

Q1 2015 Earnings Call

Company Participants

- Craig W. Howie
- Dominic James Addesso
- Elizabeth B. Farrell
- John P. Doucette

Other Participants

- Amit Kumar
- Brian Robert Meredith
- Josh D. Shanker
- Kai Pan
- Meyer Shields
- Michael Nannizzi

MANAGEMENT DISCUSSION SECTION

Operator

Good day, everyone, and welcome to the First Quarter 2015 Earnings Call of Everest Re Group Limited. Today's conference is being recorded. At this time, for opening remarks and introductions, I'd like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead.

Elizabeth B. Farrell {BIO 1986541 <GO>}

Thank you, Tim. Good morning and welcome to Everest Re Group's first quarter 2015 earnings conference call. On the call with me today are Dom Addesso, the company's President and Chief Executive Officer; John Doucette, our Chief Underwriting Officer; and Craig Howie, our Chief Financial Officer.

Before we begin, I will preface our comments by noting that our SEC filings include extensive disclosures with respect to forward-looking statements. In that regard, I note that statements made during today's call, which are forward-looking in nature, such as statements about projections, estimates, expectations and the like, are subject to various risks.

As you know, actual results could differ materially from current projections or expectations. Our SEC filings have a full listing of the risks that investors should consider in connection with such statements.

Now, let me turn the call over to Dom.

Dominic James Addesso {BIO 1428096 <GO>}

Thanks, Beth, and good morning to all. We are pleased to report another excellent quarter, in fact a record quarter and operating earnings as a result of a strong underwriting result. All segments of our business contributed positive margin in the underwriting account.

Quarter-over-quarter underwriting income was up slightly, even though the combined ratio slipped to 81.9% from 80%. This was a result of higher earned premium in this year's first quarter compared to last. The increase in the combined ratio was solely in the reinsurance segments, where competitive conditions are continuing to push rates lower and commissions higher.

Nevertheless, we have maintained our margins with our strategies of, first, moving our capacity to better price layers; two, diversifying our exposure; three, expanding capabilities in new lines of business; four, using capital markets and outlets; and, finally, maintaining an extremely competitive expense structure.

Offsetting the increase in the reinsurance combined ratio was an improvement of over 2 points in the insurance combined ratio. This is due in part to a primary rate environment, while stable overall is increasing in certain classes. A more significant factor in this improvement has been the success of efforts over the last couple of years to wind down portions of the portfolio and reshape the insurance operation.

The build-out of new classes of business along with expanding certain others is beginning to pay dividends, as growth quarter-over-quarter was 48%, reaching \$340 million in 2015. We still have much more to do in this segment, and we have bolstered our management and underwriting ranks so that we may continue the progress. In addition, we have embarked on a process to begin to build out our international insurance presence.

Overall, while operating income was positively impacted by underwriting results, there were other factors contributing to the record results for the quarter. Foreign exchange negatively impacted our premiums written, but it had a positive impact on earnings as our foreign currency-denominated liabilities or loss reserves were converted to the stronger U.S. dollar.

Also, as Craig will explain, income taxes, quarter-over-quarter, were lower by \$12 million. Investment income quarter-over-quarter was flat, but given where current yields are, we believe that to be a reasonable result and certainly not unexpected.

Looking forward, the market will remain challenging as competitive pressures persist. Market movements are difficult to predict and, therefore, we rely on our flexibility to respond accordingly and modify our tactics as appropriate. These include, as I mentioned previously, nimbly shifting our capacity, seeking new business opportunities, using third-party capital, buying in stock, and staying expense conscious.

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As a result, we have been able to maintain a strong ROE, which at 18%, is at a meaningful spread to the market. Consequently, we are uniquely well positioned to manage through market weakness and, therefore, maintain returns above our cost of capital while others may not.

The market turn would seem inevitable should it drift down to this level. Until then, we will maintain our competitive position and continue to be identified by clients, brokers and analysts as a core lead market reinsurer and meaningful trading partner. In fact, one rating agency recently cited Everest as one of four reinsurers best positioned to succeed despite the prevailing market conditions. This attribute is one that has been earned over the last several years as we have evolved our culture and the portfolio.

New capital and operating income as a result of intelligent underwriting by our teams has built our capital base to a size where we can deploy meaningful capacity. At the same time, while building towards \$7.7 billion of equity plus third-party capital of \$1.7 billion, we have returned \$3.5 billion of capital to shareholders since 2006. This is a record we are proud of and one that deserves the market's attention.

Thank you, and now to Craig for the financial report.

Craig W. Howie {BIO 17579923 <GO>}

Thank you, Dom, and good morning everyone. Everest had another strong quarter of earnings with after-tax operating income of \$330 million or \$7.34 per diluted common share for the first quarter of 2015. This compares to operating income of \$281 million or \$5.93 per share for the first quarter of 2014.

