6	5.5	2.42
1991	18.38	21.25	217.4	19.6	447.0	295.3	58.0	101.1	5.5	3.34
1992	18.55	25.00	237.0	8.3	464.6	311.7	69.4	113.1	6.1	1.44
1993	26.39	61.25	266.7	25.8	906.6	641.1	118.7	211.1	8.0	4.19
1994	31.06	67.00	464.8	27.9	1,549.3	1,105.9	166.3	279.6	9.0	3.41
1995	38.89	98.00	837.0	63.9	2,104.8	1,221.9	175.7	346.1	8.9	7.15
1996	63.31	290.00	1,082.3	110.6	4,216.0	2,520.4	281.6	664.7	10.5	11.26
1997	86.28	320.00	1,507.7	152.1	7,148.9	4,054.1	369.7	960.5	11.1	14.12
1998	112.49	540.00	2,469.0	280.3	13,640.1	7,867.8	830.0	1,364.8	12.1	23.60
1999	155.55	245.50	3,905.9	42.6	22,229.3	12,289.7	1,248.5	2,088.5	13.4	3.20
2000	148.14	228.50	4,157.2	75.5	21,667.8	10,399.6	1,251.5	1,940.8	13.1	5.04
2001	117.03	164.00	3,953.2	(406.5)	22,183.8	10,228.8	1,194.1	1,679.5	14.4	(31.93)
2002	125.25	121.11	5,104.7	252.8	22,173.2	10,596.5	1,602.8	1,760.4	14.1	17.49
2003	163.70	226.11	5,731.2	288.6	24,877.1	12,491.2	1,961.1	2,264.6	13.8	19.51
2004	162.76	202.24	5,829.7	53.1	26,271.2	13,460.6	1,965.9	2,605.7	16.0	3.11
2005	137.50	168.00	5,900.5	(446.6)	27,542.0	14,869.4	1,984.0	2,448.2	17.8	(27.75)
2006	150.16	231.67	6,803.7	227.5	26,576.5	16,819.7	1,613.6	2,662.4	17.7	11.92
2007	230.01	287.00	7,510.2	1,095.8	27,941.8	19,000.7	1,207.4	4,063.5	17.7	58.38
2008	278.28	390.00	7,825.6	1,473.8	27,305.4	19,949.8	412.5	4,866.3	17.5	79.53
2009	369.80	410.00	6,635.6	856.8	28,452.0	21,273.0	1,071.1	7,391.8	20.0	43.75
2010	376.33	408.99	5,967.3	335.8	31,448.1	23,300.0	1,254.9	7,697.9	20.5	14.82
2011	364.55	437.01	7,475.0	45.1	33,406.9	24,322.5	2,055.7	7,427.9	20.4	(0.31)
2012	378.10	358.55	8,022.8	526.9	36,945.4	26,094.2	1,920.6	7,654.7	20.2	22.68
2013	339.00	424.11	5,944.9	(573.4)	35,999.0	24,861.6	1,752.9	7,186.7	21.2	(31.15)
2014	394.83	608.78	10,017.9	1,633.2	36,131.2	26,192.7	1,966.3	8,361.0	21.2	73.01
2015	403.01	656.91	9,580.4	567.7	41,529.0	29,016.1	2,075.6	8,952.5	22.2	23.15
2016	367.40	648.50	9,299.6	(512.5)	43,384.4	28,430.7	3,438.2	8,484.6	23.1	(24.18)
2017	449.55	669.34	16,224.6	1,740.6	64,090.1	39,255.4	4,057.2	12,475.6	27.8	64.98
2018	432.46	600.98	17,757.7	376.0	64,372.1	38,840.6	4,929.8	11,779.3	27.2	11.65
2019	486.10	609.74	21,532.8	2,004.1	70,508.5	39,004.6	6,134.0	13,042.6	26.8	69.79
Compound annual growth	18.5%	16.6%								

Source: Company report

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