S&P Global
Market Intelligence

# Markel Corporation NYSE:MKL

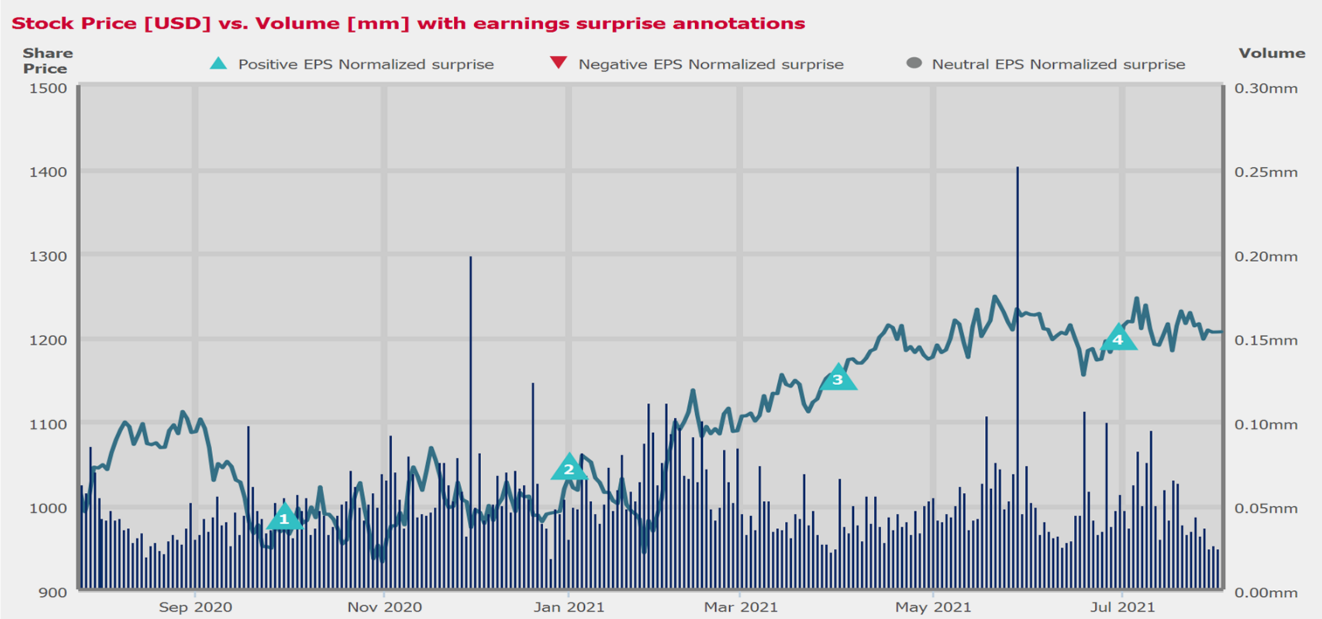
# FQ2 2021 Earnings Call Transcripts

## Wednesday, August 04, 2021 1:30 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ2 2021- | | | -FQ3 2021- | -FY 2021- | -FY 2022- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | 15.40 | 18.28 | ▲18.70 | 15.28 | 56.71 | NA |
| **Revenue (mm)** | 2536.86 | 3500.77 | ▲38.00 | 2669.05 | 10684.96 | NA |

Currency: USD
Consensus as of Jul-15-2021 9:06 PM GMT




- EPS NORMALIZED -

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ3 2020** | 3.36 | 6.11 | ▲1 81.85 % |
| **FQ4 2020** | 9.53 | 13.86 | ▲2 45.44 % |
| **FQ1 2021** | 10.58 | 42.02 | ▲3 297.16 % |
| **FQ2 2021** | 15.40 | 18.28 | ▲4 18.70 % |

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# Call Participants

## EXECUTIVES

**Jeremy Andrew Noble**
*Senior VP & CFO*

**Richard Reeves Whitt**
*Co-CEO & Director*

**Thomas Sinnickson Gayner**
*Co-CEO & Director*

## ANALYSTS

**Jeffrey Paul Schmitt**
*William Blair & Company L.L.C., Research Division*

**Philip Michael Stefano**
*Deutsche Bank AG, Research Division*

**Scott Gregory Heleniak**
*RBC Capital Markets, Research Division*

# Presentation

**Operator**

Good morning, and welcome to the Markel Corporation Second Quarter 2021 Conference Call.

[Operator Instructions].

During the call today, we may make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They are based on current assumptions and opinions concerning a variety of known and unknown risks. Actual results may differ materially from those contained in or suggested by such forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included under the captions Risk Factors and Safe Harbor and Cautionary Statement in our most recent annual report on Form 10-K and quarterly report on Form 10-Q.

