PROGRESSIVE CORP/OH/
Form 10-Q
August 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 1O-Q

(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2015
or
¨ 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: 1-9518

THE PROGRESSIVE CORPORATION
(Exact name of registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation or organization)	34-0963169 (I.R.S. Employer Identification No.)
6300 Wilson Mills Road, Mayfield Village, Ohio (Address of principal executive offices)	44143 (Zip Code)

(440) 461-5000
(Registrant's telephone number, including area code)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
Common Shares, $1.00 par value: 585,932,347 outstanding at June 30, 2015

PART I—FINANCIAL INFORMATION
Item 1. Financial Statements.
The Progressive Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
(unaudited)

	Three Months			Six Months		
Periods Ended June 30,	2015	2014	% Change	2015	2014	% Change
(millions—except per share amounts)						
Revenues						
Net premiums earned	$4,995.8	$4,513.5	11	$9,662.1	$8,915.8	8
Investment income	113.3	99.2	14	218.4	202.5	8
Net realized gains (losses) on securities:						
Net impairment losses recognized in earnings	(1.7)	0	NM	(9.6)	0	NM
Net realized gains (losses) on securities	77.7	40.4	92	118.6	159.8	(26)
Total net realized gains (losses) on securities	76.0	40.4	88	109.0	159.8	(32)
Fees and other revenues	74.9	74.4	1	148.6	147.2	1
Service revenues	23.3	14.0	66	40.5	23.8	70
Total revenues	5,283.3	4,741.5	11	10,178.6	9,449.1	8
Expenses						
Losses and loss adjustment expenses	3,617.2	3,269.1	11	6,985.8	6,475.0	8
Policy acquisition costs	417.3	374.8	11	796.7	743.8	7
Other underwriting expenses	662.4	611.7	8	1,312.8	1,222.1	7
Investment expenses	5.7	6.0	(5)	11.0	10.1	9
Service expenses	20.5	12.9	59	36.4	22.6	61
Interest expense	34.9	29.6	18	67.4	56.3	20
Total expenses	4,758.0	4,304.1	11	9,210.1	8,529.9	8
Net Income						
Income before income taxes	525.3	437.4	20	968.5	919.2	5
Provision for income taxes	156.8	144.0	9	304.4	304.5	0
Net income	368.5	293.4	26	664.1	614.7	8
Net income attributable to noncontrolling interest (NCI), net of tax	5.2	0	NM	5.2	0	NM
Net income attributable to Progressive	$363.3	$293.4	24	$658.9	$614.7	7
Other Comprehensive Income (Loss), Net of Tax						
Changes in:						
Total net unrealized gains (losses) on securities	$(149.8)	$88.4	(269)	$(114.4)	$88.3	(230)
Net unrealized gains (losses) on forecasted transactions	(0.3)	(1.3)	(77)	(9.0)	(1.6)	463
Foreign currency translation adjustment	0	0.5	(100)	(0.5)	0.5	(200)
Other comprehensive income (loss)	(150.1)	87.6	(271)	(123.9)	87.2	(242)
Other comprehensive (income) loss attributable to NCI	2.8	0	NM	2.8	0	NM
Comprehensive income attributable to Progressive	$216.0	$381.0	(43)	$537.8	$701.9	(23)

Computation of Net Income Per Share						
Average shares outstanding - Basic	585.7	591.2	(1)	586.6	592.6	(1)
Net effect of dilutive stock-based compensation	3.8	4.3	(12)	3.7	4.0	(8)
Total equivalent shares - Diluted	589.5	595.5	(1)	590.3	596.6	(1)
Basic: Net income per share	$0.62	$0.50	25	$1.12	$1.04	8
Diluted: Net income per share	$0.62	$0.49	25	$1.12	$1.03	8
Dividends declared per share[1]	$0	$0		$0	$0	

NM = Not Meaningful

[1]Progressive maintains an annual dividend program. See Note 8 - Dividends for further discussion.

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries
Consolidated Balance Sheets
(unaudited)

(millions)	June 30, 2015	2014	December 31, 2014
Assets			
Investments - Available-for-sale, at fair value:			
Fixed maturities (amortized cost: $15,520.6, $12,265.4, and $13,374.2)	$15,589.0	$12,498.6	$13,549.2
Equity securities:			
Nonredeemable preferred stocks (cost: $632.4, $497.1, and $590.4)	772.3	760.2	827.5
Common equities (cost: $1,351.7, $1,265.2, and $1,289.2)	2,546.8	2,381.7	2,492.3
Short-term investments (amortized cost: $1,669.3, $3,118.7, and $2,149.0)	1,669.3	3,118.7	2,149.0
Total investments	20,577.4	18,759.2	19,018.0
Cash	263.8	126.1	108.4
Accrued investment income	100.4	82.9	87.3
Premiums receivable, net of allowance for doubtful accounts of $140.6, $133.4, and $152.2	3,867.3	3,566.3	3,537.5
Reinsurance recoverables, including $46.2, $36.2, and $46.0 on paid losses and loss adjustment expenses	1,402.3	1,135.0	1,231.9
Prepaid reinsurance premiums	233.0	89.8	85.3
Deferred acquisition costs	568.2	479.0	457.2
Property and equipment, net of accumulated depreciation of $770.3, $706.3, and $731.0	1,018.9	952.5	960.6
Goodwill	472.9	1.6	1.6
Intangible assets, net of accumulated amortization of $16.3, $0.6, and $0.6	526.0	11.3	11.3
Other assets	274.0	249.0	288.5
Total assets	$29,304.2	$25,452.7	$25,787.6
Liabilities			
Unearned premiums	$6,641.9	$5,582.6	$5,440.1
Loss and loss adjustment expense reserves	9,701.2	8,639.9	8,857.4
Net deferred income taxes	176.0	98.8	98.9
Dividends payable	0	0	404.1
Accounts payable, accrued expenses, and other liabilities	2,252.9	2,134.2	1,893.8
Debt[1]	2,739.0	2,208.0	2,164.7
Total liabilities	21,511.0	18,663.5	18,859.0
Redeemable noncontrolling interest (NCI)	433.4	0	0
Shareholders' Equity			
Common Shares, $1.00 par value (authorized 900.0; issued 797.6, including treasury shares of 211.7, 206.1, and 209.8)	585.9	591.5	587.8
Paid-in capital	1,177.0	1,169.3	1,184.3
Retained earnings	4,694.9	3,989.5	4,133.4
Accumulated other comprehensive income, net of tax:			
Net unrealized gains (losses) on securities	907.5	1,035.3	1,021.9
Net unrealized gains (losses) on forecasted transactions	(7.5)	2.5	1.5

Foreign currency translation adjustment	(0.8)	1.1	(0.3)
Accumulated other comprehensive (income) loss attributable to noncontrolling interest	2.8	0	0
Total accumulated other comprehensive income	902.0	1,038.9	1,023.1
Total shareholders’ equity	7,359.8	6,789.2	6,928.6
Total liabilities, redeemable NCI, and shareholders’ equity	$29,304.2	$25,452.7	$25,787.6

[1]Consists of both short-term and long-term debt. See Note 4 - Debt.
See notes to consolidated financial statements.

