WHITE MOUNTAINS INSURANCE GROUP LTD
Form 10-Q
May 04, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the period ended March 31, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-8993

WHITE MOUNTAINS INSURANCE GROUP, LTD.
(Exact name of Registrant as specified in its charter)

Bermuda (State or other jurisdiction of incorporation or organization)	94-2708455 (I.R.S. Employer Identification No.)
80 South Main Street, Hanover, New Hampshire (Address of principal executive offices)	03755-2053 (Zip Code)

Registrant’s telephone number, including area code: (603) 640-2200

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes ý No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer ý Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No ý

As of May 4, 2015, 5,991,584 common shares with a par value of $1.00 per share were outstanding (which includes 71,124 restricted common shares that were not vested at such date).

WHITE MOUNTAINS INSURANCE GROUP, LTD.

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Item 1. Financial Statements
WHITE MOUNTAINS INSURANCE GROUP, LTD.
CONSOLIDATED BALANCE SHEETS

(Millions, except share amounts)	March 31, 2015	December 31, 2014
Assets	Unaudited	
Fixed maturity investments, at fair value	$4,771.9	$4,784.3
Short-term investments, at amortized cost (which approximates fair value)	929.2	871.7
Common equity securities, at fair value	786.9	801.6
Convertible fixed maturity and preferred investments, at fair value	15.8	20.5
Other long-term investments	402.6	407.0
Total investments	6,906.4	6,885.1
Cash (restricted: $29.0 and $23.7)	335.8	373.2
Reinsurance recoverable on unpaid losses	436.9	483.9
Reinsurance recoverable on paid losses	29.8	23.6
Insurance and reinsurance premiums receivable	706.9	547.7
Funds held by ceding entities	99.6	129.0
Investments in unconsolidated affiliates	450.8	414.4
Deferred acquisition costs	192.0	177.1
Deferred tax asset	417.9	456.1
Ceded unearned insurance and reinsurance premiums	145.1	94.0
Accrued investment income	30.4	34.5
Accounts receivable on unsettled investment sales	12.0	56.5
Goodwill and intangible assets	362.6	366.4
Other assets	323.6	356.1
Assets held for sale	58.0	58.1
Total assets	$10,507.8	$10,455.7
Liabilities		
Loss and loss adjustment expense reserves	$3,035.0	$3,159.8
Unearned insurance and reinsurance premiums	1,102.5	955.3
Debt	749.8	746.6
Deferred tax liability	254.0	282.8
Accrued incentive compensation	100.5	184.6
Ceded reinsurance payable	151.8	105.7
Funds held under insurance and reinsurance contracts	143.3	138.9
Accounts payable on unsettled investment purchases	92.6	2.6
Other liabilities	338.5	341.0
Total liabilities	5,968.0	5,917.3
Equity		
White Mountains's common shareholders' equity		
White Mountains's common shares at $1 par value per share - authorized 50,000,000 shares;		
issued and outstanding 5,991,584 and 5,986,214 shares	6.0	6.0
Paid-in surplus	1,032.7	1,028.7
Retained earnings	3,080.8	3,010.5
Accumulated other comprehensive income (loss), after tax:		
Equity in net unrealized gains from investment in Symetra common shares	63.8	34.9
Net unrealized foreign currency translation losses	(167.6)	(79.8)
Pension liability and other	(4.4)	(4.6)

Total White Mountains's common shareholders' equity	4,011.3	3,995.7
Non-controlling interests		
Non-controlling interest - OneBeacon Ltd.	258.8	258.4
Non-controlling interest - SIG Preference Shares	250.0	250.0
Non-controlling interest - mutuals and reciprocals	(140.5)	(134.3)
Non-controlling interest - other	160.2	168.6
Total non-controlling interests	528.5	542.7
Total equity	4,539.8	4,538.4
Total liabilities and equity	$10,507.8	$10,455.7

See Notes to Consolidated Financial Statements

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WHITE MOUNTAINS INSURANCE GROUP, LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
Unaudited

	Three Months Ended March 31,	
(Millions, except per share amounts)	2015	2014
Revenues:		
Earned insurance and reinsurance premiums	$494.3	$493.6
Net investment income	23.3	24.7
Net realized and unrealized investment gains	103.4	63.8
Other revenue	35.8	(3.4)
Total revenues	656.8	578.7
Expenses:		
Loss and loss adjustment expenses	265.4	229.3
Insurance and reinsurance acquisition expenses	95.6	95.1
Other underwriting expenses	81.5	81.4
General and administrative expenses	116.4	50.3
Interest expense	11.1	10.1
Total expenses	570.0	466.2
Pre-tax income from continuing operations	86.8	112.5
Income tax expense	(25.0)	(30.9)
Net income from continuing operations	61.8	81.6
Gain from sale of discontinued operations, net of tax	8.0	—
Net loss from discontinued operations, net of tax	(.1)	(.5)
Income before equity in earnings of unconsolidated affiliates	69.7	81.1
Equity in earnings of unconsolidated affiliates, net of tax	7.3	13.8
Net income	77.0	94.9
Net loss attributable to non-controlling interests	7.3	.6
Net income attributable to White Mountains's common shareholders	84.3	95.5
Other comprehensive (loss) income, net of tax:		
Change in equity in net unrealized gains from investments in Symetra common shares, net of tax	28.9	36.5
Change in foreign currency translation, pension liability and other	(87.6)	(7.8)
Comprehensive income	25.6	124.2
Comprehensive income attributable to non-controlling interests	—	—
Comprehensive income attributable to White Mountains's common shareholders	$25.6	$124.2
Income per share attributable to White Mountains's common shareholders		

Basic income per share			
Continuing operations	$12.77	$15.56	
Discontinued operations	1.32	(.08	)
Total consolidated operations	$14.09	$15.48	
Diluted income per share			
Continuing operations	$12.77	$15.56	
Discontinued operations	1.32	(.08	)
Total consolidated operations	$14.09	$15.48	
Dividends declared per White Mountains's common share	$1.00	$1.00	

See Notes to Consolidated Financial Statements

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WHITE MOUNTAINS INSURANCE GROUP, LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Unaudited

(Millions)	White Mountains's Common Shareholders' Equity: Common shares and paid-in surplus	Retained earnings	AOCI, after tax	Total	Non-controlling interest	Total Equity
Balance at January 1, 2015	$1,034.7	$3,010.5	$(49.5)	$3,995.7	$ 542.7	$4,538.4
Net income (loss)	—	84.3	—	84.3	(7.3)	77.0
Net change in unrealized gains from investments in unconsolidated affiliates	—	—	28.9	28.9	—	28.9
Net change in foreign currency translation	—	—	(87.8)	(87.8)	—	(87.8)
Net change in pension liability and other accumulated comprehensive items	—	—	.2	.2	—	.2
Total comprehensive income (loss)	—	84.3	(58.7)	25.6	(7.3)	18.3
Dividends declared on common shares	—	(6.0)	—	(6.0)	—	(6.0)
Dividends to non-controlling interests	—	—	—	—	(7.0)	(7.0)
Repurchases and retirements of common shares	(3.0)	(8.0)	—	(11.0)	—	(11.0)
Acquisition from non-controlling interests	4.6	—	—	4.6	(4.6)	—
Net contributions from non-controlling interests	—	—	—	—	5.2	5.2
Amortization of restricted share awards	2.4	—	—	2.4	(.5)	1.9
Balance at March 31, 2015	$1,038.7	$3,080.8	$(108.2)	$4,011.3	$ 528.5	$4,539.8

