S&P Global
Market Intelligence

# Everest Re Group, Ltd. NYSE:RE

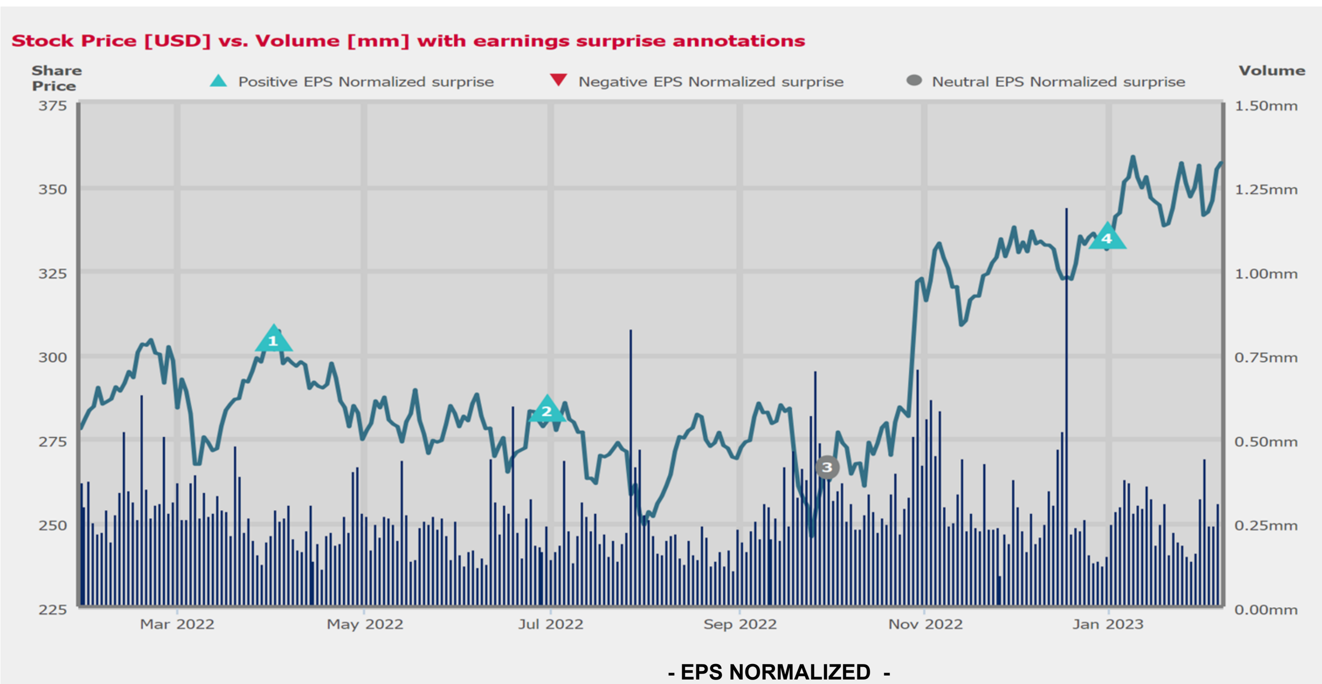
# FQ4 2022 Earnings Call Transcripts

## Thursday, February 9, 2023 1:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ4 2022- | | | -FQ1 2023- | -FY 2022- | | | -FY 2023- |
|---|---|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS |
| **EPS Normalized** | 9.54 | 12.21 | ▲27.99 | 12.48 | 24.61 | 27.08 | ▲10.04 | 44.73 |
| **Revenue (mm)** | 3242.45 | 3188.00 | ▼(1.68 %) | 3256.28 | 12221.92 | 12344.00 | ▲1.00 | 13608.13 |

Currency: USD
Consensus as of Feb-08-2023 11:49 PM GMT




**- EPS NORMALIZED -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ1 2022** | 9.32 | 10.31 | ▲1 10.62 % |
| **FQ2 2022** | 8.01 | 9.79 | ▲2 22.22 % |
| **FQ3 2022** | (5.75) | (5.28) | NM |
| **FQ4 2022** | 9.54 | 12.21 | ▲3 27.99 % |

# Table of Contents

# Call Participants

## EXECUTIVES

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Reinsurance Division*

**Juan Carlos Andrade**
*President, CEO & Director*

**Mark Kociancic**
*Executive VP & Group CFO*

**Matthew Jay Rohrmann**
*Senior VP & Head of Investor Relations*

**Michael Karmilowicz**
*Executive VP and President & CEO of the Insurance Division*

## ANALYSTS

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

**Charles Gregory Peters**
*Raymond James & Associates, Inc., Research Division*

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

**Meyer Shields**
*Keefe, Bruyette, & Woods, Inc., Research Division*

**Michael David Zaremski**
*BMO Capital Markets Equity Research*

**Ryan Tunis**

**Yaron Joseph Kinar**
*Jefferies LLC, Research Division*

# Presentation

**Operator**

Good day, and welcome to the Everest Re Group Limited Fourth Quarter of 2022 Earnings Conference Call.

[Operator Instructions]

Please note today's event is being recorded. I would now like to turn the conference over to Matt Rohrmann, Senior Vice President and Head of Investor Relations. Please go ahead.

**Matthew Jay Rohrmann**
*Senior VP & Head of Investor Relations*

Good morning, everyone, and welcome to the Everest Re Group Limited Fourth Quarter of 2022 Earnings Conference Call. The Everest executives leading today's call are Juan Andrade, President and CEO; and Mark Kociancic, Executive Vice President and CFO. We are also joined by other members of the Everest management team.

Before we begin, I will preface the comments on today's call by noting that Everest SEC filings, including extensive disclosures with respect to forward-looking statements, management comments regarding estimates, projections and similar are subject to the risks, uncertainties and assumptions as noted in these filings. Management may also refer to certain non-GAAP financial measures. These items are reconciled in our earnings release and financial statements.

With that, I'll turn the call over to Juan.