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The Progressive Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
(unaudited)

Six months ended June 30, (millions — except per share amounts)	2015	2014
Common Shares, $1.00 Par Value		
Balance, Beginning of period	$587.8	$595.8
Treasury shares purchased	(4.0)	(5.7)
Net restricted equity awards issued/vested/(forfeited)	2.1	1.4
Balance, End of period	$585.9	$591.5
Paid-In Capital		
Balance, Beginning of period	$1,184.3	$1,142.0
Tax benefit from vesting of equity-based compensation	8.7	10.6
Treasury shares purchased	(8.2)	(11.1)
Net restricted equity awards (issued)/(vested)/forfeited	(2.1)	(1.4)
Amortization of equity-based compensation	26.5	29.8
Reinvested dividends on restricted stock units	(0.1)	(0.6)
Adjustment to carrying amount of noncontrolling interest	(32.1)	0
Balance, End of period	$1,177.0	$1,169.3
Retained Earnings		
Balance, Beginning of period	$4,133.4	$3,500.0
Net income attributable to Progressive	658.9	614.7
Treasury shares purchased	(95.9)	(123.2)
Cash dividends declared on common shares	0	1.1
Reinvested dividends on restricted stock units	0.1	0.6
Other, net	(1.6)	(3.7)
Balance, End of period	$4,694.9	$3,989.5
Accumulated Other Comprehensive Income, Net of Tax		
Balance, Beginning of period	$1,023.1	$951.7
Attributable to noncontrolling interest	2.8	0
Other comprehensive income (loss)	(123.9)	87.2
Balance, End of period	$902.0	$1,038.9
Total Shareholders' Equity	$7,359.8	$6,789.2

There are 20.0 million Serial Preferred Shares authorized; no such shares are issued or outstanding.
There are 5.0 million Voting Preference Shares authorized; no such shares have been issued.
See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(unaudited) (millions)

Six months ended June 30,	2015	2014
Cash Flows From Operating Activities		
Net income available to Progressive	$664.1	$614.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	49.7	46.7
Amortization of intangible assets	15.7	0
Amortization of fixed-income securities	43.5	38.1
Amortization of equity-based compensation	26.5	29.8
Net realized (gains) losses on securities	(109.0)	(159.8)
Net (gains) losses on disposition of property and equipment	0.7	3.3
Changes in:		
Premiums receivable	(300.5)	(255.4)
Reinsurance recoverables	(116.1)	(44.8)
Prepaid reinsurance premiums	(1.2)	(14.9)
Deferred acquisition costs	(46.4)	(31.4)
Income taxes	(82.9)	53.6
Unearned premiums	652.0	407.7
Loss and loss adjustment expense reserves	537.7	160.1
Accounts payable, accrued expenses, and other liabilities	66.9	164.0
Other, net	29.3	29.5
Net cash provided by operating activities	1,430.0	1,041.2
Cash Flows From Investing Activities		
Purchases:		
Fixed maturities	(5,316.7)	(3,332.1)
Equity securities	(257.2)	(176.7)
Sales:		
Fixed maturities	2,780.0	3,329.3
Equity securities	200.4	446.4
Maturities, paydowns, calls, and other:		
Fixed maturities	1,595.1	1,117.8
Equity securities	12.0	14.2
Net sales (purchases) of short-term investments	523.4	(1,846.0)
Net unsettled security transactions	128.4	174.5
Purchases of property and equipment	(53.6)	(44.7)
Acquisition of ARX Holding Corp., net of cash acquired	(752.7)	0
Acquisition of additional shares of ARX Holding Corp.	(12.6)	0
Sales of property and equipment	7.1	3.1
Net cash used in investing activities	(1,146.4)	(314.2)
Cash Flows From Financing Activities		
Tax benefit from vesting of equity-based compensation	8.7	10.7
Proceeds from debt issuance	382.0	344.7
Payment of debt	(6.8)	0
Reacquisition of debt	0	0
Dividends paid to shareholders[1]	(403.6)	(892.6)
Acquisition of treasury shares	(108.1)	(140.0)
Net cash used in financing activities	(127.8)	(677.2)

Effect of exchange rate changes on cash	(0.4)	1.2
Increase in cash	155.4	51.0
Cash, January 1	108.4	75.1
Cash, June 30	$263.8	$126.1

[1]Progressive maintains an annual dividend program. See Note 8 - Dividends for further discussion.

See notes to consolidated financial statements.

The Progressive Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

Note 1 Basis of Presentation — The consolidated financial statements include the accounts of The Progressive Corporation, its subsidiaries, a mutual insurance company affiliate, and a limited partnership investment affiliate. During the second quarter 2015, Progressive acquired a controlling interest in ARX Holding Corp. (ARX), which wholly owns or controls insurance and non-insurance subsidiaries and affiliates. As of June 30, 2015, Progressive owns 69.1% of the outstanding capital stock of ARX. All of Progressive's other subsidiaries and affiliates are wholly owned or controlled.

Beginning April 1, 2015, we consolidated 100% of ARX's financial information into our results of operations, financial condition, and cash flows. The minority shareholders of ARX retain a 30.9% interest in the operating results of ARX. These interests are reflected in our comprehensive income statements as "Net income/Other comprehensive income attributable to noncontrolling interests (NCI)."

As part of a related stockholders' agreement, Progressive has the ability to "call" the remaining outstanding shares to achieve 100% ownership in ARX by the end of the second quarter of 2021. In addition, the minority ARX shareholders have the right to “put” their ARX shares to Progressive by that date. Since these securities are redeemable upon the occurrence of an event that is not solely within the control of Progressive, we have recorded the redeemable noncontrolling interest as mezzanine equity on our consolidated balance sheets. The redeemable noncontrolling interest was initially recorded at fair value of $411.5 million, reflecting the minority shares at the net acquisition price adjusted for the fair value of the put and call rights. The value of the put and call rights was based on an internally developed modified binomial model. Subsequent changes to the maximum redemption value as determined in accordance with the stockholders' agreement are recorded at the current reporting date.

The consolidated financial statements reflect all normal recurring adjustments that, in the opinion of management, were necessary for a fair statement of the results for the interim periods presented. The results of operations for the period ended June 30, 2015, are not necessarily indicative of the results expected for the full year. These consolidated financial statements and the notes thereto should be read in conjunction with Progressive’s audited financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Included in other assets in the consolidated balance sheets for June 30, 2015 and December 31, 2014, and for June 30, 2014, is $8.7 million and $13.4 million, respectively, of "held for sale" property, which represents the fair value of this property less the estimated costs to sell.

Note 2 Investments — Our securities are reported at fair value, with the changes in fair value of these securities (other than hybrid securities and derivative instruments) reported as a component of accumulated other comprehensive income, net of deferred income taxes. The changes in fair value of the hybrid securities and derivative instruments are recorded as a component of net realized gains (losses) on securities.
The following tables present the composition of our investment portfolio by major security type, consistent with our classification of how we manage, monitor, and measure the portfolio:

($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Realized Gains (Losses)[1]	Fair Value	% of Total Fair Value
June 30, 2015						
Fixed maturities:						
U.S. government obligations	$2,049.3	$14.0	$(0.1)	$0	$2,063.2	10.0 %
State and local government obligations	3,177.2	32.2	(17.1)	0	3,192.3	15.5
Foreign government obligations	18.6	0	0	0	18.6	0.1
Corporate debt securities	3,433.9	23.3	(22.6)	0.2	3,434.8	16.7
Residential mortgage-backed securities	1,879.5	31.1	(17.6)	(0.5)	1,892.5	9.2
Agency residential pass-through obligations	116.0	0.1	(1.8)	0	114.3	0.6
Commercial mortgage-backed securities	2,548.4	26.0	(14.2)	(0.1)	2,560.1	12.4
Other asset-backed securities	2,037.9	3.6	(0.7)	0.7	2,041.5	9.9
Redeemable preferred stocks	259.8	21.7	(9.8)	0	271.7	1.3
Total fixed maturities	15,520.6	152.0	(83.9)	0.3	15,589.0	75.7
Equity securities:						
Nonredeemable preferred stocks	632.4	150.0	(11.3)	1.2	772.3	3.8
Common equities	1,351.7	1,204.7	(9.6)	0	2,546.8	12.4
Short-term investments	1,669.3	0	0	0	1,669.3	8.1
Total portfolio[2,3]	$19,174.0	$1,506.7	$(104.8)	$1.5	$20,577.4	100.0 %

