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# 2007 AUCTION REPORT

AUCTION TWO 13<sup>th</sup>/14<sup>th</sup> SEPTEMBER 2007

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## Highlights

- **Capacity volumes up as high prices tempt sellers**
- **Average price of capacity falls slightly**
- **Substantial volumes of capacity remain unsold at high reserve prices**
- **All syndicates attracted would-be buyers, with trading on all syndicates where capacity was put up for sale**

## Auction 2 – An overview

With the traded volume up about 10% on Auction One, there was a small reduction in the all-time high pricing levels. While the level of tenders increased substantially from £58m in Auction One to £105m, the level of subscriptions fell from £310m to £270m. Unusually, more than half of the £105m of tendered capacity failed to find an auction buyer. This was largely in consequence of higher reserve prices being placed on much of the capacity for sale.

While the average auction price paid to acquire capacity increased from 16.6p to over 23p, the more representative price index of all Third Party Capacity fell 7.4% from 25.8p per £1 to 23.9p.

In two bilateral transactions (the first such deals since 2004), Atrium unloaded £20m of its spread portfolio (£15m on Syndicate 958 and £5m on 2791). Under the auction rules, the auction is run as normal and then any bilateral deals interact; that is to say they take in unsatisfied bids that would have traded, had the bilateral capacity been available in the auction. While the average auction price and the bilateral price of Syndicate 2791 were close at

25.1p and 26.1p respectively, there was a much larger differential between the two for Syndicate 958, with auction purchases averaging 18.0p but the bilateral between Atrium and Hampden striking at 12.5p. Interaction between auction and bilaterals was minimal, with less than £8,000 of Syndicate 2791 tender capacity being swept up.

Auction Two, together with its associated bilateral deals, brings the total of capacity changing hands this year to £112m.

## Who traded and at what price?

In Auction One, we saw a new high for the price of a syndicate set by Syndicate 386 at an average of 113.8p. This record lasted only a week until it was broken by Syndicate 1176 with a new mark of 126.2p. This price was paid by Chaucer Corporate Limited.

## Buyers

Once again, aligned members were largely conspicuous by their absence. Far and away the largest buyers of capacity were the MAPA Managers of the two Members' Agencies. Subscriptions of £100,000 or more accounted for two thirds of the capacity changing hands. Of this, £27m (or almost 40% of the total capacity including bilaterals) went to various MAPAs.

| Top five buyers of capacity on a single Syndicate at Auction |               |                   |
|--|---------------|-------------------|
| Syndicate  | Amount Bought | Buyer             |
| 958  | 9,000,000     | Hampden MAPA 7218 |
| 958  | 6,000,000     | Hampden MAPA 7208 |
| 2791   | 5,749,968     | Hampden MAPA 7208 |
| 2010   | 3,062,098     | Cathedral Capital |
| 1200   | 1,000,000     | Unlimited Member  |

**Cathedral Capital** has been one of the most aggressive bidders over the past two years and, after being outbid by non-aligned members in Auction One, secured over 90% of the Syndicate 2010 capacity tendered in Auction Two with a bid of 34.7p.

**Illium** followed its success in Auction One with another £¾million on managed Syndicate 4040. It now owns more than 85% of the syndicate.

**Hiscox, Kiln and Atrium** maintained the levels of their Auction One bids. Hiscox for £20m of Syndicate 33 at 8.2p; Kiln for £50m of Syndicate 510 at 8p; and Atrium for £15m of both Syndicates 570 and 609 at 15p. All met with no success.

There was once again no sign of any bidding from aligned vehicles supporting **Equity, Beaufort, Limit, Beazley, Omega** or **Heritage** syndicates.

With the benefit of hindsight, we can spot that three particular syndicates had unusual buying opportunities. All subscribers for Syndicates 557, 779 and 6103 were satisfied, with averages of 7.6p, 31.1p and 3.3p respectively. A subscription bid for a modest amount of

capacity at 0.1p would have been satisfied as it would not have reduced the average price paid to tenderers. It is possible that similar opportunities will present themselves in Auction Three.

## Sellers

| Top five sellers of capacity on a single Syndicate at Auction based on trades over £100,000 |             |             |
|---|-------------|-------------|
| Syndicate   | Amount Sold | Seller      |
| 958   | 15,000,000  | Atrium      |
| 2791  | 4,992,780   | Atrium      |
| 2791  | 2,000,000   | MAP Capital |
| 260   | 2,000,000   | ICP Capital |
| 557   | 1,639,241   | ICP Capital |

The notable feature of this auction was the propensity of sellers to try and influence sale prices. When auction prices have been low, most sellers have been Members either leaving Lloyd's or rebalancing their portfolios. As they are disposing of otherwise unwanted capacity, they have typically been happy with whatever proceeds the auction has made for them. This year, with the underwriting climate deteriorating from a cyclical high, and good quality syndicates trading at a multiple of expected earnings, some Members are seeking to lock in part of their profits by securing a good price for their capacity.