**Juan Carlos Andrade**
*President, CEO & Director*

Thank you, Matt. Good morning, everyone. Thank you for joining us. Everest's excellent fourth quarter performance capped another strong year of consistent execution of our strategy and continued positive momentum. We advanced our objective of creating sustainable value for our shareholders with disciplined underwriting and targeted growth driving margin expansion in both businesses.

We increased diversification in each of our segments, both geographically and by product line. When you combine all of this with healthy and consistent rate increases and improved terms, our risk-adjusted return profile improved across the board.

Both franchises delivered solid top and bottom-line performance. We profitably grew our Primary Insurance division and executed an outstanding January 1 reinsurance renewal. This further reinforced our global market leadership and positions Everest well for the future.

Our actions resulted in solid underwriting profit for the year, over $1 billion in operating income and a double-digit operating return on equity for both the quarter and the year, an excellent result.

We achieved these results despite market volatility, economic and geopolitical uncertainty and industry catastrophe losses totaling over $140 billion in the fifth costliest cat year in history.

In short, we accomplished a great deal in 2022 and built a wide runway for future opportunities. We are uniquely positioned with accelerating momentum in top-tier talent driving this business. Everest is more agile and well equipped than ever, and we have the ability and the drive to seize attractive opportunities and deliver on our commitments in 2023.

Now I will briefly recap our financial highlights, focused on the full year, beginning at the group level. In 2022, we grew the company by 9% in constant dollars, ending the year at approximately $14 billion in gross written premium. We generated $477 million in underwriting profit with a 96% combined ratio. This is a near 2-point improvement year-over-year despite an active cat year.

The attritional combined ratio of 87.4% also improved from the end of 2021, and we achieved a 70 basis point improvement year-over-year in the group loss ratio. The operating expense ratio remains best in class at 5.8%.

Finally, our high-quality investment portfolio generated $830 million in net investment income. Our actions to optimize the investment portfolio over the past 3 years and position it for a rising rate environment, up paid significant dividends.

Now turning to our underwriting segments, beginning with reinsurance. Our Reinsurance division's focused execution in 2022 further enhanced our global market leadership and preferred partner position. We continue to optimize our portfolio, while achieving solid top and bottom-line growth. For the full year, Reinsurance growth was 5% on a constant dollar basis, with $9.3 billion in total gross written premiums.

This growth was driven by broadened opportunities with our core cedings and our nimble allocation of capital to achieve the highest returns. We took deliberate actions during 2022 to shed underperforming business. This also positioned us well to take advantage of the strong trading conditions at January 1. These actions resulted in over $300 million in underwriting profit for the year and a combined ratio of 96.4%, which is a 1.7 point improvement from '21. For the full year, both the attritional loss ratio at 58.7% and the attritional combined ratio at 86.2% improved, down 90 basis points and 10 basis points, respectively.

Our deliberate underwriting actions significantly reduced our cat losses, demonstrated by our less than 1% market share from Hurricane Ian in the third quarter, the second largest hurricane in U.S. history. Our focused reinsurance strategy continues to pay dividends. Throughout 2022, we leveraged our market position, deep client and broker relationships and strong balance sheet to build a more profitable and higher margin book, which culminated in an outstanding January 1 renewal.

I'll provide more color on 1/1 in a few minutes. Now turning to our Primary Insurance division. In 2022, we made tremendous strides expanding our reach, capabilities, product set and breadth of global talent, while hitting important financial milestones. We finished the year with insurance growth of 18% in constant dollars and $4.6 billion in premiums. This is supported by a new quarterly gross written premium record in the fourth quarter. Growth was balanced and diversified across the business by product line and by geography.

After 4 years of significant and cumulative rate increases, we achieved high single-digit average increases excluding workers' compensation throughout the year. In addition to rate, exposure growth, driven by revenue and payroll increases, created additional margin against loss trend.

Pricing increases in the quarter were led by commercial auto, general liability and property. Our proactive cycle management actions contributed to our continued improved underwriting profitability. Our ability to pivot quickly is a key advantage. Everest continues to benefit from an influx of top talent with the market expertise, track record, underwriting acumen and relationships to execute our strategy.

We achieved a milestone full year underwriting profit of $164 million, which is a new annual record for the Insurance division, with a full year combined ratio of 94.8%, down 2.3 points year-over-year. Our attritional combined ratio also improved 80 basis points year-over-year to 90.4%. We are enhancing our operations to become even more connected and efficient on a global scale. It's an exciting time for our Primary business. We continue to see significant opportunities, and I look forward to even greater momentum ahead.

2022 was a year of multiple wins. We reduced volatility, diversified the portfolio, expanded margins and enhanced our risk-adjusted return. We got there with consistent and precise execution. We deployed our capital in areas where we could get the best risk-adjusted returns. We also reshaped our Property portfolio through continued diversification via growth internationally, all this accomplished while increasing our top and bottom lines, and we improved net exposure to our balance sheet.

As I mentioned before, we remain risk-on for property cat, as pricing, terms and conditions provide attractive returns within our defined trading range.

Turning to 2023. The January 1 reinsurance renewals were executed by our global reinsurance team with equal precision. And as a result, we have a significantly stronger portfolio heading into 2023 and beyond. We approached the January 1 renewals from a position of strength, with a superior value proposition well prepared to support our clients and take advantage of excellent market conditions around the world.

We set clear goals for our portfolio, and we achieved every one of them by leveraging Everest's global market leadership and setting early expectations with clients and brokers, which drove significant pricing improvements. In addition to rate, we also substantially improved terms and conditions. We targeted attractive property opportunities, both domestically and internationally, at materially improved risk-adjusted returns. We drove higher attachment and reduced exposure to named and secondary perils.

Significant property cat rate increases were evident across all geographies. In North America, the property cat XOL risk-adjusted rate change was up approximately 50%. The average attachment point for our global property cat business also increased meaningfully, resulting in significantly reduced risk exposure.

At the same time, the expected return for our cat portfolio increased materially. In casualty and professional lines, pricing and terms and conditions continue to improve overall, and we leveraged the hard property market to strengthen and further diversify the portfolio.

