S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

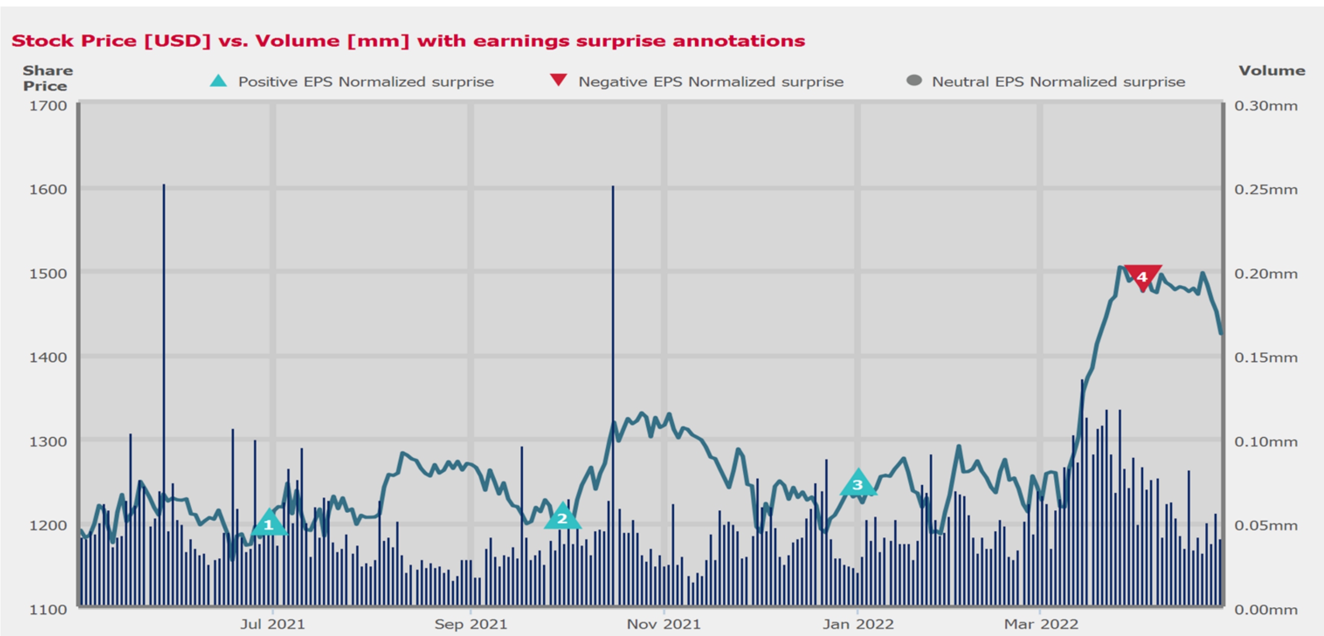
FQ1 2022 Earnings Call Transcripts

Wednesday, April 27, 2022 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-			-FQ2 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	17.00	11.34	(33.29 %)	18.60	71.93	NA
Revenue (mm)	2776.06	2606.24	(6.12 %)	3230.99	12190.18	NA

Currency: USD
Consensus as of Apr-27-2022 5:02 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2021	15.40	18.28	18.70 %
FQ3 2021	13.28	13.79	3.84 %
FQ4 2021	16.10	17.01	5.59 %
FQ1 2022	17.00	11.34	(33.29 %)

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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

Mark Alan Dwelle
RBC Capital Markets, Research Division

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Presentation

Operator

Good morning, and welcome to the Markel Corporation First Quarter 2022 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 these projected -- from those projected in the forward-looking statements is included in our most recent annual report on Form 10-K and quarterly report on Form 10-Q, including under the captions Risk Factors and Safe Harbor and Cautionary statements.

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. Our Form 10-K and Form 10-Q can be found on our website at www.markel.com in the For Investors 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

Thank you, Andrea. Good morning. This is indeed Tom Gayner, and it is my pleasure to welcome you to the first quarter Markel Corporation conference call. I'm joined today by our Co-CEO, Richie Whitt; and our CFO, Jeremy Noble.

As always, our objective is to share the news from our most recent financial statements and more importantly, answer any questions you might have about Markel and the circumstances of your company. We always look forward to your thoughtful questions.