Net income for the first quarter was \$323 million or \$7.19 per diluted share compared to \$294 million or \$6.21 per share in 2014. Net income includes realized capital gains or losses and represents an annualized return on equity of 18%. Solid underwriting results, sizeable foreign exchange gains, and a lower income tax rate relative to the first quarter of 2014 contributed to these strong results. All segments reported underwriting gains for the quarter. Neither this year nor last year included any catastrophe losses in the first quarter.

Total reinsurance reported an underwriting gain of \$205 million for the quarter compared to a \$215 million underwriting gain last year. The Insurance segment reported an underwriting gain of \$11 million for the quarter compared to an underwriting gain of \$4 million last year. Each year reflected an underwriting loss for crop insurance in the first quarter due to the seasonality of crop premium against a full quarter of expenses.

The Mt. Logan Re segment reported a \$21 million underwriting gain compared to a \$10 million underwriting gain in the first quarter of 2014. Everest retained \$5 million of income and \$16 million was attributable to the non-controlling interests of this entity in 2015.

The overall underwriting gain for the group was \$237 million for the quarter compared to an underwriting gain of \$228 million in the same period last year. Our reported combined ratio was 81.9% for the quarter compared to 80% in 2014. The overall current year

attritional combined ratio of 82% was up from 80.4% at the first quarter of 2014, but equal to the 82% at year-end 2014. This measure excludes the impact of catastrophes, reinstatement premiums and prior period loss development.

The first quarter commission ratio of 22% was slightly up from 21.5% in the first quarter of 2014, but remained stable compared to year-end 2014. Our low expense ratio of 4.6% continues to be a major competitive advantage for Everest.

On reserves, our overall quarterly internal reserving metrics remained favorable. For investments, pre-tax investment income was \$123 million for the quarter, on our \$17.8 billion investment portfolio. The investment income was essentially flat compared to one year ago. Despite the declining rates, our investment portfolio continues to perform well.

The pre-tax yield on the overall portfolio was 2.9% with a duration of just under three years. The quarter reflected \$7 million of net after-tax realized capital losses compared to \$13 million of capital gains last year. These losses were mainly attributable to impairments on the fixed income portfolio in 2015.

Foreign exchange is reported in other income. For the first quarter of 2015, foreign exchange gains were \$47 million compared to \$2 million of foreign exchange losses in the first quarter of 2014. This reflects the strengthening of the U.S. dollar compared to other world currencies and equates to about \$1 per share this quarter. There were \$200,000 of derivative losses during the first quarter compared to \$2 million of derivative losses last year. This is related to our equity put options and is mostly a function of the change in interest rates during the first quarter.

On income taxes, the 12% effective tax rate on operating income is on the lower end of our expected range for the year. The low rate is primarily related to foreign exchange, the geographic region where the income was earned and higher foreign tax credits. Stable cash flow continues with operating cash flows of \$455 million for the quarter compared to \$367 million in the first quarter of 2014.

Shareholders' equity for the group was \$7.7 billion at the end of the first quarter, up \$216 million from year end 2014. This is after taking into account capital return through \$75 million of share buybacks and the \$42 million of dividends paid in the first quarter of 2015.

Book value per share increased 4% to \$172.63 from \$166.75 at year-end 2014. Our strong capital position leaves us with capacity to maximize our business opportunities as well as continue share repurchases.

Thank you. Now John Doucette will provide the operations review.

John P. Doucette {BIO 7178336 <GO>}

Thank you, Craig. Good morning. As Dom highlighted, we have continued our trend with another favorable quarterly underwriting result starting off 2015 on a very strong footing.

Our group gross written premium for Q1 2015 was \$1.4 billion, up 12% from Q1 2014 with growth coming from segments within both our U.S. and international operations and from virtually every insurance profit center. This 12% growth would be 14% on a constant foreign exchange rate basis.

Our group net written premium was \$1.3 billion or \$56 million, up \$56 million or 5% over Q1 2014. Starting with our reinsurance segment, I will cover underwriting results during the quarter, then provide color on major renewals, predominantly 4/1 including a discussion of the market and insights on ways we are navigating these challenging time.

For our global reinsurance segments, including both total reinsurance and Logan, gross premium was \$1.1 billion, up 4% or up 7% on a constant foreign exchange rate basis. Net reinsurance premium was \$980 million, down 4% with increased sessions on our catastrophe business, consistent with our retrocessional strategy.

Our reinsurance book including Mt. Logan generated \$226 million of underwriting profit in Q1 2015, a slight increase over Q1 2014. These strong underwriting results validate our reinsurance strategy, which we have articulated for the last several quarters. Leveraging our core sustainable strength, including global reach and comprehensive product offerings, expanding our opportunity set to capture profitable growth and utilizing additional capital structures to match risk with the most efficient form of capital, while generating fee income.

April 1 renewals represent approximately 10% of our reinsurance treaty premium. 4/1 is a key renewal date for Japanese and other Asian business, and for some Latin American and U.S. regional property business. The reinsurance market remains challenging with average market rates off between 5% and 15%, depending on the line of business, product type, and territory.

