CAPITAL RETURNS

September 13, 2021

Board of Directors
Argo Group International Holdings, Ltd.
90 Pitts Bay Road
Pembroke HM08
Bermuda
Pembroke, BM

RE: The Board Should Explore a Sale of Argo

Dear Members of the Board:

I am writing on behalf of Capital Returns Management, LLC ("Capital Returns"), which has been a long-term Argo Group International Holdings, Ltd. ("Argo") (NYSE: ARGO) shareholder. We are currently one of the largest shareholders among actively managed funds. Capital Returns is an insurance industry investor, with decades of expertise in the sector.

We believe Argo's long-established and profitable U.S. specialty business, with more than $2 billion of gross written premiums, is extremely valuable and possesses significant growth opportunities. The outstanding performance of the U.S. specialty business is, however, being restricted by capital constraints and obstructed from view by Argo's lackluster international business and misguided focus on global growth initiatives.

The result is a stock that has *declined* over the last three bull-market years. The Company has also underperformed its peers during Kevin Rehnberg's tenure as CEO, and over the last three and five-year periods. Today, Argo's stock trades at just book value, and 12x projected consensus estimates of 2022 EPS, while its specialty insurance peers enjoy an average valuation of 2.2x book value and 19x projected 2022 earnings.

We read with great interest the stories in the press on September 6 that Argo is exploring alternatives for its Lloyd's of London business.[1] We estimate that the Lloyd's of London business, and Argo's other international businesses, are tying up approximately $850 million in capital and producing little return. The fact is, in these businesses, Argo has no demonstrable advantage, a long history of consistent disappointment, and volatile results. These results have long masked Argo's financially superior U.S. specialty insurance business. The international businesses have also distracted management from focusing on the U.S. business, which suffers from capital constraints, excessive reinsurance purchases and a weakened AM Best rating.

[1] "Argo Appoints Morgan Stanley to Sell Lloyds Business," The Insurer, September 6, 2021; "Argo to Test Market Appetite for Lloyd's Businesses with Syndicate 1200 Process," the Insurance Insider, September 6, 2021.

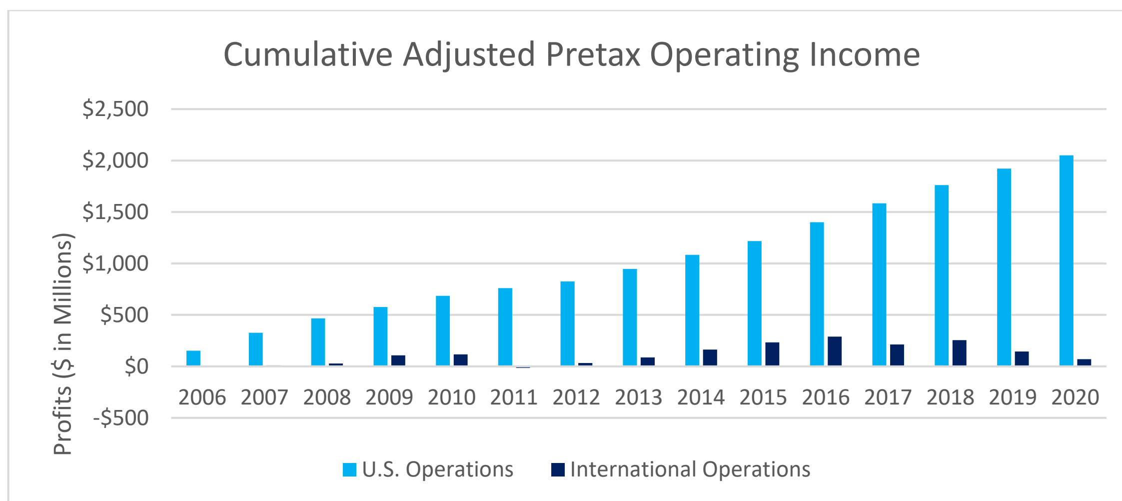
Exploring a sale of the disappointing Lloyd's business is the most modest step this Board can take to improve shareholder value.[2] At a minimum, the Board should also consider selling Argo's Bermuda-based underwriting activities, which are non-core, commoditized lines of insurance that have failed to consistently produce profits or provide strategic advantage to Argo while tying up an estimated $300+ million of capital.[3] And there is little reason for Argo to maintain its 9% ownership stake in competitor International General Insurance Holdings, Ltd. This venture investment is no longer strategic to Argo.