We may also discuss certain non-GAAP financial measures in the call today. You may find the most directly comparable GAAP measures and a reconciliation to GAAP for these measures in our most recent Form 10-Q, which can be found on our website at www markel.com in the Investor Relations section. Please note, this event is being recorded.

I would now like to turn the conference over to Tom Gayner, Co-Chief Executive Officer. Please go ahead.

**Thomas Sinnickson Gayner**
*Co-CEO & Director*

Good morning, and thank you. Welcome to the Markel Corporation Second Quarter 2021 Earnings Call. I'm joined this morning by my Co-CEO, Richie Whitt; and our CFO, Jeremy Noble. Our goal, as always, is to provide you with some insights on how things are going here at Markel and to answer any questions you have about your business. I'm especially pleased to offer today's report. I've now been at Markel for 30.5 years. That means it's quarter #122.

Frankly, some quarters are better than others, and this is one of those quarters that's better. As such, it's fun to be able to share this report with you. The headline is that all 3 engines of Markel performed well and provided great thrust in the first half of 2021. The even better news is that none of the engines red lined to get there. People are working hard and the financial outcomes reflect their excellent as well as hard work. But these are the sorts of results that Markel can and should produce over long periods of time. We've got an insurance business, producing solid underwriting profits and growing at the same time. We've got a collection of unique and wonderful businesses in our Markel Ventures operations that produced excellent financial results and they're growing. And we've got an investment operation that protects the financial underpinning of Markel and earned strong financial results at the same time. These outcomes flow directly from the underlying values held by the people of Markel.

As an organization, we are dedicated to serving our customers, our fellow associates and our shareholders, who provide us with the capital to operate this business. Our structure, as we continue to work to build one of the world's great companies, is truly win, win, win, and we're delighted to share the first half report card with you and the good marks in all the subjects. We know that winning over time is a long-term gain. One quarter, 1/2 of the year do not begin to describe or justify what we are trying to do. But in order to win a national championship, you do have to win some individual games along the way. This quarter and the first half are just a few games.

We know that we have and will continue to lose a few games along the way, but the long-term results should not get us relegated. More importantly, we're excited about our prospects and the actions we've taken as managers to improve the likelihood that will continue to produce excellent results over time. Thank you for your ongoing support and confidence as we've done so. We appreciate that more than you can imagine, and we look forward to your thoughtful questions.

At this point, I'm going to turn the call over to Jeremy, who will review the financial results from the first half. Richie will then discuss our insurance operations, and then I'll come back with a few comments on our ventures and investment engines. Following that, we will open the floor for questions. Jeremy?

**Jeremy Andrew Noble**
*Senior VP & CFO*

Thank you, Tom, and good morning, everyone. As Tom referenced, we are halfway through the year and are very pleased with the outstanding performance across each of our 3 operating engines as our insurance, investments and ventures operations each contributed meaningfully to our efforts to build shareholder value. Looking at our underwriting results, gross written premiums were $4.3 billion for the first half of 2021 compared to $3.7 billion in 2020, an increase of 15%. Our increased premium volume reflects both strong growth in new business as well as ongoing favorable pricing trends across most of our product lines, most prominently within our professional liability and general liability product lines in both our Insurance and Reinsurance segments. Retention of gross written premiums was 85% for the first half of 2021, which is up 1 point from the same period last year, primarily driven by changes in the mix of business within our Reinsurance segment.

Earned premiums increased 14% to $3.1 billion in the first half of 2021 versus the same period last year, primarily due to higher written premium volume within our professional liability and general liability product lines. Our consolidated combined ratio for the first half of 2021 was a 90%, which included $68 million or 2 points of losses on Winter Storm Uri. This compares to a 103% combined ratio for the same period last year, which included 12 points of losses from COVID-19. Excluding the loss impacts of Winter Storm Uri and COVID-19 in both years, our consolidated combined ratio for the first half of 2021 was an 88% compared to 91% for the same period of 2020. This improvement reflects a 4-point improvement in our attritional loss ratio and a 1.5-point improvement in our expense ratio, which were partially offset by a lower benefit from prior year loss reserve releases. With regards to prior year loss reserve development, prior year loss reserves developed favorably by $226 million in the first half of 2021 compared to $268 million in the first half of 2020.