However, globally, large fires in Japan, Australia and other regions are consolidating their panels of reinsurers, focusing on a few core trading partners, including Everest. These sophisticated buyers are not focused strictly on price, but are also seeking stable long-term relationships that can provide both meaningful capacity and comprehensive risk solutions. This benefits Everest, as we gain preferential signings and in some cases better than market pricing or terms allowing us to sustain attractive risk-adjusted returns.

Conversely, regional clients around the globe are increasingly placing business locally, rather than just in global reinsurance subs, especially in the current softening market. Everest centralized view of risk with a decentralized distribution enables us to capture local market business. Individually, these deals are not always that large, but in the aggregate, this is sizeable premium for us, and is more insulated from global competition.

Our strong ratings, longstanding client and broker relationships broadly diversified portfolio, efficient expense ratio, underwriting expertise, and capital flexibility are critical elements for achieving better-than-market results.

We continually optimize our portfolios, which allows nimble deployment of capital to where risk adjusted returns are best. At the same time, we are scaling back or declining deals that do not meet our return hurdle. Where accretive, we use alternative capital support. This flexible underwriting strategy has mitigated the impact of rate pressures.

Mt. Logan continues to attract strong investor appetite with \$60 million of new inflows from external investors at 4/1, bringing third party capital and Everest funds in Logan to about \$750 million. Logan is one of the fastest growing convergence vehicles, highlighting Everest's ability to access and deploy third-party capital and improve Everest's internal returns.

Now, turning to our insurance operations. We wrote \$340 million of insurance premium in Q1 2015, up 48% from last Q1, partially due to prior period negative premium adjustments in Heartland last Q1. Removing this, our insurance operations' gross written premium for Q1 is up 32% quarter-over-quarter.

Important to note, this growth is diversified and originating from ten separate insurance profit centers in a deliberately constructed portfolio of short-tail lines, long-tail lines, regional, and state-specific insurance portfolios. Now, some detail on the business composition, and what we are seeing in each market.

California Workers' Comp, one of our largest segments of the insurance book, was almost \$100 million in Q1, up over 20% compared to the prior Q1, and had a 94.3% combined ratio. Our renewal retention rate stayed relatively steady and pricing remains favorable with moderating rate. We continue to selectively add underwriting talent to support growth efforts throughout the state with recent additions to our Northern California team.

Professional liability premium, largely financial institutions, was \$45 million for Q1 2015, up 43% over last Q1. The FI market is stabilizing after a year of price decline, and we captured several new opportunities, while maintaining a high renewal retention, and grew with selective expansion to other lines for FI. However, we remain cautious for commercial D&O, as rate pressures are evident.

Other casualty business, including our environmental and casualty facilities, was up 25% to approximately \$40 million. Our direct facilities are ramping up with new agency appointments and increased staffing, resulting in increased submission and quote activity, and driving new business growth. Renewal retention rates are about 80%. We are bullish on our opportunities in longer-tail insurance line.

Turning to short-tail, including property, DIC and contingency business, written premium was \$65 million, an increase over 60% from last Q1. Focused growth initiatives have been successful. We added offices and underwriters in Atlanta and Chicago to strategically grow and geographically diversify our property insurance book, and we plan to further expand geographically.

Specialty Insurance Group, our contingency business, has also expanded offices, hired underwriters and forged several new strategic partnerships. Six products are highly complementary to other insurance product offerings providing synergies across line. DIC premium is flat, as competition has lowered rates and relaxed terms. However, we will continue to adhere to our pricing targets and leverage our significant capacity to maintain our position.

Non-standard auto grew over 25% to \$26 million with rate increases over 5%. Our strategic partner, Arrowhead, is providing select geographic expansion opportunity. We are currently implementing predictive analytics to further enhance this portfolio. Accident and health premium was up in Q1 with submission and quote activity very high. Our future deal pipeline for A&H is strong, and we anticipate continued growth throughout 2015.

Regarding crop, we compare favorably to last year due to prior-period negative premium adjustments in 2014. While it is still too early to predict, our final full year crop rating, we made several strategic hires and are seeing favorable year-over-year volatility factors. We also could benefit from disruption within several transitioning crop companies.

Overall, the insurance segment ran to a 95.9% combined ratio for Q1, a 2.3% improvement over last year with meaningful, diverse top line growth. This demonstrates the success of the strategies to drive profitable growth that we've been communicating over the last several quarters. We continue to build on our strengthening insurance franchise through selective hires, both in the U.S. and international. We are bringing additional products to market, opening new distribution channels, and enhancing existing ones. We are diversifying geographically as we bolster our relevance to our insurance customers and key distribution partners and provide meaningful solutions for their evolving need.

In summary, we have made significant strides over the last couple of years to reposition our insurance operation as evidenced by the noted improvement in results. We are poised to take our insurance operations to the next level with our strong and dynamic insurance team. Reinsurance has long been Everest tradition, but over the next several years, we will build an insurance operation that will complement our reinsurance franchise and strengthen and diversify the overall organization.