(Millions)	White Mountains's Common Shareholders' Equity: Common shares and paid-in surplus	Retained earnings	AOCI, after tax	Total	Non-controlling interest	Total Equity
Balance at January 1, 2014	$1,051.1	$2,801.8	$52.1	$3,905.0	$ 491.8	$4,396.8
Net income (loss)	—	95.5	—	95.5	(.6)	94.9
Net change in unrealized gains from investments in unconsolidated affiliates	—	—	36.5	36.5	—	36.5
Net change in foreign currency translation	—	—	(7.9)	(7.9)	—	(7.9)
Net change in pension liability and other accumulated comprehensive items	—	—	.1	.1	—	.1

Total comprehensive income (loss)	—	95.5	28.7	124.2	(.6)	123.6
Dividends declared on common shares	—	(6.2)	—	(6.2)	—	(6.2)
Dividends to non-controlling interests	—	—	—	—	(5.2)	(5.2)
Repurchases and retirements of common shares	(4.5)	(10.9)	—	(15.4)	—	(15.4)
Issuances of common shares	2.1	—	—	2.1	—	2.1
Net contributions from non-controlling interests	—	—	—	—	27.0	27.0
Amortization of restricted share awards	4.2	—	—	4.2	.2	4.4
Balance at March 31, 2014	$1,052.9	$2,880.2	$80.8	$4,013.9	$ 513.2	$4,527.1

See Notes to Consolidated Financial Statements

WHITE MOUNTAINS INSURANCE GROUP, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Three Months Ended March 31,	
(Millions)	2015	2014
Cash flows from operations:		
Net income	$77.0	$94.9
Charges (credits) to reconcile net income to net cash used for operations:		
Net realized and unrealized investment gains	(103.4)	(63.8)
Deferred income tax expense	12.2	21.7
Net income from discontinued operations	7.9	.5
Gain on sale of subsidiary - Citation	—	(.7)
Amortization and depreciation	22.2	15.4
Undistributed equity in earnings from unconsolidated affiliates, net of tax	(7.3)	(13.8)
Other operating items:		
Net change in loss and loss adjustment expense reserves	(39.3)	(44.6)
Net change in reinsurance recoverable on paid and unpaid losses	20.0	13.9
Net change in unearned insurance and reinsurance premiums	181.3	217.7
Net change in variable annuity benefit guarantee liabilities	(.4)	1.3
Net change in variable annuity benefit guarantee derivative instruments	9.4	(20.4)
Net change in deferred acquisition costs	(20.2)	(15.3)
Net change in funds held by ceding entities	21.4	12.6
Net change in ceded unearned premiums	(61.5)	(60.6)
Net change in funds held under reinsurance treaties	9.8	.7
Net change in insurance and reinsurance premiums receivable	(190.5)	(212.4)
Net change in ceded reinsurance payable	56.4	78.6
Net change in restricted cash	(5.3)	33.9
Net change in other assets and liabilities, net	(55.3)	(92.2)
Net cash used for operations - continuing operations	(65.6)	(32.6)
Net cash provided from (used for) operations - discontinued operations	7.9	(14.6)
Net cash used for operations	(57.7)	(47.2)
Cash flows from investing activities:		
Net change in short-term investments	(86.1)	(61.5)
Sales of fixed maturity and convertible fixed maturity investments	1,110.8	1,026.3
Maturities, calls and paydowns of fixed maturity and convertible fixed maturity investments	138.2	189.7
Sales of common equity securities	80.0	63.4
Distributions and redemptions of other long-term investments	6.4	23.9
Sales of consolidated and unconsolidated affiliates, net of cash sold	—	12.8
Funding from (of) operational cash flows for discontinued operations	7.9	(14.6)
Purchases of other long-term investments	(9.5)	(13.0)
Purchases of common equity securities	(49.5)	(65.0)
Purchases of fixed maturity and convertible fixed maturity investments	(1,282.3)	(1,138.3)
Purchases of consolidated and unconsolidated affiliates, net of cash acquired	(2.4)	(32.2)
Net change in unsettled investment purchases and sales	135.2	52.6
Net acquisitions of property and equipment	(5.0)	(.5)
Net cash provided from investing activities - continuing operations	43.7	43.6
Net cash (used for) provided from investing activities - discontinued operations	(7.9)	14.6
Net cash provided from investing activities	35.8	58.2

Cash flows from financing activities:		
Draw down of debt and revolving line of credit	4.5	—
Repayment of debt and revolving line of credit	(1.3)	—
Payments on capital lease obligation	(1.3)	(1.3)
Cash dividends paid to the Company’s common shareholders	(6.0)	(6.2)
Cash dividends paid to OneBeacon Ltd.’s non-controlling common shareholders	(4.9)	(4.9)
Common shares repurchased	(4.3)	(10.9)
OneBeacon Ltd. common shares repurchased and retired	(1.7)	—
Distribution to non-controlling interest shareholders	(.7)	—
Collateral provided by interest rate cap counterparties	(1.2)	(2.6)
Capital contributions from BAM members	4.6	4.8
Net cash used for financing activities - continuing operations	(12.3)	(21.1)
Net cash (used for) provided from financing activities - discontinued operations	—	—
Net cash used for financing activities	(12.3)	(21.1)
Effect of exchange rate changes on cash	(8.5)	(.2)
Net change in cash during the period	(42.7)	(10.3)
Cash balances at beginning of period (excludes restricted cash balances of $23.7 and $56.1)	349.5	326.7
Cash balances at end of period (excludes restricted cash balances of $29.0 and $22.2)	$306.8	$316.4
Supplemental cash flows information:		
Interest paid	$(12.8)	$(12.8)
Net income tax (payment) refund to national governments	$(15.0)	$3.8

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and include the accounts of White Mountains Insurance Group, Ltd. (the "Company" or the "Registrant"), its subsidiaries (collectively, with the Company, "White Mountains") and other entities required to be consolidated under GAAP. The Company is an exempted Bermuda limited liability company whose principal businesses are conducted through its insurance and reinsurance subsidiaries and affiliates. The Company's headquarters is located at 14 Wesley Street, Hamilton, Bermuda HM 11, its principal executive office is located at 80 South Main Street, Hanover, New Hampshire 03755-2053 and its registered office is located at Clarendon House, 2 Church Street, Hamilton, Bermuda HM 11. White Mountains's reportable segments are OneBeacon, Sirius Group, HG Global/BAM and Other Operations.

The OneBeacon segment consists of OneBeacon Insurance Group, Ltd. ("OneBeacon Ltd."), an exempted Bermuda limited liability company that owns a family of property and casualty insurance companies (collectively, "OneBeacon"). OneBeacon is a specialty property and casualty insurance writer that offers a wide range of insurance products in the United States through independent agencies, regional and national brokers, wholesalers and managing general agencies. During the third quarter of 2013, OneBeacon formed Split Rock Insurance, Ltd. ("Split Rock"), a Bermuda-based reinsurance company. As of March 31, 2015 and December 31, 2014, White Mountains owned 75.3% of OneBeacon Ltd.'s outstanding common shares for both periods.