Turning to our investment results. Net investment gains included a net income of $1.2 billion in the first half of 2021 and were primarily attributable to an increase in the fair value of our equity portfolio, driven by favorable market value movements. This compares to net investment losses of $770 million in the first half of 2020, which reflected the impact of significant declines in the fair value of our equity portfolio in the first quarter of 2020, driven by the unfavorable market value movements resulting from the onset of the pandemic, followed by a partial recovery in the second quarter of 2020. As I mentioned in prior calls, given our long-term focus, variability and the timing of investment gains and losses is to be expected.

With regards to net investment income, we reported $193 million in the first half of 2021 compared to $184 million in the same period last year. Investment income continues to be impacted by the low interest rate environment we currently face. Net unrealized investment gains decreased by $162 million net of taxes during the first half of 2021, reflecting a decline in the fair value of our fixed maturity portfolio, resulting from an overall increase in the interest rates since the end of the year.

Now I'll cover the results for our Markel Ventures segment. Revenues from Markel Ventures increased to $1.8 billion for the first half of 2021 compared to $1.2 billion for the comparable period a year ago. The increase reflects a more significant contribution of revenues from Lansing Building Products, which was acquired in April of 2020. Additionally, operating revenues increased across our consumer and building products businesses, equipment manufacturing businesses and transportation-related businesses, due in part to lower sales volumes at most of these businesses in 2020 as a result of the economic and social disruption caused by the pandemic as well as further increases in demand within our consumer and building products businesses, reflecting increases in consumer spending.

EBITDA from Markel Ventures was $220 million for the first half of 2021 compared to $173 million for the same period last year. The year-over-year increase is attributed to increased sales volumes and a more significant contribution from Lansing. Looking at our consolidated results for the first half of the year, our effective tax rate was at 21% for both 2021 and 2020. We reported net income to common shareholders of $1.3 billion in this year compared to a net loss to common shareholders of $484 million last year. And comprehensive income to shareholders for the first half of this year was $1.2 billion compared to a comprehensive loss to shareholders of $260 million in the first half a year ago.

Finally, I'll make a few comments on cash flows, capital and our balance sheet. Net cash provided by operating activities was $813 million for the first half of 2021 compared to $489 million for the same period last year. Operating cash flows in the first half of this year reflected the impact of higher premium volume in our Insurance segment. Invested assets at the holding company were $4.9 billion at June 30 compared to $4.1 billion at the end of the year. The increase reflects our May issuance of $600 million of 31-year unsecured senior notes with a coupon of 3.45%, the proceeds of which will be used to retire $350 million of notes that mature next July with the remainder being available for general corporate purposes.

Total shareholders' equity stood at $14 billion at the end of June, up 9% compared to $12.8 billion at the end of the year. During the first half of 2021, we repurchased 51,000 common shares of our stock under our outstanding share repurchase program. Overall, a great set of numbers in each of our engines through the first 6 months. However, our attention has already turned to the back half of the year as we focus on executing against our business plans.

With that, I'll turn it over to Richie to talk more about our insurance businesses.

**Richard Reeves Whitt**
*Co-CEO & Director*

Thanks, Jeremy, and good morning, everyone. At the halfway point of this year, we put ourselves in a position to achieve or possibly exceed the goals we set for 2021. We've realized significant premium growth across both our Insurance and Reinsurance operations. At the same time, we've achieved double-digit rate increases in Insurance and Reinsurance. Most importantly, we see continued runway to capture strong growth and price increases throughout the remainder of the year. After being slightly behind our targets in the first quarter due to an unusually high cat activity, we had an excellent second quarter to bring our combined ratio for the 6 months to 90%, right in line with our 2021 target.

We continue to find growth opportunities across all of our insurance platforms, potential new investment offerings at Nephila, expanded program offerings at State National and the completion of the long-awaited initial capital raise at Lodgepine. While we realize there's a long way to go in 2021 and that the pandemic continues to throw all of us curve balls, we like where we stand today and are extremely optimistic about the rest of this year and beyond.

Now I'll discuss our Insurance operations, which include our underwriting operations, State National Program Services operations and insurance-linked securities operations. So kicking off with the Insurance segment, gross written premiums in the insurance segment for both the quarter and year-to-date periods were up 17% over prior periods with just under $3.5 billion in total premium writings for the 6 months. Earned premiums were up 16% in the quarter and 14% for the 6 months due to continued premium growth across multiple quarters. Premium growth in both periods was driven by continued strong new business growth, along with the impact from rate increases across several product lines, most notably in our professional liability and general liability product lines. The vast majority of our growth continues to be in our preferred product offerings. As discussed in prior quarters, we continue to see favorable rate environments within most of our product lines with the exception of workers' compensation, and look to continue to capitalize on the current market conditions.