Internationally, the 1/1 renewal exceeded our expectations throughout Europe and Asia. We grew our regional portfolios through increased participations and by expanding our base of new clients. We also saw significant rate movement in specialty lines exposed to the Russia-Ukraine war, particularly in marine, aviation and political violence.

I am very pleased with the performance of our outstanding reinsurance team. Everest distinguished itself in this renewal by our early and consistent communication with our brokers and clients. We set expectations heading into 1/1 and constructively work with them to find solutions. As a result, we improved our portfolio and expanded margins while deepening our relationships with brokers and clients. Looking forward to future 2023 renewals, we expect reinsurance pricing momentum to continue. We see abundant opportunity to continue growing and diversifying our portfolio in all markets, focused on further growth in Asia and Europe, while capitalizing on the continuing market dislocation in Property.

Given significant firming of the reinsurance market on January 1 and the heightened risk environment, primary insurers should also see firming prices in 2023, and they will need to maintain underwriting discipline.

I am proud of what Everest achieved in '22. We delivered on our strategic objectives, while laying the groundwork for sustained profitable growth. I attribute Everest success to our outstanding team under consistent and relentless execution in every aspect of the business. The outlook for 2023 is bright, and I look forward to taking this company to the next level.

Now I will turn the call over to Mark to take us through the numbers in more detail.

**Mark Kociancic**
*Executive VP & Group CFO*

Good morning, everyone. Everest finished off 2022 with very strong results across the board in the fourth quarter. Operating income was $478 million or $12.21 per diluted share for the quarter, equating to an operating ROE of 19.4%.

For the full year, operating income was approximately $1.1 billion or $27.08 per diluted share, with an operating ROE of 10.6%, while the annualized TSR or total shareholder return was 5.4%.

Juan highlighted, we have a number of strengths in both our insurance and reinsurance businesses, bolstered by our team's consistent execution around the globe. We remain very well positioned to take advantage of the market opportunities ahead.

Looking at the group results for the fourth quarter, Everest reported gross written premiums of $3.7 billion, representing 9% growth in constant dollars. The combined ratio of 87.8% for the quarter represents 4.1 points of improvement over the prior year's quarter, driven by lower cat losses as well as a continued improvement in attritional loss experience primarily in reinsurance.

Group current year loss ratio was 59.6%, a 90 basis point improvement over the prior year's quarter, led primarily by the Reinsurance segment, which I'll discuss in more detail in just a moment.

Group's commission ratio was 21.6%, up modestly on mix changes, while the group expense ratio was modestly higher year-over-year at 6%.

Moving to the segment results, and starting with Reinsurance. In the fourth quarter, the Reinsurance gross premiums written grew 3.7% to $2.4 billion in constant dollars. The growth was driven primarily by Property pro rata business. Combined ratio was strong at 86.4%, an improvement of 5.1 points year-over-year primarily on lower cat losses.

Current year loss ratio improved 1.5 points to 58.2%, as we continue to achieve favorable rate and terms, optimize mix and scale various lines as well as shifting the book towards accounts with better risk-adjusted return potential. The commission ratio was 25%, up modestly, largely driven by mix and the underwriting expense ratio was 2.8%, broadly in line with the prior year's quarter.

Moving to Insurance, where we continue to build solid momentum, gross premiums written grew 20.5% in constant dollars to nearly $1.3 billion in the quarter. As Juan mentioned, a record level of production in the fourth quarter for the division.

Combined ratio for the quarter was 91.4%, a 1.4 point improvement from a year ago. The current year loss ratio was 63.4% in the quarter, slightly higher year-over-year due to mix and a onetime adjustment relating to our Lloyd's syndicate.

Commission ratio improved 1 point, largely driven by business mix. The underwriting-related expense ratio was 15%, which is within our expectations as we continue to expand our franchise and invest in a number of growth initiatives across the business. And finally, to cover investments, tax and the balance sheet. Net investment income for the quarter was $210 million versus $205 million a year ago, as we continue to benefit from higher new money yields, an increasing resets in our floating rate securities within the fixed income portfolio.

Private equity investments yielded a negative $30 million P&L impact in Q4, and they are reported on a 1-quarter lag. Overall, our reinvestment rate continues to trend higher year-over-year, as new money yields remain in the 5% range, while the book yield was 3.5% at the end of the fourth quarter. We continue to have a short asset duration of approximately 3.1 years. And as a reminder, that 22% of our fixed income investments are in floating rate securities. Fourth quarter, our operating income tax rate was approximately 11%, within our assumed range of 11% to 12% over the course of the year. And regarding the balance sheet, we completed the last of our granular reserve reviews across our entire portfolio, which affirm the overall strength of our balance sheet, underpinned by our disciplined underwriting and prudent-reserving philosophies.

Overall, our reserve adequacy remains solid. We did strengthen our asbestos and environmental reserves, which makes up approximately 1% of total net reserves by $138 million to position that runoff book comfortably within the average range for industry survival ratios. This was offset by favorable development from a variety of areas, primarily from short-tail lines.

We also had other marginal adjustments in both segments, resulting in 0 net prior year development. We continue to remain prudent given the uncertainty of inflation and the heightened risk environment the entire P&C industry currently faces. In short, we remain confident in the strength of our reserve position.

Moving to shareholders' equity, ended the quarter at $8.4 billion, driven primarily by the strong earnings in the quarter as well as a modest recovery on the value of available-for-sale fixed income securities as rates moderated slightly. The net unrealized losses in the fixed income portfolio as of December 31 were approximately $1.7 billion down from a net unrealized loss of $2 billion at the end of the third quarter of 2022.

Operating cash flow was strong at over $1 billion during the quarter and it stands at $3.7 billion year-to-date. Book value per share ended the quarter at $215.54 per share, while the book value per share, excluding unrealized depreciation and depreciation of securities, stood at $259.18 versus $252.12 per share at the end of 2021, driven by the strong underwriting results mentioned earlier. Long-term debt to total capital at quarter end stood at 23.3%, broadly similar to the level last quarter.