In December 2014, OneBeacon completed the sale of its runoff business (the "Runoff Transaction"). Accordingly, OneBeacon's runoff business is presented as discontinued operations. (See Note 17 for discontinued operations.) OneBeacon currently owns property in Canton, MA, for which it has entered into an agreement to sell and which is presented as held for sale. As of March 31, 2015 and December 31, 2014, the carrying value of the property was $58.0 million and $58.1 million.

The Sirius Group segment consists of Sirius International Insurance Group, Ltd., an exempted Bermuda limited liability company, and its subsidiaries (collectively, "Sirius Group"). Sirius Group provides insurance and reinsurance products for property, accident and health, aviation and space, trade credit, marine, agriculture and certain other exposures on a worldwide basis through its primary subsidiaries, Sirius International Insurance Corporation ("Sirius International"), Sirius America Insurance Company ("Sirius America") and Lloyds Syndicate 1945 ("Syndicate 1945"). Sirius Group also specializes in the acquisition and management of runoff insurance and reinsurance companies both in the United States and internationally through its White Mountains Solutions division ("WM Solutions").

The HG Global/BAM segment consists of HG Global Ltd. ("HG Global") and the consolidated results of Build America Mutual Assurance Company ("BAM"). BAM is a municipal bond insurer domiciled in New York that was established in 2012 to provide insurance on bonds issued to support essential U.S. public purposes such as schools, utilities, core governmental functions and existing transportation facilities. HG Global, together with its subsidiaries, provided the initial capitalization of BAM through the purchase of $503.0 million of surplus notes issued by BAM (the "BAM Surplus Notes"). HG Global, through its wholly-owned subsidiary, HG Re Ltd. ("HG Re"), also provides 15%-of-par, first loss reinsurance protection for policies underwritten by BAM. As of both March 31, 2015 and December 31, 2014, White Mountains owned 96.9% of HG Global's preferred equity and 88.4% of its common equity. White Mountains does not have an ownership interest in BAM, which is a mutual insurance company owned by its members. However, GAAP requires White Mountains to consolidate BAM's results in its financial statements. BAM's results are attributed to non-controlling interests.

White Mountains's Other Operations segment consists of the Company and its intermediate holding companies, its wholly-owned investment management subsidiary, White Mountains Advisors LLC ("WM Advisors"), White Mountains's variable annuity reinsurance business, White Mountains Life Reinsurance (Bermuda) Ltd. ("Life Re Bermuda"), which is in runoff with all of its contracts maturing by June 30, 2016, and its U.S.-based service provider, White Mountains Financial Services LLC (collectively, "WM Life Re"), and White Mountains's ownership positions in Tranzact Holdings, LLC, Wobi Insurance Agency Ltd. ("Wobi") and MediaAlpha Ventures, LLC ("MediaAlpha", formerly known as “QuoteLab”). The Other Operations segment also includes Star & Shield Services LLC, Star & Shield Risk Management LLC (“SSRM”), and Star & Shield Claims Services LLC (collectively “Star & Shield”). Star & Shield provides management services for a fee to Star & Shield Insurance Exchange (“SSIE”), a reciprocal that is owned by its members, who are policyholders. As of March 31, 2015, White Mountains holds $19.0 million of surplus notes issued by SSIE (the “SSIE Surplus Notes”) but does not have an ownership interest in SSIE. However, as a result of SSRM’s role as the attorney-in-fact to SSIE and the investment in SSIE’s surplus notes, White Mountains is required to consolidate SSIE in its GAAP financial statements. SSIE’s results do not affect White Mountains’s common shareholders’ equity as they are attributable to non-controlling interests.

All significant intercompany transactions have been eliminated in consolidation. Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation. These interim financial statements include all adjustments considered necessary by management to fairly present the financial position, results of operations and cash flows of White Mountains. These interim financial statements may not be indicative of financial results for the full year and should be read in conjunction with the Company’s 2014 Annual Report on Form 10-K. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Refer to the Company’s 2014 Annual Report on Form 10-K for a complete discussion regarding White Mountains’s significant accounting policies.

Recently Adopted Changes in Accounting Principles

Qualified Affordable Housing Projects
Effective January 1, 2015, White Mountains adopted ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects (“QAHP”) (ASC 323). ASU 2014-01 allows investors in QAHP to make a policy election to use the proportional amortization method. Under the proportional amortization method, the investor amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the investment results, net of the related tax benefits, as a component of income tax expense. Prior to adoption, White Mountains accounted for its QAHP investment under the equity method and recognized its share of its QAHP investment's losses in investment income. White Mountains made the policy election to account for its investment in its QAHP investment using the proportional amortization method, applied retrospectively. Under the proportional amortization method, the cumulative loss recognized through March 31, 2015 increased by $1.2 million. As a result of the retrospective adoption, White Mountains's common shareholders equity has been reduced by $0.5 million as of January 1, 2014. In addition, the retrospective adoption resulted in an increase of $0.4 million to net investment income and a net increase of $0.6 million to income tax expense for the three months ended March 31, 2014. Footnote disclosures for prior year amounts have been amended to be consistent with the restated amounts described above.

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity
On April 10, 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASC 205 and ASC 360) to reduce diversity in practice for reporting discontinued operations. ASU 2014-08 limits discontinued operations treatment to disposals that represent a strategic shift and that have a major effect on a reporting entity’s operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. White Mountains has not had any transactions that occurred since ASU 2014-08 became effective on December 15, 2014.

Pushdown Accounting
ASU 2014-17, Pushdown Accounting, a consensus of the FASB Emerging Issues Task Force (ASC 805) became effective upon its issuance on November 18, 2014. The new guidance, which is applicable prospectively, gives an acquired non-public company the option to apply pushdown accounting in its separate company financial statements in the period in which it is acquired in a change of control transaction. Once pushdown accounting has been applied, the election is irreversible. Acquired entities that chose not to apply pushdown accounting at the time of acquisition, may apply pushdown accounting in a subsequent period as a change in accounting principle under ASC 250, Accounting Changes and Error Corrections. White Mountains has not had any acquisitions since AUS 2014-17 became effective.

Unrecognized Tax Benefits
Effective January 1, 2014, White Mountains adopted ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASC 740). The new ASU requires balance sheet presentation of an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss (“NOL”) carryforward or tax credit carryforward rather than as a liability. The exception is in circumstances where a carryforward is not available to settle the additional taxes that might arise upon disallowance of the tax position under the tax law of the applicable jurisdiction. Prior to the issuance of ASU 2013-11, the guidance for unrecognized tax benefits under ASC 740 did not provide explicit guidance on whether an entity should present an unrecognized tax benefit as a liability or as a reduction of NOL carryforwards or other tax credits. In circumstances where an NOL carryforward is not available to offset settlement of any additional taxes arising from a disallowed tax position, the unrecognized tax benefit should be presented as a liability. The new guidance became effective for White Mountains on January 1, 2014. Adoption did not have any impact on White Mountains's financial condition, results of operations or cash flows or financial statement presentation.