Thank you and now back to Beth for Q&A.

Elizabeth B. Farrell {BIO 1986541 <GO>}

Thanks, John. Tim, we are open now to take questions.

Q&A

Operator

We'll take our first question from Kai Pan with Morgan Stanley.

Q - Kai Pan {BIO 18669701 <GO>}

Good morning. Thank you. And first question is on the recent, some catastrophe losses. Do you have any potential exposure in the Nepal earthquake, the terrible earthquake that happened, and also any potential exposure from the riot at Baltimore?

A - Dominic James Addesso {BIO 1428096 <GO>}

In terms of Nepal, no. We have no material exposure if any there. In terms of Baltimore, I don't have an answer for that at this point. Certainly, there might be some risk exposure, individual risk exposure there, but I would not expect that to be material.

Q - Kai Pan {BIO 18669701 <GO>}

Okay, thank you. And then on your insurance side, it looks like you're making tremendous progress out there. I just wonder is the 96%-ish combined ratio, you have said in the past few years, basically ex some items, the underlying is really, ex-crop, has really run 95%, 96%. Is that kind of like a - still the target combined ratio for the insurance segment going forward?

A - Dominic James Addesso {BIO 1428096 <GO>}

The target combined ratio for the insurance segment would be lower than that. And I would anticipate that we could continue to drive that combined ratio lower from here.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. My last question is on your capital management, it looks like you have record earnings for the quarter. The payout ratio is in the 30%s. I just wonder - and also if you look at first quarter last year, you had much larger buyback. I just wonder, given the market condition, do you think that the payout should be higher than you currently are paying out or are you looking for growth opportunities including both organic in the primary insurance area or potential acquisitions?

A - Dominic James Addesso {BIO 1428096 <GO>}

Yes, to a couple of those questions. First of all, I think our share repurchase program, we look at our capital position over a very long time horizon. Certainly, we look to grow the business where we can profitably, and I think just as an example as we've mentioned in the prepared comments, we've returned over - almost \$4 billion of capital to shareholders since 2006, almost 40% of that in terms of share repurchases. 40% of our shares have been repurchased in 2006, so that's a very - that's over a long time horizon.

During that time period, all of us, including yourselves might recall that we've had certainly significant pressure to buy in more stock certainly from the Street. But what we've been able to do is balance that out between profitable growth and maintaining sufficient capital to expand the business profitably, and I think we've demonstrated that, we've been able to produce a quite respectable and superior return on equity by moving in that direction.

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To your question about going forward, given where the market is today, certainly if the market continues to slip further from here, we would be less optimistic about premium growth, and perhaps push a little bit more on the share repurchase. But that is something that, again, we look at over the very long term. Our purchases of stock in the first quarter, frankly, we have been in the market, and really the stock just kept moving ahead of our price targets in the first quarter, otherwise we likely would have purchased a little bit more.

Again, we don't have any specific targets that we've communicated to the Street, nor do we intend to. Again, it's always looking at a balance between profitable growth and maintaining the right level of capital, and those things will always be moving in tandem as we move forward in time. I hope that answers your question, Kai.

Q - Kai Pan {BIO 18669701 <GO>}

Great. Thank you so much for all of the details.

Operator

We'll take our next question from Michael Nannizzi with Goldman Sachs.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thanks. Just maybe following up a little bit on the insurance book, just trying to - as far as the growth that came from crop versus your other lines, I think, John, you kind of outlined some of the specific items, but I know the seasonality of crop is a little bit different. Just trying to think about how we should be looking at premiums for the rest of the year on an earned basis? Is there - any context would be really helpful there, thanks.

A - John P. Doucette {BIO 7178336 <GO>}

For the overall growth, Michael, the position that has come forth is from a whole bunch of different areas within that area, and it's across the page. I don't have those numbers specifically in front of me.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay.

A - Dominic James Addesso {BIO 1428096 <GO>}

Michael, let's first recognize that the growth year-over-year, we had a premium adjustment last year, that's kind of amplifying the percentage growth that we're seeing in that crop number. We won't know the actual premium number, but I wouldn't expect any huge increase year-over-year as we finish the year, because a couple things are going on. We would certainly - we do certainly expect to expand. We have expanded our distribution. We are writing more business in geographically spread with more agents and more territories, so that's a positive.

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Offsetting that, of course, will be the effects of pricing or expect, effect on premiums from commodity price declines, so that's a negative to the premium account. And then a positive will be, as John mentioned in his comments, was the volatility factor which could help premiums go up. So all that being said, we're not providing a prediction on the premium, but that gives you some flavor of the factors that will affect the premium number.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it, okay. And then - thank you. And then, I guess just trying to understand a little bit more in some of those target areas. Is it because Everest is able to be more tactical in finding opportunities that you're able to grow and grow at attractive levels of profitability?

Just because some of our other companies are more focused on optimizing retained books, and we just haven't seen elevated growth. So I'm just trying to understand or maybe you can give me an example of, if possible, opportunities where you're able to kind of pick off new business in this sort of low to mid-90% range, if weather conditions or there's some displacement in those target areas? Thanks.