In conclusion, Everest ended 2022 with a very strong fourth quarter. We have the platform, balance sheet and the team to continue to take advantage of the current environment, and we have a lot of momentum as we look ahead into 2023. That summarizes our fourth quarter results. And with that, I'll turn the call back over to Matt to begin our Q&A session.

**Matthew Jay Rohrmann**
*Senior VP & Head of Investor Relations*
Thanks, Mark. Operator, we are now ready to open the line for questions. You ask and please limit your questions to one question plus one follow-up then rejoin the queue if you have any additional questions.

# Question and Answer

**Operator**

[Operator Instructions]

And our first question today comes from Yaron Kinar with Jefferies.

**Yaron Joseph Kinar**
*Jefferies LLC, Research Division*

Two questions, if I may. The first one, just listening to your commentary on 1/1 renewals and expectations that the reinsurance market remains hard, at least into midyear. I guess as I look at the PMLs that we saw in -- for 1/1, they still seem to be down quite a bit relative to mid '22 levels. Is that the right comparison or should we think about kind of what the PMLs will look like in midyear '23 relative to midyear '22? And could you give us some maybe thoughts on how we should see those develop?

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Reinsurance Division*

Yes, Yaron. This is Jim Williamson. Thanks for the question. Maybe to set a little bit of the stage, I'd like to add some color around 1/1 to add to the comments that you heard from Juan and Mark because I think it's an important context when we're talking about PMLs.

And to reiterate what Juan said, it was simply an outstanding renewal. We executed with incredible precision and achieved a number of important objectives in the renewal that really resulted in a step change in the risk-reward equation for Everest.

As you heard, we received significant rate increases in our U.S. property cat business on the order of 50%. We essentially improved every metric that we use to measure our cat portfolio. Our average attachment points were up. Our attachment probabilities were down.

Despite all of that, rate online increased. Our expected combined ratio dropped materially. Our expected ROE increased materially. Our expected loss in dollars went up slightly, as we deployed incremental capacity to targeted clients. And our dollars of expected profit per dollar of expected loss increased very meaningfully.

Similar factors played out in our international markets, where rate increases significantly overachieved expectations as we were coming into the end of the year. And on average, our international markets took 40 points of rate including over 30 points of rate in the U.K., which hasn't seen a major cat loss in decades.

So simply put, on the property cat side, it was a fantastic 1/1. And I think we expect those conditions to play out through the remainder of this year and into next year. So just exceptional. And so when you think about the resulting PMLs of that, what I would share with you is the comparison you always want to be making is quarter-to-quarter because what you're looking at is an analysis of our in-force book. And what I would -- the way I would characterize our PML movement is the PMLs that we publish were essentially flat.

And you see some ups and downs in those PMLs on a net basis, they were essentially flat. And that translates into more deployment of some gross capacity, offset by improved AUM in Mt. Logan, and that gets you to a roughly flat PML picture. My expectation is we'll probably remain in that sort of territory. We feel really good about our ability to get those incredible economics without really having to stretch the cat appetite. And as you'll see in the investor presentation in terms of where we are in our earnings and capital-at-risk measures, we continue to trade well within our defined range, which we're very comfortable with.

So it's really the best of all worlds where we're able to get rate that improves economics, overcomes the inflationary factors that you see in the market and do it while maintaining our risk position in a pretty stable manner. So really could not be happier with the results we achieved.

**Yaron Joseph Kinar**
*Jefferies LLC, Research Division*

That's very helpful. And my follow-up to that then would be, if I were to try and take that commentary and color and translate that into the combined ratio, so I think you've stated that you expected 91% and 93% reported combined. Would you be surprised to see that come in well below that 91% to 93% range in a "normal cat" year in '23? And would you expect to give us an updated number at some point this year?

**Juan Carlos Andrade**
*President, CEO & Director*

Yaron, this is Juan Andrade. Look, what I would echo is a couple of things. I mean you look at the 20% net income ROE that we generated in the fourth quarter, 19% operating ROE, which, again, it's an excellent result, as I mentioned in my opening remarks, particularly in the market environment that we're in right now.

In addition to that, you layer the amount of rate that Jim and I just talked about, over 50% on U.S. cat XOL, over 40% in our European businesses, et cetera. You talk about the terms and conditions that I referred to earlier in my remarks, which are also significant changes. And all of this is very much accretive to our portfolio. In addition to that, you also look at the work that has been done on the Primary Insurance side and just the margin improvement that we've been able to drive through 2022. So all of that leads you to a place that I say, we're in a good place. And I would not be surprised if we end up being on the better end of that range.

**Yaron Joseph Kinar**
*Jefferies LLC, Research Division*

And would you expect to give us an update at some point and a hard number?

**Juan Carlos Andrade**
*President, CEO & Director*

Yes. For us, we're expecting to do another Investor Day towards the end of this year. And at that point, we will be updating our numbers and our financials. This will be the third year of our 3-year numbers that we put out there initially back in 2021.

**Operator**

Our next question today comes from Brian Meredith, UBS.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

So one, it sounds like you're going to update premium guidance also in November?

**Juan Carlos Andrade**
*President, CEO & Director*

Yes. Look, I think by then, we're going to have a pretty good idea of how the environment is shaping. But I think, Brian, if you go back to, again, in my prepared remarks, we just renewed 53% of the reinsurance book at very attractive terms.

And as I said in my comments, we also expect that 4/1, 6/1 and 7/1 will continue to be very favorable for the reinsurance industry. So I think that also gives us a pretty good idea as to where that might be shaping. In addition to that, I would also say on the Primary side, we also would expect pricing to continue to improve, as I mentioned in my remarks, and frankly, we already saw some of that in the fourth quarter, right, where we saw commercial auto, property and general liability make some significant improvements quarter-over-quarter on the pricing.