Exploring the sale of the entire Company is the optimal and necessary next step to maximize shareholder value. Previous attempts at piecemeal sales have either failed (e.g. Rockwood and Argo Italy) or yielded no return to shareholders (e.g. Ariel). With a stock price that has fallen roughly 33% over the last 30 months, all the modest steps taken over that period have failed to reward shareholders. The honeymoon for Argo's new executive team and reconstituted Board is over; it is now time to deliver maximum value to the Company's shareholders.

Based on the valuations of Argo's peers, we believe the right actions by this Board can produce at least $80 per share of value for current Argo shareholders, in the near term. On a risk adjusted basis, this outcome is far superior for shareholders than a drawn-out sale of Argo's various businesses and investments followed by a redeployment of capital to the U.S. business, hoped-for improvements in financial performance, and an uncertain re-rating of Argo's valuation multiple.

Argo's International Businesses Have Been a Drag on Argo's Performance

Over the past fifteen years, Argo has generated a negligible amount of operating income from its international operations even as those operations have tied up significant capital.



Source: Company filings

[2] Tony Latham, an Argo board member and Non-Executive Chairman of Argo's Lloyds Syndicate 1200, has himself called the results of the Lloyd's business "disappointing" in each of the last four annual reports.
[3] It is disconcerting that Argo appears to be taking steps to expand this underperforming, non-core business. The insurance press is replete with stories of Argo hiring new international underwriters, forming underwriting consortia, and providing underwriting support to newly formed managing general agencies. These initiatives are all growth focused in commoditized lines of syndicated international business such as political risk, trade credit and cargo. We think it is a mistake to bet that new hires working from a desk in London or Bermuda, or new underwriting consortia, can effectively compete with global and specialty stalwarts.

Among Argo's international businesses, the Lloyd's of London operations dominate, representing approximately 75% of premiums and capital. And yet, Syndicate 1200 has generated underwriting losses every year since 2016, as well as in the first six months of 2021. Among other mistakes, Syndicate 1200 grew its premiums aggressively from 2015 to 2018, exactly when market conditions were most competitive and expected underwriting margins were contracting. Thereafter, in the wake of poor results and finding itself in the penalty box, the syndicate was forced to reduce its underwriting, coincident with competition abating, expected profit margins widening and growth prospects brightening since 2019.