A - Dominic James Addesso {BIO 1428096 <GO>}

Well, are you referring - is that a question on the insurance operation or reinsurance operation?

Q - Michael Nannizzi {BIO 15198493 <GO>}

Mostly on the insurance, just because we had the big stone (32:26) of growth and the underlying was a couple points better than we had, for example.

A - Dominic James Addesso {BIO 1428096 <GO>}

Well, first of all, excluding the impact of crop. I think the number would be insurance premium growth probably in the low 30%.

A - Craig W. Howie {BIO 17579923 <GO>}

32%.

A - Dominic James Addesso {BIO 1428096 <GO>}

So let's recognize that first of all.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay.

A - Dominic James Addesso {BIO 1428096 <GO>}

Second, there are markets that others aren't in, so California comp is one example where we continue to grow, and that's not something that the rest of the industry is more broadly speaking, has been a factor in. And we've got a very good position in that

marketplace, so we're able to grow that. Same thing would apply with respect to California DIC.

Again, given our appetite predominantly as a reinsurer, that's a risk that we feel nicely fits into our balance sheet, where with many primary companies it may not. The same thing would apply to our property ENS operation, which is certainly very strong, up and down the Northeast Coast or in the East, I should say, up and down the entire Eastern Seaboard. And so, a lot of companies and distribution partners look to place their property exposure with A+ carrier. So that's certainly a reason why we're growing.

Same thing would apply in the excess casualty area. Remember that these are not today, huge businesses but again distribution partners looking for A+ large balance sheet partners. That's very helpful. And then, finally, in the contingency space, the hiring of a new team in a specialty niche, again, something that we have built up some unique expertise in, and not everybody is in it.

Same thing could apply to A&H. I mean, you could go down to each business that we're involved in, as John mentioned, and you could look to a unique offering that we've made to the marketplace, a unique appetite that others may not have, and a strong balance sheet. These are all things that are attractive to distribution partners.

Q - Michael Nannizzi {BIO 15198493 <GO>}

I see. So in some of these insurance lines, so your rating and your sort of unique appetite, those are differentiators that allow you to kind of see business and buying business that may be better than peer profitability?

A - Dominic James Addesso {BIO 1428096 <GO>}

That's correct.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. And then one question, Craig, if I could, one more here on the FX impact on the revaluation reserves. I was just trying to understand, should we be thinking about that relative to premiums or should we be thinking about that relative to asset marks that run through AOCl, so, because I was just looking at that. We had a bigger markdown on assets in the fourth quarter, and then we had a smaller revaluation reserve and then no real impact on AOCl this quarter relative to last quarter, but then we had the FX impact on reserves. I was trying to get an idea, should I be thinking about those two next to each other or should I be thinking about more of the reserves relative to the impact of FX on premiums? Thanks.

A - Craig W. Howie {BIO 17579923 <GO>}

So Michael, it is more relative to the reserves. But overall, I think, we've mentioned this before. But we try to maintain an economic neutral position with respect to foreign exchange, so essentially matching those assets within the local jurisdiction to the same currency in each jurisdiction.

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What you have is a mark-to-market type adjustment here at a point in time on the balance sheet, which is causing what's flowing through the income statement. That's the \$47 million gain that you see in other income, other expense line. Offsetting that are foreign exchange losses that you just mentioned coming through OCI. So on an overall basis, it's almost completely neutral from a book value standpoint for the quarter.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay, so even though - so the AOCI that we see on the balance sheet, that includes the investment marks and FX and then, but the investment marks were more than the FX headwind, so that sort of obscured that \$46 million that we would have seen on the asset side?

A - Craig W. Howie {BIO 17579923 <GO>}

That's correct, Michael.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. Great. Thank you.

A - Craig W. Howie {BIO 17579923 <GO>}

You're welcome.

A - Dominic James Addesso {BIO 1428096 <GO>}

That means, Michael, in reverse, to the extent that the currency has reversed, of course, then you'd get kind of the opposite effect. Right. So again, as Craig has highlighted, it's economic neutral - neutral to book value, essentially.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. Great. Thank you.

Operator

And we'll take our next question from Josh Shankar with Deutsche Bank.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Yeah. Good morning. Thanks for taking questions today. My first question regards to Kilimanjaro and trying to understand the structure. In the event of a loss that triggers Kilimanjaro, does Mt. Logan also receive protection under the Kilimanjaro umbrella or is it just the Everest Re book?

A - John P. Doucette {BIO 7178336 <GO>}

Good morning, Josh. It's John. It would just be Everest Re that gets the protection under Kilimanjaro.

Q - Josh D. Shanker {BIO 5292022 <GO>}

So - and that would - that also does not include your equity participation - your equity participation in Mt. Logan is under their terms as well?