For example, Syndicate 510 traded at an average 23.9p in Auction One but fell to 20.2p in Auction Two. While £5m of capacity changed hands, there was another £10m of tender capacity that remained unsold. Of this, about half would have sold at Auction One's price, another £4m was hoping for somewhere between 24p and 30p for their capacity, while the balance of £1m wanted between 30p and 80p. For Auction Three, these sellers must

decide whether they are prepared to drop their prices or continue to tender at Auction Two levels in the knowledge that, if prices do not increase, they will continue to underwrite on the syndicate or 'drop' the capacity back to the managing agent at nil value.

Of those that actually did sell capacity, the most significant sales were on the part of Atrium and MAP. Atrium unloaded a total of £15m held by its various subsidiaries on Syndicate 958 and another £5m on Syndicate 2791. Both were sold via bilateral deals with Members' Agency MAPAs. While the sale on Syndicate 958 represented Atrium's entire allocation on the syndicate, its 2007 allocation on Syndicate 2791 is £47.7m.

Syndicate 2791 also featured in the sale of £2m of capacity by the dedicated corporate member, **MAP** Capital. MAP differs from most managing agents in that its capital backing is from a range of investors and the capital vehicle is managed as a group scheme with some members joining, some leaving while others increase or reduce within the vehicle. Sales or purchases represent the aggregate movement across all investors.

**ICP** Capital sold a total of £5.7m, including sales on Syndicates 260, 557, 727, 2525 and 2526. For 2007, ICP writes an aggregate capacity of £100m.

### Price Rises

| Major percentage <b>increase</b> in value for trades over £100,000 |                      |                      |                     |
|--|----------------------|----------------------|---------------------|
| Synd   | 2007 Auction 2 Price | 2007 Auction 1 Price | % Increase in Value |
| 2121   | 6.54                 | 1.44                 | 355.3%              |
| 0807   | 9.48                 | 4.98                 | 90.4%               |
| 1176   | 126.20               | 90.44                | 39.5%               |
| 0623   | 17.94                | 14.79                | 21.3%               |
| 1200   | 4.71                 | 4.11                 | 14.7%               |

With the exception of the **Chaucer** Corporate purchase of Syndicate 1176, the increases in our table are all for syndicates in the price bracket of less than 20p per £1. This seems to reflect the search for value as spread buyers shift their attention from higher to lower priced syndicates.

Syndicate 308 did not trade in Auction One as no-one offered to sell capacity in response to the £3m sought by buyers. The one seller that materialised for Auction Two was able to command a price of 25p for capacity, an increase of 575% on the 2006 average.

The strong demand for **Argenta** Syndicate 2121 continued with £32 of would-be buyers for every £1 of tendered capacity. The price increase reflects that only one modest size bespoke line changed hands. Another £15m of subscribers remained unmatched, while the would-be sellers at 7p only just missed out

### Price Falls

| Major percentage <b>decrease</b> in value for trades over £100,000 |                      |                      |                     |
|--|----------------------|----------------------|---------------------|
| Synd   | 2007 Auction 2 Price | 2007 Auction 1 Price | % Decrease in Value |
| 386  | 82.56                | 113.80               | 27.4%               |
| 958  | 13.68                | 18.43                | 25.8%               |
| 4040   | 0.11                 | 0.14                 | 24.3%               |
| 727  | 22.00                | 26.73                | 17.7%               |
| 510  | 20.16                | 23.88                | 15.6%               |

With so little activity on the part of aligned vehicles, the bulk of the purchases are by either Members' Agency MAPAs or by individual Members. For most syndicates, there is a wide range between the highest price paid and the lowest. For example, while one buyer paid over 125p for Syndicate 386, others were successful at less than 70p. While this is an extreme

case, twelve of the twenty six syndicates trading saw a disparity of 10p or more between the price paid by the highest successful subscriber and that paid by the lowest.

### **What to Expect in Auction Three**

**Tuesday 25<sup>th</sup> & Wednesday 26<sup>th</sup>  
September**

With £55m of unsold capacity after Auction Two, sellers must decide whether they are prepared to accept a lower price or whether they would rather continue to underwrite. The evidence of Auction Two is that buyers are not currently prepared to chase up the prices any further and have either scaled down their aspirations or turned their attention to lower valued syndicates. For both buyers and sellers there is a definite distinction between those who need to trade (resigners on the sell side, new entrants on the purchase side) and those that would quite like to trade (those that would prefer to take a higher or lower position for 2008). This suggests that sellers will not universally be reducing their floor prices and much capacity will remain unsold at high reserve prices. The inference must be that, if you really want to sell in Auction Three, you will have to price to sell.