($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Realized Gains (Losses)[1]	Fair Value	% of Total Fair Value
June 30, 2014						
Fixed maturities:						
U.S. government obligations	$3,249.0	$43.5	$(3.1)	$0	$3,289.4	17.5 %
State and local government obligations	2,287.2	46.5	(2.6)	0.1	2,331.2	12.4
Foreign government obligations	0	0	0	0	0	0
Corporate debt securities	2,215.4	47.9	(2.8)	2.3	2,262.8	12.1
Residential mortgage-backed securities	1,312.0	32.7	(9.3)	0	1,335.4	7.1
Agency residential pass-through obligations	0	0	0	0	0	0
Commercial mortgage-backed securities	1,974.4	47.8	(2.9)	0	2,019.3	10.8
Other asset-backed securities	965.4	7.1	(0.1)	0.6	973.0	5.2
Redeemable preferred stocks	262.0	31.5	(6.0)	0	287.5	1.5
Total fixed maturities	12,265.4	257.0	(26.8)	3.0	12,498.6	66.6
Equity securities:						
Nonredeemable preferred stocks	497.1	247.5	(1.4)	17.0	760.2	4.1
Common equities	1,265.2	1,118.9	(2.4)	0	2,381.7	12.7
Short-term investments	3,118.7	0	0	0	3,118.7	16.6
Total portfolio[2,3]	$17,146.4	$1,623.4	$(30.6)	$20.0	$18,759.2	100.0 %

($ in millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Realized Gains (Losses)[1]	Fair Value	% of Total Fair Value
December 31, 2014						
Fixed maturities:						
U.S. government obligations	$2,641.1	$27.3	$(1.3)	$0	$2,667.1	14.0 %
State and local government obligations	2,095.7	44.6	(1.1)	0	2,139.2	11.2
Foreign government obligations	14.2	0	0	0	14.2	0.1
Corporate debt securities	2,813.9	32.9	(10.4)	0.3	2,836.7	14.9
Residential mortgage-backed securities	1,635.5	34.5	(10.8)	(0.7)	1,658.5	8.7
Agency residential pass-through obligations	0	0	0	0	0	0
Commercial mortgage-backed securities	2,278.7	39.3	(2.6)	0.2	2,315.6	12.2
Other asset-backed securities	1,634.9	3.8	(0.8)	0.8	1,638.7	8.6
Redeemable preferred stocks	260.2	24.7	(5.7)	0	279.2	1.5
Total fixed maturities	13,374.2	207.1	(32.7)	0.6	13,549.2	71.2
Equity securities:						
Nonredeemable preferred stocks	590.4	201.1	(6.4)	42.4	827.5	4.4
Common equities	1,289.2	1,213.2	(10.1)	0	2,492.3	13.1
Short-term investments	2,149.0	0	0	0	2,149.0	11.3
Total portfolio[2,3]	$17,402.8	$1,621.4	$(49.2)	$43.0	$19,018.0	100.0 %

[1]Represents net holding period gains (losses) on certain hybrid securities (discussed below).
[2]Our portfolio reflects the effect of unsettled security transactions and collateral on open derivative positions; at June 30, 2015, $159.7 million was included in "other liabilities," compared to $235.8 million and $31.3 million at June 30, 2014 and December 31, 2014, respectively.

[3]The total fair value of the portfolio at June 30, 2015 and 2014, and December 31, 2014 included $0.7 billion, $1.1 billion, and $1.9 billion, respectively, of securities held in a consolidated, non-insurance subsidiary of the holding company, net of any unsettled security transactions.

Short-Term Investments Our short-term investments may include commercial paper and other investments that are expected to mature within one year. We did not hold any repurchase transactions where we lent collateral at June 30, 2015, June 30, 2014, or December 31, 2014. To the extent our repurchase transactions were with the same counterparty and subject to an enforceable master netting arrangement, we could elect to offset these transactions. Consistent with past practice, we have elected not to offset these transactions and therefore report these transactions on a gross basis on our balance sheets.
Also included in short-term investments are reverse repurchase commitment transactions, where we loan cash to approved counterparties and receive U.S. Treasury Notes pledged as collateral against the cash borrowed. Our exposure to credit risk is limited due to the nature of the collateral (i.e., U.S. Treasury Notes) received. We have counterparty exposure on these trades in the event of a counterparty default to the extent the general collateral security's value is below the amount of cash we delivered to acquire the collateral. The short-term duration of the transactions (primarily overnight) reduces that exposure.

We had no open reverse repurchase commitments at June 30, 2015, June 30, 2014, or December 31, 2014. For the six months ended June 30, 2015, our largest outstanding balance of reverse repurchase commitments was $275.0 million, which was open for one day; the average daily balance of reverse repurchase commitments was $135.8 million.

Hybrid Securities Included in our fixed-maturity and equity securities are hybrid securities, which are reported at fair value:

(millions)	June 30, 2015	2014	December 31, 2014
Fixed maturities:			
State and local government obligations	$0	$5.1	$0
Corporate debt securities	105.6	142.0	139.8
Residential mortgage-backed securities	117.5	27.6	120.7
Commercial mortgage-backed securities	17.3	0	31.2
Other asset-backed securities	12.5	14.3	13.7
Total fixed maturities	252.9	189.0	305.4
Equity securities:			
Nonredeemable preferred stocks	66.6	66.1	122.3
Total hybrid securities	$319.5	$255.1	$427.7

Certain corporate debt securities are accounted for as hybrid securities since they were acquired at a premium and contain a change-in-control put option (derivative) that permits the investor, at its sole option if and when a change in control is triggered, to put the security back to the issuer at a 1% premium to par. Due to this change-in-control put option and the substantial market premium paid to acquire these securities, there is the potential that the election to put, upon the change in control, would result in an acceleration of the recognition of the remaining premium paid on these securities in our results of operations. This would result in a loss of $5.1 million as of June 30, 2015, if all of the bonds experienced a simultaneous change in control and we elected to exercise all of our put options. The put feature limits the potential loss in value that could be experienced in the event a corporate action occurs that results in a change in control that materially diminishes the credit quality of the issuer. We are under no obligation to exercise the put option we hold if a change in control occurs.
The residential mortgage-backed securities accounted for as hybrid securities are obligations of the issuer with payments of principal based on the performance of a reference pool of loans. This embedded derivative results in the securities incorporating the risk of default from both the issuer and the related loan pool.
The commercial mortgage-backed securities in the table above contain fixed interest rate reset features that will increase the coupons in the event the securities are not fully paid off on the anticipated repayment date. These reset features have the potential to more than double our initial purchase yield for each security.

The other asset-backed security in the table above represents one hybrid security that was acquired at a deep discount to par due to a failing auction, and contains a put option that allows the investor to put that security back to the auction at par if the auction is restored. This embedded derivative has the potential to more than double our initial investment yield at acquisition.

The hybrid securities in our nonredeemable preferred stock portfolio are perpetual preferred stocks that have call features with fixed-rate coupons, whereby the change in value of the call features is a component of the overall change in value of the preferred stocks. In the second quarter 2015, we acquired a controlling interest in ARX Holdings Corp. and transferred our previous 5% preferred stock investment in ARX to a component of our total ownership interest (see Note 15 – Acquisition for further discussion). This transfer was offset by purchases of new hybrid securities since June 30, 2014.