Recently Issued Accounting Pronouncements

Debt Issuance Costs
On April 7, 2015, the FASB issued ASU 2015-03, Imputation of Interest (ASC 835) which requires debt issuance costs related to a recognized debt liability to be presented as a deduction from the carrying amount of the related debt, consistent with the treatment required for debt discounts. ASU 2015-03 is effective for annual and interim reporting periods beginning after December 15, 2015. White Mountains does not expect ASU 2015-03 to impact its financial position, results of operations, cash flows, presentation and disclosures.

Amendments to Consolidation Analysis
On February 18, 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis (ASC 810) which amends the guidance for determining whether an entity is a variable interest entity (“VIE”). ASU 2015-02 eliminates the separate consolidation guidance for limited partnerships and with it, the presumption that a general partner should consolidate a limited partnership. In addition, ASU 2015-02 changes the guidance for determining if fee arrangements qualify as variable interests and the effect fee arrangements have on the determination of the primary beneficiary. ASU 2015-02 is effective for annual and interim reporting periods beginning after December 15, 2015 and must be applied retrospectively. White Mountains does not expect ASU 2015-02 to affect the consolidation analysis for any of its existing investments.

Share-Based Compensation Awards
On June 19, 2014, the FASB issued ASU 2014-12, Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (ASC 718). The new guidance is intended to eliminate diversity in practice for employee share-based awards containing performance targets that could be achieved after the requisite service period. Some reporting entities account for performance targets that can be achieved after the requisite service period as performance conditions that affect the vesting of the award while other reporting entities treat those performance targets as non-vesting conditions that affect the grant-date fair value of the award. The updated guidance requires that a performance target that affects vesting and that can be achieved after the requisite service period be treated as a performance condition. Compensation cost should be recognized in the period it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which service has been rendered. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2015. White Mountains does not expect adoption to have a significant effect on its financial position, results of operations, cash flows, presentation or disclosures.

Revenue Recognition
On May 28, 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (ASC 606), which modifies the guidance for revenue recognition. The scope of the new ASU excludes insurance contracts but is

applicable to certain fee arrangements, such as third-party investment management fees charged by White Mountains Advisors, which were \$2.0 million and \$4.4 million for the three months ended March 31, 2015 and 2014, respectively. White Mountains is in the process of evaluating the new guidance and has not yet determined the potential effect of adoption on its financial position, results of operations, or cash flows. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2016.

Note 2. Significant Transactions

MediaAlpha
On March 14, 2014, White Mountains acquired 60% of the outstanding Class A common units of MediaAlpha. MediaAlpha is a California-based advertising technology company offering a transparent online exchange and sophisticated analytical tools that facilitate transactions between buyers (advertisers) and sellers (publishers) of insurance media (clicks and calls), including its own media inventory generated by owned and operated websites. Its exchange operates in four verticles: auto, home, health and life. White Mountains paid an initial purchase price of $28.1 million. The purchase price is subject to adjustment equal to 62.5% of the 2015 gross profit in excess of the 2013 gross profit. As of March 31, 2015 and December 31, 2014, White Mountains has recognized a $7.9 million liability for the contingent purchase price adjustment. After adjustment for the estimated contingent purchase price adjustment, White Mountains recognized total assets acquired related to MediaAlpha of $70.1 million, including $18.3 million of goodwill and $38.5 million of other intangible assets, and total liabilities assumed of $10.0 million, reflecting acquisition date fair values.

Wobi
On February 19, 2014, White Mountains acquired 54% of the outstanding common shares of Wobi for NIS 14.4 million (approximately $4.1 million based upon the foreign exchange spot rate at the date of acquisition). During 2014, in addition to the common shares, White Mountains also purchased NIS 31.5 million (approximately $9.0 million based upon the foreign exchange spot rate at the date of acquisition) of newly-issued convertible preferred shares of Wobi. Wobi is the only price comparison/aggregation business in Israel, with an insurance carrier panel that represents 85% of the premiums written in the Israeli insurance market. Wobi sells four lines of business, primarily personal auto, and operates as an agency, charging upfront commissions on all policy sales. As of March 31, 2015, White Mountains’s ownership share was 63.3% on a fully converted basis. As of the acquisition date, White Mountains recognized total assets acquired related to Wobi of $13.4 million, including $5.5 million of goodwill and $2.9 million of other intangible assets; and total liabilities assumed of $0.7 million at their estimated fair values.
On February 23, 2015, Wobi acquired 56.2% of the outstanding share capital of Tnuva Finansit Ltd. (“Cashboard”) for NIS 9.5 million (approximately $2.4 million based upon the foreign exchange spot rate at the date of acquisition), representing a controlling financial interest. As of the acquisition date, Wobi recognized total assets acquired of $5.5 million, including $0.3 million of goodwill and $2.8 million of other intangible assets; and total liabilities assumed of $1.2 million at their estimated fair values.

Star & Shield
On January 31, 2014, White Mountains acquired certain assets and liabilities of Star & Shield Holdings LLC, including SSRM, the attorney-in-fact for SSIE, for a purchase price of $1.8 million.
White Mountains owns $19.0 million of surplus notes issued by SSIE. Principal and interest on the surplus notes are payable to White Mountains only with approval from the Florida Office of Insurance Regulation.
SSIE is a Florida-domiciled reciprocal insurance exchange providing private passenger auto insurance to the public safety community and their families. SSIE is a variable interest entity (“VIE”). As a result of SSRM’s role as the attorney-in-fact to SSIE and the investment in SSIE’s surplus notes, White Mountains is required to consolidate SSIE. At March 31, 2015, consolidated amounts included total assets of $16.0 million and total liabilities of $29.5 million of SSIE. The surplus notes purchased by White Mountains and the corresponding liability included in SSIE's liabilities are eliminated in consolidation. For the three months ended March 31, 2015 and 2014, SSIE had pre-tax losses of $1.1 million and $4.6 million that were recorded in net loss attributable to non-controlling interests.

Note 3. Loss and Loss Adjustment Expense Reserves

The following table summarizes the loss and loss adjustment expense ("LAE") reserve activities of White Mountains's insurance and reinsurance subsidiaries for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
Millions	2015	2014
Gross beginning balance	$3,159.8	$3,079.3
Less beginning reinsurance recoverable on unpaid losses	(483.9)	(428.1)
Net loss and LAE reserves	2,675.9	2,651.2
Loss and LAE reserves consolidated — SSIE	—	13.6
Loss and LAE incurred relating to:		
Current year losses	266.8	240.5
Prior year losses	(1.4)	(11.2)
Total incurred losses and LAE	265.4	229.3
Foreign currency translation adjustment to loss and LAE reserves	(22.4)	1.8
Loss and LAE paid relating to:		
Current year losses	(40.6)	(35.0)
Prior year losses	(280.2)	(237.7)
Total loss and LAE payments	(320.8)	(272.7)
Net ending balance	2,598.1	2,623.2
Plus ending reinsurance recoverable on unpaid losses	436.9	425.2
Gross ending balance	$3,035.0	$3,048.4

Loss and LAE incurred relating to prior year losses for the three months ended March 31, 2015

For the three months ended March 31, 2015, White Mountains experienced net favorable loss reserve development of $1.4 million.

For the three months ended March 31, 2015, OneBeacon had net favorable loss reserve development of $1.8 million, Sirius Group had net unfavorable loss reserve development of $0.5 million and SSIE had net favorable loss reserve development of $0.1 million.