We're in a heightened risk environment. You've got pressure from the reinsurance hard market. And so I would expect that all of these things will lead to a very good trajectory on the growth. But yes, we will be providing additional guidance later in the year when we do our Investor Day.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

Great. And then second question, Juan, I'm just curious, how do you think about allocating your PML on the Property side between the Insurance and the Reinsurance business? I mean would you hold back some on the Reinsurance because of opportunities? On Primary, is there one that you prefer a little bit more than the other? How do you think about that?

**Juan Carlos Andrade**
*President, CEO & Director*

Yes. No, that's a great question, Brian. One of the terms that we like to use inside our company is that we do quite a bit of dynamic capital allocation. So this is, frankly, a fundamental discipline that we have with our enterprise risk management framework.

On a very regular basis, we're essentially looking at by line of business, where we're coming in against expected returns, et cetera. And so that's how we start deciding who gets the capital. What we do not do is peanut butter this around the company, right?

So we will look at the market opportunity. We look at where we think we can get the best economics, the best risk-adjust good returns, and that's essentially how we deploy the capital. And it's an important point because I think you heard both me and Jim Williamson talk about the precision with which 1/1 was executed.

And I think it's important to step back to understand that in order to get to the heart of your question. And it's the fact that we have pretty good control of our business around the world. So we are able to decide whether we're going to deploy more capital in the U.S. versus in the Continental Europe versus in Asia versus Latin America, depending on the market conditions.

And we apply that same rigor across the segments, whether it's in Primary Insurance or whether it's on the Reinsurance side of things. And that's ultimately how we make those decisions. But I would invite either Jim or Mark to maybe provide some additional comments on that as well.

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Reinsurance Division*

Yes. No, Brian, it's Jim. I think that's spot on. I think clearly, what you've seen is a situation, particularly as we came into 1/1, where it took the Primary market a little while to start to adjust to what was coming in terms of insurance rates.

And our Primary Insurance business has been very disciplined on their portfolio management. And in some ways, that's freeing up capacity and thereby capital that we were able to very effectively deploy in reinsurance at 1/1. And that's, I think, really brings to life that dynamic capital allocation that Juan is mentioning. And we are very nimble that way, and it allows us to really achieve best-in-class returns.

**Operator**

And our next question today comes from Meyer Shields with KBW.

**Meyer Shields**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Great. First question is, I know this is only 1 piece of the changes at 1/1, but I'm trying to get a sense of the significance of higher reinsurance attachment points. Is there any way of maybe recasting 2022 losses in this new framework, just to give us a sense of how much difference that particular step make?

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Reinsurance Division*

Sure, Meyer. This is Jim Williamson. It is a very important point. And actually, I think the fourth quarter gives us a little bit of a demonstration of that because we began a lot of these strategies really long before 1/1 '23. And if you think about how we execute in 1/1 '22 and the actions that we told you we were taking, it was all about moving away from lower-performing programs, particularly pro rata deals; moving away from high volatility structures, particularly around retro, around aggregate programs; making sure that we were deploying capacity where risk-adjusted returns warranted it, which is why we withdrew some capacity at 1/1 '22 and then started deploying it back into the market as conditions improve.

And what does that do? For losses like what happened in the fourth quarter with Elliott. In our view, losses like that should be primarily retained by cedings. That's really not a type of loss that should be a fundamental loss to the reinsurance market. And you saw our Q4 cat loss for reinsurance was relatively small, $10 million. And that is the type of loss we want for events like that.

So that gives you a sense of how we think our book will perform over time. So if in 2023, there's a number of, what we would call, frequency cats the $1 billion, $2 billion events, our expectation is our participation in those events will be lower than they would have been prior to 1/1 '23 because the average attachment point moved up, our cedings are going to be retaining more of those losses net into their portfolio, which is where those losses belong. And that allows us to really preserve our capacity for major industry events, which what our program is designed for. So that should give you a flavor of how we expect the portfolio to perform.

**Meyer Shields**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. That is very helpful. The second question is, is there -- and I apologize if I missed this. I'm just looking for any thoughts on ceding commission changes, both as a reinsurer and on the insurance book?

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Reinsurance Division*

Yes, Meyer, this is Jim. I'll start and then turn it over to my colleague, Mike Karm. Yes, so we did see really excellent results in our casualty renewal as well. Obviously, a lot of attention being paid to property and rightfully so. But we enjoy a premier position with many of our cedings on their Casualty portfolios, and we participated in this cycle of market hardening over the last few years by taking increasing share of Casualty programs for those core clients, mainly on a pro rata basis.

And one of the things that's happened is all that margin is getting accreted in the primary market as you've seen ceding commissions go up, we think that made sense. It was a reasonable trade. It was still resulting in more margin for us. So we like that.

What we're starting to see now is still very attractive opportunity. We did continue to participate very meaningfully at 1/1 in the programs I'm describing. In fact, in a number of cases, we increased participation and I think, grew our portfolio in a really nice fashion. But what we also saw is obviously the amount of margin expansion in the primary market is narrowing a bit.

And so we started to see ceding commissions certainly leveling off. I really only have full -- a small handful of instances where they continue to increase, and that was usually when they were already below market to begin with.

What we saw mostly was a modest improvement in average ceding commissions across the portfolio, and we think that's justified. And our expectation is that, that phenomenon of moderating ceding commissions will continue to play out as we go forward. So with that, I'll turn it over to Mike.

**Michael Karmilowicz**
*Executive VP and President & CEO of the Insurance Division*

Sure. Thanks, Jim. For us, it's [indiscernible] striking the right balance about retaining harder and earning profit while managing our volatility and really actually, as we continue to scale up our businesses. With given the reinsurance market and what's happening, we're certainly not immune to what is going on. But I would say we're also not reliant on reinsurance like others. And given our financial strength and our capital -- strong capital base, we will continue to be -- have all the flexibility in the world here to drive what we need to do as an organization.