**Auction 2, 2007 Summary**

| Syndicate                   | Premium p per £ | Capacity Allocated (£) | Value (£)         | 2007 Auction 1 Price |
|-----------------------------|-----------------|------------------------|-------------------|----------------------|
| 33                          | 25.0            | 2,495,965              | 623,991           | 28.0                 |
| 218                         | 30.8            | 1,920,325              | 591,921           | 28.0                 |
| 260                         | 17.5            | 2,182,959              | 382,105           | 16.9                 |
| 308                         | 25.0            | 15,000                 | 3,750             | -                    |
| 318                         | 22.1            | 1,090,687              | 241,347           | 20.8                 |
| 386                         | 82.6            | 1,659,206              | 1,369,907         | 113.8                |
| 510                         | 20.2            | 4,918,534              | 991,380           | 23.9                 |
| 557                         | 7.6             | 4,110,840              | 312,917           | 9.0                  |
| 570                         | 31.9            | 1,208,497              | 385,511           | 33.1                 |
| 609                         | 33.2            | 2,099,248              | 697,853           | 37.2                 |
| 623                         | 17.9            | 3,454,249              | 619,658           | 14.8                 |
| 727                         | 22.0            | 2,502,467              | 550,543           | 26.7                 |
| 779                         | 31.1            | 757,241                | 235,805           | 28.8                 |
| 807                         | 9.5             | 587,923                | 55,717            | 5.0                  |
| 958                         | 18.0            | 4,062,826              | 732,121           | 18.4                 |
| 1176                        | 126.2           | 569,532                | 718,749           | 90.4                 |
| 1200                        | 4.7             | 3,683,423              | 173,563           | 4.1                  |
| 2007                        | 0.0             | 0                      | 0                 | -                    |
| 2010                        | 37.3            | 3,295,100              | 1,230,489         | 34.7                 |
| 2121                        | 6.5             | 46,194                 | 3,020             | 1.4                  |
| 2525                        | 24.0            | 783,184                | 187,964           | 26.3                 |
| 2526                        | 19.0            | 129,474                | 24,600            | 19.5                 |
| 2791                        | 25.1            | 5,228,693              | 1,313,186         | 24.3                 |
| 3334                        | 0.0             | 0                      | 0                 | -                    |
| 4040                        | 0.1             | 832,066                | 907               | 0.1                  |
| 6101                        | 3.3             | 501,325                | 16,779            | 3.7                  |
| 6102                        | 3.7             | 377,981                | 13,910            | 4.2                  |
| 6103                        | 3.3             | 1,174,888              | 38,842            | 3.8                  |
| <b>26 syndicates traded</b> |                 | <b>49,687,827</b>      | <b>11,516,535</b> |                      |

The capacity of two syndicates was also traded in Bilateral deals.

| Syndicate | Bilateral Price | Auction Interaction |               | Bilateral Capacity | Total Capacity |
|-----------|-----------------|---------------------|---------------|--------------------|----------------|
|           |                 | Tenders             | Subscriptions |                    |                |
| 958       | 12.5            | 0                   | 0             | 15,000,000         | 15,000,000     |
| 2791      | 26.1            | 7,220               | 0             | 4,992,780          | 5,000,000      |

## Connected Parties

The following Auction Two transactions were successfully entered into by Members with APCL 'connected person' status:-

| Syndicate | Subscription / Tender | Capacity £ | Director / Staff / Council Member / Group Corporate Member |
|-----------|-----------------------|------------|--|
| 0218      | Subscription          | 10.000     | E S Harborne (032687K)                                     |
| 0218      | Subscription          | 10,000     | E S Harborne (032687K)                                     |
| 0218      | Subscription          | 10,000     | E S Harborne (032687K)                                     |
| 0727      | Tender                | 44,745     | E S Harborne (032687K)                                     |
| 2525      | Subscription          | 3,000      | E S Harborne (032687K)                                     |
| 2525      | Subscription          | 3,000      | E S Harborne (032687K)                                     |
| 2525      | Subscription          | 3,000      | E S Harborne (032687K)                                     |
| 0033      | Subscription          | 50,000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0033      | Subscription          | 50,000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0033      | Subscription          | 50,000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0033      | Subscription          | 50,000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0033      | Subscription          | 50,000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0033      | Subscription          | 50,000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0318      | Subscription          | 25,000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0386      | Subscription          | 20,000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0386      | Subscription          | 20,000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0386      | Subscription          | 20,000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0510      | Subscription          | 50,000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0510      | Subscription          | 50,000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0510      | Subscription          | 50,000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0510      | Subscription          | 50,000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0510      | Subscription          | 50.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0510      | Subscription          | 50.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0557      | Subscription          | 30.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0557      | Subscription          | 30.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0557      | Subscription          | 30.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0557      | Subscription          | 30.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0570      | Subscription          | 25.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0570      | Subscription          | 25.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0570      | Subscription          | 25.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0570      | Subscription          | 25.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0623      | Subscription          | 40.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0623      | Subscription          | 40.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 0727      | Subscription          | 60.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 2791      | Subscription          | 50.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
| 2791      | Subscription          | 50.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |
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| 2791      | Subscription          | 50.000     | Talisman Corporate Underwriting 2000 Ltd (054491F)         |

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