The combined ratio for the Insurance segment for the second quarter was an 84% versus 88% last year. The 4-point decrease in the combined ratio for the quarter was primarily due to lower attritional loss ratios within the general liability, property and professional liability lines again, due in part to benefits from achieving higher premium rates. The combined ratio for the first 6 months of the year in the Insurance segment was 87% compared to 103% last year. The current year combined ratio includes $43 million or 2 points of underwriting losses from Winter Storm Uri, while prior year combined ratio includes $293 million or 13 points of underwriting losses from COVID-19, which were recorded in the first quarter of 2020.

Excluding the impact from losses from catastrophes and COVID-19, the combined ratio decreased by 4 points year-over-year primary driven -- primarily driven by a lower attritional loss ratio in our professional liability, general liability and property product lines. Higher earned premiums for both the quarter and year-to-date within our Insurance segment had a favorable impact on our expense ratio and an unfavorable impact on our prior year's loss ratio.

Next, turning to our Reinsurance segment. There's a lot to unpack in our results. And I think they're best understood if we try to focus on year-to-date results. Let me begin with a reminder that starting in the first quarter of this year, we transitioned our Reinsurance property line -- our Reinsurance underwriting operations to be managed by our Nephila ILS operations. We will continue to see the impacts from the Reinsurance property transition throughout the remainder of this year.

Gross written premiums were up 10% and earned premiums were up 11% on a year-to-date basis. Premium growth was driven by higher premiums in our general liability and professional liability lines, partially offset by lower premiums in our property lines. Premium growth in our professional and general liability lines was driven by premium growth in underlying portfolios being reinsured, double-digit rate increases and new business opportunities. There's no accident that the places we're growing in both Insurance and Reinsurance are casualty and professional liability lines. These are areas that we have historically been very strong at Markel.

The combined ratio for the first 6 months within the Reinsurance segment was 105% versus 102% last year, driven by a higher prior accident year's loss ratio partially offset by a lower current year -- current accident year loss ratio and expense ratio. Through the first 6 months of 2021, we experienced $50 million of adverse prior year's loss reserve development compared to $2 million a year ago. Almost 2/3 of this prior accident years development relates to COVID-19 losses on property business interruption exposures. Again, that was recorded in the first quarter of '21. And we also had the reallocation of COVID-19 reinsurance recoveries between Insurance and Reinsurance segment in the second quarter of '21. There was no change in our overall COVID estimates. That was just a reallocation of reinsurance recoveries.

And finally, unfavorable movement on prior year's catastrophe events. The lower current accident year loss ratio this year was due to a 2-point reduction from natural cat events with $25 million or 5 points from the losses on Winter Storm Uri this year and $32 million or 7 points of losses from COVID-19 last year and a 2-point reduction in the attritional loss ratio due to the reduction in the loss ratio in our property lines. The lower expense ratio year-to-date was due to lower compensation in general, expenses due to the transfer of our reinsurance property line and the impact of higher earned premiums.

If you exclude prior accident year loss development and natural catastrophe losses, our attritional combined ratio is benefiting from the runoff of our property portfolio and the year-to-date performance of our retro reinsurance portfolio. For our ongoing core specialty, casualty and professionally reinsurance lines, we are achieving pricing on the 21 underwriting in the year that we believe will ultimately meet our underwriting return objectives of 90% combined or better. However, this is going to require several quarters to materialize in our reported results as we continue to recognize earnings from less profitable contracts written in more recent years, and we execute our philosophy of establishing reserves that are more likely redundant than deficient. We are working hard to position this book for profitability moving forward.

Next, I'll touch on Program Services and ILS operations, both of which are reported as part of other operations. At State National, we continue to see strong gross written premium volume from those operations with premium volume of $761 million and $1.4 billion for the current quarter and year-to-date periods resulting in a year-to-date production growth of 40%. Premium growth was due to both the expansion of existing programs and additional new programs. Premium in the first quarter of 2020 was also impacted by the onetime unfavorable adjustment of $55 million related to the in-force cancellation of a program.

As a reminder, almost all of the gross written premium within our Program Services operations is ceded. We continue to see a strong pipeline for Program Services opportunities with the current market conditions. Moving to our ILS operations. Our ILS operations consisted the results of Nephila plus start-up and operating expenses related to Lodgepine. For the quarter, operating revenues within our ILS operations increased due to growth in our Nephila MGA operations. For the year, revenues from the ILS operations are down due in part to lower average assets under management at Nephila in the first 6 months of '21 versus the first 6 months of '20, partially offset by growth from our MGA operations. Assets under management in Nephila were $9.8 billion as of June 30, 2021. We continue to identify new areas of opportunity to deploy capital and have several opportunities in the works for the second half of '21 and into the first half of '22.