And for us, again, it's about being thoughtful as we retain more premium for our risk. They'll be more accretive to our portfolio and whatever economics nor to our benefit will continue to drive. So I think given where we are in the position of how we scale up our businesses, we feel we're in a good position, and I don't think there'll be anything material that we're concerned about driving our overall strategy.

**Juan Carlos Andrade**
*President, CEO & Director*

Yes. Meyer, this is Juan. I think look, just to round out the answer, I think at the end of the day, bottom line is we saw improvement in ceding commissions in this renewal.

**Operator**

Our next question today comes from Elyse Greenspan with Wells Fargo.

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

My first question, I want to go back to the 1/1s, right? You guys spoke about the expected return increasing materially, so I'm not sure -- what color or numbers you want to give us, but like -- could you say what the expected return on your business would be in a normal cat year?

Or, for instance, if we looked at the 11% return you guys generated in '22, what would that be if last year's events recurred? Just something to give us a sense of just how much better the expected return is in '23 relative to '22 given, right, the better pricing and the improved terms and conditions?

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Reinsurance Division*

Sure. Yes. Elyse, this is Jim Williamson, and I'll provide you some of that color. And maybe at the risk of repeating some of what I said, but I do think it's really critical. If you think about our objectives coming into this renewal were pretty straightforward, and they're very similar to what we focused on last year.

Continue to optimize the portfolio and move away from underperforming programs; control volatility, particularly around how we structure deals and for that -- for us, that means mainly avoiding aggregate structures and minimizing the amount of capacity we have deployed at really high return probability layers like the 1 in 3 type of layer, that's not really where we want to be playing.

And then ensuring that we're moving capacity to the best-in-class programs. And that same phenomenon that we've consistently executed through 2022 played out in January 1. And so we were able to take capacity from, let's say, the bottom tier of our programs and reallocate it to the best opportunities in the market.

We did it with significant rate increases as Juan and I have mentioned 50% in the U.S., 40% in international markets. As you mentioned, there was also significant movement in terms and conditions. In particular, in the U.S., a significant portion of our deals are on -- now on a named peril-only basis. We've also eliminated write-backs of exclusions on a number of areas that will over time result in better economics.

And so the heart of your question of what does that mean for the portfolio in practical terms? Obviously, every year will present us with a different set of actual catastrophes. And so as opposed to looking back, what I would tell you, how I would expect the portfolio to perform is that frequency path, which have really been deviled the reinsurance industry, will increasingly be retained by our customers.

So we're getting a lot more rate to now focus on the types of losses that reinsurance was designed to cover in the first place. We would also expect for major losses that similar to what happened with Hurricane Ian, and we're very thoughtful about how much of a share of the major losses that we want to be taking, and I would expect that to look quite good as well.

And then lastly, what I would say for all of this, we have a meaningful increase in the amount of cat premium available to pay these losses and still make a strong return. So hopefully, that gives you the color that would help you to triangulate what is an excellent expected return position as we move through 2023.

**Juan Carlos Andrade**
*President, CEO & Director*

Elyse, and this is Juan. Let me piggyback on Jim's answer and because I think he was quite thorough. And I would point you back to that 20% ROE that we just talked about for the fourth quarter. And then we put it in perspective, right, because while we don't give specific guidance on what we think the ROE outlook is going to be for the coming year, we still generated double-digit ROEs despite the industry facing a top 5 catastrophe year.

And I think you got to put those results in the context of all the activities that we have been talking about really over the past 3 years on how we have been managing this company, reducing the volatility, being very disciplined in portfolio management, being very disciplined with where we deploy our capital.

And with the material improvements that we achieved at 1/1 that we just talked about and that we expect to expand upon in the coming renewals, we expect that steady improvement to continue. And so I would say all signs point to a significantly improved risk-adjusted return across the portfolio. So just a little bit more color on that.

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

And then the equity portfolio went down from $1.3 billion to like $281 million in the quarter. Why did you guys take that portfolio down in the fourth quarter?

**Mark Kociancic**
*Executive VP & Group CFO*

Elyse, it's Mark. So we have a strategic asset-allocation table that we're pretty disciplined with. And it allows us flexibility to move between asset classes, whether it's on the fixed income side, private equity, public equity, private credit, et cetera.

So tactically, we had a large reduction of the equity portfolio in the fourth quarter, shifted into other assets that we felt were more attractive, but still consistent with that strategic asset allocation that we've been focused on since the 2021 Investor Day. So we will probably move around a bit in 2023, but stay disciplined to that SAA.

**Operator**

Our next question today comes from C. Gregory Peters with Raymond James.

**Charles Gregory Peters**
*Raymond James & Associates, Inc., Research Division*

I'd like to go back to, I think, in your comments, you talked about the annual ground-up reserve review that you do every year. And especially on the Primary side, obviously, inflation has been a big issue and the statistics that came out in '22 couldn't have been anticipated in fiscal year '20 and '19. So can you talk to us about the process? What were the puts and takes for you to come out where you did? Some perspective there would be helpful.

**Mark Kociancic**
*Executive VP & Group CFO*

Yes. It's Mark. So let me get into that just in a few ways. The process itself is year-round. And so we're looking at reserves throughout the year, performing reserve studies. It's quite comprehensive in terms of aligning, underwriting, pricing, reserving claims in the course of that process. So you've got many different stakeholders involved.

And then it's quite ground up in terms of the analytics that go into it. And then I'd bring you back to principles that we set out back in 2020 about setting up prudent loss picks holding them in a disciplined fashion over time until we see a seasoning in the different lines of business. And for us, those are kind of a ground-up rules and processes that we use to evaluate.

Now in terms of what we did in Q4, I mentioned the asbestos and environmental reserves strengthening. So we've got roughly $20 billion of carried net reserves. We strengthened that by $138 million. We had some offsets -- favorable offsets coming from shorter tail-line and we had smaller, more marginal adjustments, pluses and minuses in both segments, but nothing approaching the $138 million in the process.

So overall, we feel very solid in terms of our loss position. And we obviously take into account macro factors like loss inflation by making sure that we've got prudent loss picks in our reserves, and then we do dynamic modeling. And I think one of the benefits that we have in our company is really the diversified nature of the lines of business that we have and the reserve profile that we have.