A - John P. Doucette {BIO 7178336 <GO>}

If I understand your question correctly, Everest's participation as an investment in Mt. Logan stands pair pass with the investors in Mt. Logan.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Okay, excellent. And so now we are through 4/1 renewals, obviously into the big Atlantic CAT win renewal, but the - I was sort of wondering, when you think about the investors' appetite for third party capital, now that's a big renewal, is there more room for Mt. Logan or a similar vehicle to grow in this environment?

A - Dominic James Addesso {BIO 1428096 <GO>}

Josh, we really can't comment on other vehicles.

Q - Josh D. Shanker {BIO 5292022 <GO>}

I'm saying Everest, does Everest's possible third party participation stand to grow me guess? Is the appetite for the market broadly out there for more third party capital participation at current prices?

A - Dominic James Addesso {BIO 1428096 <GO>}

Well, we can't answer the question tied to Mt. Logan and Everest, and the answer is yes. We have investors; we've been building our investor base in terms of number of investors. We have investors that have been looking at it for a long time and a lot of them it's a slow process in terms of getting comfortable with the underwriting, the team, the analytics, the portfolio, the construction, the value proposition that we put forth, but ultimately, we feel bullish that, that will continue as we feel we have built a meaningful and significant and differentiating proposition for third party capital. So yes, we expect to continue to have increased appetite into Mt. Logan.

Q - Josh D. Shanker {BIO 5292022 <GO>}

And does it - equally in the sort of 15% kind of return characteristic business and the 6% type of return in characteristic or is the demand more so in one area of the market than the other?

A - Dominic James Addesso {BIO 1428096 <GO>}

It's very much - that's a good question. It very much depends on the investor and what their risk profile is, what their return mandates or targets are, and what their overall investment philosophy is, so it really depends on which investor and which type of investor invests in, wants to put money to work in Mt. Logan.

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Q - Josh D. Shanker {BIO 5292022 <GO>}

Sorry about all of the Logan questions, I'm always learning. Do you need both kinds of investors for Mt. Logan to be really successful? Do you need someone to take the severity risk and someone to take the frequency risk or can you grow one pool without growing another?

A - Dominic James Addesso {BIO 1428096 <GO>}

Again, an excellent question. What we've been doing - Mt. Logan is a core strategic part of Everest Capital Management and property catastrophe management, and we will have this for many years to come. But it also is not the only thing we do. You mentioned Kilimanjaro Cat bond. So we balance across the cat bonds, traditional reinsurance protections, traditional retrocessional protections, ILWs and Mt. Logan and the combination of those suite of hedges and cat management structures gets Everest to the what we're comfortable with in terms of a net catastrophe PML position.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Well, excellent answers to all the questions. I appreciate it and congratulations on the book value growth.

A - Dominic James Addesso {BIO 1428096 <GO>}

Thank you.

A - Craig W. Howie {BIO 17579923 <GO>}

Thank you, Josh

Operator

We'll take our next question from Meyer Shields with KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Good morning. Two quick reserve questions, if I can. First, Gallagher was discussing a TPA business and they noted close to 5% existing client claim increases year-over-year. Are you seeing that sort of trend in California workers comp where there's a spike in claim frequency?

A - Dominic James Addesso {BIO 1428096 <GO>}

Was that a frequency trend that they saw or a severity trend?

Q - Meyer Shields {BIO 4281064 <GO>}

That was frequency.

A - Dominic James Addesso {BIO 1428096 <GO>}

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I cannot say that we have seen that, no, not that kind of trend.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Is there anything going on, on the severity side?

A - Dominic James Addesso {BIO 1428096 <GO>}

Not - that has not been what we've seen over the last couple of years. It's been relatively - I don't want to say benign, but it's consistently emerging in the manner that we predicted it would in our loss reserve in process.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, perfect. And then broadly speaking, when you look internationally, underwriting business outside the United States and you've got these currencies weakening against United States, does that translate into a higher required loss trend? In other words, do you have to have, let's say, higher inflation in those other regions?

A - Dominic James Addesso {BIO 1428096 <GO>}

Not per se. I mean, certainly a lot of what we do overseas is first-party cover, cat exposed cover. So it's less casualty focused and more property focused. I mean if you think about global demand, U.S. obviously being the most casualty-intensive place in the globe and, of course, second behind that would be Europe. But no, not particularly noticing any, or we're not fearful of any particularly troublesome inflationary trend, no.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, great. Thanks a lot.

Operator

We'll take our next question from Brian Meredith with UBS.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Good morning. A couple of questions for you guys. The first one, Craig, was there any FX impact on the investment income or the fixed income investment income in the quarter? Or is this decline solely related to just the lower yield?

A - Craig W. Howie {BIO 17579923 <GO>}

That would - so in the investment piece, would actually come through OCI, Brian.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Okay.

A - Craig W. Howie {BIO 17579923 <GO>}

And so that's reflected in the number down below the line.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Okay. So nothing would come by. So that's purely just lower investment yields in the quarter, the 6% decline in the fixed income, okay. Second question, just on the cat losses, once again, there was a couple of European windstorms kind of at the end of the quarter that kind of fell into the second quarter. Was there any exposure there and can you tell us if those were booked if you had any exposure in the first quarter?