Loss and LAE incurred relating to prior year losses for the three months ended March 31, 2014

For the three months ended March 31, 2014, White Mountains experienced $11.2 million of net favorable loss reserve development.

For the three months ended March 31, 2014, OneBeacon had net favorable loss reserve development of $1.4 million primarily related to its ocean marine business and its technology business. For the three months ended March 31, 2014, Sirius Group had net favorable loss reserve development of $9.8 million primarily related to its casualty and accident and health lines of business.

Note 4. Third Party Reinsurance

In the normal course of business, White Mountains's insurance and reinsurance subsidiaries may seek to limit losses that may arise from catastrophes or other events by reinsuring with third party reinsurers. White Mountains remains liable for risks reinsured in the event that the reinsurer does not honor its obligations under reinsurance contracts.

OneBeacon

At March 31, 2015, OneBeacon had $18.2 million and $141.6 million of reinsurance recoverables on paid and unpaid losses. At December 31, 2014, OneBeacon had $12.2 million and $161.6 million of reinsurance recoverables on paid and unpaid losses. The reinsurance balances associated with the Runoff Business are included in discontinued operations (see Note 17). Reinsurance contracts do not relieve OneBeacon of its obligation to its policyholders. OneBeacon is selective with its reinsurers, placing reinsurance with only those reinsurers having a strong financial condition. OneBeacon monitors the financial strength and ratings of its reinsurers on an ongoing basis. Uncollectible amounts related to the ongoing specialty business historically have not been significant.

Except as discussed below, there have been no material changes to OneBeacon's reinsurance coverage as discussed in Note 4 —"Reinsurance" in White Mountains's 2014 Annual Report on Form 10-K.

Effective January 1, 2015, OneBeacon purchased an aggregate stop loss on its multiple period crop insurance ("MPCI") portfolio, providing 52.0% of coverage in excess of a 98.0% loss ratio on premiums covered by the contract and a separate aggregate stop loss providing 80% of coverage in excess of a 100% loss ratio on its crop-hail portfolio. OneBeacon also purchased a new quota share contract on 30% of its MPCI portfolio.

Sirius Group

At March 31, 2015, Sirius Group had $11.6 million and $295.3 million of reinsurance recoverables on paid and unpaid losses that will become recoverable if claims are paid in accordance with current reserve estimates. At December 31, 2014, Sirius Group had $11.4 million and $322.2 million of reinsurance recoverables on paid and unpaid losses. Because retrocessional reinsurance contracts do not relieve Sirius Group of its obligation to its insureds, the collectability of balances due from Sirius Group's reinsurers is important to its financial strength. Sirius Group monitors the financial strength and ratings of retrocessionaires on an ongoing basis. Uncollectible amounts historically have not been significant.

There have been no material changes to Sirius Group's reinsurance coverage as discussed in Note 4 -"Reinsurance" in White Mountains's 2014 Annual Report on Form 10-K.

Note 5. Investment Securities

White Mountains's invested assets consist of securities and other long-term investments held for general investment purposes. The portfolio of investment securities includes fixed maturity investments, short-term investments, common equity securities, and convertible fixed maturity and preferred investments which are all classified as trading securities. Trading securities are reported at fair value as of the balance sheet date. Realized and unrealized investment gains and losses on trading securities are reported in pre-tax revenues. White Mountains's investments in fixed maturity investments are generally valued using industry standard pricing models. Key inputs include benchmark yields, benchmark securities, reported trades, issuer spreads, bids, offers, credit ratings and prepayment speeds. Income on mortgage-backed and asset-backed securities is recognized using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the estimated economic life is recalculated and the remaining unamortized premium or discount is amortized prospectively over the remaining economic life.

Realized investment gains and losses resulting from sales of investment securities are accounted for using the specific identification method. Premiums and discounts on all fixed maturity investments are amortized or accreted to income over the anticipated life of the investment. Short-term investments consist of money market funds, certificates of deposit and other securities which, at the time of purchase, mature or become available for use within one year. Short-term investments are carried at amortized or accreted cost, which approximated fair value as of March 31, 2015

and December 31, 2014.
Other long-term investments consist primarily of hedge funds, private equity funds, surplus note investments, private equity securities and limited liability companies and other investments in limited partnerships.

Net Investment Income

Pre-tax net investment income for the three months ended March 31, 2015 and 2014 consisted of the following:

Millions	Three Months Ended March 31, 2015	2014
Investment income:		
Fixed maturity investments	$23.1	$22.4
Short-term investments	.6	.6
Common equity securities	3.4	5.4
Convertible fixed maturity and preferred investments	.2	.4
Other long-term investments	(.1)	.7
Interest on funds held under reinsurance treaties	(.1)	—
Total investment income	27.1	29.5
Third-party investment expenses	(3.8)	(4.8)
Net investment income, pre-tax	$23.3	$24.7

Net Realized and Unrealized Investment Gains and Losses

Net realized and unrealized investment gains and losses for the three months ended March 31, 2015 and 2014 consisted of the following:

Millions	Three Months Ended March 31, 2015	2014
Net realized investment gains, pre-tax	$52.8	$21.7
Net unrealized investment gains, pre-tax	50.6	42.1
Net realized and unrealized investment gains, pre-tax	103.4	63.8
Income tax expense attributable to net realized and unrealized investment gains	(26.3)	(15.7)
Net realized and unrealized investment gains, after tax	$77.1	$48.1

Net realized investment gains (losses)

Net realized investment gains (losses) for the three months ended March 31, 2015 and 2014 consisted of the following:

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
Millions	Net realized gains (losses)	Net foreign currency gains	Total net realized gains (losses) reflected in earnings	Net realized gains (losses)	Net foreign currency losses	Total net realized gains (losses) reflected in earnings
Fixed maturity investments	$9.8	$21.2	$31.0	$4.4	$(3.5)	$.9
Short-term investments	—	3.5	3.5	—	—	—
Common equity securities	24.4	1.1	25.5	18.9	(.1)	18.8
Convertible fixed maturity and preferred investments	(4.2)	—	(4.2)	2.4	—	2.4
Other long-term investments	(4.1)	1.1	(3.0)	(.3)	—	(.3)
Forward contracts	—	—	—	(.1)	—	(.1)
Net realized investment gains (losses), pre-tax	25.9	26.9	52.8	25.3	(3.6)	21.7

Income tax (expense) benefit attributable to net realized investment gains (losses)	(6.5)	(6.7)	(13.2)	(4.6)	.9	(3.7)
Net realized investment gains (losses), after tax	$ 19.4	$ 20.2	$ 39.6	$ 20.7	$ (2.7)	$ 18.0

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Net unrealized investment gains (losses)

The following table summarizes net unrealized investment gains (losses) for the three months ended March 31, 2015 and 2014:

Millions	Three Months Ended March 31, 2015 Net unrealized gains (losses)	Net foreign currency gains	Total net unrealized gains (losses) reflected in earnings	Three Months Ended March 31, 2014 Net unrealized gains	Net foreign currency gains	Total net unrealized gains reflected in earnings
Fixed maturity investments	$ 12.1	$ 40.2	$ 52.3	$ 19.4	$ 12.2	$ 31.6
Short-term investments	—	—	—	—	—	—
Common equity securities	(4.2)	.8	(3.4)	4.0	.5	4.5
Convertible fixed maturity and preferred investments	.7	.1	.8	.7	—	.7
Other long-term investments	.9	—	.9	4.9	.4	5.3
Forward contracts	—	—	—	—	—	—
Net unrealized investment gains, pre-tax	9.5	41.1	50.6	29.0	13.1	42.1
Income tax expense attributable to net unrealized investment gains	(2.8)	(10.3)	(13.1)	(9.1)	(2.9)	(12.0)
Net unrealized investment gains, after tax	$ 6.7	$ 30.8	$ 37.5	$ 19.9	$ 10.2	$ 30.1

The following table summarizes the amount of total pre-tax unrealized investment (losses) gains included in earnings for Level 3 investments for the three months ended March 31, 2015 and 2014:

Millions	Three Months Ended March 31, 2015	2014
Fixed maturity investments	$ (.7)	$ .2
Common equity securities	(1.8)	.8
Convertible fixed maturity and preferred investments	.1	—
Other long-term investments	(2.8)	6.1
Total unrealized investment (losses) gains, pre-tax - Level 3 investments	$ (5.2)	$ 7.1

Investment Holdings

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses, and carrying values of White Mountains's fixed maturity investments as of March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
U.S. Government and agency obligations	$ 165.3	$ .3	$ (.1)	$ .2	$ 165.7
Debt securities issued by corporations	2,103.8	46.7	(1.0)	66.2	2,215.7
Municipal obligations	96.0	1.8	(.2)	—	97.6
Mortgage-backed and asset-backed securities	2,049.3	11.9	(2.6)	39.5	2,098.1
Foreign government, agency and provincial obligations	106.9	1.2	(.2)	.9	108.8
Preferred stocks	79.5	6.3	—	.2	86.0
Total fixed maturity investments	$ 4,600.8	$ 68.2	$ (4.1)	$ 107.0	$ 4,771.9

	December 31, 2014				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
U.S. Government and agency obligations	$ 184.7	$ .1	$ (.3)	$ 3.6	$ 188.1
Debt securities issued by corporations	2,221.3	45.2	(5.1)	49.8	2,311.2
Municipal obligations	82.0	1.4	(.2)	—	83.2
Mortgage-backed and asset-backed securities	1,811.1	7.6	(3.5)	25.7	1,840.9
Foreign government, agency and provincial obligations	274.6	4.2	(1.0)	(2.7)	275.1
Preferred stocks	79.6	6.1	—	.1	85.8
Total fixed maturity investments	$ 4,653.3	$ 64.6	$ (10.1)	$ 76.5	$ 4,784.3

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses, and carrying values of White Mountains's common equity securities, convertible fixed maturity and preferred investments and other long-term investments as of March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains	Carrying value
Common equity securities	$ 623.3	$ 163.4	$ (8.8)	$ 9.0	$ 786.9
Convertible fixed maturity and preferred investments	$ 13.1	$ 1.8	$ (.3)	$ 1.2	$ 15.8
Other long-term investments	$ 339.8	$ 74.7	$ (13.1)	$ 1.2	$ 402.6

	December 31, 2014				
Millions	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency (losses) gains	Carrying value
Common equity securities	$ 633.6	$ 175.1	$ (5.2)	$ (1.9)	$ 801.6
Convertible fixed maturity and preferred investments	$ 19.1	$ .9	$ (.2)	$ .7	$ 20.5
Other long-term investments	$ 343.3	$ 73.0	$ (10.9)	$ 1.6	$ 407.0

Other Long-term Investments

Other long-term investments consist of the following as of March 31, 2015 and December 31, 2014:

Millions	Carrying Value at March 31, 2015	December 31, 2014
Hedge funds and private equity funds, at fair value[1]	$ 242.5	$ 242.9
Surplus notes investments, at fair value[1]	68.0	65.1
Private equity securities and limited liability companies, at fair value[1]	66.6	69.7
Tax advantaged federal affordable housing development fund[2]	16.2	16.8
Partnership investments accounted for under the equity method	3.8	5.2
Other[1]	5.5	7.3
Total other-long term investments	$ 402.6	$ 407.0

[1] See Fair Value Measurements by Level table.

[2] Fund accounted for using the proportional amortization method.

Hedge Funds and Private Equity Funds

White Mountains holds investments in hedge funds and private equity funds, which are included in other long-term investments. The fair value of these investments has been estimated using the net asset value of the funds. As of March 31, 2015, White Mountains held investments in 12 hedge funds and 31 private equity funds. The largest investment in a single fund was $29.4 million as of March 31, 2015. The following table summarizes investments in hedge funds and private equity funds by investment objective and sector as of March 31, 2015 and December 31, 2014:

	March 31, 2015		December 31, 2014	
Millions	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Hedge funds				
Long/short equity	$ 44.3	$ —	$ 43.9	$ —
Long/short equity REIT	21.0	—	20.3	—
Long/short credit & distressed	20.0	—	21.4	—
Long/short equity activist	6.6	—	6.2	—
Long bank loan	.2	—	.2	—
Total hedge funds	92.1	—	92.0	—
Private equity funds				
Energy infrastructure & services	51.3	10.0	59.6	11.0
Manufacturing/Industrial	30.5	2.9	23.2	7.3
Multi-sector	24.3	4.4	24.2	5.3
Aerospace/Defense/Government	20.9	5.1	20.7	5.1
Healthcare	8.7	1.3	6.1	2.8
Private equity secondaries	8.0	3.2	8.5	3.1
Insurance	2.1	41.3	2.1	41.2
Real estate	2.0	.1	3.6	3.3
Venture capital	1.4	.3	1.4	.3
International multi-sector, Europe	1.2	2.1	1.5	2.3
Total private equity funds	150.4	70.7	150.9	81.7
Total hedge funds and private equity funds included in other long-term investments	$ 242.5	$ 70.7	$ 242.9	$ 81.7

Redemption of investments in certain hedge funds is subject to restrictions including lock-up periods where no redemptions or withdrawals are allowed, restrictions on redemption frequency and advance notice periods for redemptions. Amounts requested for redemptions remain subject to market fluctuations until the redemption effective date, which generally falls at the end of the defined redemption period.

The following summarizes the March 31, 2015 fair value of hedge funds subject to restrictions on redemption frequency and advance notice period requirements for investments in active hedge funds:

Millions Redemption frequency	Notice Period 30-59 days notice	60-89 days notice	90-119 days notice	120+ days notice	Total
Monthly	$4.5	$—	$—	$—	$4.5
Quarterly	31.8	20.1	—	7.9	59.8
Semi-annual	—	22.9	—	—	22.9
Annual	—	—	4.7	.2	4.9
Total	$36.3	$43.0	$4.7	$8.1	$92.1

Certain of the hedge fund investments in which White Mountains is invested are no longer active and are in the process of disposing of their underlying investments. Distributions from such funds are remitted to investors as the fund's underlying investments are liquidated. As of March 31, 2015, distributions of $2.1 million were outstanding from these investments. The actual amount of the final distribution remittances remain subject to market fluctuations. The date at which such remittances will be received is not determinable as of March 31, 2015.