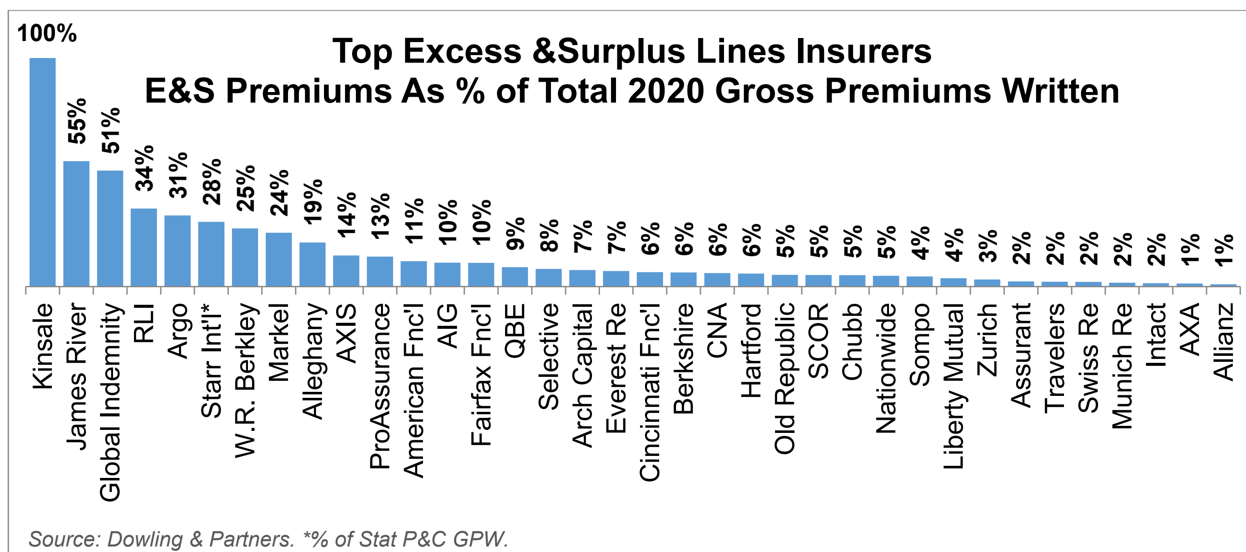
Argo's Bermuda-based underwriting operation appears to be no better off. Argo, along with other "excess" insurers, are price and risk takers amongst syndicated panels of insurers; these lines have repeatedly contributed losses and earnings volatility to the Company. The Bermuda operations have no discernable competitive advantage and sit nowhere near the risks being underwritten nor the claims being settled.

Together, the Lloyd's of London syndicates and Bermuda operations, by our estimate, require more than $850 million of capital to generate very little operating profit. These business lines are largely commodity businesses in which Argo has exhibited no competitive advantage, let alone competitive strength, and no track record of underwriting success.

We believe **they should have been sold or runoff years ago** and the belated decision to explore alternatives with Argo's remaining Lloyd's of London business is little solace for shareholders who have suffered for years as Argo has attempted to generate profits from these ill-conceived and poorly managed far-flung operations.

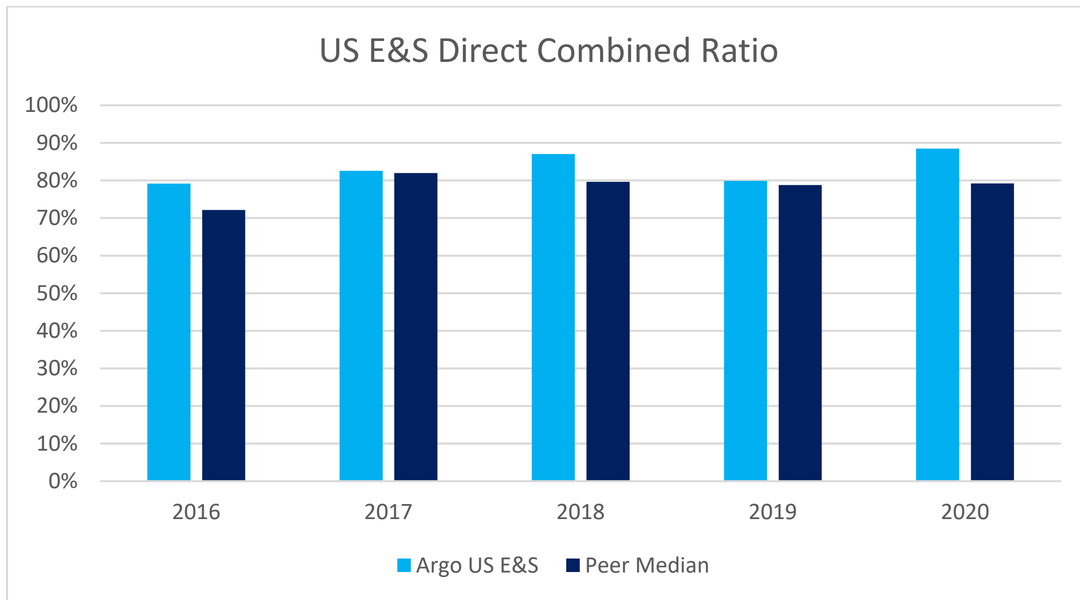
Argo's U.S. Business Is Excellent But Capital Constrained

