The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 8, 2022

To Our Shareholders:

This was a year of uncertain and profoundly discomforting weather. The description applies to the emotional climate as well as physical conditions. At the close of last year's letter, I wrote that 2021 would likely be "a better year for all of us." The year began just as we had all hoped, with the Covid-19 case counts of the holiday spike showing a rapid diminution in our region and a generally improving business situation. Using our home state as an example, the seven-day average of new Covid cases in Massachusetts had peaked around the turn of the year at about 6000 per day. By March 1, 2021, that number had fallen to something like 1700. In late June the daily new case count was only in the 50's. Sighs of relief were the music of the spring. Meanwhile, although driving began picking up again and eroding the benefits to an automobile insurer of quiet roads, the overall operating results in our largest auto coverage channel for the first quarter were at near-budget levels, and our growing homeowners business survived the potential blizzard season with its favorable prospects intact. By yearend 2021, though, Lady Luck had left the room. Thanks to the newly mutated Omicron variant of the virus, Covid cases (many of them less severe, thank goodness) were arising with much higher frequency than during the previous yearend peak. A massive early September windstorm blew through the catastrophe cost projections of our Home Insurance Group. And a combination of mounting road congestion and an ugly bout of nationwide price inflation, the latter boosting the costs for nearly all of our claims, gave the whole property and casualty insurance business a serious battering. For the full year taken together, underwriting results for our companies proved mildly unfavorable, with some worrisome implications for the year now under way.

If you look only at Plymouth Rock's consolidated and comprehensive income or book value, you won't find a cause for concern. In fact, the numbers look particularly good. That is the case because the operating disappointments are disguised by the Company's 2021 investment results. Our stock market gains in 2021 were glorious, though surely nothing to count on for recurrence in this or any future year. The Plymouth Rock enterprise's fully consolidated comprehensive income, which includes unrealized equity gains as well as traditional net income, leaped from $117 million the prior year to a lofty $322 million. The consolidated performance numbers apply to our enterprise as a whole, combining the results for premium we underwrite with your capital and the premium we manage for the reciprocal group. If you look solely at our stockholder-owned companies, you will see a net income before changes in unrealized gains of $146 million. The 2021 comprehensive income for the shareholders, adding in our hefty unrealized gains, was $237 million, more than doubling the prior year number. The reciprocal group, which bore the brunt of both the Home Group's under-performance and a higher-than-expected net drain from the building of our direct-to-the-consumer business, did less well, but that group nonetheless recorded $85 million in 2021 comprehensive income.

Book equity for our shareholders rose during the year to $926 million, up by 22%. Because book value ignores the substantial cash dividends that were paid out to you as well as changes in the appraised value of our real estate holdings, that measure tends to understate the true economic appreciation of shareholder worth. Correcting for dividends and applying an educated estimate of the change in real estate valuations, the economic return for 2021 appears to exceed 30%. As you have heard me say every year, I consider a shareholder return of 10% or less a defeat for the year and returns of 20% or more as worthy of celebration. This last year's results were well into the celebratory zone. Remove the outsized element of the stock market gains, though, and the numbers would have been on the low side. So you'll have to decide for yourselves whether it's to be beer or champagne. The 37-year compounded annual rate of return on shareholder book value, including both retained earnings and dividends, but without the benefit of our quite substantial real estate valuation gains, remains just over 18%. The scale of the entire Plymouth Rock Assurance group of companies, as measured by direct underwritten and managed premiums, grew only modestly, up 3% to remain just under $1.7 billion.

Ordinarily, the headline story of the year has something to do with profit performance or growth. This year is different. The headliner this year is an unprecedented tale of management changes. Our Company has been remarkable for the consistency over decades of its Board and management leadership. This past year, though, three of the people I have worked with most closely over most of that time engaged in life transitions. Wilmot Kidd long ago, on behalf of Central Securities Corporation, made the initial founding investment that launched our Company. Wil stepped down in 2021 as the CEO of Central. Because Central is the second largest shareholder in Plymouth Rock, any change in management there could be consequential for us. In this particular situation, however, we are unworried about the business impact. Wil is still chairman of Central Securities and its representative on our Board of Directors, so my communications with him and his contributions to our governance should be unabated. His successor as Central's chief executive, moreover, is someone we already know, trust, admire, and like. There was change here at 695 Atlantic as well. Colleen Granahan has served as my counsel for twenty years, and we have spent time together just about every day. Above and beyond her primary job as an attorney, she has proven such a wise business advisor that I have awarded her an (unaccredited) graduate business degree. She has chosen to retire this coming spring. My new counsel, Erin Macgowan, is off to a great start. Like Colleen, Erin comes from Ropes & Gray, where she excelled, so I remain well supported in that regard, but until 2020 it never occurred to me that Colleen would retire young.

