Investor Day

Company Participants

- Dana Lodge, Chief Financial Officer, Insurance Division
- Jim Williamson, Executive Vice President and Group Chief Operating Officer
- Jon Levenson, Chief Communications Officer Head of Investor Relations
- Joseph V. Taranto, Director and Chairman
- Juan C. Andrade, President and Chief Executive Officer
- Mark Kociancic, Executive Vice President and Group Chief Financial Officer
- Sharry Tibbitt, Senior Vice President & Deputy CUO Reinsurance Division

Presentation

Jon Levenson {BIO 18636999 <GO>}

Good morning, and welcome to the Everest Re Group Investor Day Webcast. I'm Jon Levenson, Head of Investor Relations and your host for today. This is our first-ever Investor Day, and we are excited to be here and to have you joining us today. The Everest executive team members are all here with us to share the strategy and goals of the company through a combination of presentations and Q&A.

Let me provide an overview of the day's agenda. Joe Taranto, Chairman of the Everest Board of Directors, will open the day with some brief comments, then Juan Andrade, Everest's Director, President, and CEO, will start the formal presentations by detailing our vision, strategy, and world-class team. Mark Kociancic, Chief Financial Officer, will then detail our financial plan and the road map to achieving our goals. Jim Williamson, Chief Operating Officer and Head of Reinsurance, will then explain the robust governance and risk management framework in place. We will then have an initial question-and-answer session, followed by a quick break. From there, we will resume with detailed presentations from our business and investment leaders, followed by a wrap-up from Juan and a longer Q&A session.

Just a quick explanation of the Q&A process. Anyone in the webcast today can ask a question that will reach our Investor Relations team. There is a tab on the webcast to email your questions and our team will gather these for the Q&A sessions. Please send questions as soon as you have them to give us a few minutes to get this all organized, and also let us know if you would like to remain anonymous, although we ask for your details for our reference.

With that, I am pleased to turn the day over to Joe Taranto, Director, and Chairman of the Everest Board of Directors.

Joseph V. Taranto {BIO 1495653 <GO>}

Thanks, Jon. Today, you are going to hear about our company's next chapter. I would like to begin by introducing our President and CEO, Juan Andrade, who, along with our executive team, is building on our proud history and engineering the changes that will position us for continued growth and success.

After an extensive search, the Board of Directors was most gratified to appoint Juan as the new President and Chief Executive Officer of Everest. Juan is an extremely capable leader with energy, vision, and close to 30 years of industry experience in addition to his prior public service career. He truly understands the details of our business, having led global organizations and successfully led underwriting, distribution, and claims operations at major insurance companies, including Chubb, The Hartford, Progressive, and AIG. His broad experience and insights, together with his expertise in managing risk, are great assets for our company.

Since his arrival 18 months ago, Juan has deepened our experienced management team and directed meaningful improvements in our underwriting, risk management, financial and operational processes, all of this amazingly, while growing the company and leading it through the pandemic and the economic downturn. Juan also brings a truly global perspective and genuine understanding of the important societal roles that Everest can serve. The Board members and I have great faith in Juan's ability to lead Everest through the next chapter of its development and we are incredibly excited about our future.

Juan C. Andrade {BIO 16371272 <GO>}

Thank you, Joe, for that introduction. And thank you all for joining us today. This is an exciting day for Everest as we get to showcase our go-forward strategy with our new management team firmly in place and present our first three-year plan. I would like to start by highlighting the value creation opportunity that I saw in Everest as its new CEO 18 months ago. And how we're transforming the company to be a top-performing investor and customer platform. This is a new chapter in our history and an exciting one. We have a clear plan to get there, and we're already moving in that direction.

Let me start by talking about the strong foundations Everest has to provide the gateway into our new strategy in the future. First, Everest is a unique company with a successful 50-year operating history. We have an extensive track record of delivering value for our clients and for our shareholders. Our ability to consistently provide outstanding service and risk solutions to our clients serve as the cornerstones in building our reinsurance and insurance franchises throughout our history. This value proposition is what differentiates Everest in the marketplace and provides for sustainable long-term relationships with our clients. We will continue to focus on our clients and build on that success.

Second, this is a platform with a unique potential for sustainable, profitable growth. We are a leading global reinsurance company that is well-positioned to expand to meet market opportunities, and we have a differentiated specialty commercial insurance business with significant runway for profitable growth ahead.

Third, Everest has a powerful and prudently managed balance sheet that has the strength to support our clients in their times of need, provide capacity for our organic growth objectives and generate attractive earnings that will deliver leading returns to our investors.

Fourth, I've had the privilege of handpicking an incredibly strong leadership team. They know what works in this business, and like me, they also recognize the tremendous opportunity before us at Everest. I'm going to talk more about the team in a moment.

Fifth, at our core, we're an underwriting company. We are focused on delivering industry-leading underwriting returns. We are willing to take risk, but we must be paid appropriately for the risk that we take. If we cannot achieve our expected returns in a particular product line, we dynamically reallocate capital to more economically attractive products.

And six, we are laser-focused on continuous improvement and operational excellence to drive results and best position our company to rapidly changing market conditions. This allows us to be nimble, and react faster than our competitors to market opportunities.

You will hear these words several times today. These are simple words, but they are powerful and a differentiator. They are what is allowing us to make the extensive number of changes that are driving meaningful improvement in operational performance across our entire company. Before we discuss our strategy, it's important to understand our philosophy and the underlying foundation that drives our actions. We have seven guiding principles, and I want to take you through them.

First, our objective is to deliver leading financial performance. Two, we're an underwriting company whose core competency is the assessment, underwriting, pricing, and management of risk. Three, we are committed to building a broadly diversified company with competitive advantage and opportunistic responses to market dislocations. Four, we are focused on an investment strategy, which optimizes risk, return, liquidity, and asset liability management, providing support for and balance to our underwriting risk. Five, we are committed to an efficient cost base, a flat, responsive, and entrepreneurial organization, and the relentless pursuit of continues operational excellence. Six, our plans are based on organic growth, but we will continuously assess opportunities to accelerate our strategy through acquisitions and partnerships. Seven, we're committed to investing in our people, in our culture, and to building on ESG best practices in everything we do. We hold ourselves to the highest ethical standards.