A - Dominic James Addesso {BIO 1428096 <GO>}

We don't anticipate anything at this point. We're not anticipating any losses getting into our cat, what we could consider a catastrophe, right?

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Got you.

A - Dominic James Addesso {BIO 1428096 <GO>}

And we classify a catastrophe as above \$10 million.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Okay.

A - Dominic James Addesso {BIO 1428096 <GO>}

It doesn't mean we won't have losses, but at this point it's looking as if that would any of those events would be below \$10 million.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Got you. So they're going to be relatively modest. Got you. And then, Dom, have you seen any impact or seen any business yet from this kind of M&A wave that's going on right now in the reinsurance industry? Or if you're going to see it, when do you expect you might start to see that, some of the spillover?

A - Dominic James Addesso {BIO 1428096 <GO>}

Well, you see it in a few pockets. I mean, it's - I would not say that it's - at this point, it's a huge impact. You do see it in terms of human capital as well though. There's certainly more chatter in the marketplace about that. And that - it would take many months for it to have any material impact for sure.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Got you. So that's what we should be looking for is like teams of people leaving, and that could indicate the movement of business?

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A - Dominic James Addesso {BIO 1428096 <GO>}

That would be one factor. It doesn't mean necessarily that we or anyone else frankly would be picking up teams because we think we have certainly the resources to underwrite that business. I'm just saying that could be a factor, maybe not for us, but certainly it could be for others.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Got you. And then just lastly, any kind of early thoughts on what you think the Florida renewals are going to look like?

A - Dominic James Addesso {BIO 1428096 <GO>}

Well, certainly, there'll be pressure on the Florida renewals. There was some pressure on what we thought was the appropriate premium base for the cat fund. In fact, we put out a fairly big line on the cat fund, and we ended up not - our rate was not accepted. And as a consequence, we took a very tiny line. So if that's any indication, it's possible that the market could start to fall below what our pricing metrics would be.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Great. Thank you.

A - Dominic James Addesso {BIO 1428096 <GO>}

And you have by the way...

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Yeah.

A - Dominic James Addesso {BIO 1428096 <GO>}

And by the way, just to give some context to all that, for us, even though we're obviously listed as one of the largest writers in Florida, a lot of that is pro rata premium. And our excess of loss premium for the Florida-only companies now, right, which would represent the June and July type renewals because we do have other Florida exposure coming from nationals and other sources that have different ex dates. But our XOL business in Florida is approximately \$150 million. So any rate movement that you think about needs to be thought about in the context of that premium base.

A - John P. Doucette {BIO 7178336 <GO>}

And just to add a little more color, we're not sure what's going to happen as we head into June 1 and July renewals, but we do feel very comfortable that we're positioned well to execute our plan, how it happens, where it happens and, again, moving, as we've talked about, go back the last couple of years, we've moved between pro rata and cat very easily. Risk, we moved from Florida-specific to nationwide covers and super-regional covers. In terms of deploying more or less relative capacity as we look at those. We write property insurance in Florida, we write reinsurance, we write retrocessional protections, we write PURPLE. So we have the ability to access Florida exposure in many different ways,

and we take advantage of that. And we also have the ability to hedge and manage the net PML in many different ways as commented on, on one of the previous questions.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Got you.

A - Dominic James Addesso {BIO 1428096 <GO>}

That's a great point that John makes, and the one offsetting factor to what I've described is potential rate pressures at least with, obviously, the first client that's come to market, large client is that there is also some evidence that there will be increased demand coming from the market. So that could dampen any of the rate pressures that we're all fearful of. But we will see as the market evolves. But as John described, we have many different levers to pull and many ways to access profitable business.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Great. Thanks for your answers.

A - Dominic James Addesso {BIO 1428096 <GO>}

Thanks, Brian.

Operator

We'll take our next question from Amit Kumar with Macquarie.

Q - Amit Kumar {BIO 19777341 <GO>}

Thanks, and good morning, and thanks for the call. Just maybe two quick follow-up questions. The first question maybe goes back to Meyer's question. Is the California comp book still running at an AOI LR of mid-90% or has there been any shift in that?

A - Craig W. Howie {BIO 17579923 <GO>}

Yes. That book's still running in the mid 90%. Amit, this is Craig. And we feel as though we're seeing exactly what we expected to come out from a reserving perspective. Those metrics are still running well as well. So that book continues to perform as we would expect.

Q - Amit Kumar {BIO 19777341 <GO>}

Got it. I guess just going back to Brian's question, in your opening remarks, you were talking about, I guess, how insurance will complement reinsurance and you're talking about the franchise. You talked about the other opportunity, but how does M&A factor in into this picture, or are you more on the sidelines right now?

A - Dominic James Addesso {BIO 1428096 <GO>}

When you say how does this factor into what picture, Amit?

FINAL

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Q - Amit Kumar {BIO 19777341 <GO>}

In terms of a strategy and if you look at the list of companies out there, who might be looking for a buyer?