In addition to this call, we've got 2 other events coming up that offer up as chances to spend meaningful time with management. First, this weekend, we'll be heading back to Omaha to attend the Berkshire Hathaway Annual Meeting as we've done for decades. We'll be hosting our annual Sunday brunch at 10 a.m. at the Marriott next to the convention center. And if you can join us, we'd love to see you. We take questions for a couple of hours that day, and we absolutely love the chance to spend time with fellow long-term investors in Omaha during Berkshire weekend.

Second, the Markel Annual Meeting will be at 2 p.m. on Wednesday, May 11, at the Virginia Credit Union Live Concert Arena at the Richmond Raceway. We invite you all to attend, and we'd welcome the chance to spend time with you at our upcoming annual meeting.

As to the financial results of the first quarter, I'm very pleased with our performance, and I hope you share our sense of accomplishment and optimism. The first quarter is a short 90-day view of Markel. We enjoyed 3 engines of Insurance, Markel Ventures and investments. While it is lovely when all 3 engines provide positive thrust, Markel is designed to succeed even if not all 3 are firing.

In one dimension, i.e., that of the last 90 days, you can accurately say that only 2 of our 3 engines fired. That is correct since in the first quarter, we earned excellent returns in our Insurance and Ventures operations but experienced negative mark-to-market swings in our investment portfolio. If I put myself in your shoes as an owner of Markel though, here is what I would expect over time. There should be no surprises to you in our insurance operations when we report the results of any one quarter.

You as observers of the world can now through regularly reported news, whether major loss events like natural catastrophes, pandemics, wars, wildfires, tsunamis, hurricanes, earthquakes or other big events took place or not. Given what you already know from general awareness of the news, I suspect you as reasonably informed and thoughtful honors would have some sense of how our Insurance operations might perform. Richard will give you more details in a minute, but I'm pleased to be able to report to you that we enjoyed excellent results in our Insurance operations, and I don't think we're reporting anything that should surprise you.

Similarly, in our Ventures operations, we've put together a diversified and robust set of businesses that have demonstrated their excellence for many years and through incredibly varied conditions, including the pandemic supply chain issues, inflation, trade tensions, technological change and all those factors I listed when I was talking about Insurance. I'm pleased to report ongoing meaningful growth and profitability for Markel Ventures as we begin 2022. Jeremy will give you the numbers in just a minute.

Finally, while the first 90 days saw mark-to-market declines in our publicly traded portfolio of stocks and bonds, I think you as investors would agree that we are likely to regularly experience the most reported volatility with our investment engine as compared to the others. Given that reality, longer-term measurements matter way more than those of any given quarter.

We regularly measure things in 5-year time increments, including how we calculate incentive compensation for senior management, and I thought it might be helpful to take a quick glance at what the investment engine produced over the last 5 years as opposed to the last 90 days.

On March 31, 2017, our equity portfolio stood at roughly $5 billion. 5 years later, it stands at $8.7 billion, an increase of 74%. On March 31, 2017, our equity portfolio had an unrealized gain of roughly $2.5 billion. 5 years later, it stands at $5.8 billion, an increase of 132% over that time. On March 31, 2017, each share of Markel sold for $978. Five years later, each share sold for $1,492, an increase of 53%. Those last 5 years included the pandemic, wildfires, tsunamis and just about any other challenge you could imagine or even ones you couldn't imagine.

While we necessarily report quarterly financial results as a publicly traded company, we think about and manage Markel over much longer time frames. Financially, we tie our compensation of senior management to 5-year rolling results. And in reality, we think in even longer time frames such as decades and generations as we run this business.

With that as a preamble, I'd now like to turn things over to Jeremy to provide you with the details from the first quarter.

Jeremy Andrew Noble
Senior VP & CFO

Thank you, Tom, and good morning, everyone. Tom mentioned the first quarter of 2022 highlights the benefits that come from our diversified 3-engine architecture of Markel. Volatility within the public equity markets and the effects of rising interest rates on our bond portfolio while weighing down our investment returns during the quarter were somewhat mitigated by strong operating results within our Insurance and Markel Ventures operations.

Looking at our underwriting results, gross written premiums were $2.5 billion for the first quarter of 2022 compared to $2.2 billion in 2021, an increase of 16%. Our increased premium volume reflects new business volume, more favorable rates and expanded product offerings across many of our product lines, with the most notable growth coming from our professional liability and general liability product lines in both our Insurance and Reinsurance segments.