If I had to describe my priority in the first 18 months in this role, it was to pivot Everest toward the future. I joined a great company with untapped potential. What we needed was the focus and the strategy for this next evolution of our growth story. We needed to make changes that built on the success of the past and could support our future ambitions to excel in the next 50 years. This is what we have done. And today, we're going to tell you about where we're going.

Building on strong foundations, we are creating an even brighter future for Everest that will deliver significant value for our stakeholders. So let me lay out for you what I want to spend the next few minutes talking about. First, I want to review where Everest is today. I will discuss how we're building on the excellent market positioning we enjoy in both our insurance and reinsurance businesses, and how we will accelerate our Insurance Division growth and its margins and further improve our Reinsurance Division positioning and operating margins.

Second, I will outline our strategic vision for how we will drive Everest forward. We have a clear and well-defined plan with key performance metrics to drive accountability and measure progress. Finally, I will address what this means for our shareholders. We firmly believe that our path forward will deliver improved returns with the ambition and the opportunity for further upside.

We have a unique global P&C platform with a 50-year history. In 2020, we celebrated 25 years as a publicly-traded company. That's saying something in today's market, particularly in a global reinsurance landscape that has seen extensive change over the past decade. Many of our reinsurance client relationships have been in place for over 40 years. And in a relationship business, defined both by your capacity to pay claims and also a history of paying claims, our legacy is a critical asset that cannot be easily replicated.

We are a growth company. As a group, we have delivered a 12% gross written premium CAGR over the past five years. And our high-growth Insurance Division delivered a nearly 16% CAGR. We were able to deliver this growth because of several key competitive advantages. Everest has a strong balance sheet. We have $9.7 billion in equity capital and low leverage with a 14.1% debt to capital ratio. And our financial strength is recognized by the rating agencies with A+ equivalent financial strength ratings across the board.

Everest has a diversified business model, with three engines driving broadly diversified earnings: insurance, reinsurance, and our investment portfolio. We benefit from our relentless focus on underwriting profitability, strong cash flows, and a growing and well-managed investment portfolio. As I said earlier, we're a nimble and entrepreneurial organization that utilizes our efficient global structure and our low-cost expense base to our advantage, as we construct our portfolios. This is ingrained in our DNA, and it's a significant competitive advantage.

And finally, we will continue to effectively partner with capital markets investors, both through our Mt. Logan platform and as the largest issuer of cat bonds in our Kilimanjaro program. Our underwriting divisions are also well-diversified by product line and geography. Each has generated double-digit CAGRs over the past five years with strong underlying underwriting performance. We have also taken steps to reduce volatility, strengthen our balance sheet, and grow in a thoughtful and sustained manner. This will serve as well as we seek to expand margins going forward.

We also share a common culture and DNA as entrepreneurial problem solvers. We are excellent operators. We empower our people with underwriting authority at the local level, plus we provide rigorous oversight at the group level through a strong enterprise risk management framework. Most importantly, we deeply care about our customers and we are a preferred partner with long-standing relationships.

One of the most significant changes that I drove in the past year has been the selection of our new leadership team. As we have repositioned ourselves to build strong foundations for growth, we needed a management team able to implement the required changes and with the experience to drive this business forward and realize our ambitions and potential. We have formed that team and they have already exceeded my expectations in how they work together and the meaningful impact they are making on the business. I have great confidence in their ability to help me take this business to the next level.

You will hear from them during this event, but I would like to introduce them to you now. Mark Kociancic joined Everest in October of 2020 as the Group Chief Financial Officer, a role he previously held at SCOR. Jim Williamson and I have worked together for over 15 years. He joined Everest from Chubb in October 2020 as the Group Chief Operating Officer and is now also Head of Everest Reinsurance Division. Mike Karmilowicz, our President and CEO of Insurance, has over 30 years' experience in the industry and he joined the company in July 2015 from Zurich. His Chief Operating Officer, Mike Mulray, joined the company from General Electric at the same time.

You will also hear from Chris Downey, our Chief Underwriting Officer, for our Reinsurance Division and CEO of Everest Re Bermuda. He brings extensive reinsurance experience. My first external hire with Seth Vance, our Chief Investment Officer. Seth joined Everest in September of 2019 as the Treasurer. His experience in asset management brings new insights to the management team.

We have also assembled a great team with our functional leaders, some of whom will join us for the Q&A session. You can see them all on the slide and they include both veterans of Everest and some of our newer additions. I am incredibly proud of this team, and what they've already achieved and excited to be working alongside them to execute on our go-forward strategy.

So let me talk more about strategy. The strategy has three building blocks. First is building our franchises. We are growing our specialty P&C insurance platform while expanding its margins. We are solidifying our leadership position in global P&C reinsurance, and we are further growing and diversifying this business with higher-margin product lines. Also, our investment portfolio is a core tool for generating returns, and we're optimizing the portfolio and sharpening our strategy.

Second, we are very focused on the continuous pursuit of operational excellence. This starts with a laser focus on underwriting discipline through a system of greater management oversight and additional checks and balances. The operational excellence focus goes beyond underwriting. We are transforming the operating model of the company to achieve greater scalability over time.

As we demonstrated during the pandemic, we have the capacity to be a digital-first company. We intend to push the paradigm of a technology-enabled, data-driven model throughout the organization. We will be investing in the future of Everest in an efficient and ROI accretive manner. Also, we're utilizing a dynamic capital allocation model. We seek to optimize capital within our underwriting and investment portfolios, as well as between underwriting and investments more broadly. Capital is valued and respected. We are utilizing the most efficient sources of underwriting capital, across capital market investors, including ILS. And as we generate capital beyond the needs of our organic growth strategy, we will return capital to shareholders.

Finally, ESG principles are core to Everest. This includes focusing on the culture of our firm. Culture is one of our key differentiators and it is one of the reasons we can attract and keep top talent. Our culture drives our success by helping our team to be the best it can possibly be. We are focused on making sure that we invest in both the talent of the organization as well as the diversity of our team. This is personal to me. And you will see a concerted effort on diversity, equity, and inclusion at our organization. We are also taking proactive measures to ensure we're responsible stewards of the environment in how we conduct our business. We're all working towards a goal of achieving a zero-emissions workplace across all of our offices by the year 2050.