Fixed Maturities The composition of fixed maturities by maturity at June 30, 2015, was:

(millions)	Cost	Fair Value
Less than one year	$4,470.5	$4,504.4
One to five years	6,978.4	7,007.0
Five to ten years	3,858.9	3,858.6
Ten years or greater	194.2	200.4
Total[1]	$15,502.0	$15,570.4

[1]Excludes $18.6 million related to our open interest rate swap positions.

Asset-backed securities are classified in the maturity distribution table based upon their projected cash flows. All other securities which do not have a single maturity date are reported based upon expected average maturity. Contractual maturities may differ from expected maturities because the issuers of the securities may have the right to call or prepay obligations.

Gross Unrealized Losses As of June 30, 2015, we had $95.2 million of gross unrealized losses in our fixed-income securities (i.e., fixed-maturity securities, nonredeemable preferred stocks, and short-term investments) and $9.6 million in our common equities. We currently do not intend to sell the fixed-income securities and determined that it is more likely than not that we will not be required to sell these securities for the period of time necessary to recover their cost bases. A review of our fixed-income securities indicated that the issuers were current with respect to their interest obligations and that there was no evidence of any deterioration of the current cash flow projections that would indicate we would not receive the remaining principal at maturity. For common equities, 88% of our common stock portfolio was indexed to the Russell 1000; as such, this portfolio may contain securities in a loss position for an extended period of time, subject to possible write-downs, as described below. We may retain these securities as long as the portfolio and index correlation remain similar. To the extent there is issuer-specific deterioration, we may write-down the securities of that issuer. The remaining 12% of our common stocks were part of a managed equity strategy selected and administered by external investment advisors. If our review of loss position securities indicates there was a fundamental, or market, impairment on these securities that was determined to be other-than-temporary, we would recognize a write-down in accordance with our stated policy.

The following tables show the composition of gross unrealized losses by major security type and by the length of time that individual securities have been in a continuous unrealized loss position:

($ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months No. of Sec.	Fair Value	Unrealized Losses	12 Months or Greater No. of Sec.	Fair Value	Unrealized Losses
June 30, 2015									
Fixed maturities:									
U.S. government obligations	11	$7.6	$(0.1)	11	$7.6	$(0.1)	0	$0	$0
State and local government obligations	736	1,319.3	(17.1)	720	1,277.5	(16.5)	16	41.8	(0.6)
Corporate debt securities	160	1,693.6	(22.6)	146	1,406.4	(18.5)	14	287.2	(4.1)
Residential mortgage-backed securities	140	1,189.2	(17.6)	87	668.1	(5.9)	53	521.1	(11.7)
Agency residential pass-through obligations	53	104.6	(1.8)	53	104.6	(1.8)	0	0	0
Commercial mortgage-backed securities	155	1,426.9	(14.2)	132	1,205.9	(13.5)	23	221.0	(0.7)
Other asset-backed securities	38	715.3	(0.7)	30	566.2	(0.5)	8	149.1	(0.2)
Redeemable preferred stocks	5	123.7	(9.8)	3	55.6	(3.1)	2	68.1	(6.7)

Total fixed maturities	1,298	6,580.2	(83.9)	1,182	5,291.9	(59.9)	116	1,288.3	(24.0)
Equity securities:									
Nonredeemable preferred stocks	14	345.9	(11.3)	9	163.7	(1.8)	5	182.2	(9.5)
Common equities	73	129.4	(9.6)	72	128.9	(9.5)	1	0.5	(0.1)
Total equity securities	87	475.3	(20.9)	81	292.6	(11.3)	6	182.7	(9.6)
Total portfolio	1,385	$7,055.5	$(104.8)	1,263	$5,584.5	$(71.2)	122	$1,471.0	$(33.6)

($ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months No. of Sec.	Fair Value	Unrealized Losses	12 Months or Greater No. of Sec.	Fair Value	Unrealized Losses
June 30, 2014									
Fixed maturities:									
U.S. government obligations	12	$460.0	$(3.1)	1	$14.9	$(0.1)	11	$445.1	$(3.0)
State and local government obligations	55	333.9	(2.6)	22	52.2	(0.1)	33	281.7	(2.5)
Corporate debt securities	15	265.1	(2.8)	6	112.2	(0.5)	9	152.9	(2.3)
Residential mortgage-backed securities	56	684.2	(9.3)	17	263.2	(1.7)	39	421.0	(7.6)
Agency residential pass-through obligations	0	0	0	0	0	0	0	0	0
Commercial mortgage-backed securities	23	256.7	(2.9)	7	37.1	(0.2)	16	219.6	(2.7)
Other asset-backed securities	3	47.4	(0.1)	2	28.3	0	1	19.1	(0.1)
Redeemable preferred stocks	3	93.6	(6.0)	0	0	0	3	93.6	(6.0)
Total fixed maturities	167	2,140.9	(26.8)	55	507.9	(2.6)	112	1,633.0	(24.2)
Equity securities:									
Nonredeemable preferred stocks	4	121.4	(1.4)	1	33.7	(0.2)	3	87.7	(1.2)
Common equities	14	50.4	(2.4)	14	50.4	(2.4)	0	0	0
Total equity securities	18	171.8	(3.8)	15	84.1	(2.6)	3	87.7	(1.2)
Total portfolio	185	$2,312.7	$(30.6)	70	$592.0	$(5.2)	115	$1,720.7	$(25.4)

($ in millions)	Total No. of Sec.	Total Fair Value	Gross Unrealized Losses	Less than 12 Months No. of Sec.	Fair Value	Unrealized Losses	12 Months or Greater No. of Sec.	Fair Value	Unrealized Losses
December 31, 2014									
Fixed maturities:									
U.S. government obligations	11	$428.2	$(1.3)	5	$150.7	$(0.3)	6	$277.5	$(1.0)
State and local government obligations	46	234.2	(1.1)	28	177.9	(0.4)	18	56.3	(0.7)
Corporate debt securities	53	843.2	(10.4)	43	647.5	(6.1)	10	195.7	(4.3)
Residential mortgage-backed securities	70	844.2	(10.8)	33	465.2	(3.1)	37	379.0	(7.7)
Agency residential pass-through obligations	0	0	0	0	0	0	0	0	0
Commercial mortgage-backed securities	63	723.4	(2.6)	54	667.5	(1.4)	9	55.9	(1.2)
Other asset-backed securities	44	741.8	(0.8)	42	715.7	(0.7)	2	26.1	(0.1)
Redeemable preferred stocks	3	103.0	(5.7)	1	33.0	(1.0)	2	70.0	(4.7)
Total fixed maturities	290	3,918.0	(32.7)	206	2,857.5	(13.0)	84	1,060.5	(19.7)
Equity securities:									
Nonredeemable preferred stocks	8	231.4	(6.4)	5	143.2	(3.6)	3	88.2	(2.8)
Common equities	20	68.4	(10.1)	19	61.8	(9.6)	1	6.6	(0.5)
Total equity securities	28	299.8	(16.5)	24	205.0	(13.2)	4	94.8	(3.3)
Total portfolio	318	$4,217.8	$(49.2)	230	$3,062.5	$(26.2)	88	$1,155.3	$(23.0)

Since both June 30, 2014 and December 31, 2014, the number of securities in our fixed-maturity portfolio with unrealized losses increased, reflecting a decline in prices associated with a general increase in interest rates at certain maturities. The unrealized losses at June 30, 2015 included losses on 806 securities added to the portfolio as a result of our acquisition of a controlling interest in ARX during the second quarter, and reflect declines in the prices of these securities since the acquisition date averaging approximately 1.3% of their total cost. We had no material decreases in valuation as a result of credit rating downgrades on our fixed-maturity securities. All of the fixed-maturity securities in an unrealized loss position at June 30, 2015 in the table above are current with respect to required principal and interest payments. Since December 31, 2014, our nonredeemable preferred stocks with unrealized losses increased to 14 securities, averaging approximately 3% of their total cost. We reviewed these securities and concluded that the unrealized losses are market-related adjustments to the values, which we determined not to be other-than-temporary; we expect to recover our initial investments on these securities. The number of issuers with unrealized losses in our common stock portfolio increased during the first six months of 2015, though the total gross unrealized loss for the portfolio decreased during the same period. A review of the securities in a loss position did not uncover fundamental issues with the issuers that would indicate other-than-temporary impairments existed. Additionally, expectations for recovery in the next 12 months would put the fair values at or above our current book values. Lastly, we determined, as of the balance sheet date, that it was not likely these securities would be sold prior to that recovery.