Retention of gross written premiums was 86% in 2022, which is down 1 point from the same period last year. Our consolidated combined ratio for the first quarter of 2022 was an 89, which included $35 million or 2 points of net losses and loss adjustment expenses and $12.3 million of ceded reinstatement premiums attributed to the Russia-Ukraine conflict. This compares to a 94 combined ratio for the same period last year, which included $64 million or 4 points of losses attributable to winter storm Uri and $19 million or 1 point of adverse development arising from a change in our estimate of COVID-19 ultimate losses a year ago.

Excluding these loss impacts from both years, our consolidated combined ratio for the first quarter of 2022 was an 87 compared to an 88 for the same period in 2021. This improvement reflects a lower attritional loss ratio within our insurance segment and a lower expense ratio, partially offset by less favorable development on prior year loss reserves. Higher earned premiums in 2022 compared to 2021 had a favorable impact on our expense ratio and an unfavorable impact on our prior accident year's loss ratio.

With regards to prior year loss reserve development, prior year loss reserves developed favorably by $96 million in the first quarter of this year compared to $91 million in the first quarter of last year.

Turning to our investment results. Net investment losses were $358 million in the first quarter of 2022 and were primarily attributable to a decrease in the fair value of our equity portfolio, driven by unfavorable market value movements. This compares to net investment gains of $527 million in the first quarter of 2021, attributable to an increase in the fair value of our equity portfolio, driven by favorable market value movements. As I've mentioned in prior calls, given our long-term focus, variability in the timing of investment gains and losses is to be expected, and we typically measure investment returns over longer periods of time.

With regards to net investment income, we reported $73 million in the first quarter of 2022 compared to $97 million in the same period last year. The decrease this quarter reflects the impact of losses recognized on equity method investments in the first quarter this year, most notably our investment in Hagerty. Net investment income on our fixed maturities in 2022 was consistent with 2021 as the impact of higher average holdings of fixed maturities in 2022 was largely offset by lower yields compared to the same period a year ago.

As a reminder, for accounting purposes, we are deemed to have the ability to exercise significant influence over Hagerty and therefore account for our investment in Hagerty under the equity method rather than at fair value. As of March 31, 2022, the carrying value of our investment in Hagerty was $239 million, which was included in other assets on the consolidated balance sheet. As of March 31, 2022, the estimated value of our investment based on the closing stock price of Hagerty's Class A common shares was approximately $840 million.

Net unrealized investment gains decreased $476 million net of taxes during the first quarter of this year, reflecting a decline in the fair value of our fixed maturity portfolio, resulting from increases in interest rates during the first quarter. As a reminder, we tend to hold substantially all of our fixed maturities until they mature.

Now I'll cover the results of our Markel Ventures segment. Revenues from Markel Ventures increased 35% to $950 million in the first quarter of 2022 compared to $707 million for the comparable quarter last year. This increase reflects the contribution of revenues from our December 2021 acquisition of Metromont and August 2021 acquisition of Buckner as well as strong organic growth across many of our other businesses.

EBITDA from Markel Ventures was $96 million in the first quarter of 2022 compared to $81 million during the same period last year. The increase reflects higher revenues and improved operating results at our construction services and consulting services businesses as well as the contribution from Metromont. As a reminder, EBITDA in the first quarter of 2021 included a pretax disposition gain of $22 million in connection with the sale of a portion of one of our health care businesses.

Looking at our consolidated results for the quarter. Our effective tax rate for the first quarter was 27%, which results having a relatively small pretax loss during the period. The estimated annual effective tax rate was 21% in the first quarter of both 2021 and 2022. We reported a net loss of common share to common shareholders of $53 million in the first quarter of 2022 compared to net income to common shareholders of $574 million in the same period a year ago, largely attributed to the year-over-year swing in changes to our public equity portfolio valuation.

With regards to the loss to shareholders for the first quarter of 2022 was $529 million compared to comprehensive income to shareholders of $359 million in the first quarter a year ago, again, driven by both fixed maturity and public equity valuations.

Finally, I'll highlight a few transactions in the period and make a few comments on cash flows, capital and our balance sheet. First, in March of this year, we completed the previously announced buyout transaction related to Markel CATCo, accelerating the return of all remaining trapped capital to investors in the Markel CATCo funds.

Under the terms of the transaction, we provided cash funding of $45 million to purchase substantially all of Markel CATCo funds investments in Markel CATCo REIT, which at present, we anticipate being returned to us in time as remaining trust fund collateral is released. We also made $102 million in additional payments net of insurance proceeds, 2 are for the benefit of investors, in exchange for releases of all claims related to the transaction, the CATCo businesses and investors' investments in the funds, including any pending litigation, which was recognized as an expense during the first quarter of 2022. We expect that the remaining runoff of CATCo will have minimal effect on our future results.