At Everest, in addition to our building blocks, we have three drivers of earnings. The first driver is about building a high-quality, specialty commercial P&C insurer. Everest has built this business organically into a $3.2 billion gross written premium business today, but we believe we can more than double the size of the business profitably over time. Part of this will come from our extensive operational transformation, which has its foundation in driving underwriting excellence across the board.

We're also integrating data and analytics across the organization. Everest is on a path to become a digital-first specialty P&C insurer. I have already talked about how we're investing in our technology infrastructure. One of its benefits is enabling us to more effectively price and assume risk for our clients. This means we make better underwriting decisions that lead to improved loss ratios.

We're also improving our claims outcomes. As we scale the business, we are creating claim centers of excellence internally, resulting in superior loss and loss adjustment expenses while providing a superior service model for our clients. We're also focusing our distribution efforts to be more sales and results-oriented.

And we're also expanding our global footprint. With our strengthened executive leadership team, we have additional capabilities to manage and grow profitable commercial insurance business on a global scale. Mike Karmilowicz and Mike Mulray will provide further details on our insurance execution strategy.

Our second driver of earnings is Everest's reinsurance platform, which is an industry-leading global P&C reinsurer. We enjoy the leading market position of a fully scaled platform. And we will use three drivers to continue to grow and optimize our reinsurance platform. One, we're driving an underwriting transformation by improving operational oversight, governance and controls. Our Reinsurance Division has a history of being entrepreneurial and nimble, and we will maintain it within a framework of pricing, reserving, and process discipline.

Two, we're further diversifying into higher-margin opportunities. For example, we see a continued path to grow our mortgage reinsurance book and we see additional opportunities by partnering with key ceding clients.

Three, we're expanding our risk financing by further partnering with ILS investors. Everest is currently the largest sponsor of cat bonds in the market via our Kilimanjaro cat bond program. Also, we have built an excellent ILS capital management business with Mt. Logan Re. And we will look to substantially grow the assets under management at Mt. Logan in partnership with our investors. So that's reinsurance.

The third core driver of our earnings is the investment portfolio. We're maintaining a high-quality and diverse portfolio, particularly for the portion backing our reserves. In the portfolio backing shareholder capital, we are focused on maximizing both risk-adjusted returns and returns on capital. We are investing our portfolio with an ESG mindset.

We intend to make sure that the asset managers we work with reflect our ESG objectives throughout the portfolio. By relentlessly executing on this plan, we will profitably accelerate our top-line growth in attractive markets. We will attain a combined ratio in the low-90s, and we will increase our net investment income while offsetting pressures of the low-interest rate environment.

In our industry, those who execute best, win. To that end, I'm very focused on continuing to enhance our risk management framework and underwriting discipline. Everest has a great platform, and with the additional management talent, we are reinforcing the risk management culture. Don Mango is a key driver of success for us in these efforts. Don is a legend in the actuarial community. He's recognized by his peers. His track record speaks for itself, and I'm delighted to have him on our team.

We're also improving the underwriting checks and balances. We need to make sure that there is excellent governance when we set underwriting limits and ensure that when we define our view of risk that we stick to it. Tied to our checks and balances is developing and maintaining a single view of risk throughout the organization. Our senior executive team has a relentless focus on the measurement of risk, setting risk appetites, and then maintaining discipline around their implementation.

Finally, we will increase our investment in enterprise risk management and actuarial teams. It is critical that we have ERM and actuarial embedded in the fabric of what we do daily. To achieve our risk and underwriting objectives, we are also transforming our operating model. As I said previously, Everest is on a path to become a digital-first company. So the first step in our transformation is to surgically expand our technology investments throughout the underwriting businesses. However, when we make investments, we do so within the context of a clear, measured, and well-understood return on investment framework.

We're also improving our core processes. We want to make sure that we are as efficient as possible by leveraging process automation, technology, and data and analytics throughout the organization. I'm excited to have both Anne Rocco and Terry Walker driving this forward. Anne is our Chief Transformation Officer and an experienced industry veteran. The business is already benefiting from her tremendous drive, experience, and insights. Terry is our Chief Information Officer. He too has extensive experience in this industry and has been a vital component in enabling us to capitalize on the new technology and data and analytics.

We're also investing in our claims organization. Claims is key to both managing loss and also improving the client experience. As we scale our primary insurance business, this becomes a critical component of our success. We are continuing to leverage our flat, agile organization. Our clients and broker partners regularly cite the ease of working with Everest and the expertise and partnership that our nimble and entrepreneurial organization brings to the table. We are also focused on maintaining a clear, disciplined capital allocation model. Mark will walk you through our framework shortly.

Next, we are expanding our sources of underwriting capital. We are further optimizing our balance sheet capital structure, and we're expanding our utilization of ILS investor capital, particularly in our Mt. Logan vehicle. These collective efforts will improve our risk-adjusted operating margin, while reducing volatility, create a proactive and scalable management model, and result in an optimized capital structure that allows for dynamic capital allocation to the highest value opportunities.

As I mentioned already, our third strategic building block is about how we approach our business day in and day out and how we conduct ourselves according to our principles. Our people, our talent, and our culture are the most valuable asset at Everest. We intend to further invest in our current team and continue to attract leading industry talent every day. I believe the key driver of the attraction to Everest is our culture. As a financial services company that takes risks associated with climate change and a sizable investment portfolio, we are looking to embed climate science into our actions across the business.

Also, as I said before, we are committed to diversity, equity, and inclusion. We are making progress with actionable on-the-ground efforts. Now, I would like to turn your attention to Dana Lodge, the CFO of our Insurance Division to provide more insight into our efforts around diversity, equity, and inclusion.

Dana Lodge

Any organization has a competitive advantage when it fosters diversity and race, gender, sexual orientation, culture, views, and perspectives. Diversity, equity, and inclusion has always been fundamental to the way we behave and do business at Everest. I chair the Diversity, Equity, and Inclusion Council. The mission of the council is to serve as the organization's conduit to senior management as we continue to enhance our commitment to diversity, equity and inclusion.

We're focused on maintaining and enhancing our environment so that employees of all backgrounds, perspectives, and experiences feel they can really bring their whole self to work and contribute to the success of the company without concern. Our council partners closely with human resources, senior leadership, and the executive committee of the group to support initiatives throughout the company that promote diversity, representation, transparency, and awareness.