Finally, we'd like to make a comment regarding Lodgepine. We are very excited that we were able to raise approximately $100 million of investor capital at Lodgepine as of July 1 this year, of which Markel contributed $19 million as an investor. Starting in the third quarter of this year, a portion of the results from our retro reinsurance book will transition from our underwriting results within the Reinsurance segment to the management fees as part of our ILS operations, with our expectation that over time, all results from our retro reinsurance product will move into ILS operations with Markel retaining a participation as an investor.

Finally, I'll finish up with a few market comments, but also, obviously, happy to talk about that when we get into questions. As we enter the third quarter, we see continuing pricing momentum in almost all lines. Our insurance rate increases continue to average in the low double digits. Reinsurance rates, which, as we've previously discussed, have lagged primary insurance pricing are also now averaging in the low double digits. We believe that pricing momentum will continue as a multitude of factors such as low interest rates, recently elevated cat activity, social and CPI inflation, COVID-19 losses and economic uncertainty are likely to persist throughout the rest of this year and into 2022. We continue to see benefits to our business as the economy recovers from the impact of COVID-19. Obviously, we're all paying close attention to developments with the Delta variant. Small businesses and construction business, which are meaningful parts of our portfolio, are showing signs of recovery, and it is showing up in our premium writings.

To sum it all up, we're in a great position as we move into the second half of the year, and we are very excited for the opportunities we continue to see. Thanks for your time today, and I'd like to turn it over to Tom.

**Thomas Sinnickson Gayner**
*Co-CEO & Director*

Thank you, Richie. Well, Jeremy gave you the numbers, and I won't belabor them. As Larry David might say, "They're pretty, pretty good." And I believe them to be sustainable over the long term.

Now here are the main takeaways from my point of view. First, our balance sheet is in great shape. We extended our debt maturities by issuing $600 million at a rate of 3.45% with a 31-year maturity in May. Our cash and short-term liquidity stands at roughly $7.5 billion, and our equity investment portfolio stands at over $8 billion against the cost to that of $2.8 billion. Those numbers suggest that we've got a very conservative balance sheet and plenty of liquidity to deploy as we find opportunities to do so. Investment markets and opportunities to acquire additional Markel Ventures businesses remains somewhat limited due to what I would describe as pretty high levels of overall pricing.

Despite that reality, we've been able to use our financial strength and deploy capital following the 4-part triage that we've laid out in the annual report over many years. First, we continue to fund internal growth opportunities in our Insurance and Ventures businesses. The solid growth in our insurance premiums requires capital to write business, and we've got it. As written premiums produce underwriting profits over time, those underwriting profits become available to allocate across the 360-degree range of capital allocation opportunities we enjoy at Markel.

Our Markel Ventures operations are also growing and producing excellent results. Overall, the Ventures businesses are quite capital efficient. Absent acquisitions, they tend to grow and produce capital at the same time. As Martha Stewart would say, that's a good thing. Second, while we did not make any acquisitions during the first half of 2021, we continue to participate in many discussions, and we see unique opportunities that come from our existing network of businesses we're already in and the people who are already on our team.

Our reputation as dependable partners and is a great home for long-term oriented people and businesses continues to grow. We're continuing to see unique opportunities to deploy capital productively and grow Markel as a direct result. I think this is a growing competitive advantage for us. The value of being long-term, dependable and trustworthy partners continues to compound over time. I believe this is our X factor. It's our magic formula that will produce future opportunities to deploy capital productively over time.

Third, we continue to make modest purchases of publicly traded equity securities. Despite the record level of the overall market, we continue to find well-priced and attractive equity investment opportunities. We continue to invest systematically and regularly in public equities. We've got room to do more as opportunities and circumstances present themselves over time, they have, and I believe they will. Fourth, we continue to methodically repurchase shares of Markel as we have the ability to fund the first 3 categories, still have money left over and find Markel stock attractively priced.

To close, thank you again for your support and your shared dedication to making Markel one of the world's great companies. We're delighted to report the progress against that goal in the first half of 2021, and we look forward to continuing to work our way at it in the years to come.
With that, we'd be delighted to answer your questions.

# Question and Answer

**Operator**

[Operator Instructions]

Our first question today comes from Jeff Schmitt with William Blair.