Second, within our Nephila ILS operations, there were 2 transactions we're touching upon. In February 2022, we sold the majority of our controlling interest in our Velocity managing general agent operations for a total cash consideration of $181 million, which resulted in a gain of $107 million. We continue to have a minority interest in Velocity after the sale, and Velocity will continue to be a source of risk origination for our Nephila fund management operations.

In March 2022, we entered into a definitive agreement to sell our controlling interest in our Volante managing general agent operations. This transaction is expected to close later this year in the third quarter and is subject to regulatory approvals and customary closing conditions. Following the disposition of Nephila's Volante operations, our Nephila ILS operations will be solely comprised of its core fund management operations.

Turning to cash flows. Net cash provided by operating activities was $415 million for the first quarter of 2022 compared to $318 million for the first quarter of last year. Operating cash flows in the first quarter of 2022 reflected strong cash flows from our underwriting operations given the growth in premium volume.

Total shareholders' equity stood at $14.1 billion at the end of March compared to $14.7 billion at the end of the year. During the quarter, we repurchased 63,000 shares of our stock under our outstanding share repurchase program.

All in all, we are pleased with the start to the year, particularly with the strong results in our Insurance and Markel Ventures operations. We remain committed to building shareholder value over time. We believe we continue to advance this effort in the first quarter.

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. I'm excited today to discuss with you our Insurance engines first quarter results. Obviously, it's only 90 days into the year, but we are off to a strong start to the year.

Many of the trends that we discussed throughout last year continued in the first quarter. The pricing environment continues to hold up well, and organic growth remains strong. As Jeremy said, we achieved an 89% combined ratio for the period despite 2 points of losses from the Russian-Ukraine conflict.

Business production continues to be robust with 16% growth in our underwriting operations with gross written premium surpassing $2.5 billion for the quarter, and that's the first time we've done that. and 17% growth within our program services operations. While we continue to benefit from a favorable pricing environment, we are also seeing new business growth across most of our product lines, in particular, within our professional and general liability products.

As Jeremy mentioned, we also had an active quarter in the ILS space, completing the sale of our majority interest in the Velocity MGA operations and announcing the sale of our Volante MGA operations, which we expect to close sometime later this year. Both of these transactions unlock significant value from our Nephila acquisition in 2018 and also allow Nephila to devote full attention to the opportunities they see in the cat arena right now.

Now I'll discuss our first quarter results within our Insurance engine, which include our underwriting operations, State National Program Services operations and Nephila insurance-linked securities operations. So I'll kick it off with the insurance segment.

Gross written premiums in the insurance segment were up 19% in the quarter with just under $2 billion in premium writings while earned premiums were up 16% for the period. We saw double-digit growth rates across all of our major product lines, in particular, within the professional liability and general liability product lines where we have identified new business opportunities in both our domestic and international operations and have benefited from new program opportunities. We continue to benefit from favorable rating environment within most of our insurance product lines, although rate increases achieved continue to gradually moderate.

The combined ratio for the quarter in the insurance segment was 87% compared to 91% last year. The current year combined ratio included $20 million or 1 point of net losses related to the Russian-Ukraine conflict versus $39 million or 3 points of net losses last year related to winter storm Uri.

Excluding the impact from these events, the combined ratio decreased by just over 1 point due to a 2-point decrease in our attritional loss ratio across several product lines, reflecting the impact from rising rates and our ability to write more premium in our preferred product classes. This was partially offset by a decrease in favorable development on prior accident year's losses in the quarter. Higher earned premiums have a favorable impact on our expense ratio and an unfavorable impact on our prior accident year's loss ratio.

So next, I'll talk about the Reinsurance segment. Gross written premium within the Reinsurance segment were up 8% for the quarter, while earned premiums were up 12%. Premium growth was driven by higher premiums in our general liability and professional liability lines, from both new business and higher renewals due in part to more favorable rates, along with the impact from favorable premium adjustments within our credit and surety, professional liability and general liability product lines.

This growth was partially offset by lower premiums in our property and workers' compensation lines. Our property lines continue to run off as part of our exit strategy with the transition of our reinsurance property lines to Nephila and the decision to discontinue writing retro property business within our underwriting operations.

As of the end of the first quarter, in terms of reinsurance property, we are fully off risk at this point. The reduction in workers' compensation was due to the nonrenewal of 1 large quota share treaty.