We've created three new employee resource groups, each focused on different colleagues, African Americans/black employees, LGBTQ+ employees, and Pan-Asian employees. These groups provide professional development and inclusive culture and drive awareness across the organization. In addition, our talent acquisition team is actively strengthening our strategic partnerships with several diverse organizations who want to raise awareness of opportunities at Everest so that we can attract diverse talent and really help build future leaders. As we continue to evolve and grow as a company, we remain highly committed to investing the time, and talent needed to foster a diverse and inclusive culture for our employees, our clients, and our customers.

Juan C. Andrade {BIO 16371272 <GO>}

That was great, Dana. At Everest, we have a singular focus for creating shareholder value, growing book value per share plus dividends per share. The equation for driving shareholder value is simple to describe, but more difficult to execute. It encompasses the combination of underwriting income, investment income, and prudent capital management.

Our strategic plan will result in an annualized growth in book value per share plus dividends of at least 13% by 2023. Importantly, we are still in the early innings of our implementation, and as we continue to grow and execute our plan, we have ambitions to be a leader in terms of total shareholder value creation.

In summary, our vision for Everest is clear, and it will drive exceptional outcomes for shareholders. We intend to profitably grow our insurance and reinsurance franchises by leveraging a solid foundation built over 50 years in the market. We will expand our opportunity set through accretive organic growth and we see an extensive runway of opportunities in front of us.

Our entire organization is laser-focused on allocating capital and resources to the highest return alternatives. Risk management, discipline, and governance is core to everything we do. And we are transforming our model to a technology-enabled business that will allow for proactive management and operational excellence with more consistent results and lower volatility.

In conclusion, we believe these actions will deliver superior financial performance through the cycle. My closing thought brings us right back to where I started, and that is about the opportunity ahead. We are forging a path forward that builds on our past and creates an even brighter future for our company and our shareholders.

And with that, I'll turn the presentation over to Mark Kociancic to walk through our financials.

Mark Kociancic {BIO 17852409 <GO>}

Good morning. I'm Mark Kociancic, Group Chief Financial Officer of Everest, and I'll be taking you through the financial road map of our three-year strategic plan today.

At Everest, we have only one financial target, maximizing total shareholder return as measured by book value per share and dividend per share growth. Our ultimate objective is to provide a leading book value per share performance versus our peer group. This three-year plan gets us to at least the 13% level by the end of 2023. But we believe there's even further upside from that in the future.

Currently, we see the company operating at approximately 11% total shareholder return on a normalized basis, and it's important to note that we look at this target, including a normalized catastrophe load, and investment returns that remove one-off effects.

Three areas are going to drive the uplift in the financial target: underwriting income, investment income, and capital management. We expect underwriting income improvement will be the largest uplift of the core drivers. Investments are a key engine and we will look to offset the impact of the low-interest rate environment with a prudent strategy that enhances overall yields.

Capital management is about efficient deployment of capital and the efficient structuring of our capital. As you can see from the slide, we've provided ranges for the key assumptions in this three-year plan. We can operate at multiple points within these ranges and still achieve our financial target. Flexibility for agile decision-making for capital deployment and a dynamic business mix is essential. We need to be agile for whatever the market throws at us.

We believe that we'll generate a gross written premium CAGR in the 10% to 15% range over the next three years. Our focus on portfolio management, cycle management combined with the improved pricing cycle is expected to drive our combined ratio into the 91% to 93% range. Again, we will not grow for growth's sake, we will only grow accretively because we are focused on our financial target.

We'll be enhancing the asset management strategy, so that it's more capital efficient, provides enhanced investment income, and is complementary to the underwriting plan. Investment returns provide another significant income stream and they diversify our earnings and risk profile. Our working assumption over the plan is a return on invested assets in the range of 2.75% to 3.25%.

This management team has a relentless focus on maximizing return on capital. I fully intend to promote an A+ equivalent financial strength rating, while adhering to a consistent, moderately high-risk profile as defined by the rating agencies. We see our capital structure as an additional driver of shareholder value. The capital structure has flexibility with a long-term debt leverage range of 15% to 20%.

Moving on to underwriting income, we have scalable platforms in both reinsurance and insurance that will drive or organic growth well into the future. With reinsurance, we have a leading franchise where we can compete with anyone. In insurance, we have a strong platform that is well-positioned to grow and capture share in the U.S. and internationally.

We'll generate economies of scale as we grow our premium base, and in particular, we'll be able to build internal centers of excellence within our Insurance Division, which will improve productivity. I fully expect accretive growth in both reinsurance and insurance. Expense discipline is an advantage versus our peers, and it's one that we're going to continue to focus upon.

Having said that, we'll be investing more in technology and that resource allocation process has a high degree of C-suite governance to ensure value and priority in the decision-making process. Relentless focus on measurement and a comprehensive planning process brings discipline and helps make decisions on cycle management, portfolio management, and how we invest in our business.

We're in a growth mode in this hard market, but a fundamental principle that we stress is the need to see competitive advantage within the near-term in any line of business we launch or operate in. So let me focus on investment income. We look at our investments as a single portfolio with two strategies, our core strategy portfolio backing underwriting liabilities, and a total return strategy portfolio backing our shareholders' equity, driven by the combination of fixed income alternatives, plus public and private equity.

Our core portfolio strategy is defined by maintaining high credit quality, high liquidity, matching durations all while maximizing portfolio yield. We've brought in strategic allocations to high-grade structured credit within our fixed income alternatives portfolio, and that will enhance yield.

Private and public equity assets drive our total return strategy. We're also increasing our allocation of private equity buyout and secondary funds as we look to improve the total return and overall capital efficiency of these portfolios. Seth Vance, our Chief Investment Officer, will go into more detail later on in the investment section.

A few words on our capital management framework. We look at capital management over the long term. We have a clear five-step framework on the right side of the slide and you can see the objectives on the left, let me take you through them. First, we ensure adequate capital and liquidity to support an A+ equivalent financial strength rating.

Second, we're focused on only funding accretive growth strategies. And by doing this, we create franchise value. Both the Board and management team are committed to attractive shareholder remuneration, which encompasses quarterly cash dividends and opportunistic share repurchases. And when we do return capital to shareholders, we will do so thoughtfully and in the most accretive manner. We will consider M&A if it accelerates our organic growth strategies and we currently see a very attractive organic opportunity set in front of our businesses, so there will be a high bar for M&A in the current market.