**Jeffrey Paul Schmitt**
*William Blair & Company L.L.C., Research Division*

Just looking at growth levels and rate levels in the insurance segment professional liability, general liability, you've been compounding rates for several years now. I presume your rate adequacy have been for some time. But are you seeing any signs of increasing competition there, or do you think the market is still kind of rate efficient? I mean, it seems like a good opportunity to continue expanding your margins there.

**Richard Reeves Whitt**
*Co-CEO & Director*

Jeff, yes, rates have been very good in professional and casualty. And I do think we -- I think we've been at rate adequacy for quite a while. I do think there is concern in the industry around just what may happen with claims inflation, social inflation and things of that sort. And so I think that has kept pressure on rates. I think also just the fact that it takes a lower combined ratio today to generate acceptable returns given the interest rate environment. So I think there's a lot of factors at play.

As I mentioned in my prepared remarks, professional liability and casualty where Markel is really made its name over the decades. I mean, that's where we have always performed extremely well, and we like that business, and we like to grow when the opportunity is there.

So Rates continue to be solid. I think as other people have said, I think they've plateaued, but we don't see them falling off, which is nice to see. So those are the areas that we are most comfortable and have seemed to be most profitable for Markel over the years, and we're going to continue to push forward hard in both those areas, both on the Insurance and Reinsurance side.

**Jeffrey Paul Schmitt**
*William Blair & Company L.L.C., Research Division*

Okay. The -- and then in Markel Ventures, just thinking about the Lansing Building Products company, just with building costs going up so much from inflation, is that a business -- I mean, can you pass those costs through completely? Are you seeing sort of margin contraction from inflation? Can you maybe speak on that?

**Thomas Sinnickson Gayner**
*Co-CEO & Director*

Yes. This is Tom. So far, we have been able to pass through the price increases that we've seen there as really throughout all of Markel Ventures, inflation. It's interesting to sort of see the press reporting in the academic or governmental commentary. I can tell you as a person responsible for running real businesses, there's inflation everywhere and everything in every dimension. So we're getting that from our vendors, but our customers are getting that from us, too. It's the reality of business. Everything is costing more. We're passing those costs through. And there's simply no alternative to not doing that.

**Jeffrey Paul Schmitt**
*William Blair & Company L.L.C., Research Division*

Okay. And that's not just in Lansing, you're talking about across Markel Ventures, you're sort of able to pass all those costs through.

**Thomas Sinnickson Gayner**
*Co-CEO & Director*

Yes.

**Operator**

[Operator Instructions]

Our next question comes from Phil Stefano with Deutsche Bank.

**Philip Michael Stefano**
*Deutsche Bank AG, Research Division*

I was hoping to talk about the ventures business, I always get the feel that the potential acquisitions are a bit frothy at least in their valuations. But I was wondering does the potential change to personal tax rate in any way create an acceleration of potential acquisitions here. I feel like this conversation or at least this idea is usually applied to the independent agent or broker market. But I wasn't sure if there was any way to comply to the venture operations as well, just given the makeup of most of the acquisitions you've had recently?

**Thomas Sinnickson Gayner**
*Co-CEO & Director*

Right. Well, in general, in terms of acquisition prices and multiples that people are paying out there, they are higher. And I've been saying this for the last, I don't know, 4 or 5 years. So we've not really been aggressively trying to buy things or go out and make a lot of outgoing calls. But fortunately, the reputation that's spreading out there based on what we've done and people who are already part of the family friends, they know and networks and contacts and whatnot, we get some really fascinating inbound calls with people looking to join up, if possible. And that's really where the deal flow is coming from. And I think that continues.

That does not describe the general market that describes people who are looking for the very specific set of values and long-term thinking of the way Markel does thing. So that's part of the X factor. In terms of the frequency and intensity of those phone calls right now and potential changes in tax rates driving that. My sense is, yes, very much people are thinking that. Yes, I was thinking about maybe selling someday, maybe that say it's not. So yes, we're getting a lot of goals.

**Philip Michael Stefano**
*Deutsche Bank AG, Research Division*

Okay. And is there a way for you to help us think about growth moving forward in the ventures business? So it feels like we lap the Lansing acquisition and things should be "normal" whatever that means these days. But how do we think about growth versus economic rebound and how these two might move in coordination?

**Thomas Sinnickson Gayner**
*Co-CEO & Director*

Right. Again, I would just encourage you to take as long, but term view as you possibly can and recognize that since 2005, when Markel Ventures started at 0, now it's a $3 billion top line and on track for $400 million of EBITDA. If you just took the first half and multiply it by 2, that's not a forecast, but it's just the math of kind of where things stand. So without a specific growth target or a specific growth plan, we're always trying to be better. And if you can execute about being better, the world tends to give you more to do.