Other-Than-Temporary Impairment (OTTI) The following table shows the total non-credit portion of the OTTI recorded in accumulated other comprehensive income, reflecting the original non-credit loss at the time the credit impairment was determined:

(millions)	June 30, 2015	2014	December 31, 2014
Fixed maturities:			
Residential mortgage-backed securities	$(44.1)	$(44.1)	$(44.1)
Commercial mortgage-backed securities	(0.6)	(0.6)	(0.6)
Total fixed maturities	$(44.7)	$(44.7)	$(44.7)

The following tables provide rollforwards of the amounts related to credit losses recognized in earnings for the periods ended June 30, 2015 and 2014, for which a portion of the OTTI losses were also recognized in accumulated other comprehensive income at the time the credit impairments were determined and recognized:

	Three Months Ended June 30, 2015		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at March 31, 2015	$12.2	$0.4	$12.6
Change in recoveries of future cash flows expected to be collected[1]	1.8	0	1.8
Balance at June 30, 2015	$14.0	$0.4	$14.4

	Six Months Ended June 30, 2015		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at December 31, 2014	$12.7	$0.4	$13.1
Change in recoveries of future cash flows expected to be collected[1]	1.3	0	1.3
Balance at June 30, 2015	$14.0	$0.4	$14.4

	Three Months Ended June 30, 2014		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at March 31, 2014	$19.1	$0.4	$19.5
Change in recoveries of future cash flows expected to be collected[1]	(6.1)	0	(6.1)
Balance at June 30, 2014	$13.0	$0.4	$13.4

	Six Months Ended June 30, 2014		
	Mortgage-Backed		
(millions)	Residential	Commercial	Total
Balance at December 31, 2013	$19.2	$0.4	$19.6
Change in recoveries of future cash flows expected to be collected[1]	(6.2)	0	(6.2)
Balance at June 30, 2014	$13.0	$0.4	$13.4

[1]Reflects the current period change in the expected recovery of prior impairments that will be accreted into income over the remaining life of the security.

Although we determined it is more likely than not that we will not be required to sell the securities prior to the recovery of their respective cost bases (which could be maturity), we are required to measure the amount of potential credit losses on the

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securities that were in an unrealized loss position. In that process, we considered a number of factors and inputs related to the individual securities. The methodology and significant inputs used to measure the amount of credit losses in our portfolio included: current performance indicators on the underlying assets (e.g., delinquency rates, foreclosure rates, and default rates); credit support (via current levels of subordination); historical credit ratings; and updated cash flow expectations based upon these performance indicators. In order to determine the amount of credit loss, if any, the net present value of the cash flows expected (i.e., expected recovery value) was calculated using the current book yield for each security, and was compared to its current amortized value. In the event that the net present value was below the amortized value, a credit loss was deemed to exist, and the security was written down. We did not have any credit impairment write-downs as of June 30, 2015 or 2014.

Realized Gains (Losses) The components of net realized gains (losses) for the three and six months ended June 30, were:

	Three Months		Six Months	
(millions)	2015	2014	2015	2014
Gross realized gains on security sales				
Fixed maturities:				
U.S. government obligations	$9.5	$4.2	$14.4	$10.7
State and local government obligations	0	0	0	4.4
Corporate and other debt securities	6.8	9.8	15.9	32.9
Residential mortgage-backed securities	0.1	1.0	0.2	2.0
Commercial mortgage-backed securities	3.6	3.5	14.4	9.6
Redeemable preferred stocks	0.1	0.4	0.1	0.4
Total fixed maturities	20.1	18.9	45.0	60.0
Equity securities:				
Nonredeemable preferred stocks	34.4	33.2	50.2	59.1
Common equities	12.7	9.4	30.5	92.4
Subtotal gross realized gains on security sales	67.2	61.5	125.7	211.5
Gross realized losses on security sales				
Fixed maturities:				
U.S. government obligations	(0.1)	(0.4)	(0.9)	(5.1)
State and local government obligations	0	(0.1)	0	(0.2)
Corporate and other debt securities	(0.5)	(0.1)	(1.3)	(2.3)
Residential mortgage-backed securities	0	(0.2)	0	(0.2)
Commercial mortgage-backed securities	(0.8)	(4.1)	(1.0)	(6.8)
Redeemable preferred stocks	0	0	0	(3.2)
Total fixed maturities	(1.4)	(4.9)	(3.2)	(17.8)
Equity securities:				
Nonredeemable preferred stocks	(1.4)	0	(1.4)	0
Common equities	(0.1)	0	(0.7)	(3.4)
Subtotal gross realized losses on security sales	(2.9)	(4.9)	(5.3)	(21.2)
Net realized gains (losses) on security sales				
Fixed maturities:				
U.S. government obligations	9.4	3.8	13.5	5.6
State and local government obligations	0	(0.1)	0	4.2
Corporate and other debt securities	6.3	9.7	14.6	30.6
Residential mortgage-backed securities	0.1	0.8	0.2	1.8
Commercial mortgage-backed securities	2.8	(0.6)	13.4	2.8
Redeemable preferred stocks	0.1	0.4	0.1	(2.8)
Total fixed maturities	18.7	14.0	41.8	42.2

Equity securities:				
Nonredeemable preferred stocks	33.0	33.2	48.8	59.1
Common equities	12.6	9.4	29.8	89.0
Subtotal net realized gains (losses) on security sales	64.3	56.6	120.4	190.3
Other-than-temporary impairment losses				
Equity securities:				
Common equities	(1.7)	0	(9.4)	0
Subtotal other-than-temporary impairment losses	(1.7)	0	(9.4)	0
Other gains (losses)				
Hybrid securities	(3.9)	3.7	(0.6)	7.5
Derivative instruments	17.3	(19.9)	(1.5)	(39.2)
Litigation settlements	0	0	0.1	1.2
Subtotal other gains (losses)	13.4	(16.2)	(2.0)	(30.5)
Total net realized gains (losses) on securities	$76.0	$40.4	$109.0	$159.8

Gross realized gains and losses were predominantly the result of sales transactions in our fixed-income portfolio related to movements in credit spreads and interest rates and sales from our equity portfolios. In addition, gains and losses reflect recoveries from litigation settlements and holding period valuation changes on hybrids and derivatives. Also included are write-downs for securities determined to be other-than-temporarily impaired in our equity portfolio.
Net Investment Income The components of net investment income for the three and six months ended June 30, were:

	Three Months		Six Months	
(millions)	2015	2014	2015	2014
Fixed maturities:				
U.S. government obligations	$7.2	$12.0	$16.3	$25.0
State and local government obligations	16.2	12.6	28.1	25.4
Foreign government obligations	0.1	0.1	0.2	0.2
Corporate debt securities	24.2	18.8	47.1	40.8
Residential mortgage-backed securities	13.2	11.3	26.0	21.2
Agency residential pass-through obligations	0.7	0	0.7	0
Commercial mortgage-backed securities	18.8	16.0	35.7	32.7
Other asset-backed securities	5.5	3.7	10.5	7.9
Redeemable preferred stocks	3.8	3.9	7.6	8.0
Total fixed maturities	89.7	78.4	172.2	161.2
Equity securities:				
Nonredeemable preferred stocks	10.9	9.3	21.4	19.2
Common equities	12.3	11.2	24.0	21.6
Short-term investments	0.4	0.3	0.8	0.5
Investment income	113.3	99.2	218.4	202.5
Investment expenses	(5.7)	(6.0)	(11.0)	(10.1)
Net investment income	$107.6	$93.2	$207.4	$192.4

Trading Securities At June 30, 2015 and 2014, and December 31, 2014, we did not hold any trading securities and did not have any net realized gains (losses) on trading securities for the three and six months ended June 30, 2015 and 2014.