While we follow our capital framework, our actual capital allocation process is granular and dynamic, and it takes place throughout the year. Our resource allocation begins with our annual planning process and this entails a highly detailed one-year operating plan and an update to our multi-year strategy. This process sets the basis for our portfolio objectives and is aligned with our board risk tolerance and enterprise risk management framework.

It results in the strategic allocation of capital between our core earnings engines of insurance, reinsurance, and investments. Each quarter executive management conduct reviews of each of our divisions and investment strategy. This allows us to reconfirm our assumptions, and respond to changing market conditions. It is a critical exercise for our teams to make sure that we're on top of any loss trends that may drive updated pricing decisions and near-term portfolio modifications.

Every day, our underwriting teams are making ground-up contract decisions, while our investment allocation decisions are under constant review from myself as CFO and our Chief Investment Officer. We have a sophisticated approach to creating underwriting capital and we expect to continually optimize our underwriting capital structure over time. Here at Everest, we will continue to optimize our balance sheet capital between debt, equity, and other hybrid structures, as we grow and evolve. Mt. Logan is our third-party managed vehicle, and we expect assets under management to increase significantly. This will be addressed by Jim Williamson later on, and we will continue to use ILWs opportunistically.

Everest is also the largest cap bond issuer. We've built a portfolio that utilizes a laddered issuance approach so that we can maintain stable long-term capacity with the consistent price in a core piece of our risk management strategy. Everest benefits from a low cost of capital and a flexible capital structure. As I mentioned earlier, an A+ financial strength rating is key to the franchise. Not merely an expectation for investors or bondholders, it's also essential for clients. We're focused on lowering the cost of our underwriting capital where possible by debt or through alternative capital means.

As we consider any future debt issuance, we'll utilize the following four issuance principles. We want long dated tenures and laddered maturities, we want to attain regulatory and rating agency capital credit, all while accessing the lowest cost of capital, and targeting a long-term debt leverage ratio of between 15% and 20%.

We are focused on building a long-term capital structure in order to capture the growth opportunities ahead of us. Liquidity and cash flow generation are critical aspects for any strategic plan, as you can see on the slide. Everest has a very stable business model that consistently generates strong levels of cash flow. And this cash flow strength also protects the balance sheet.

In times of financial market stress, we have the ability to leverage that strength of liquidity and take thoughtful strategic steps that maximize value for our stakeholders. As you can see from the bar graph, we maintained positive annual cash flows, even in heavy catastrophe years like 2017 and 2018. And in 2020, despite the impact of multiple natural catastrophe events and COVID-19, Everest generated nearly $3 billion of operating cash flow.

While our cash flow profile is a key component to our overall liquidity, Everest has a thoughtful and robust liquidity management paradigm. We have the comfort to draw on a combination of three sources. First, our strong operating cash flows. Second, our liquid asset portfolios. And third, our $1.6 billion federal home loan bank liquidity facility. This gives us confidence in our liquidity position.

In addition to our liquidity paradigm, the other liquidity advantage we enjoy is our corporate structure and this includes our flagship U.S. balance sheet, allowing Everest to optimize our collateral requirements across a range of clients. Our prudent management of PMLs minimizes the risk of short-term liquidity draws. And we also benefit from our high-quality reinsurance and significant levels of available collateral. Finally, our low debt leverage profile can be a source of contingent liquidity in the future, if needed.

Our global platform is highly efficient and unique to Everest. I want to take a few moments to explain why it's such a differentiator for us. As I mentioned earlier, our global legal entity structure has leading U.S. and Bermuda balance sheets. And that allows for continuous optimization of our capital and risk in order to maximize returns. Our broader set of legal entities are based in jurisdictions with stable political, regulatory, and legal systems. This means that we can be confident in our long-term operating capacity. We also have an asset portfolio that is focused on major global currencies. It's predominantly U.S. dollar-denominated with a mix of other G10 currencies.

Let me sum up our financial road map. We have an attractive three-year financial target of total shareholder return greater than 13%. But as I said at the start, it won't stop there. We, as a team, have much more ambition beyond this plan. We're working towards a low-90s combined ratio across the group, but we know things can change, and we always expect the unexpected.

So we have multiple paths and strategies to achieve our target. I'm also anticipating double-digit premium growth each year of the plan. We'll enhance our risk-adjusted investment returns within our existing risk appetite by optimizing our investment portfolio to an efficient frontier centered on risk, return, and capital efficiency. We'll actively manage our capital, and we have a clear capital management framework.

I'll be focused on the efficient and productive deployment of that capital across all of our resources. We're in a great position. I'm excited about our prospects and our ability to deliver on this plan. We have a fully motivated team with three business engines operating on all cylinders. Our strategy provides substantial operating flexibility over this plan and into the future. All of this will drive meaningful value creation for our shareholders.

And with that, I will turn it over to Jim Williamson to take you through our group risk section.

Jim Williamson {BIO 19072526 <GO>}

Thanks, Mark, and good morning, everyone. It's a pleasure to be with you virtually today. Hopefully, the next time we do this, we can be in the same room. I'm going to spend a few minutes giving you an overview of Everest's approach to managing risk. Many of the themes I'm going to talk about echo what Juan has said, and you'll hear them again when Mike Karmilowicz talks about the Insurance business and when I come back to talk about Reinsurance.

There is a reason for that. Risk is at the center of everything we do at Everest. We get paid to assess, underwrite, price, and manage risk. Controlling risk is critical for our company, but we can't drive our business and create underwriting income without taking risk. Everest has built a layered interlocking approach to how we manage risk, that goes from the very top of our company, right there with Juan, all the way to the point of underwriting on individual deals.

It starts with clearly defined group risk tolerances for all the types of risk our company takes. Natural cat, credit, and investments to name a few of the big ones. We carefully assess those exposures, the economic returns of taking more or less risk in each area, the resources available to us to sustain hits, our hedging to define limits on how much risk we want to take on. Those limits are set dynamically, but we don't cross those limits for the sake of a little extra underwriting income, or a few basis points of yield.

Next, we have a robust enterprise risk framework. That framework is where we capture, assess, and monitor all the underwriting financial and operational risks we take as a company. Here's three examples: social inflation, cyber both in terms of our underwriting as well as the security of our own systems, and climate change. Each of these exposures are analyzed, documented, monitored, and mitigated wherever possible.