**Philip Michael Stefano**
*Deutsche Bank AG, Research Division*

I appreciate the long-term view, unfortunately, my models on a quarterly basis. So I take someone in the server as well. Moving over to Richie on the...

**Thomas Sinnickson Gayner**
*Co-CEO & Director*

On your model, I would just suggest you multiply something by more than 1.0.

**Philip Michael Stefano**
*Deutsche Bank AG, Research Division*

Yes. Got it. And on the underwriting side, Richie, I was hoping you could talk about the mechanics of rate versus trend and the extent to which we're realizing the gap there as we earn through. Look, I mean you've historically had a conservative reserving philosophy. And so to me, you might not be realizing the entirety of rate versus trend, but -- Maybe you could just help frame for us the attritional benefit that we're seeing a rate versus trend, or is it business mix? What's driving the improvement here?

**Richard Reeves Whitt**
*Co-CEO & Director*

Yes. I mean, we are -- it is clear we are starting to recognize some of that margin between the rates we're achieving and where we believe trend is. We have to be careful about that because we -- within reason, we can calculate the rate increases, but trend, it's an estimate. At best, we're estimating what we think trend is. But I mean, I think we've already got enough data, enough information at this point that we have started to recognize some of that margin.

And I think we'll continue to recognize more of that margin as we go forward. We felt like we were comfortably ahead of trends when rate increases sort of picked up, started and they started, I would say, in most lines, probably 3 years ago. They were nothing spectacular initially. But over the last 2 years or last 18 months, certainly, that picked up substantially. So some of it is baked in there. I couldn't tell you if it's 20% or 30% or 50% or 80%. I don't really know. That's going to play out as the actuaries give a much better sense of how trend is moving, given what we're all seeing in terms of CPI inflation and then, of course, social inflation.

**Operator**

Our next question comes from Scott Heleniak with RBC.

**Scott Gregory Heleniak**
*RBC Capital Markets, Research Division*

I wonder if you can talk about the reinsurance unit, which had significant premium growth that was much higher than it had been running in the past few quarters. And I appreciate that can be lumpy. You mentioned a few areas, but just wondering if we should expect to continue to see that in the second half of the year given it sounds like you're your commentary was a little more upbeat in terms of the rates you're seeing out there, but any thoughts on that?

**Richard Reeves Whitt**
*Co-CEO & Director*

Well, the reinsurance growth, I mean, your first comment, it's lumpy. It's absolutely correct. It is lumpy. Individual contracts can -- especially it's a fairly low premium base compared to our insurance operations. So large contracts on a small premium base can lead to large percentage changes and we saw that this quarter. The reality is. The reinsurance business is heavily weighted to the first half of the year.

And so I would expect, unless a deal comes up here or there, we're probably going to trend at lower growth rates for the rest of the year. One, because just the amount of business that's out there in the second half of the year, and we're not really looking to grow other than the contracts we've already added this year. So second half of the year, I mean, I can't promise anything. A great piece of business could come across the transom tomorrow, and we might want to write it. But I don't really expect much in the way of growth for the rest of the year.

**Scott Gregory Heleniak**
*RBC Capital Markets, Research Division*

Okay. That's definitely helpful. And then the -- you mentioned, I guess, it was the beginning of the year, the efforts to discontinue the property reinsurance. Is there any update on I appreciate that also takes sort of -- that can take a while to play out, but how much of an impact was it in the first half of the year as you started doing that?

**Richard Reeves Whitt**
*Co-CEO & Director*

Yes. It's going as we expected. We stopped writing premium in the Reinsurance unit on January 1. So starting with January 1 renewals, we've stopped renewing in the Reinsurance operations. And those were looked at by Nephila. And the ones they wanted to renew, they did, the ones didn't, they didn't. So we've been in runoff on the underwriting side for the last 6 months. Probably the best way to explain it to you is just in terms of limits exposed, that's down by over 50% at this point.

So it was a fairly quick because of the size of the January 1 renewals, then the April 1 renewals and the June 1 renewals, which are Florida not having renewed those through the first half of the year, limits exposed on property as we enter wind season now are down by over 50%. And we would expect by sometime next year that, that would be pretty close to 0 by the end of next year. So moving along at pace.

**Scott Gregory Heleniak**
*RBC Capital Markets, Research Division*

Okay. That's definitely good detail. And then wondering if you could talk about the -- you mentioned to fill some new opportunities in the back half of the year. I wonder if you could flesh that a little more. And then the Lodgepine, congratulations on the launch. And just wondering where you kind of feel like you can build that maybe any more detail on that -- opportunities for that over time? And how many investors you retracted. Just any color there as well?