White Mountains has also submitted redemption requests for certain of its investments in active hedge funds. As of March 31, 2015, redemptions of $6.9 million are outstanding and are subject to market fluctuations. The date at which such redemptions will be received is not determinable as of March 31, 2015. Redemptions are recorded as receivables when the investment is no longer subject to market fluctuations.

Investments in private equity funds are generally subject to a "lock-up" period during which investors may not request a redemption. Distributions prior to the expected termination date of the fund may be limited to dividends or proceeds arising from the liquidation of the fund's underlying investments. In addition, certain private equity funds provide an option to extend the lock-up period at either the sole discretion of the fund manager or upon agreement between the fund and the investors.

As of March 31, 2015, investments in private equity funds were subject to lock-up periods as follows:

Millions	1-3 years	3 – 5 years	5 – 10 years	>10 years	Total
Private Equity Funds — expected lock-up period remaining	$29.7	$32.4	$84.1	$4.2	$150.4

White Mountains also owns 68% of the limited partnership interests in the Prospector Offshore Fund. As of March 31, 2015 and December 31, 2014, White Mountains's investment in the Prospector Offshore Fund was $64.7 million and $64.9 million. The Prospector Offshore Fund is a hedge fund that pursues investment opportunities in a variety of equity and equity-related instruments, with a principle focus on the financial services sector and a special emphasis on the insurance industry. White Mountains has determined that the Prospector Offshore Fund is a VIE and is required to consolidate. As of March 31, 2015 and December 31, 2014, White Mountains consolidated total assets of $136.1 million and $135.8 million and total liabilities of $40.4 million and $39.8 million of the Prospector Offshore Fund. As of March 31, 2015 and December 31, 2014, White Mountains also recorded non-controlling interest of $31.0 million and $31.1 million in the Prospector Offshore Fund.

Fair value measurements as of March 31, 2015

White Mountains's invested assets that are measured at fair value include fixed maturity investments, common equity securities, convertible fixed maturity and preferred investments and other long-term investments, such as interests in hedge funds and private equity funds. Fair value measurements reflect management's best estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements fall into a hierarchy with three levels based on the nature of the inputs. Fair value measurements based on quoted prices in active markets for identical assets are at the top of the hierarchy ("Level 1"), followed by fair value measurements based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and quoted prices in active markets for similar, but not identical instruments ("Level 2"). Measurements based on unobservable inputs, including a reporting entity's estimates of the assumptions that market participants would use are at the bottom of the hierarchy ("Level 3").

White Mountains uses quoted market prices or other observable inputs to determine fair value for the vast majority of its investment portfolio. Investments valued using Level 1 inputs include fixed maturity investments, primarily investments in U.S. Treasuries, common equity securities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs consist of fixed maturity investments including corporate debt, state and other governmental debt, convertible fixed maturity and preferred securities and mortgage and asset-backed securities. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Level 3 fair value estimates based upon unobservable inputs include White Mountains's investments in hedge funds and private equity funds, as well as investments in certain debt and equity securities where quoted market prices are unavailable. White Mountains uses brokers and outside pricing services to assist in determining fair values. For investments in active markets, White Mountains uses the quoted market prices provided by outside pricing services to determine fair value. The outside pricing services used by White Mountains have indicated that if no observable inputs are available for a security, they will not provide a price. In those circumstances, White Mountains estimates the fair value using industry standard pricing models and observable inputs such as benchmark interest rates, matrix pricing, market comparables, broker quotes, issuer spreads, bids, offers, credit rating, prepayment speeds and other relevant inputs. White Mountains performs procedures to validate the market prices obtained from the outside pricing sources. Such procedures, which cover substantially all of its fixed maturity investments include, but are not limited to, evaluation of model pricing methodologies and review of the pricing services' quality control processes and procedures on at least an annual basis, comparison of market prices to prices obtained from different independent pricing vendors on at least a semi-annual basis, monthly analytical reviews of certain prices, and review of assumptions utilized by the pricing service for selected measurements on an ad hoc basis throughout the year. White Mountains also performs back-testing of selected sales activity to determine whether there are any significant differences between the market price used to value the security prior to sale and the actual sale price on an ad-hoc basis throughout the year. Prices provided by the pricing services that vary by more than 5% and $1.0 million from the expected price based on these procedures are considered outliers. In circumstances where the results of White Mountains's review process do not appear to support the market price provided by the pricing services, White Mountains challenges the price. If White Mountains cannot gain satisfactory evidence to support the challenged price, it relies upon its own pricing methodologies to estimate the fair value of the security in question. The fair values of such securities are considered to be Level 3 measurements.

White Mountains's fixed maturity investments are generally valued using matrix and other pricing models. Key inputs include benchmark yields, benchmark securities, reported trades, issuer spreads, bids, offers, credit ratings and prepayment speeds. Income on mortgage-backed and asset-backed securities is recognized using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the estimated economic life is recalculated and the remaining unamortized premium or discount is amortized or accreted prospectively over the remaining economic life.

White Mountains employs a number of procedures to assess the reasonableness of the fair value measurements for its other long-term investments, including obtaining and reviewing the audited annual financial statements of each hedge fund and private equity fund and periodically discussing each fund's pricing with the fund manager. However, since the fund managers do not provide sufficient information to evaluate the pricing inputs and methods for each underlying investment, the inputs are considered to be unobservable. Accordingly, the fair values of White Mountains's investments in hedge funds and private equity funds have been classified as Level 3 measurements. The fair value of White Mountains's investments in hedge funds and private equity funds has been determined using net asset value.

In addition to the investments described above, White Mountains has $38.8 million and $38.0 million of investment-related liabilities recorded at fair value and included in other liabilities as of March 31, 2015 and December 31, 2014. These liabilities relate to securities that have been sold short by limited partnerships in which White Mountains has investments and is required to consolidate under GAAP. These liabilities have a Level 1 designation.

Fair Value Measurements by Level
The following tables summarize White Mountains's fair value measurements for investments as of March 31, 2015 and December 31, 2014, by level:

	March 31, 2015			
Millions	Fair Value	Level 1	Level 2	Level 3
Fixed maturity investments:				
U.S. Government and agency obligations	$165.7	$110.8	$54.9	$—
Debt securities issued by corporations:				
Consumer	538.6	—	538.6	—
Financials	398.5	—	398.5	—
Health Care	267.3		267.3	
Industrial	252.0	—	252.0	—
Communications	203.9	—	203.9	—
Energy	193.7	—	193.7	—
Utilities	159.9	—	159.9	—
Technology	106.7	—	106.7	—
Materials	95.1	—	95.1	—
Other	—	—	—	—
Total debt securities issued by corporations:	2,215.7	—	2,215.7	—
Municipal obligations	97.6	—	97.6	—
Mortgage-backed and asset-backed securities	2,098.1	—	2,030.4	67.7
Foreign government, agency and provincial obligations	108.8	18.5	90.3	—
Preferred stocks	86.0	—	14.6	71.4
Total fixed maturity investments	4,771.9	129.3	4,503.5	139.1
Short-term investments	929.2	926.8	2.4	—
Common equity securities:				
Financials	226.8	194.2	—	32.6
Consumer	170.0	170.0	—	—
Health Care	89.7	89.7		
Industrial	70.0	70.0	—	—
Technology	54.9	54.9	—	—
Communications	28.4	28.4	—	—
Energy	27.7	27.7	—	—
Materials	21.7	21.7	—	—
Utilities	9.4	9.4	—	—
Other	88.3	9.8	78.5	—
Total common equity securities	786.9	675.8	78.5	32.6
Convertible fixed maturity and preferred investments	15.8	—	11.9	3.9
Other long-term investments [1]	382.6	—	—	382.6
Total investments	$6,886.4	$1,731.9	$4,596.3	$558.2

[1] Excludes carrying value of $3.8 associated with other long-term investment limited partnerships accounted for using the equity method. Excludes carrying value of $16.2 associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method.