Derivative Instruments For all derivative positions discussed below, realized holding period gains and losses are netted with any upfront cash that may be exchanged under the contract to determine if the net position should be classified either as an asset or liability. To be reported as a net derivative asset and a component of the available-for-sale portfolio, the inception-to-date realized gain on the derivative position at period end would have to exceed any upfront cash received. On the other hand, a net derivative liability would include any inception-to-date realized loss plus the amount of upfront cash received (or netted, if upfront cash was paid) and would be reported as a component of other liabilities. These net derivative assets/liabilities are not separately disclosed on the balance sheet due to their immaterial effect on our financial condition, cash flows, and results of operations.
The following table shows the status of our derivative instruments at June 30, 2015 and 2014, and December 31, 2014, and for the three and six months ended June 30, 2015 and 2014:

(millions)					Balance Sheet[2]				Comprehensive Income Statement			
						Assets (Liabilities) Fair Value			Pretax Net Realized Gains (Losses)			
	Notional Value[1]								Three Months Ended		Six Months Ended	
	June 30,		Dec. 31,			June 30,		Dec. 31,	June 30,		June 30,	
Derivatives designated as:	2015	2014	2014	Purpose	Classification	2015	2014	2014	2015	2014	2015	2014
Hedging instruments												
Closed:												
Ineffective cash flow hedge	$0	$0	$44	Manage interest rate risk	NA	$0	$0	$0	$0	$0	$0	$0
Non-hedging instruments												
Assets:												
Interest rate swaps	750	750	750	Manage portfolio duration	Investments—fixed maturities	18.6	35.1	15.8	15.5	(19.9)	(3.3)	(39.2)
Liabilities:												
U.S. Treasury Note futures	90	0	0	Manage portfolio duration	Other liabilities	(0.3)	0	0	(0.3)	0	(0.3)	0
Closed:												
U.S. Treasury Note futures	326	0	0	Manage portfolio duration	NA	0	0	0	2.1	0	2.1	0
Total	NA	NA	NA			$18.3	$35.1	$15.8	$17.3	$(19.9)	$(1.5)	$(39.2)

[1]The amounts represent the value held at quarter and year end for open positions and the maximum amount held during the period for closed positions.
[2]To the extent we hold both derivative assets and liabilities with the same counterparty that are subject to an enforceable master netting arrangement, we expect that we will report them on a gross basis on our balance sheets, consistent with our historical presentation.
NA= Not Applicable

CASH FLOW HEDGES

In January 2015, upon issuance of $400 million of 3.70% Senior Notes due 2045 (the "3.70% Senior Notes"), we closed a forecasted debt issuance hedge, which was entered into to hedge against a possible rise in interest rates, and

recognized a $12.9 million pretax loss as part of accumulated other comprehensive income (loss); the loss will be recognized as an adjustment to interest expense and amortized over the life of the 3.70% Senior Notes.
Our ineffective cash flow hedge, which is reflected in the table above, resulted from the repurchase of a portion of our 6.70% Fixed-to-Floating Rate Junior Subordinated Debentures due 2067 during 2014, and we reclassified the unrealized gain on forecasted transactions to net realized gains on securities. There was no repurchase activity during the first six months of 2015 or 2014.
See Note 4 – Debt for further discussion.

INTEREST RATE SWAPS and U.S. TREASURY FUTURES

We use interest rate swap and treasury futures contracts primarily to manage the fixed-income portfolio duration. At June 30, 2015 and 2014, and December 31, 2014, we held interest rate swap positions for which we are paying a fixed rate and receiving a variable rate, effectively shortening the duration of our fixed-income portfolio. As interest rates rose during the year, our fair value gain increased by $2.8 million on our interest rate swap positions.

During the second quarter 2015, we entered into U.S. treasury futures contracts and recognized a net gain of $1.8 million, including the futures that were closed during the period. Although interest rates rose throughout the quarter, during the period that the contracts were open the interest rates declined resulting in the net gain.

As of June 30, 2015, the balance of the cash collateral that we received from the applicable counterparties on the interest rate swaps and the cash collateral we delivered on the treasury futures was $21.9 million and $1.2 million, respectively. As of June 30, 2014 and December 31, 2014, the balance of the cash collateral that we had received from the applicable counterparties on the interest rate swap positions was $34.1 million and $16.1 million, respectively. We held no treasury futures during 2014.

Note 3 Fair Value — We have categorized our financial instruments, based on the degree of subjectivity inherent in the method by which they are valued, into a fair value hierarchy of three levels, as follows:

- Level 1: Inputs are unadjusted quoted prices in active markets for identical instruments at the measurement date (e.g., U.S. government obligations, active exchange-traded equity securities, and certain short-term securities).

- Level 2: Inputs (other than quoted prices included within Level 1) that are observable for the instrument either directly or indirectly (e.g., certain corporate and municipal bonds and certain preferred stocks). This includes: (i) quoted prices for similar instruments in active markets, (ii) quoted prices for identical or similar instruments in markets that are not active, (iii) inputs other than quoted prices that are observable for the instruments, and (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3: Inputs that are unobservable. Unobservable inputs reflect our subjective evaluation about the assumptions market participants would use in pricing the financial instrument (e.g., certain structured securities and privately held investments).

Determining the fair value of the investment portfolio is the responsibility of management. As part of the responsibility, we evaluate whether a market is distressed or inactive in determining the fair value for our portfolio. We review certain market level inputs to evaluate whether sufficient activity, volume, and new issuances exist to create an active market. Based on this evaluation, we concluded that there was sufficient activity related to the sectors and securities for which we obtained valuations.

The composition of the investment portfolio by major security type and our outstanding debt was:

	Fair Value				
(millions)	Level 1	Level 2	Level 3	Total	Cost
June 30, 2015					
Fixed maturities:					
U.S. government obligations	$2,063.2	$0	$0	$2,063.2	$2,049.3
State and local government obligations	0	3,192.3	0	3,192.3	3,177.2
Foreign government obligations	18.6	0	0	18.6	18.6
Corporate debt securities	0	3,433.8	1.0	3,434.8	3,433.9
Subtotal	2,081.8	6,626.1	1.0	8,708.9	8,679.0
Asset-backed securities:					
Residential mortgage-backed	0	1,892.5	0	1,892.5	1,879.5
Agency residential pass-through obligations	0	114.3	0	114.3	116.0
Commercial mortgage-backed	0	2,549.2	10.9	2,560.1	2,548.4
Other asset-backed	0	2,041.5	0	2,041.5	2,037.9
Subtotal asset-backed securities	0	6,597.5	10.9	6,608.4	6,581.8
Redeemable preferred stocks:					
Financials	0	97.5	0	97.5	76.8
Utilities	0	61.2	0	61.2	65.0
Industrials	0	113.0	0	113.0	118.0
Subtotal redeemable preferred stocks	0	271.7	0	271.7	259.8
Total fixed maturities	2,081.8	13,495.3	11.9	15,589.0	15,520.6
Equity securities:					
Nonredeemable preferred stocks:					
Financials	167.7	604.6	0	772.3	632.4
Subtotal nonredeemable preferred stocks	167.7	604.6	0	772.3	632.4
Common equities:					
Common stocks	2,546.5	0	0	2,546.5	1,351.4
Other risk investments	0	0	0.3	0.3	0.3
Subtotal common equities	2,546.5	0	0.3	2,546.8	1,351.7
Total fixed maturities and equity securities	4,796.0	14,099.9	12.2	18,908.1	17,504.7
Short-term investments	1,434.2	235.1	0	1,669.3	1,669.3
Total portfolio	$6,230.2	$14,335.0	$12.2	$20,577.4	$19,174.0
Debt	$0	$2,763.9	$178.5	$2,942.4	$2,739.0