The Company's longstanding strength and value resides in its U.S. specialty insurance platform. Argo is a significant and established local participant in the U.S. market, with deep distribution relationships and seasoned underwriting expertise. The excess and surplus lines and specialty admitted markets in which Argo competes are now the global insurance industry's best performing segments with sustained growth and expanding margins. Argo is a leading participant in this most attractive market.



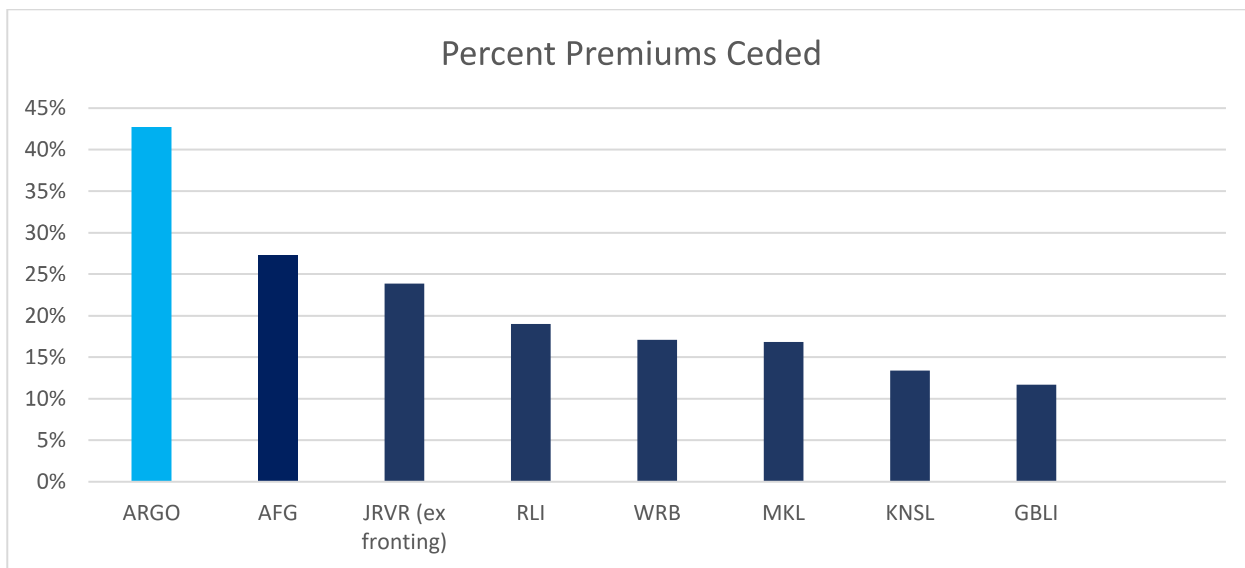
Source: Dowling & Partners. *% of Stat P&C GPW.

The Company's excess and surplus lines unit generates underwriting margins in line with the industry's best performers, and we estimate Argo's U.S. specialty business will earn more than $210 million in pretax income in 2022.