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	December 31, 2014			
Millions	Fair Value	Level 1	Level 2	Level 3
Fixed maturity investments:				
U.S. Government and agency obligations	$ 188.1	$ 134.1	$ 54.0	$ —
Debt securities issued by corporations:				
Consumer	575.3	—	575.3	—
Financials	431.4	—	431.4	—
Health Care	284.2	—	284.2	
Industrial	225.4		219.8	5.6
Communications	214.3	—	214.3	—
Energy	177.9	—	177.9	—
Utilities	173.6	—	173.6	—
Technology	118.0	—	118.0	—
Materials	103.0	—	103.0	
Other	8.1	—	8.1	—
Total debt securities issued by corporations:	2,311.2	—	2,305.6	5.6
Municipal obligations	83.2	—	83.2	—
Mortgage-backed and asset-backed securities	1,840.9	—	1,840.9	—
Foreign government, agency and provincial obligations	275.1	21.3	253.8	—
Preferred stocks	85.8	—	14.7	71.1
Total fixed maturity investments	4,784.3	155.4	4,552.2	76.7
Short-term investments	871.7	868.8	2.9	—
Common equity securities:				
Financials	237.5	197.3	—	40.2
Consumer	161.2	161.1	.1	—
Health Care	101.9	101.9	—	—
Industrial	67.5	67.5		
Technology	54.3	54.3	—	—
Communications	32.9	32.9	—	—
Energy	32.6	32.6	—	—
Materials	21.2	21.2	—	—
Utilities	9.5	9.4	.1	—
Other	83.0	9.7	73.3	—
Total common equity securities	801.6	687.9	73.5	40.2
Convertible fixed maturity and preferred investments	20.5	—	12.3	8.2
Other long-term investments (1)	385.0	—	—	385.0
Total investments	$ 6,863.1	$ 1,712.1	$ 4,640.9	$ 510.1

(1) Excludes carrying value of $5.2 associated with other long-term investment limited partnerships accounted for using the equity method. Excludes carrying value of $16.8 associated with a tax advantaged federal affordable housing development fund accounted for using the proportional amortization method.

Debt securities issued by corporations

The following table summarizes the ratings of the corporate debt securities held in White Mountains's investment portfolio as of March 31, 2015 and December 31, 2014:

	Fair Value at	
Millions	March 31, 2015	December 31, 2014
AAA	$—	$—
AA	194.1	236.9
A	818.2	957.8
BBB	1,188.8	1,105.9
BB	6.2	—
Other	8.4	10.6
Debt securities issued by corporations(1)	$2,215.7	$2,311.2

(1) Credit ratings are assigned based on the following hierarchy: 1) Standard and Poor's Financial Services LLC ("Standard & Poor's") and 2) Moody's Investor Service ("Moody's").

Mortgage-backed, Asset-backed Securities

White Mountains purchases commercial and residential mortgage-backed securities with the goal of maximizing risk adjusted returns in the context of a diversified portfolio. White Mountains's investments in hedge funds and private equity funds contain negligible amounts of sub-prime mortgage-backed securities as of March 31, 2015. White Mountains considers sub-prime mortgage-backed securities as those that have underlying loan pools that exhibit weak credit characteristics, or those that are issued from dedicated sub-prime shelves or dedicated second-lien shelf registrations (i.e., White Mountains considers investments backed primarily by second-liens to be sub-prime risks regardless of credit scores or other metrics).

White Mountains categorizes mortgage-backed securities as "non-prime" (also called "Alt A" or "A-") if they are backed by collateral that has overall credit quality between prime and sub-prime based on White Mountains's review of the characteristics of their underlying mortgage loan pools, such as credit scores and financial ratios.

The following table summarizes mortgage and asset-backed securities as of March 31, 2015 and December 31, 2014:

	March 31, 2015			December 31, 2014		
Millions	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
Mortgage-backed securities:						
Agency:						
GNMA	$373.0	$373.0	$—	$411.2	$411.2	$—
FNMA	35.2	35.2	—	36.6	36.6	—
FHLMC	38.9	38.9	—	49.6	49.6	—
Total Agency(1)	447.1	447.1	—	497.4	497.4	—
Non-agency:						
Residential	194.3	147.2	47.1	131.2	131.2	—
Commercial	292.2	271.6	20.6	236.9	236.9	—
Total Non-agency	486.5	418.8	67.7	368.1	368.1	—
Total mortgage-backed securities	933.6	865.9	67.7	865.5	865.5	—
Other asset-backed securities:						
Credit card receivables	472.9	472.9	—	522.2	522.2	—
Vehicle receivables	537.2	537.2	—	289.4	289.4	—
Other	154.4	154.4	—	163.8	163.8	—
Total other asset-backed securities	1,164.5	1,164.5	—	975.4	975.4	—
Total mortgage and asset-backed securities	$2,098.1	$2,030.4	$67.7	$1,840.9	$1,840.9	$—

(1) Represents publicly traded mortgage-backed securities which carry the full faith and credit guaranty of the U.S. government (i.e., GNMA) or are guaranteed by a government sponsored entity (i.e., FNMA, FHLMC).

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Non-agency Mortgage-backed Securities

The security issuance years of White Mountains's investments in non-agency residential mortgage-backed securities ("RMBS") and non-agency commercial mortgage-backed securities ("CMBS") as of March 31, 2015 are as follows:

		Security Issuance Year											
Millions	Fair Value	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Non-agency RMBS	$194.3	$35.0	$13.7	$9.3	$—	$15.8	$—	$57.7	$20.1	$4.6	$28.2	$9.9	$—
Non-agency CMBS	292.2	—	—	8.4	—	—	—	11.2	—	26.1	88.6	122.3	35.6
Total	$486.5	$35.0	$13.7	$17.7	$—	$15.8	$—	$68.9	$20.1	$30.7	$116.8	$132.2	$35.6

Non-agency Residential Mortgage-backed Securities

White Mountains's non-agency RMBS portfolio is generally of moderate-term and structurally senior. White Mountains does not own any collateralized loan obligations. White Mountains does not own any collateralized debt obligations, with the exception of $85.4 million of non-agency RMBS resecuritization tranches, each a senior tranche in its own right and each collateralized by a single earlier vintage Super Senior or Senior non-agency residential mortgage backed security.

The classification of the underlying collateral quality and the tranche levels of White Mountains's non-agency RMBS securities are as follows as of March 31, 2015:

Millions	Fair Value	Super Senior (1)	Senior (2)	Subordinate (3)
Prime	$186.4	$ 48.3	$138.1	$—