There is no single emphasis on one class, and that diversification helps to absorb any potential volatility that might come from loss inflation factors, in general. So that gives us, I think, just a better mix or diversification of reserves to handle these types of issues.

**Charles Gregory Peters**
*Raymond James & Associates, Inc., Research Division*

Got it. I guess -- so my follow-up question, well, sticking with the Specialty Insurance platform. We look at your Primary growth 18% for the year, I think, 19% for the quarter. I think after we get through earnings season, that's going to be a pretty outstanding result relative to some of your peer groups. So could you spend a minute and talk to us about where you're seeing growth? I guess, not only looking back to '22, but when we think about '23?

**Michael Karmilowicz**
*Executive VP and President & CEO of the Insurance Division*

Sure. Thank you for the question. So a couple of things. We have a lot of moving pieces in the organization, but the reality is our underwriting profit focus is, first and foremost, the #1 thing we tend to focus on.

And given that with all the things we have from scaling up our existing businesses and given our market share and given the opportunity we have with our expansion, you're starting to see a lot of these things play out. So when I think about the opportunity for that growth, it's not without discipline and cycle management that comes along with that growth.

But for us, we see what the market opportunity lays in front of us. So we have the expertise we can deploy anywhere in the world now with the expansion now starting to play through and some of the things we've done, you're starting to see that come into play. And in addition to that, we have the ability to have the flexibility rather to drive this in a local region.

So I think growth has been great, 32 straight quarters. The Specialty businesses where we see areas like we opened up and you saw adding to that, which would be aviation and energy and construction, complementing our credit political risk and surety, helping offset some of the things that are happening with like transaction liability, then you go over to some of the market and property.

And when we have and see these things that are actually opening themselves up, we can do this anywhere in the world. And I think for us, our benefit has been our agility and the way we actually are able to capitalize with our speed to market.

And we'll continue to do this. We're going to refine our offering, whether it's retail or wholesale. We're going to figure out where the opportunity is globally. And if we don't like what we see from a risk-adjusted return basis, we'll pull back, and we'll do the right thing.

You've seen that with our cycle management and comp. You see that we're doing in D&O and if we don't see those things, we're going to sit there and we'll continue to look for opportunity where it best fits and the growth just comes with that. And so we'll continue to drive that opportunity where we see it, and it's about playing offense and not defense.

**Juan Carlos Andrade**
*President, CEO & Director*

Yes, Greg, this is Juan Andrade. I would add a couple of thoughts because I think that was well said by Mike. Look, I think at the end of the day, there's a couple of key factors. One, we're highly diversified within the Primary Insurance division.

And so that means that we can find opportunities in the market where they exist. And as Mike pointed out, it's always about profitability. So for instance, is you're not seeing a good environment for financial lines right now, but you're seeing a very good environment for things like Property, Casualty still and other lines of business. So that allows us to essentially pick our spots and be able to do that.

The other point that I don't think can be underestimated is really the agility of our company. And I mentioned that in our prepared remarks, our ability to be able to pivot. We're pretty lean, we're pretty entrepreneurial, we have great relationships with our distribution, and we have a lot of good talent in this company.

And all of these things are basically what enable us to continue the momentum that you have seen from us really over the last number of years.

**Operator**

Our next question today comes from Mike Zaremski with BMO.

**Michael David Zaremski**
*BMO Capital Markets Equity Research*

Maybe first question, thinking about capital management and capital uses. Should we expect a bit more kind of operating leverage? So when we look at the premiums to equity ratio, is there some room for that to inch up given kind of better economics you're attaining? And also just thinking about capital uses in '23, should we be still thinking that the growth will kind of eat up most of the capital versus buybacks?

**Mark Kociancic**
*Executive VP & Group CFO*

Mike, it's Mark. So a few points here. I do think we've got ample capital to take on the opportunities of 2023, and it includes more than just the traditional balance sheet. You're looking at what we call our capital shield, so Logan ILWs, cat bonds, et cetera.

Operating leverage, there's definitely more room on the balance sheet to expand that leverage. I think one of the key points to keep in mind is really the risk-adjusted return profile is improving. So you're seeing exposure being managed thoughtfully and the rate and the expected return go up significantly.

And that's one of the key points that I think allows us to expand that operating leverage. We're also fairly well diversified with multiple income streams. And so I do expect the net income projections for the year to provide significant retained earnings to support growth. And we'll see how that growth comes about because there are other levers that we can pull if the opportunities in the market are even more significant than what we think they could be.

But just in terms of your buyback comment, look, it's always on the table. We can pull that lever, but this is the best market we've seen in a generation. And so the value creation that comes out of the organic growth plan that we've got and the fact that we're ready for it in terms of balance sheet, teams, franchise, the whole ball of wax, you couldn't have a better alignment. So I think you'll see us really attack this opportunity in 2023 full borne. So I'll leave it there.

**Michael David Zaremski**
*BMO Capital Markets Equity Research*

That's helpful. My follow-up is on the alternative reinsurance, maybe ILS marketplace, given Mt. Logan is one of the leaders in that space. Is there -- are you seeing dislocation in that marketplace? And do you see that kind of persisting? I know there's some puts and takes on how that impacts someone like Everest.

But what's going on in the ILS marketplace that you're seeing? And does that -- is that part of the reason you feel that the discipline within the overall reinsurance marketplace will continue?

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Reinsurance Division*

Yes, Mike, this is Jim Williamson. Thanks for the question. I mean clearly, ILS has been a dislocated market coming into 1/1. And for many of the reasons that have affected everyone participating in this market, there have been a lot of cat losses over the last few years.

And I think, particularly around the margins, you had a lot of investors participating in ILS vehicles and maybe you didn't quite understand or weren't quite prepared for the prospects of having multiple years in a row of cat activity, which is not uncommon. These clusters happen.