**Richard Reeves Whitt**
*Co-CEO & Director*

Yes. I have to be a little careful because for SEC reasons, you can't be viewed as marketing in terms of the things you're doing. But I can say -- What we've seen is a lot of interest from investors in bespoke funds. We have multi-investor funds, and those have done very well over the years, but we're seeing more and more interest from investors to establish kind of their own trading strategy. They may be interested in a certain return profile versus a certain risk profile.

They may be interested in ESG opportunities. So we're definitely seeing more interest from investors in bespoke trading strategies, and we're working with them to try to try to put those together, and we're hopeful that as we get towards the end of the year and as we get into '22, we'll have been able to set up a few of those. In terms of Lodgepine, the capital raise, that moves about 40% of the current retro book into the Lodge Pond fund. We have committed to keeping about 20% of the exposure or Markel, either on our balance sheet or as an investor.

So we've got a ways we could go with the current portfolio. In terms of our ability to grow the retro portfolio, it really depends on market conditions. Market conditions are good right now. And if they continue to be good, we certainly could grow the retro portfolio we're writing and add new investors, but we're committed to -- we want that to be an underwriting -- had done in an underwriting profit. And so it will depend on market conditions as we go through the renewals and get towards January 1 is really the big renewal date on retro business, and we'll see where the market stands as we approach that.

**Scott Gregory Heleniak**
*RBC Capital Markets, Research Division*

Okay. Fair enough. And then just the last one. I know we're touching on a little bit earlier on inflation, just general inflation and social inflation. Wondering -- If I heard you right, I think you were saying rate increases are outpacing loss cost trends. We're seeing core loss ratio improvement. And so just to confirm, you expect that to continue kind of into the second half of the year into 2022 then, the continued improvement?

**Richard Reeves Whitt**
*Co-CEO & Director*

Yes, I think so. I mean, I think I've mentioned, admittedly, it was pretty modest in the beginning, but we've been seeing rate increases, and we've been compounding rate increases for almost 3 years now. I think we all believe -- I mean, you can see -- as Tom said, you can see it everywhere. Inflation is out there. I think that will impact loss cost trends -- But we are comfortable because of where our starting point was that we are ahead of loss cost trends -- But we have to be careful. We don't know exactly what loss cost trends are, and so we don't want to recognize too much of that, more likely redundant than deficient. -- is their philosophy here. And so we're going to be careful as we bring that margin that we're seeing into our results.

**Operator**

Our next question is a follow-up from Phil Stefano with Deutsche Bank.

**Philip Michael Stefano**

*Deutsche Bank AG, Research Division*

I was hoping you could talk about capital usage and management. So you guys are 1/3 and then the Ventures that is obviously creating capital underwriting is consuming and investing, I guess, maybe you can tell us, is it creating we're consuming at this point? And underlying that is how should we think about repurchases, maybe you could give us just a refresher on the repurchase philosophy for the company as we think about capital looking ahead over the year run, of course.

**Thomas Sinnickson Gayner**
*Co-CEO & Director*

Yes. And we talked about the 4-part triage we've written about in the annual report for a number of years, and I referred to it earlier. So the first thing is you fund the organic opportunities that you have, the people that are already on your team that are proven winners when they have opportunities to grow and deploy capital, we want to support those people first and foremost top of the list.

Second thing, the acquisitions. And we can do, and have over the years, done insurance acquisitions. We've done the Ventures acquisitions. So as we see opportunities there, we want to have capital to seize opportunities when they present themselves.

The third thing is our publicly traded investment portfolio, and we're modestly, not massively modestly investing in public equities right now. And then fourth is after we funded the first 3 buckets. If Markel stock appears undervalued, and we have excess capital, then the appropriate thing for us to do is to start buying in stock. We've repurchased very modestly over the years because we've always had a pretty robust set of opportunities in the first 3 buckets.

We suspended repurchases in the middle of this time last year, when we were operating under very different sort of conditions but we started that in the first quarter of this year, and that continued through the second quarter. And I think the thing you should expect from us is a steady and consistent and disciplined behavior that we hope to be able to continue quarter after quarter, year after year. So nothing dramatic, but just steady at it, which should be additive.

**Operator**

This concludes our question-and-answer session. I would like to turn the call back over to Tom Gayner for any closing remarks.

**Thomas Sinnickson Gayner**
*Co-CEO & Director*

Thank you very much. We appreciate you joining us, and we look forward to catching up in 90 days or so. Thank you.

**Operator**
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.