Source: SNL reports. Peers include WRB, JRVR, KNSL, RLI, AFG, GBLI and MKL

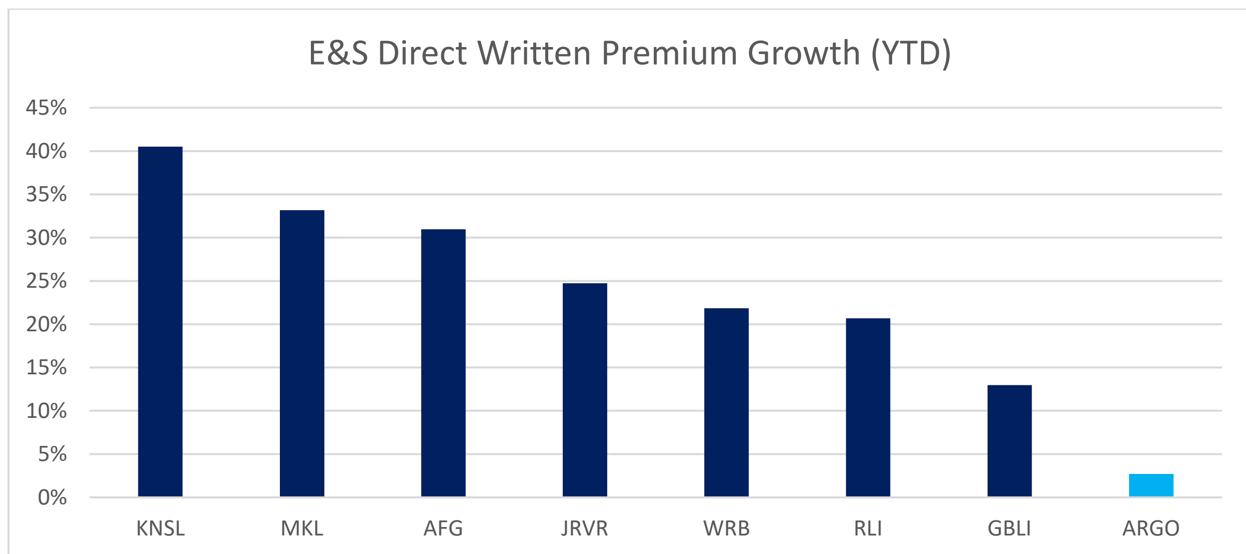
Despite being a far stronger underwriter than its sister divisions, Argo's U.S. business has been starved of capital and has been forced to purchase excessive amounts of reinsurance. Argo's capital constraints and lower A.M. Best rating make the Company far more dependent upon reinsurers than peers:



Source: Company filings and CRM analysis. 3-year averages.

These capital constraints coupled with the distraction of management's attempt to remediate the underperforming international business have suppressed Argo's ability to grow at the same rapid pace of its peers and capitalize on excellent U.S. commercial insurance market conditions. For example, Argo's U.S.

excess and surplus lines unit grew its direct written premiums just 3% in the first half of 2021, while its best-in-class publicly traded peers grew their premiums between 13% and 41%!



Source: SNL reports and company filings.

If Argo were to be acquired and integrated into a much larger insurance enterprise, the U.S. segment could retain more of its very profitable business, similar in magnitude to its peers. Reinsurance purchases resulted in Argo's U.S. insurance business retaining just $1.2 billion of its $2.0 billion of gross written premiums in 2020. There is a tremendous opportunity for a new owner of Argo to purchase less reinsurance and retain far greater amounts of underwriting income as we estimate Argo's 2020 gross and net (of reinsurance) combined ratios are nearly equal for its U.S. specialty insurance operations.

The Path Forward

The Company thus faces two major strategic issues: its international business has no identifiable competitive advantage, and its U.S. business is severely capital constrained and suffers from executive management distraction.

Based on media reports, the Board and executive team appear to be attempting to resolve these problems with a plodding and risky approach: selling some of the international businesses and redeploying capital to the U.S. business. This approach has already produced two failures, the disclosed collapse of the Argo Italy sale transaction as well as the reported cancellation of the Rockwood unit sale. (It also appears there is some curious desire to try to grow in Bermuda and London with the hiring of new underwriters for the entry into new lines of business and the formation of underwriting consortia.) It is not lost on us that this complicated approach to Argo's challenges ensures that management and the Board will continue to have a company to run.

But it is not the best answer for shareholders.

We believe that there are numerous buyers for all of Argo – insurance companies that could both consolidate and improve Argo's international operations while providing significant additional capital to its profitable, but reinsurance-dependent, U.S. business.

