





# Investments

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## Investments

We would again like to thank the Managers and the Corporate Trustee of The Steamship Mutual Trust (“the Trust”) for providing the information necessary to produce the charts which follow.

The combined investment gain is calculated on the investment assets of the Trust combined with the property, fixed income and cash balances maintained by the Clubs for operational purposes.

## Investment markets

2010 was, in overall terms, a less volatile year for investment markets with global equities and global bonds achieving returns that were close to their long run averages. These results mask the abnormal investment environment that still persists two years after the financial crisis. Among the unusual results were US small cap stocks returning over 30% despite weak US economic growth, German equities outperforming Spanish equities by 25%, ten year US Treasury yields falling 1.4% by October and rebounding 1% by the Club’s year end, and commodities such as gold, copper and oil outperforming equities despite muted inflation.

During 2010 there were concerns that the US economic expansion would prove unsustainable, resulting in a double-dip recession, that Europe’s debt problems could trigger a second financial crisis and that in trying to cool its economy through interest rate increases, China might impact global economic growth. In the second half of the year these issues receded as the US economy expanded more strongly than expected and investors became convinced that the other issues would have limited global effect.

For the financial year the MSCI World equity index recorded a total return of 22%, despite being down 8% for the period to early July, but two years of strong returns still left this index 15% below its high point reached in October 2007. Government bond yields were slightly lower over the period as a whole and corporate bonds enjoyed strong returns, especially in the high yield sector which offered yields of 5% over Treasuries. The US dollar depreciated against most currencies, by over 10% against the haven Swiss franc and commodity driven Australian dollar, and the prices of gold and oil continued their relentless march to new highs.

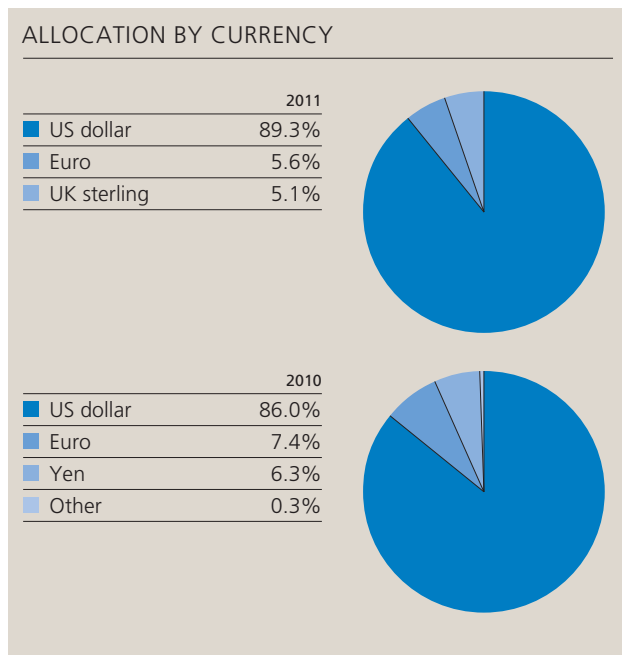
Central bank policy remains a key driver for investment markets in 2011. In developed markets the focus is on when stimulus might be withdrawn and in the emerging markets the challenges are still controlling inflation and capital inflows. The most likely scenario for 2011 seems to be continuing low growth in the developed world, a reduced risk of deflation with governments continuing to support their economies, but an increased risk of inflation from the end of the year.





# Investments

## continued



### Investment performance

The Trust's overall investment return of 4.4% was made up of a 4.5% return on fixed income investments, a 7.9% return on hedge funds of funds, a 35% return on its small allocation to equities and a minimal return on its short term cash investments.

This overall return was higher than expected, boosted by unrealised gains in the matching portfolio of government bonds. The matching portfolio hedges the economic value of claims liabilities such that risk, and regulatory capital, in that part of the portfolio is minimised.

The investment of the remainder of the portfolio, which represents surplus funds held to meet capital objectives, is governed by the Board's risk budget and reviewed in the light of market conditions and overall performance of the business. All active managers in this surplus portfolio outperformed their benchmarks and by December the hedge fund of fund managers had recovered all the losses incurred in the year to February 2009.

### Risk management and asset allocation

A small allocation to a global equity index fund was built up during the year and a further US\$ 15 million invested with an existing diversified hedge fund of funds manager. At the year end the allocation to cash remained higher than target and consequently portfolio risk was well below the budget set in October 2009.