This would be transition enough, but there is more. Much more. Some thirty-one years ago, a young fellow exiting a post in government came to see me looking for career advice. I hired him on a trial basis, and he's still here. Hal Belodoff has become our parent company's President, its Chief Operating Officer, a Director, a substantial shareholder, and my full partner in running the business. Yet Hal Belodoff somehow got it into his head that he too ought to retire prematurely. At 70, and still youthful, he says he is ready to relax a bit and enjoy the fruits of his success. He will leave our payroll in just a few weeks, though he has promised to make himself available to us as a part-time consultant and will continue his service on the Board of Directors. It is hard to imagine the future without Hal in his operating role, and I admit to having lost a bit of sleep for a few months as I contemplated the task of trying to fill his shoes. He has been a personification and guardian of the corporate culture that has been indispensably instrumental in our progress. I was doubtful we could find anyone with the requisite skills to take Hal's place, and just as dubious that we could insert a stranger, however able, into our organization at that level without undue disruption. But we got lucky.

No other insurer is as familiar to us as Homesite Insurance, which we launched about 25 years ago. We helped parent it all the way to maturity and its sale to American Family Insurance in 2013. Homesite has an admirable culture and a superb performance record. Andy McElwee has been its President and COO and deserves a good share of the credit for its record over the last ten years. I know Andy fairly well, and Fabian Fondriest, the long-time CEO of Homesite, swears by him. In fact, Fabian had mentioned to me many years ago that, of all the people he had worked with at Chubb, Andy was the one he most wanted to lure to Homesite. It also turns out that our own Mary Boyd worked with Andy at Chubb and she strongly endorsed his appointment to the job here. Andy moved a year ago from Homesite to its AmFam parent, where he served as enterprise chief underwriting officer until he joined us. Andy's background, including his considerable technical strength in pricing and underwriting, is just about ideal for our Company at this juncture. Prior to his time at Homesite, Andy had spent 25 years with The Chubb Corporation in senior positions, including as the Chief Operating Officer of Chubb Personal Insurance. He has already begun his duties with us, working closely with Hal for a transitional month to make certain he can take the baton smoothly. Hal and I are thrilled to have Andy on board, and my peace of mind is restored.

Our Company is divided into three major operating units or, as we call them, groups. The largest of the three is the Independent Agency Group, run by Mary Boyd. That group, with over $800 million in written premium, is responsible for automobile insurance written through independent agents in all six of the states in our footprint. While Mary's group offered less than usual to boast about in 2021, especially with respect to its top line, it was, nonetheless, the best performing of the three groups by far on the bottom line. The group's written premium fell by 1.6%, but the combined ratio, at 98%, beat the group's budget and returned us a decent profit. One of the headwinds common to all three groups arose from our having entered New York and Pennsylvania too aggressively a couple of years ago. It's all too easy for an insurance company to grow quickly if it underprices its product. That was not our intention, but that's exactly what happened. Due in part to Covid, we also found ourselves inadequately staffed in the new states with respect to field claims management. Low prices and overdependence on external and remote claims services are a nasty combination. We built over $150 million in premium in Pennsylvania and New York quickly, the greatest share of that volume in the Independent Agency Group. The combined ratios there have been disappointing, to say the least. The unusual decline in the group's premium in 2021 was due mainly to a purposeful corrective tightening that occurred this past year in those two states as well as a sound decision not to chase competitor's rates down in New Jersey. While it is not necessarily upsetting in our world to lose some money for a short time in exchange for rapid growth, the rectification called for in the new states is more than can be accomplished in one or two years. I mentioned in last year's letter that Mary intended to curtail our growth to ensure profitability in the new states. That continues to be necessary. The unexpected bout of inflation, moreover, won't help at all. That having been said, New York and Pennsylvania still represent our most promising venues for the future expansion of both the top and bottom lines. Restoring as much of the balance between growth and profits as possible in those states remains the Independent Agency Group's top priority for 2022.