The combined ratio for the period within the Reinsurance segment was 95% compared to 109% a year ago. The current year combined ratio included $15 million or 5 points of net losses from the Russian-Ukraine conflict compared to $25 million or 10 points of losses last year related to winter storm Uri. Last year, the segment was also impacted by adverse development of $19 million related to losses from COVID-19.

Excluding the impact from these events, the Reinsurance segment combined ratio decreased 2 points due to lower adverse development on prior accident year losses, partially offset by a slightly higher current accident year attritional loss ratio. The segment had modest adverse loss development this quarter, driven entirely by the impact from favorable prior year premium adjustments offset in part by favorable loss development in our property product lines. The current accident year attritional loss ratio increased due to mix of business since our discontinued property lines carried a lower attritional loss ratio partially offset by decreases this year in attritional loss ratio within our general liability and general liability lines.

Next, I'll touch on program services and other funding operations and our ILS operations, both of which are reported as part of our other operations. So as a reminder, almost all of the gross written premium from our program services and other fronting operations is ceded. Our program services and other funding operations continued their strong performance with program services producing $706 million in premiums during the period and total revenues from funding operations of $34 million with continued strong profit margins.

Our ILS operations consists entirely of Nephila operations going forward. Operating revenues were flat to last year with higher revenues at our Volante MGA operations, offset by lower revenues at the Velocity MGA operations due to the sale of that unit in February.

While Velocity will continue to partner with and produce significant premiums in support of Nephila funds, post-sale, the MGA's commission revenues obviously will no longer be included in Nephila's results. Nephila's assets under management within the fund management operations were $8.6 billion as of March 31, '22.

I'll finish up with a few comments about market conditions and obviously, happy to answer any questions during Q&A. As I said earlier in my comments, trends continue largely in line with what we discussed at year-end. Rates have held up well, and organic growth has remained solid. Rate increases continue to gradually moderate but have held up better than we would have predicted a quarter or 2 ago. I believe that uncertainty around inflation of economic and social, financial market volatility, including interest rate increases, recession concerns and the Russian-Ukraine conflict have all played some role in supporting continued underwriting discipline in the market.

There continues to be much discussion in the industry around inflation and its impact on claims cost. As you would expect, I think, we are baking more claims inflation into both our pricing and reserving and believe rate increases remain ahead of claims inflation. We'll be watching each of our over 100 specialty lines very closely, and we'll adjust underwriting and pricing strategies as needed to maintain profitability.

Bottom line, we're right where we want to be at the end of the first quarter. And I got to tell you that feels great, considering where we stood at the end of the first quarter in 2020 with COVID-19 and at the end of the first quarter in 2021 with winter storm Uri. Even better, however, we're really excited about the opportunities for the rest of the year. Thanks for your time today, and now I'll turn things over to Tom.

Thomas Sinnickson Gayner
Co-CEO & Director

Thank you, Richie. The people of Markel Ventures continue to make me grateful and amazed. Their absolute dedication to their customers and to their colleagues continues to show up month after month, quarter after quarter and year after year. Today's numbers that Jeremy shared speak volumes as to how the human values of Markel continue to manifest themselves in our financial results. The current environment remains challenging in finding people and supplies, but our managers continue to demonstrate their resilience and creativity. I find their results to be inspiring.

On the acquisition front and adding new businesses to Markel Ventures, we continue to see elevated prices as a general statement. As such, I would not expect to add a new platform to Markel Ventures this year. For reference, I thought the same thing during the first quarter of the last several years. Despite that, attractive situations came up, and we added wonderful businesses in each of the last several years. We'll see how 2022 develops.

Our managers and CEOs running the Markel Ventures businesses also continue to pursue opportunities to add to our existing businesses, and I would expect some fruitful developments as a consequence.

Also, fortunately, our existing array of businesses continue to perform well, generate cash, grow and provide resilience and diversification to Markel. In our investment operations, the change in the value of our fixed income portfolio was due entirely to the increase in the overall level of interest rates. There were no credit losses in the portfolio and that continues a multiyear record of pristine results from fixed income. Reinvestment rates on maturities and current cash flows continue to increase and that should yield increases in recurring investment income in upcoming quarters. We generally hold our fixed income securities to maturity and unrealized gains or losses all tend to revert back to 0 in the fullness of time.