Finally, and in some ways most importantly, because it's where the rubber hits the road for an underwriting company is our approach to underwriting risk governance. We translate all of our risk management guidance from the group to our individual underwriters. This includes defining our appetite, setting underwriting guidelines, implementing pricing models and benchmarks, and monitoring the development of our portfolio.

I'll share one example of how these three capabilities interact to help drive our company. Take one of our most important risk exposures, Southeast windstorm. This is a risk exposure that creates a high reward opportunity, but also with relatively high risk. We have to maintain a consistently prudent approach to exposing our balance sheet to this risk class.

So beginning with our group risk tolerance, we set our total group risk tolerance for Southeast windstorm. We set an annual target using metrics like PML, and though we're always assessing and reviewing that target, it does not change from day to day. It's a ceiling. Everyone in the company knows what that ceiling is and everyone in the company knows you respect the ceiling. We know how much of this exposure we want to take given market conditions, our balance sheet, and our approach to hedging.

In our enterprise risk framework, there are many risks that could relate to Southeast windstorm, but one clearly stands out, climate change. I'm going to talk about climate change in more detail in a minute, but you can appreciate that it's a critical component to understanding the risk around Southeast wind. We are keeping climate change front and center in our risk framework. Its impact on loss costs, in our modeling, and how it changes the dynamics of Southeast coastal storm damage.

Finally, in our underwriting risk governance model, we're providing our underwriters with clear guidance and insights when they're taking on wind exposure in the Southeast. That includes clear underwriting guidelines about physical exposures we look to avoid, robust cat model output to help us compare the economics of various deals, and other key quantitative indicators.

So you can see how an overall risk threshold translates from setting group risk appetite, monitoring key-related risks all the way to individual account decision-making. This allows us to drive our strategy and grow our underwriting income while keeping the overall risk profile of the company in control. We've been focused on transforming Everest's risk profile over the last several years and I want to show you the results of those efforts.

First, let me take a moment to explain this slide a little bit. It shows where the company's risk profile stood after the January 1st renewal season in each of the last eight years. It goes without saying here that red is higher risk, green is lower, more sustainable risk levels. The vertical axis measures earnings at risk, think of that like a one in 10-year measurement. The horizontal axis measures capital at risk, think more like one in 250. The farther you are from the intersection of those two axes, the more risk you're taking.

We have clearly walked the company back from a risk profile that just did not make sense to this management team. If you go back to 2017 and 2018, for example, we had taken on a lot of cat risk, particularly Southeast windstorm to use our example from a moment ago. Not just total risk, but how we were taking it made a big difference. We wrote a lot of cat ag programs for large global underwriters. Good stuff most of the time, but it's highly levered and has the potential for large losses.

You can see the reaction to some major losses by our move away from that high-risk zone toward a trading range that's sustainable and appropriate for Everest. In both 2020 and 2021, we're able to drive meaningful top-line and bottom-line growth for the company, while also reducing the potential for outsized volatility.

How do we do that? First, we are very careful about the types of deals we write. For example, while cat pricing is much more in favor today, we believe reinsurers still need more return in order to write meaningful amounts of cat aggregate. We've diversified our book, that means more sources of quality earnings and less reliance on a single peak cat zone. Finally, we work with the capital markets to expand our underwriting capacity. At the core of this is Mt. Logan, where we partner with investors to strategically grow our market presence while minimizing retained risk to our balance sheet. Additionally, our cat bonds and the targeted use of ILWs and retro purchases provide consistent hedging capacity.

I'm going to turn it over to Sharry Tibbitt, Deputy CUO of Reinsurance, to talk about how we balance risk taking and risk control in our business.

Sharry Tibbitt {BIO 21727093 <GO>}

Everest is dynamic. We do have an appetite for cat risk, but we insist on superior economics. Over the last two years, we've been reducing volatility on our property cat business where the economics did not meet our hurdles. At the same time, we were able to move some capacity to less volatile lines. This culling of the book wasn't done with a broad brush, but was very calculated.

We've been a go-to-market for nat cat property and we saw some terrific opportunities over the last 12 months to 18 months to deploy significant capacity on deals that had superior metrics. We're able to do this while still controlling the volatility with our dynamic hedging capabilities. Having the ability to respond quickly and provide meaningful capacity to our clients really sets us apart from our competitors.

Everest has robust tools and a global pricing platform that steer a consistent appetite towards the best treaties and even specific layers within treaties in real-time during our underwriting process. This allows for a continuous optimization of risk selection. We also leverage Everest's extensive historical claims data. In addition, we have our robust modeling insights. This includes research to keep us apprised of the evolving property landscape and incorporates the effects of climate change and urbanization.

Jim Williamson {BIO 19072526 <GO>}

As you heard from Sharry, we like cat risk. We just want our risk to be prudent and we want to get paid appropriately and we can strike that balance. Let's turn our attention to one of the most important risks facing the insurance and reinsurance industry, climate change.

Climate change is real, and it's affecting our loss costs, not in some theoretical future, it's today. Staying ahead of the effects of climate change is mission-critical for our company. And we have a broad, comprehensive approach to this issue, it starts with the science. We have experts within Everest who help inform how we model and price our business, given the effect of climate change. I'm talking about reviewing academic papers and translating emerging insights into our underwriting models in a very granular way.

This is not a simple issue of climate change equals big storms, sometimes yes, but sometimes no. It affects frequency and severity not always up in all parts of the world. Climate change is not as simple as just thinking about a two-degree rise in temperatures. Sometimes, it's about increased rainfall, stronger winds, cooler temperatures, where once the sun was always shining. It's not always moving in the same direction, it's dynamic, and it's a netting of effects where some perils get worse and some less so. The net result is more loss, and that's why the science is critical.

Next is modeling. Let me give you another example. No underwriter in this company puts property risks on our books without the benefit of our robust models that include the effect of climate change on loss costs. Those models cannot be static, you build it once in 1987 and you don't worry about it again, is simply not an option. We update them continuously as more information becomes available.

Finally, is data. Like I said at the beginning, climate change is now, it's already in the data. We leverage our own data, information from our cedents, and third-party data to build the most comprehensive view of how climate change is translating to losses.