And so that has definitely, I think, put a number of investors in a position where they're on pause. You also have, obviously, the phenomena from those cat losses, there's a lot of trapped capital that is just sidelined no matter what rates, terms and conditions are doing, they just can't deploy that capacity because it's preserved against prior events.

And so that has definitely created and helped to contribute to a capacity crunch in our industry. Now from our perspective, that affects us in 2 ways. On the one hand, in our Primary Reinsurance business, our balance sheet Reinsurance business, if you will, we're seeing all the phenomenal results that we've talked about plus 50%, U.S. property, cat pricing plus 40%, international terms and conditions getting better, attachment points rising.

And that's all happening because there's more demand for Reinsurance capacity than there is supply. And part of the reason that's occurred is because of the crunch in ILS.

The second thing that it does is it makes it a little more challenging for us to raise funds in Mt. Logan because investors are sidelined or they have trapped capital. In terms of that trade, we'll take that trade all day long. Driving improvement in our core Reinsurance business is our first priority.

And it also inures to the benefit of our Mt. Logan investors who are consistently invested in the ILS space, they get better returns as well. So we like that. At the same time, what I would say is, we have been getting traction in Logan. We did raise money in 1/1. And the team is doing an excellent job of conveying our value proposition to potential investors.

And in particular, unlike a lot of other vehicles in the market, our investors get the same results that Everest gets. We're not making money when they're not making money. So that's a real focus of ours. And I think that's very compelling. We have a strong pipeline of investor interest, and our expectation is that Mt. Logan will grow over the course of time, and that's a key priority for us.

**Operator**

And our next question today comes from Ryan Tunis with Autonomous Research.

**Ryan Tunis**

Just a few, hopefully, quick ones for Jim. First question, just, I guess, following up on Meyer and Elysa's line of questioning on how the changes in the portfolio might map to the actual cat numbers. So you mentioned that you're shying away from kind of like the 1-in-3 type of risk, but what I'm struggling with is that like in the supplement, the 1 in 20 looked like it grew about as much as the 1 in 250.

So from the PML disclosures alone, it's difficult for me to really see what's going on. So I don't know the right way to ask it, maybe could you give us some idea over the past few years, like how much of your cat losses have come from sort of those frequency layers that were even more frequent than 1 in 20? I'm not really sure, but just any numbers would be helpful.

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Reinsurance Division*

Yes. Sure, Ryan. Yes, it's Jim, obviously. Look, it's an important question. And so I'm going to give you a few threads that I think really help describe what's happening in the portfolio. So obviously, and I can't restate it enough, exceptional execution at 1/1 which really followed on really strong execution in 2022, as we reposition the portfolio and rightsized our cat risk for our company and a go-forward in a sustainable basis, and that's really critical work.

What I would do, if you want to think about movement of PML, first of all, I wouldn't look at it on a year-over-year basis. Too much has changed since 1/1 '22. I'd really look at our more recent PMLs, whether you want to pick 10/1 or 7/1. And I think that shows what is essentially a flat profile of PML deployment at a variety of return periods, whether it's 1 in 20 or 1 in 250, 1 in 250 is down by about $50 million from 10/1. 1 in 20 is essentially the same number, it's down by $5 million.

And so that gives you some sense of what we expect. What I would say in terms of the balance of where cat losses have been going in the industry is, it's not so much that what percent is the 1-in-3 event versus the 1-in-20 event. It's where are you getting appropriately paid? Where are you getting reasonable risk-adjusted returns?

And so for us, our portfolio has shifted clearly toward the areas where risk-adjusted returns are strong and warrant the risk we're taking. And that's the 1 in 20 to 1-in-250 range. We feel really good about that. The other thing to keep in mind that's been happening against the backdrop of all this is the discipline required in the underwriting and the terms and conditions to ensure that you're inflation-loading your programs appropriately.

Those are all things which will also over time and order the benefit of our portfolio. Now obviously, the actual result is going to be highly dependent on which events occur. But if we have a year where you have a couple of large events, but you also have a frequency of smaller cats, we think our portfolio will perform better now -- meaningfully better now than it would have a year ago and that's because of all the actions we take in the rate and all the improvements we've made. So hopefully, that gives you some perspective on how to interpret those PMLs.

**Ryan Tunis**

Yes, that's helpful. And then just lastly, can you give us an update on kind of how you're thinking about your original Hurricane Ian pick?

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Reinsurance Division*

Yes. Sure. Yes, Ryan, it's Jim again. Yes, we feel very good about it. I mean, obviously, it seems like it was a long time ago, but it's still relatively early. As you've seen, there have been puts and takes in the industry in terms folks adjusting their view of what their ultimate loss is going to be in terms of our clients, ceding and so we're watching that very closely.

A key thing to keep in mind, which we communicated in the last quarterly call when we talked about Ian is in terms of any upside risk to the numbers we've put up, we feel very good about that because of the protection that we received from our cap-on program.

As we had indicated, in the last call, we have about $350 million of potentially exposed cap-on limit, which will engage if PCS reaches $48.1 billion in their estimate. They're currently at $47.4 billion and we'll recover on a pro rata basis up to $64 billion or $63.8 billion.

So we don't really have any kind of material concern about upside to that number, whether it ultimately -- there's a good guy in there, it's going to take quite a bit of time for that to play out, but we're watching it very closely.

**Operator**

Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to management for any final remarks.

**Juan Carlos Andrade**
*President, CEO & Director*

Great. Thank you all for your questions and the excellent discussion this morning. This is Juan Andrade. I am very optimistic about the opportunities ahead and our ability to continue driving a world-class platform. Our strategy is clear. Our businesses are growing with strong resilient portfolios, and we have an attractive risk-return profile.

This is all underpinned by our strong culture, which is an increasingly significant competitive advantage. We will expand on this foundation to accelerate our progress and create increased value for our investors, colleagues and clients around the world.

Thank you for your time with us today and for your continued support of our company. I look forward to speaking with all of you again when we discuss our first quarter 2023 results. Thank you.

**Operator**

Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.