A - Craig W. Howie {BIO 17579923 <GO>}

Well, Amit, first of all, we look at many things and we've looked at many things over the last couple of years. So it's not that M&A is not something that we don't consider, but clearly as we've looked at many different things over the last couple of years, we've ultimately determined that the path that we're on relative to what the other opportunities have been was the best path meaning to build our own platform, continue to build out our talent, build it one brick at a time so you know what you have. It doesn't preclude looking at properties that might be a better fit or might allow you to get to a place faster than you otherwise would, but of course that's all relative to pricing as well. So none of those things are off the table. But clearly we have, as we've gone through the strategy, time and time again, we've opted to continue to grow by building it one brick at a time. Something comes along that's a terrific fit, then we will consider that for sure. But right now we think we've been able to build the right platform on our own.

Q - Amit Kumar {BIO 19777341 <GO>}

Got it. That's all I have. Thanks for the answers and good luck for the future.

A - Dominic James Addesso {BIO 1428096 <GO>}

Thank you, Amit.

Operator

And we'll take a follow-up question from Michael Nannizzi with Goldman Sachs.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thanks so much for taking the follow-up, just a couple quick ones here, if I could. One thing I had a question was the tax rate, Craig. I thought normally like when the cats were lower, the tax rate would be higher just because you had more profitability maybe in the U.S. Was there something else inside that tax rate and how should we be thinking about that part?

A - Craig W. Howie {BIO 17579923 <GO>}

Michael, the way that the tax is calculated is based on a full year annualized tax rate.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay.

A - Craig W. Howie {BIO 17579923 <GO>}

It's an effective tax rate for the year. So in essence, we still have catastrophes planned for the remainder of the year in our plan so that's what goes into calculating the tax. If in fact, we didn't have catastrophes like we've had in past years, that tax rate will inch up because you'll have higher taxable income and have to pay higher taxes. But at this point in the year, it's on the lower end of our range because of the fact that we still have three quarters of catastrophes planned for the remainder of the year.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. Okay, great. That makes sense. And then on the international reinsurance segment, you mentioned some fires, I think, in the prepared comments. How much – could we quantify how much the sort of one-timer-type stuff impacted the underlying there, or was it significant? Maybe it wasn't, I don't know.

A - Craig W. Howie {BIO 17579923 <GO>}

For this year, those numbers are not significant from a standpoint of reaching the level of a catastrophe loss. In other words, it was several fires or several losses that fell below that \$10 million threshold that we have for catastrophe losses, but the number of – the amount of those fires added up to about \$40 million so far this year. Last year, that number was substantially higher, which is the reason that we increased our loss estimate selection for the international segment back in the third quarter of 2014. We continue to keep that loss selection a little bit higher as we go through the year just because of these types of losses.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. Great. And then just last one if I could, I mean, just thinking about the cats being a little bit lower, we get a little benefit tailwind from taxes, the FX item. How should we think or how do you think about the current ROE relative to your own cost of capital, just given your own historical context and how you're thinking about results at this point? Thanks.

A - Dominic James Addesso {BIO 1428096 <GO>}

Well, clearly at an 18% ROE, we're well above our cost of capital. So I don't know that that's necessarily a pressing issue. Even though – this may not be answering your question directly, Michael, and if it's not please follow-up, but it's – we had, as I said, an 18% ROE. We benefit, of course, from light cat years, but certainly so does the rest of the market.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Right.

A - Dominic James Addesso {BIO 1428096 <GO>}

If you take our expected cat load, which we think about as like 12 points, combined ratio points, that's about 6 points of ROE.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. Okay.

FINAL

A - Dominic James Addesso {BIO 1428096 <GO>}

And even at that level, we're well above our cost of capital and, clearly, we are outperforming the market. Frankly, even after that cat load, I would almost argue that we're outperforming the market even if you put that number in, comparing it to the rest of the market with no cat. So we're not bumping into or getting close to even at those levels to our cost of capital. The point I made in my opening comments was that it seems to me that, as an industry, we are getting pretty close to that, but we are not there yet and not even there. And so that should have some - you would think it would have some impact on pricing.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. Got it. Thank you so much for those answers. Really appreciate it. No, it's great, Dom, thank you so much. Thank you.

A - Dominic James Addesso {BIO 1428096 <GO>}

Okay. So I think we're done with the questions. I don't think there's anyone left there with a question. So let me just thank everybody. In closing, I'd like to emphasize our underlying core results are strong, both in the reinsurance and in our insurance segments. As I said clearly, we benefit from light cat years, but again even with an expected cat load we are still very much outperforming the market. And this frankly is a result of portfolio diversification and an effective use of capital, both internal and external. As we've kind of highlighted on this call, and frankly in conversations we've had with many of you previously. So I'd like to thank you all for your participation on the call and look forward to speaking with many of you in the weeks ahead. Have a great day. Thank you.

Operator

And that does conclude today's conference call. We appreciate your participation.

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