The bottom line is simple; climate change is costing the industry money today. Everest is staying ahead of that curve through massive comprehensive efforts led by a bunch of outstanding people. Risk is at the core of everything we do here at Everest. We get paid to assess, underwrite, price, and manage a wide variety of natural and man-made risks in markets around the world. We can do this and do it really, really well because we have a culture of risk assessment at all levels of the company.

We are always crystal clear about our appetite and we don't violate those limits in pursuit of a few extra dollars of premium. We have effectively reduced the volatility potential of the company. We will still have cat losses, but we have done a lot of hard work to make sure they're consistent with the company's risk appetite and resources. And we have deep risk management data and metrics. We have wired the company to keep our finger on the pulse of our risk-taking.

Let me now turn it over to Jon Levenson to begin the Q&A.

Questions And Answers

A - Jon Levenson {BIO 18636999 <GO>}

(Question And Answer)

Welcome to the first Q&A session with Juan Andrade, Mark Kociancic and Jim Williamson. We'd like to thank our audience for your attention so far and the great questions that have been received. Let's start with some of these questions. First one for Juan. Juan, in terms of the go forward top-line growth, could you provide some explanation as to how Everest expects to reach those targets?

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah, absolutely. Thank you, Jon. And I'll build on some of the comments that I made during my presentation as well. It really all starts with the platform and the foundation that we have at Everest, the financial strength to be able to support the growth ambitions that we're talking about today. In addition to that, it's about the people, it's about the quality team of underwriters that we have to do this job day in and day out.

In addition to that, it's about our product capability, both in insurance and reinsurance. We have the product breadth around the world to be able to achieve these objectives. It's also about your distribution relationships again both in reinsurance and insurance. And the some of these relationships go back over 40 years. We're also making significant inroads with our distribution partners on the primary side that gives us tremendous opportunity to grow. And the last part that I would mention is the DNA. It's the fact that we're entrepreneurial problem solvers, that is what we're known by our broker partners. That is very important because we can resolve issues and identify problems very, very quickly. So that gives us a general foundation for that growth.

In addition to that, it's the optimist in the significant opportunities that we have in front of us. If I look at the insurance division to begin with, we have relatively small market share. We are a $3.2 billion insurance company, but in an $800 billion space. So, for us again with the products to people and the distribution, it's really only a question of continuing to scale and mature our business to be able to go after those opportunities.

On the reinsurance side, we are a lead market, we are a go to market for all reinsurance purchases around the world. But we also see opportunity in places like Europe, Canada, Latin America, Asia and in different products like mortgage and specialty casualty.

A - Jon Levenson {BIO 18636999 <GO>}

Great. Thanks very much. A second question, we've received this from a number of our attendees this morning, looking at the improved combined ratio targets, similar question to the first, providing that range of 91% to 93%. Can you share again some of the details on how Everest expects to get there? And also, there's a second question clarifying, is that just for the Group or is that for both of the divisions as well?

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah. Thank you, Jon. So, I'll start with the second part of that question first. That 91% to 93% applies to the group and to both divisions at the same time. So it's for the entire organization for the entire company. As far as how we get to those numbers, these are intentional, purposeful actions that we're taking every day. This is the hard work of running an insurance company of making sure that you're focused on appropriate assessment of risk, on the pricing of that risk, on the monitoring risk.

A big part of this is loss ratio improvement. We have deployed very good, very timely analytical tools that have given us incredible transparency into our portfolios that then help us make better decisions on how to craft, how to shift, and how to better respond to changing market conditions. The other part of that is our efficiency. One of the key competitive advantages of our company is the expense ratio and that is something that as we continue to improve these numbers, as we continue to deliver results, we are continuing to focus on the expense side of things. We are investing in our company and technology and people. But it's also about prioritization and what you spend your money on what's most accretively. So, I would say the focus on those two areas, the loss ratio from a pricing, underwriting, risk assessment, data and analytic standpoint; from a client standpoint, making sure that you're always paying the right amount. And number three, essentially, it's on the expense side of things as well, continuing to maintain that competitive advantage.

A - Jim Williamson {BIO 19072526 <GO>}

One thing I would maybe add to Juan's comments that I think is really important to understand is, we went through a very rigorous process to build these plans before we put out these numbers and what gives me tremendous confidence is we see a lot of different ways to get to our end objectives. We're not levering the entire plan on one set of initiatives. We've got a lot of irons in the fire that will help us to drive the numbers on the loss ratio, on the expenses, and also on the top line growth to the prior question. So there's just a lot of momentum and a lot of ways that we can get to our goals.

A - Jon Levenson {BIO 18636999 <GO>}

Great. Thanks, both. Another question that we received and this one seems most appropriate for Mark. Mark, what's the timing of the possible increase in debt leverage to move closer to the 15% to 20% threshold? And a second part of that question is, how do you think about deploying this additional capital to be raised?

A - Mark Kociancic {BIO 17852409 <GO>}

Well, I see that occurring over the course of the three-year strategic plan that we have. It would obviously serve to lower the cost of capital and provide us with some long-term capital to sustain the growth that we're in right now. We're in a hard market, and so this is an excellent opportunity I think for us to grow the franchise and that's really the first priority that we have expanding our franchise profitably. Our plan also includes several capital management actions. So we're committed to our dividend policy, the share buybacks. But overall, I would see us expanding our debt leverage some somewhat over the course of our three-year plan.

A - Jon Levenson {BIO 18636999 <GO>}

Great. Thanks. And Mark, another question for you that's come in. You've explained total shareholder return as the key performance metric. And the question is, why not focus on some more common measures, for example, operating return on equity or growth in diluted book value per share?

A - Mark Kociancic {BIO 17852409 <GO>}

We looked at several measures as you suggest, but we thought total shareholder return was really the most complete in terms of holding management accountable.

So when you look at net income on the top line, that's virtually everything that management controls, whether it's on the investment income side, public-private equity performance, as well as the underwriting performance. And then you want to make sure that all of the capital is adequately remunerated and so we are being held accountable in terms of allocating that capital and then managing the capital efficiently for shareholders. So whether it's through dividends, through buybacks, deployment, getting that cost of capital reduced as well. The only thing we exclude is really the unrealized gains and losses from the fixed income portfolio. Because in that sense, we're holding those securities until maturity and taking that kind of volatility from macro interest rate environment is really not relevant to the value proposition that we have.