The other four states, those we have long served, performed better for the Independent Agency Group, and they allowed the group as a whole to deliver an acceptable combined ratio. Loss ratios in Massachusetts, our largest state, and in New Hampshire, where our volume is only about $20 million, were about where they should be. After the Bay State, New Jersey is our leading state by volume. Underwriting conditions there appear to be adequate, though not quite as comforting as those in Massachusetts. Connecticut, where we have around $30 million in volume, has never been

a superior performer for Plymouth Rock and gave us a loss ratio similar to that in New Jersey. Commercial automobile insurance, once a problem for us, turned in solid numbers this time throughout our territories. Mary Boyd took over supervision of Encharter, Plymouth Rock's own insurance agency, in 2021, and she continues to oversee Pilgrim, our third-party administrator of services for other insurance companies. Both had satisfactory profit years with little growth. At some point, we plan to expand our proprietary agency business and restore the national ambitions that characterized InsuraMatch before we sold it, but we haven't yet found the sufficiently innovative concept or encountered the inspirational leaders needed for that effort. That search is on-going.

Bill Martin's Home Insurance Group had what can only be called an unsatisfactory year. It recorded a full-year combined ratio more than twenty points worse than budget. Four different contributing factors were complicit. One is that the Home Group, much like the other two groups, misjudged its rate needs on entering our new jurisdictions. Growth in those states was rapid, but at too great a cost. Worse, though, by a wide margin, the Home team undercharged for non-catastrophe losses just about everywhere except Massachusetts. That, too, presumably helped boost growth but depressed profits. This combination by itself was enough to virtually guarantee underwriting losses. Next, the same inflation that is increasingly dogging our automobile insurance business began pushing prices up for home repairs by the latter part of the year. And finally, there was Ida, a fierce and vicious storm that made landfall as a Category 4 Hurricane in Louisiana but that no one here in the North foresaw as a local threat ... until its winds and rain hammered New Jersey. Ida's broad swath of destruction cost the insurance industry more than any other catastrophe in 2021 and nearly tied Superstorm Sandy in insured damage. The costs were shared by all three of our operating groups. We had to pay for other identified weather-related catastrophes this past year, a particularly tough one for our industry overall, but those would have fit within Bill's budget for catastrophes. No one is pleased with the 2021 results for the Home Group, but before casting aspersions on Bill and his brainy team, you might consider their five-year record. We brought Bill to Plymouth Rock with the stated mission of expanding our commitment to homeowners. Employing a host of innovative customer-friendly marketing tools, his group more than tripled our writings over the last four years. In-force premium volume now stands at $310 million, having grown by nearly 20% during this past year. We would have paid a good bit of money to grow like that, but we didn't have to. While last year's bottom line was decisively unacceptable, with a net combined ratio of 118%, Bill's five rapid expansion years taken together have produced underwriting income for the Plymouth Rock enterprise as a whole of $5 million, and some incremental investment income on top of that. As the business seasons over time, the results should get better still. It's easy to forgive one unsatisfactory year when the long-run picture remains impressive and the immediate problems are actively on the mend. Bill's real challenge, as always, is to grow profitably and rapidly without exposing us unduly to catastrophe zones or excessive concentration. Caution is clearly called for now, but he still has the green light.

No one's tasks are easy in this two-year period, but the hardest lingering chores in the Company may belong to Jeff Briglia as president of the Direct Group. Just as New York and Pennsylvania hold the most promise for geographical expansion once the growing pains have abated, the direct business may hold the best potential among the marketing channels for explosive growth. In our organization, direct business includes both direct-to-the-consumer writings (which we call Core Direct) and policies acquired through relationships with intermediaries (which we call Partnership business). Those intermediaries may be other insurers, agents and brokers, or aggregators. We do business happily with all three types. The total premium of the Direct Group is now $513 million, trimmed a bit from the prior year's volume mainly in the same places where the Independent Agency