	Fair Value				
(millions)	Level 1	Level 2	Level 3	Total	Cost
June 30, 2014					
Fixed maturities:					
U.S. government obligations	$3,289.4	$0	$0	$3,289.4	$3,249.0
State and local government obligations	0	2,331.2	0	2,331.2	2,287.2
Foreign government obligations	0	0	0	0	0
Corporate debt securities	0	2,262.8	0	2,262.8	2,215.4
Subtotal	3,289.4	4,594.0	0	7,883.4	7,751.6
Asset-backed securities:					
Residential mortgage-backed	0	1,335.4	0	1,335.4	1,312.0
Agency residential pass-through obligations	0	0	0	0	0
Commercial mortgage-backed	0	1,991.7	27.6	2,019.3	1,974.4
Other asset-backed	0	973.0	0	973.0	965.4
Subtotal asset-backed securities	0	4,300.1	27.6	4,327.7	4,251.8
Redeemable preferred stocks:					
Financials	0	103.4	0	103.4	79.2
Utilities	0	65.3	0	65.3	65.0
Industrials	0	118.8	0	118.8	117.8
Subtotal redeemable preferred stocks	0	287.5	0	287.5	262.0
Total fixed maturities	3,289.4	9,181.6	27.6	12,498.6	12,265.4
Equity securities:					
Nonredeemable preferred stocks:					
Financials	238.7	477.7	43.8	760.2	497.1
Subtotal nonredeemable preferred stocks	238.7	477.7	43.8	760.2	497.1
Common equities:					
Common stocks	2,381.2	0	0	2,381.2	1,264.7
Other risk investments	0	0	0.5	0.5	0.5
Subtotal common equities	2,381.2	0	0.5	2,381.7	1,265.2
Total fixed maturities and equity securities	5,909.3	9,659.3	71.9	15,640.5	14,027.7
Short-term investments	2,843.3	275.4	0	3,118.7	3,118.7
Total portfolio	$8,752.6	$9,934.7	$71.9	$18,759.2	$17,146.4
Debt	$0	$2,551.6	$0	$2,551.6	$2,208.0

	Fair Value				
(millions)	Level 1	Level 2	Level 3	Total	Cost
December 31, 2014					
Fixed maturities:					
U.S. government obligations	$2,667.1	$0	$0	$2,667.1	$2,641.1
State and local government obligations	0	2,139.2	0	2,139.2	2,095.7
Foreign government obligations	14.2	0	0	14.2	14.2
Corporate debt securities	0	2,836.7	0	2,836.7	2,813.9
Subtotal	2,681.3	4,975.9	0	7,657.2	7,564.9
Asset-backed securities:					
Residential mortgage-backed	0	1,658.5	0	1,658.5	1,635.5
Agency residential pass-through obligations	0	0	0	0	0
Commercial mortgage-backed	0	2,304.0	11.6	2,315.6	2,278.7
Other asset-backed	0	1,638.7	0	1,638.7	1,634.9
Subtotal asset-backed securities	0	5,601.2	11.6	5,612.8	5,549.1
Redeemable preferred stocks:					
Financials	0	97.9	0	97.9	77.3
Utilities	0	65.3	0	65.3	65.0
Industrials	0	116.0	0	116.0	117.9
Subtotal redeemable preferred stocks	0	279.2	0	279.2	260.2
Total fixed maturities	2,681.3	10,856.3	11.6	13,549.2	13,374.2
Equity securities:					
Nonredeemable preferred stocks:					
Financials	204.1	554.1	69.3	827.5	590.4
Subtotal nonredeemable preferred stocks	204.1	554.1	69.3	827.5	590.4
Common equities:					
Common stocks	2,491.9	0	0	2,491.9	1,288.8
Other risk investments	0	0	0.4	0.4	0.4
Subtotal common equities	2,491.9	0	0.4	2,492.3	1,289.2
Total fixed maturities and equity securities	5,377.3	11,410.4	81.3	16,869.0	15,253.8
Short-term investments	1,937.0	212.0	0	2,149.0	2,149.0
Total portfolio	$7,314.3	$11,622.4	$81.3	$19,018.0	$17,402.8
Debt	$0	$2,527.5	$0	$2,527.5	$2,164.7

Our portfolio valuations, excluding the other short-term investments, classified as either Level 1 or Level 2 in the above tables are priced exclusively by external sources, including: pricing vendors, dealers/market makers, and exchange-quoted prices. We did not have any transfers between Level 1 and Level 2 during the first six months of 2015. During the first quarter of 2014, we had two nonredeemable preferred stocks with a value of $41.7 million that were transferred from Level 2 to Level 1 due to the availability of a consistent exchange price; this was the only transfer during 2014. We recognize transfers between levels at the end of the reporting period.

Our short-term security holdings classified as Level 1 are highly liquid, actively marketed, and have a very short duration, primarily 30 days or less to redemption. These securities are held at their original cost, adjusted for any accretion of discount, since that value very closely approximates what an active market participant would be willing to pay for such securities. The remainder of our short-term securities are classified as Level 2 and are not priced externally since these securities continually trade at par value. These securities are classified as Level 2 since they are primarily longer-dated auction securities issued by municipalities that contain a redemption put feature back to the auction pool with a redemption period typically less than seven days. The auction pool is created by a liquidity provider and if the auction is not available at the end of the seven days, we have the right to put the security back to the issuer at par.

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At June 30, 2015, vendor-quoted prices represented 43% of our Level 1 classifications (excluding short-term investments), compared to 55% and 50% at June 30, 2014 and December 31, 2014, respectively. The securities quoted by vendors in Level 1 primarily represent our holdings in U.S. Treasury Notes, which are frequently traded and the quotes are considered similar to exchange-traded quotes. The balance of our Level 1 pricing comes from quotes obtained directly from trades made on active exchanges. The decline in vendor-quoted Level 1 prices since June 30, 2014 was due to a reduction of U.S. Treasury Notes.

At June 30, 2015 and 2014, and December 31, 2014, vendor-quoted prices comprised 97% of our Level 2 classifications (excluding short-term investments), while dealer-quoted prices represented 3%. In our process for selecting a source (e.g., dealer, pricing service) to provide pricing for securities in our portfolio, we reviewed documentation from the sources that detailed the pricing techniques and methodologies used by these sources and determined if their policies adequately considered market activity, either based on specific transactions for the particular security type or based on modeling of securities with similar credit quality, duration, yield, and structure that were recently transacted. Once a source is chosen, we continue to monitor any changes or modifications to their processes by reviewing their documentation on internal controls for pricing and market reviews. We review quality control measures of our sources as they become available to determine if any significant changes have occurred from period to period that might indicate issues or concerns regarding their evaluation or market coverage.