A - Jon Levenson {BIO 18636999 <GO>}

Great, thanks. Turning to the Jim. There are some questions about risk based on your prepared comments. The first, given the discussion around climate change and the impact on Everest's business, can you give us an example or two of how you've adjusted the models, risk appetite or other items to reflect this impact in your exposures in business?

A - Jim Williamson {BIO 19072526 <GO>}

Yes. Sure, and it's a really important question Jon. I think it starts with what I described earlier around, how we do our modeling. Our team, in our cat -- we call the cat brain, they're continuously assessing the things that I described earlier which is the science, the data both our own as well as from our (inaudible). And so that process of maturing those models and adjusting them for the impact of climate change for the impact of urbanization and other factors that we see in the data is ongoing. And so, that's happening literally every day and that feeds directly into how our underwriters price property risk. So they're getting the benefit of all that modeling on a risk-by-risk basis. So, I think that's probably one of the most important things we do. The second around appetite, I'd sort of break that into two pieces.

On the property front, you saw me describe how we've walked to the company back from a risk profile that was maybe outsized. And that's, I think indicative of our reaction to climate change, and I think a view that says programs like -- these large aggregate programs for global underwriters. One of the things that climate change does is it makes it a whole lot easier to get into those aggregate programs through frequency of medium-sized losses, super severe losses, et cetera. And so, we've really walked away from taking that kind of risk with some exceptions. And then the last piece I would just mention is this importance, you heard it a little bit this morning, you're going to hear it a little bit more I think as we get it through the day, but our view on diversification is essential here. We want to have a lot of different ways of driving our economic outcomes, a lot of different ways of driving earnings, which includes definitely writing property, writing property Cat but also writing a lot of other lines of business that don't have the same exposure to climate change. So, it's about putting all those pieces together so that we can get to our goals in a risk-adjusted way that makes sense for us and make sure that we're staying on top of those trends.

A - Jon Levenson {BIO 18636999 <GO>}

Great. Thank you. And I think what's a reasonable follow-up, we've received this question as well, given the description of the current risk profile and how that has come down from prior years. And with your discussion, how far up could this float, if market conditions for the risk exposed, largely Cat classes continue?

A - Jim Williamson {BIO 19072526 <GO>}

Yeah, another important question. And what I would say unequivocally is we have no intention and no need to go back to the type of risk profile, that you saw on that slide in the 2016, '17, '18 years. I mean that's just -- we just don't see the need to do that frankly and it's definitely outsized relative to our risk appetite. That said, what you'll also notice on that slide is, we walked back into a much more sustainable risk profile. We've sort of boxed out a trading range that we think makes sense for our company and that we can sustain over the market cycle. It will absolutely mean we're moving within that much more risk-adjusted range and you saw it on the slide, the 2021 year after the one-one [ph] renewals was up slightly, but again with a lot of prudence put into how we're taking risk or managing our total P&Ls, our AALs, our exposures by zone to ensure that we're building a book of business that's profitable but also sustainable. So yes, we're responding to market conditions, but only within a trading range that's sustainable for the company and we think we can -- that we think that's durable. We can keep doing that. And then in areas where the market cycle is not as favorable, you certainly don't want to be taking more risk. So it's really the best of both worlds, where in a hard market cycle, you can drive growth without taking more risk and in soft market cycles, you don't want to.

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah. And if I can add to that Jon as well. This is the whole concept of dynamic capital allocation that I spoke to earlier in my presentation, right? And it's not just within reinsurance, but it's also across insurance and reinsurance, right? It's the fact that we can identify with the tools that we now have on place, what the better economic trades will be for our company and then decisively making that decision to make that trade. And so, what Jim is saying is absolutely relevant. If we see property Cat, we like it, if we can get paid for it, that's great. If the property Cat terms and pricing are not what we want, we have plenty of other products, plenty of other geographies to be able to go after and that's the beauty of this plan. And that's also going back to the original question around, how do we achieve some of the growth targets?

A - Mark Kociancic {BIO 17852409 <GO>}

And we're constantly expanding diversification of our business model overall. It was just going to continue going forward as we grow in particular. The Cat load that we have for the plan is roughly 6 to 7 points. And so, we can trade in there as Juan said opportunistically. And I think the other key factor when you see the growth rates that we presented today in particular for insurance, we do expect it to grow more rapidly than reinsurance. And so, you'll see the level relative share of Cat inside our portfolio diminished naturally as we grow other non-Cat lines going forward.

A - Jon Levenson {BIO 18636999 <GO>}

Great. Thanks, all. And I think we have time for one more question and we've had this question in a couple of different forms, but I think it boils down to for Juan and Mark, particularly. You both mentioned in your prepared remarks the possibility of acquisitions, and I guess given the current excess capital position and strategic growth goals, two questions. First of all, what type or types of M&A would make the most sense for Everest? And the second question would be timing?

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah. So let me start with that and then have Mark join me with that answer as well. Look, I think there's a high bar for M&A in our company, particularly in the market that we're in right now with the opportunities that we see ahead of us in both insurance and reinsurance, you bet on our team every day. You bet on Everest for everything that I've said before, the team, the quality of the underwriting, the tools that we're putting in place, the relationships with our distribution, et cetera. That being said, if there are particular geographies, if there's particular product lines, where we do the math, we do the economic analysis and we find that there's a better opportunity to grow faster in that area that is where we might consider an M&A opportunity.

Now, the type of M&A that I would be thinking about would really be bolt-on type acquisitions, expansion in the geography, expansion into a particular product line, expansion into a particular technology that we don't have, et cetera. But it all would have to fit into the strategic framework that we're talking about today. It would have to be accretive to the company, and so that's how we tend to think about that.

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. Today, we've articulated, I think a very clear strategy with well-defined financial target or risk appetite. And clearly, you can see there's a lot of runway for organic growth as Juan and Jim have described. So the bar is pretty high for M&A, but the real, I think financial aspect of an M&A question really stems from how fast or how quickly can it accelerate the development of Everest and its franchise relative to the organic strategic plan over the course of time. And so that will be the key bar to overcome assuming those opportunities arise.

A - Jon Levenson {BIO 18636999 <GO>}

Great, thanks. And thanks to Juan, Mark and Jim. For the audience, this is the end of our first Q&A session. We will follow this with a 15-minute break. And we'll return with presentations from the business unit leaders and our investment leaders as well.

Thank you again for your attention this morning.