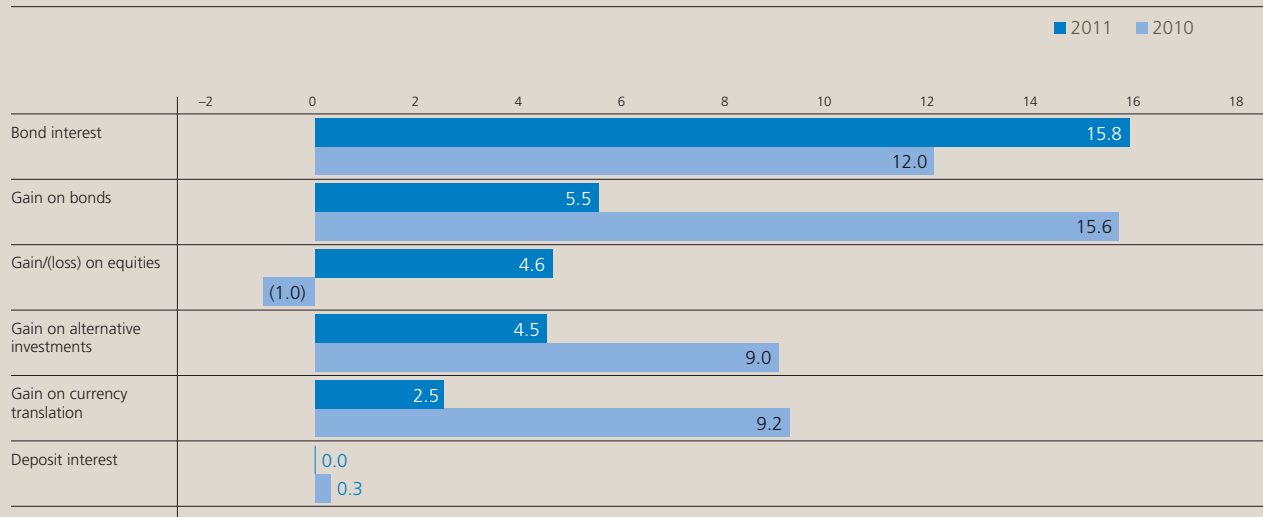
During the year the Corporate Trustee has reviewed the impact of specific scenarios on the current allocation, including a significant increase in inflation, and received presentations on opportunities for investing in emerging markets.

The Corporate Trustee has continued to consult regularly with the Board of The Steamship Mutual Underwriting Association (Bermuda) Limited (SSM Bermuda), which is the ultimate reinsured and whose Members are the beneficiaries of the Trust. During the year the Board of SSM Bermuda received a presentation which highlighted the key features of the investment strategy, explained how risk was being measured, the principles underlying the matching portfolio and how the Trustee was reviewing performance and risk. The Board of SSM Bermuda was consulted on the Investment Policy Statement which was approved in October 2010 and continues to receive reports on the utilisation of the agreed risk budget and other key investment indicators.

**Steve Ward**  
Head of Finance

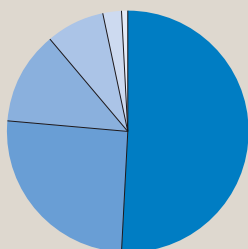
# Investments continued

## BREAKDOWN OF COMBINED INVESTMENT RETURNS – US\$ MILLIONS

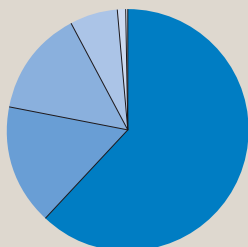


### ALLOCATION BY ASSET TYPE

	2011
Government bonds	51.0%
Cash and deposits	25.6%
Corporate bonds	12.5%
Alternative investments	7.8%
Equities	2.3%
Property	0.8%

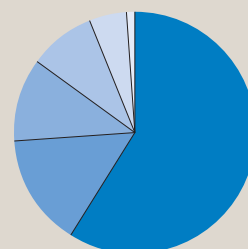


	2010
Government bonds	62.1%
Cash and deposits	16.1%
Corporate bonds	14.1%
Alternative investments	6.5%
Property	1.0%
Equities	0.2%



### TARGET ALLOCATION

	2010
Government bonds	59.0%
Corporate bonds	15.0%
Alternative investments	11.0%
Cash and deposits	9.0%
Equities	5.0%
Property	1.0%



2010/11 PERFORMANCE OF INDICES IN US DOLLAR TERMS %