Group cropped its book. We have always known that the Core Direct book would be expensive to build. As one expert told me many years ago, its fundamental arithmetic depends on regularly trading a quarter for a stream of dimes. The insurer never makes money the first year a policy is acquired, when the quarter was spent. After that it only wins if the stream of profits bears a healthy relationship to the initial acquisition cost, like that dime to the quarter, and if the policyholder stays with the company long enough to provide a good number of annual dimes. So the assembly of a substantial Core Direct business needs external funding. In our case, that funding, if the Direct Group is to be self-sufficient, is expected to come from the Partnership channel. Unfortunately, the new volume generated lately within that channel has been running at a loss rather than a profit. Seasoned business acquired in the past keeps the group afloat but not by enough to finance the building of the self-sustaining Core Direct business we plan to build. The task for Jeff and his officer team, therefore, is a two-part undertaking. We must enhance the combined ratio quality and the customer persistency of the incoming Partnership volume. And we must use the proceeds that channel generates to skillfully expand the Core Direct book. No one imagines that either of the steps is easy, but none of us thinks them unrealistic either. We are looking to add some senior talent to the Core Direct team to better the odds.

Recent times, of course, brought the Direct Group challenges of their own as well as those endemic to the chore at hand. The combined ratio for the group was an unattractive 106%, which would be slightly worse than breakeven after investment income in an average year. This year the group did better than that on the ultimate bottom line only because, like the rest of our enterprise, it benefitted from capital gains. There is every reason to expect that the copious stock market gains of 2021 will not be repeated in 2022, and the specter of economy-wide inflation threatens to erase much of the otherwise expected benefit of experiential learning in our direct marketing techniques and the intensified focus on the partnerships. On the other hand, our commitment to success in all marketing channels is beyond question, and our patience for the direct project as a whole exceeds what we could comfortably muster in just about any other aspect of Plymouth Rock's work.

Where the prior year put a drag on Plymouth Rock's long-term investment record, this year's results deserve a laurel wreath. We may have to return that prize at any time, but it's a beauty of a wreath nonetheless. The total pre-tax return on our stock portfolio in 2021, including dividends and capital gains, exceeded $400 million, a double-digit increment to our total capital base and a 28% return on common equity investments. Few of our insurance industry competitors are likely to match this bounty for a couple of reasons. It comes with a measured degree of risk, as well as hard work and good luck. One obvious source of both opportunity and risk is that Plymouth Rock commits, directly and through managed investment vehicles, more than half of its investable assets to common stocks rather than fixed income. For reasons I cannot fathom, the median property and casualty insurer holds only about 10% of its investment assets in equities, despite the yawning risk-adjusted gap between equilibrium equity and debt returns. Another difference between us and the others is that Jim Bailey and I, with help from Rick Childs, have maintained an intentionally undiversified portfolio of carefully chosen holdings. Other than strategic holdings of insurance company securities, we hold our list of common stocks in the portfolio to less than ten. This raises the likelihood that we will underperform or outperform the broad market indices and widely diversified portfolios. While lack of diversification represents a conscious acceptance of uncertainty and potential volatility, it raises our reward target in exchange. And, unlike investors of greater need for short-term glory, we pick our stocks with a lengthy holding period in mind. The average stock remains in our portfolio for more than ten years, which not only allows us to focus on a long evaluative horizon but also maximizes tax efficiency. This approach has worked well for us.

Plymouth Rock's internal rate of return since we began investments in equities in 1993 has been 15.5%, while the return on the S&P 500 for the same period was 10.7%. Do the math and you can see what a difference that makes.