As part of our pricing procedures, we obtain quotes from more than one source to help us fully evaluate the market price of securities. However, our internal pricing policy is to use a consistent source for individual securities in order to maintain the integrity of our valuation process. Quotes obtained from the sources are not considered binding offers to transact. Under our policy, when a review of the valuation received from our selected source appears to be outside of what is considered market level activity (which is defined as trading at spreads or yields significantly different than those of comparable securities or outside the general sector level movement without a reasonable explanation), we may use an alternate source’s price. To the extent we determine that it may be prudent to substitute one source’s price for another, we will contact the initial source to obtain an understanding of the factors that may be contributing to the significant price variance, which often leads the source to adjust their pricing input data for future pricing.

To allow us to determine if our initial source is providing a price that is outside of a reasonable range, we review our portfolio pricing on a weekly basis. We frequently challenge prices from our sources when a price provided does not match our expectations based on our evaluation of market trends and activity. Initially, we perform a review of our portfolio by sector to identify securities whose prices appear outside of a reasonable range. We then perform a more detailed review of fair values for securities disclosed as Level 2. We review dealer bids and quotes for these and/or similar securities to determine the market level context for our valuations. We then evaluate inputs relevant for each class of securities disclosed in the preceding hierarchy tables.

For our structured debt securities, including commercial, residential, and asset-backed securities, we evaluate available market-related data for these and similar securities related to collateral, delinquencies, and defaults for historical trends and reasonably estimable projections, as well as historical prepayment rates and current prepayment assumptions and cash flow estimates. We further stratify each class of our structured debt securities into more finite sectors (e.g., planned amortization class, first pay, second pay, senior, subordinated, etc.) and use duration, credit quality, and coupon to determine if the fair value is appropriate.

For our corporate debt and preferred stock (redeemable and nonredeemable) portfolios, we review securities by duration, coupon, and credit quality, as well as changes in interest rate and credit spread movements within that stratification. The review also includes recent trades, including: volume traded at various levels that establish a market, issuer specific fundamentals, and industry specific economic news as it comes to light.

For our municipal securities (e.g., general obligations, revenue, and housing), we stratify the portfolio to evaluate securities by type, coupon, credit quality, and duration to review price changes relative to credit spread and interest rate changes. Additionally, we look to economic data as it relates to geographic location as an indication of price-to-call or maturity predictors. For municipal housing securities, we look to changes in cash flow projections, both historical and reasonably estimable projections, to understand yield changes and their effect on valuation.

Lastly, for our short-term securities, we look at acquisition price relative to the coupon or yield. Since our short-term securities are typically 90 days or less to maturity, with the majority listed in Level 2 being seven days or less to redemption, we believe that acquisition price is the best estimate of fair value.

We also review data assumptions as supplied by our sources to determine if that data is relevant to current market conditions. In addition, we independently review each sector for transaction volumes, new issuances, and changes in spreads, as well as the overall movement of interest rates along the yield curve to determine if sufficient activity and liquidity exists to provide a credible source for our market valuations.

During each valuation period, we create internal estimations of portfolio valuation (performance returns), based on current market-related activity (i.e., interest rate and credit spread movements and other credit-related factors) within each major sector of our portfolio. We compare our internally generated portfolio results with those generated based on quotes we received externally and research material valuation differences. We compare our results to index returns for each major sector adjusting for duration and credit quality differences to better understand our portfolio's results. Additionally, we review on a monthly basis our external sales transactions and compare the actual final market sales price to a previous market valuation price. This review provides us further validation that our pricing sources are providing market level prices, since we are able to explain significant price changes (i.e., greater than 2%) as known events occur in the marketplace and affect a particular security's price at sale.

This analysis provides us with additional comfort regarding the source's process, the quality of its review, and its willingness to improve its analysis based on feedback from clients. We believe this effort helps ensure that we are reporting the most representative fair values for our securities.

Except as described below, our Level 3 securities are also priced externally; however, due to several factors (e.g., nature of the securities, level of activity, and lack of similar securities trading to obtain observable market level inputs), these valuations are more subjective in nature. Certain private equity investments and fixed-income investments included in the Level 3 category are valued using external pricing supplemented by internal review and analysis.

After all the valuations are received and our review is complete, if the inputs used by vendors are determined to not contain sufficient observable market information, we will reclassify the affected security valuations to Level 3. At June 30, 2015 and 2014, and December 31, 2014, securities in our fixed-maturity portfolio listed as Level 3 were comprised substantially of securities that were either: (i) private placements, (ii) thinly held and/or traded securities, or (iii) non-investment-grade or non-rated securities with little liquidity. Based on these factors, it was difficult to independently verify observable market inputs that were used to generate the external valuations we received. Despite the lack of sufficient observable market information for our Level 3 securities, we believe the valuations received in conjunction with our procedures for evaluating third-party prices support the fair values reported in the financial statements.

We held two internally priced securities at June 30, 2015 in our corporate portfolio that we priced at cost since we expect them to be fully redeemed by the end of 2015; therefore, any difference between cost and fair value is immaterial. At June 30, 2014, we held one private preferred equity security (our 5% equity interest in ARX Holding Corp.) with a value of $43.8 million that was priced internally. The same security had a value of $69.3 million at December 31, 2014. The increase in value was due primarily to a higher price to book ratio multiple included in the terms of the stock purchase agreement we entered into during December 2014 to purchase a majority interest in ARX Holding Corp. This was the only internally-priced security in the portfolio at both June 30, 2014 and December 31, 2014.

We review the prices from our external sources for reasonableness using internally developed assumptions to derive prices for the securities, which are then compared to the prices we received. During 2015 or 2014, there were no material assets or liabilities measured at fair value on a nonrecurring basis. Based on our review, all prices received from external sources remained unadjusted.

The following tables provide a summary of changes in fair value associated with Level 3 assets for the three and six months ended June 30, 2015 and 2014:

	Level 3 Fair Value Three Months Ended June 30, 2015							
(millions)	Fair Value at March 31, 2015	Calls/ Maturities/ Paydowns	Purchases	Sales	Net Realized (Gain) Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at June 30, 2015
Fixed maturities:								
Corporate debt securities	$0	$0	$1.0	$0	$0	$0	$0	$1.0
Asset-backed securities:								
Residential mortgage-backed	0	0	0	0	0	0	0	0
Commercial mortgage-backed	11.4	(0.4)	0	0	0	(0.1)	0	10.9
Total fixed maturities	11.4	(0.4)	1.0	0	0	(0.1)	0	11.9
Equity securities:								
Nonredeemable preferred stocks:								
Financials[1]	69.9	0	0	0	(39.4)	(2.0)	(28.5)	0
Common equities:								
Other risk investments	0.3	0	0	0	0	0	0	0.3
Total Level 3 securities	$81.6	$(0.4)	$1.0	$0	$(39.4)	$(2.1)	$(28.5)	$12.2

[1]The $69.9 million decrease during the quarter reflects the reclassification of our 5% interest in ARX Holding Corp. upon acquisition of a controlling interest in ARX. The $39.4 million reflects our inception-to-date gain recognized, including the $2.0 million reduction in valuation that occurred during the second quarter 2015.

	Level 3 Fair Value Six Months Ended June 30, 2015							
(millions)	Fair Value at Dec. 31, 2014	Calls/ Maturities/ Paydowns	Purchases	Sales	Net Realized (Gain) Loss on Sales	Change in Valuation	Net Transfers In (Out)	Fair Value at June 30, 2015
Fixed maturities:								
Corporate debt securities	$0	$0	$1.0	$0	$0	$0	$0	$1.0
Asset-backed securities:								
Residential mortgage-backed	0	0	0	0	0	0	0	0
Commercial mortgage-backed	11.6	(0.6)	0	0	0	(0.1)	0	10.9
Total fixed maturities								