Notably, the core U.S. unit would be a prized asset for many North American, Bermudian, European and Asian insurers.[4] A larger, better capitalized and less reinsurance-dependent owner of Argo's U.S. specialty business would certainly earn significantly greater gross underwriting profits than the net underwriting profits Argo's smaller balance sheet and ratings currently support. Most of these strategic buyers could also consolidate and more successfully operate Argo's international business by virtue of the acquiror's scale and expertise.

Many of these acquirors, in our view, could and would pay a significant premium to today's stock price – and a value that is more in line with peer valuations – because of the opportunity to grow the profitability of both the international and U.S. businesses substantially. I have been in contact with two such strategic buyers and believe they would eagerly participate in a sale process.

The certainty of significant value creation through a sale of the whole company is attractive to us. And while this approach may ultimately displace Argo's executive team and Board of Directors, it is surely the best risk-adjusted way for shareholders to benefit from Argo's current market footprint and capabilities.

To put a fine point on that, we believe Argo's U.S. business, which we project will earn pretax operating income in 2022 of more than $210 million, will support a valuation of $2.5 billion, even before accounting for the opportunity an acquiror would have to put additional capital to work. Strategic buyers surely would recognize significant incremental earnings that we estimate to be at least $25 million from reduced reinsurance purchases and other synergies. The U.S. business should be worth at least $2.8 billion to the right acquiror.

Sum of the Parts Valuation ($s 000s, except per share)	
US Specialty Insurance Operations	
Net Operating Income(1)	$176,250
Multiple(2)	15.7x
Value of US Operations	$2,767,125
International Insurance Operations(3)	
Estimated Capital	$850,000
Multiple	0.9x
Value of Int. Operations	$765,000
Outstanding Debt and Preferred	$602,600
Argo Valuation	$2,929,525
Argo Valuation per Share	$83.70

(1) 2022P. Includes $25 mm of additional retained underwriting profits.
(2) 15% discount to peer companies Ave. multiple.
(3) Includes runoff

Source: Capital Returns

[4] The potential buyer universe at a minimum includes Tokio Marine HCC, Sompo, Allianz, Munich Re, Zurich, American Financial, Arch, Everest, Fairfax-Riverstone, Intact Financial, Travelers, and WR Berkley.

Sold in a single, simple M&A transaction to a global insurance company, shareholders could receive at least $80 per share in relatively quick order. This value is consistent with the peer valuations on a book value and EPS basis.

	VALUATION	
Specialty Insurance Peer Company	**P/BV**	**P/E**
American Financial Group	2.08x	14.5x
Global Indemnity	0.55x	9.9x
Markel Corp	1.27x	17.2x
James River	1.57x	14.4x
Kinsale	6.47x	32.7x
RLI Corp	3.91x	31.3x
W.R. Berkley	1.99x	15.2x
Average	2.55x	19.3x
Average (Ex. High & Low)	2.16x	18.5x
	BVPS	**'22 EPS**
Argo	$50.34	$4.35
Implied Argo Stock Price	$128.31	$83.96
Implied Argo Stock Price (Ex. High & Low)	$108.94	$80.50
Source: Bloomberg and company filings.		

I believe that together, the businesses could be sold for at least $80 per share to numerous parties. With the stock trading below $50 today, the independent road to an equivalent, risk adjusted value is hard for shareholders to travel. With a near-term opportunity to attain a 60% premium, the Board should aggressively pursue a sale of the whole Company.

We believe many of our fellow shareholders agree with us. After the media reported that the Board was pursuing yet another attempt at a piecemeal sale and, seemingly, recommitting to independence, growth in the Bermuda operation and continued operation of the U.S. business, the stock fell more than 2%. The market does not believe this worn path will create value.

Instead, a sale today of the whole company, which we believe will generate a substantial premium for shareholders, is a more certain way for shareholders to capture all of Argo's inherent value.

I would like to address the Board on these topics, as soon as possible. Please contact me at the number below to arrange a time for me to present my views to the full Board.

Sincerely,

Ron Bobman