This was a rare year, not just for total return but also for portfolio turnover. Our long average holding period by no means implies that we never sell and replace a stock. This was an active period in that regard. We sold some of our shares in Intel and in Royal Dutch Shell. Our confidence in Intel remains solid enough despite the opacity of trends in the chip market, but we found Intel shares over-weighted in our portfolio due to past gains so we lightened our exposure. With respect to Royal Dutch Shell, we concluded that there is just too much political and economic uncertainty and controversy around fossil fuels to suit our appetites. So we sold half of our position in the past year and plan to sell the rest during 2022. These decisions and growth in our investable assets provided room for new holdings. We purchased shares in General Electric, once the world's most valuable publicly traded company and now a turnaround prospect under new management. We bought stock in T. Rowe Price because we like the fundamentals of the money management industry and that company's Steady-Eddie approach to it. And we also bought shares in Toyota, motivated in part by our view that Tesla cannot possibly take over the entire non-polluting road vehicle market. There is every reason to trust that Toyota, which was selling at a bargain price, will remain a serious player and an innovator no matter what happens. Jim and I were advised on these purchase decisions by a newcomer to our inner circle, Dan Rasmussen, who directs a hedge fund of his own from offices in our headquarters building. We have also invested directly in Dan's fund, which is called Verdad. His free newsletter is definitely worth your reading. The biggest winner in our portfolio throughout 2021 continued to be Microsoft, which we bought long ago when it was out of favor. The silver medal goes to CVS, whose concept for combining traditionally separate aspects of the healthcare industry looks like a winner to us. We offer no prediction about our selected stocks or about the direction of the stock market in general during the year now under way. While we accept that fluctuations and downward corrections are inevitable, I cannot emphasize enough that we are long-term investors.

Bonds didn't do much for us in 2021. In fact, their returns were slightly negative. We hold almost $1.2 billion dollars in cash and fixed-income investments, the latter with good credit, modest duration, and relatively little trading. We own these bonds only because of external pressure from regulators and rating agencies to do so. Last year, the Board approved a modification to our guidelines to allow shifting the center of gravity with respect to credit quality toward BBB-rated bonds. We made that change and feel quite comfortable it was a sound move. The tax-adjusted 2021 return on our bond portfolio was a hair below zero, reflecting a fall in bond prices as well as miniscule yields. We are still unsatisfied with earning trivial, or worse than trivial, returns on so much of Plymouth Rock's investable assets. For that reason, we are seriously considering use of a more active bond trading strategy. In the past, we were wary about doing this because of the effort involved and the capital constraints of a growing enterprise. Now that we are larger and more stable, and thanks to the performance of our equities, we have enough excess capital and available talent to give active bond management a try. Don't worry, though, about duration or credit quality. If we begin doing some trading, it will be within the familiar constraints.

This was a passive year for our real estate holdings. We occupy most of the space in the buildings we own, so market price fluctuations are not especially important to us. And generally accepted accounting principles do not allow us to take our considerable long-term real estate valuation gains into our capital or net worth accounts. Overall, the real estate purchases have been a plus, even

beyond those valuation gains, in that we are no longer distracted from our basic business by searching for space. We never expect to sell the three buildings we own. Finally, I should note that our private equity investments in Lindsay Goldberg Fund IV and Fund V enjoyed a terrific year. Alan Goldberg remains an ace investor, and I am confident that these two active funds will rocket his firm to the pinnacle for performance in the competitive private equity world.

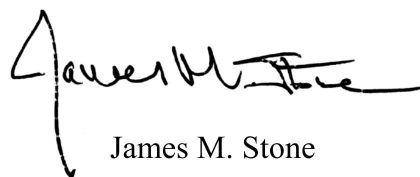
It wouldn't be possible to write a letter like this in early 2022 without a discussion of Covid-19. The loathsome virus is, without question, the most important challenge facing the world today. In fact, it is now plain that this pandemic has become the most important historic event of my lifetime. This will remain so even if the ferocity of the virus wanes in the coming months. It has brought tragedy, illness, isolation, or anxieties to a great many at the family and individual level. It has transformed our business and a host of others for two years now, with doubtlessly more twists and turns to come and as many predictions as there are pundits with respect to which changes are temporary and which will last. On a broader level, it has inflicted severe damage of many varieties throughout the United States and world economies. And it is disrupting connections between nations and increasing xenophobia at a time when international bridge-building, diplomacy, and mutual respect are all the more essential -- but in hazardously dwindling supply. Plymouth Rock will get through it. Although our business is decidedly vulnerable to the inflation that the pandemic has engendered, we, unlike less fortunate companies in the travel and hospitality industries for example, see the demand for our product as largely unaffected. High priority here goes to keeping our staff safe. Our offices are open to the fully vaccinated only, and we have added numerous safeguards to our work spaces. Our staff, moreover, has risen commendably to the exigencies of working remotely with minimal immediate harm to service excellence. Although it would be preferable for long-term maintenance of our standards, as well as maximization of creativity and mentoring, for everyone to be back at work on our premises, we can persevere and continue building value better than folks in many other industries during these dark days.

It is tempting at this point to put political reality aside momentarily and fantasize about what could be done to lift the world out of the Covid swamp. Our country has suffered the greatest number of recorded Covid deaths of any nation, and we are in the best position of all nations to aid the rest of the world. But history may well judge American public sentiment as having been only half-heartedly committed at this point, both at home and internationally. As Dickens wrote of late 18th century France, this is an age of wisdom and an age of foolishness. Dickens' description fits the contemporary ethos of our own nation all too aptly. Our bio-science capabilities today are nothing short of marvelous. On the other hand, too many Americans have somehow bought into the notion that to vax or not to vax is just a personal choice, an exercise of treasured liberties. It is indeed appropriate that members of a free populace can choose to put themselves at personal risk, even to engage in imprudent risks, if they don't harm others by doing so. It is hard to find logic, though, to justify as a matter of solely personal choice putting innocents at risk of serious harm or crowding them out of treatment facilities when that harm occurs. Health experts and political leaders of all stripes have urged people to get vaccinated, but many have not. If this situation persists and new variant surges keep arising, the consequences will likely include more limitations on public access and travel, more absences from school and work, more distortions of customary supply chains, and other burdensome drags on commerce, as well as more sickness. Anguishing decisions about rationing of scarce medical resources are already on the table in some locations. Potentially of greater concern, the pandemic's unrelenting and divisive stresses on the national psyche are tearing at our political and social comity, and this can beckon any number of demons. Harrowing times have all too often engendered such outcomes. The Covid pandemic is already comparable in

significance to a war. We have now lost more Americans to Covid than as casualties in the two World Wars and Vietnam combined, and this struggle is not over.

A whole set of complex issues, moreover, revolve around our duty to the unwillingly unvaccinated around the world. The longer the Covid virus multiplies and mutates anywhere on the planet, the more cases and variants we will have to fight. For the sake of all, our great nation should be the leader in protecting the rest of the world, and especially those in Earth's poorer countries. Were the best angels of human nature to somehow prevail, China, Russia, and the United States, with support from a few others, would override national pride and unite to cooperate in the production and distribution of data, vaccines, necessary supplies, and treatment medications. The threat, after all, does not derive -- in the manner of wars -- from hostilities between nations. Rather its source is a relentlessly hostile inhuman adversary. Surely the nations of Earth would all cooperate if the threat came from fiendish interplanetary invaders in flying saucers. How different are those spiky virons from enemy space aliens? I am confident that science, technology, and the passage of time can defeat this plague, and they inevitably shall, but victory would almost surely be swifter if we balanced healthy competition with international collaboration. A propitious re-assessment of our deep global connectedness could speed the world's return to health and normalcy, and open the gates to a host of longer-term benefits on other common issues among nations as a bonus.

As we look forward to what the rest of 2022 will bring Plymouth Rock and we review our current projections for the year, we do so with some trepidation. This is not a time to be confident of any prognostications or projections. Inflation provides us one massive unknown. It is likely to be the dominant economic operant on our Company's underwriting performance and that of all other insurers. Given the natural course of regulation, there is no way premiums can keep up with upward trends in inflation over the short run. Should Covid lift its pressure on the economy during the year, I can imagine inflation fading within months thereafter, but I can't be certain of either piece of that possibility. Covid has presumably not finished mutating so its future course remains unpredictable. And it is far from guaranteed that, even if the pandemic fades into more nuisance than existential threat, inflation would follow Covid out the door as quickly as I would hope. Stock market movements, and portfolio performance outcomes for 2022, are at least as unpredictable. As much as I would like to see our offices as full every day as they were in 2019, and our operating results as foreseeable, I can't promise anything like that in the coming months. What I can say is that we have an exceptionally strong team to handle what comes our way, and I will be partnered with a strong new President. Once again, I want to express gratitude to our entire Plymouth Rock work force for maintaining superior standards under incredibly stressful conditions and, at the same time, allowing us to be highlighted in the press as a Best Place to Work in both of our leading states. Andy and I will take every opportunity to build on those strengths, and we will continue to express our gratitude to all who lend a hand.



James M. Stone