In our equity portfolio, our ratio of publicly traded equities to our shareholders' equity stood at 61% at the end of the first quarter. That's a conservative ratio. Given our insurance profitability, capital position, ventures profitability, durability of recurring investment income and attractive purchase prices, we are continuing to buy common stocks and repurchase our own stock. We are also ready, willing and able to consider attractive acquisitions in the insurance or ventures worlds.

I'd like to thank you again for your ongoing commitment to Markel. We can't build one of the world's great companies without fellow, long-term owners who have the same goal. We believe that our win-win-win architecture of serving our customers and our fellow employees creates wonderful returns for our shareholders as well. We're delighted to connect with you to update you following these first quarter results, and we look forward to seeing you at one of our upcoming events shortly.
With that, Andrea, if you would be so kind as to open the floor for questions.

Question and Answer

Operator

[Operator Instructions] And our first question will come from Jeff Schmitt of William Blair.

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

Could you talk about the loss environment? What do you see loss cost trends running at? And then any detail that you could provide on maybe the components, how much is related to social inflation versus CPI inflation? And I know it's awful place to be tough to sort of isolate. But just curious, had CPI inflation sort of taken over? Or is that additive on loss cost? How are they running now?

Richard Reeves Whitt
Co-CEO & Director

Jeff, this is Richie. I'll take a shot and I'll see if Jeremy or Tom want to add in. I think you got to start with recognizing that you're not seeing much in terms of the data at this point. When we talk to our claims folks, they're really not seeing a whole lot of claims inflation showing up in our numbers yet. However, we know with all the things that are going on out in the environment, both CPI inflation, litigation finance, toward the erosion of tort reform over the years, we know that claims inflation is running higher than it historically has.

I can't give you a precise number. And obviously, we write, as I said earlier, on the order of 100 different lines of business. And so it would be different in each of those lines of business. But I do think it's more than what we've historically seen. But I still believe when you look at the rate increases that we're still achieving we're in the high single digits in terms of rate increases. I still believe there is a margin on that versus what claims inflation is running at right now.

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

Got it. Got it. Okay. And then on the competitive environment, obviously, it's holding up really well I guess are you surprised that it's this disciplined after probably, call it, 3 years [indiscernible] increases, some people have gotten 30-plus percent cumulative rate increase. We're still holding up, I understand the cost pressures. Weather has been tough. Interest rates are low. But are you surprised or are you starting to see some competitors start to get more aggressive on price, on terms and conditions? Are you seeing any indication of that? Or is it staying pretty rational?

Richard Reeves Whitt
Co-CEO & Director

I would say it is staying pretty rational. But yes, I mean, clearly, we are seeing more competition as the rate of increase has decelerated. So I think some of the new entrants, both company and MGA, I think they've had some impacts on the margin. I do think after 3 and in some cases, 4 years of rate increases, people's assessment of rate adequacy changes, and so their appetite changes.

So this market, the cycle is no different than past cycles. We are probably past the peak of this cycle, but it is coming off very gradually. And I think I said in my comments, probably more gradually than I would have predicted a few quarters ago. And I think it's some of the things that have been developing, the war, inflation, interest rates, you name it. I think there's enough things out there that give people pause. And so it has been a very gradual, gentle glide on the rates as opposed to maybe something faster than I might have predicted a few quarters ago.

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

That's helpful. And if I could just -- one last one on the fixed income securities. I wonder if you could discuss your philosophy there. They're held as available for sale. You're saying you hold maturity anyway, though. I'm just wondering if there's any contemplating any changes to that strategy in this rising interest rate environment? I mean can you switch those to hold the maturity and not have the mark-to-market changes? Or what are your thoughts on that?

Thomas Sinnickson Gayner
Co-CEO & Director

Well, it's like Abraham Lincoln once said, "How many legs does the dog have if you call the tail a leg?" The answer is 4. So calling the tail a leg doesn't make it a leg. Whether the accounting terms of available for sale or how the maturity, whichever one you use, the mark-to-market value is real economic number that's out there, and we think about things in real economic terms. So we really don't expect to have any changes in what we're doing or the way that we've labeled the accounting.

Now there's another sort of accounting nuance that's very important to remember is that the philosophy on fixed income is that we buy fixed income to match against the reserves of what we expect to pay out in claims and expenses of running the business. And the reason we buy fixed income securities that have a duration of between 4 and 5 years is because that matches the duration of what we expect to pay out the claims of them. So when interest rates rise and you see a mark-to-market decrease in the fixed income portfolio. If you were really doing the net present value of the reserves, you would see an equal and offsetting reduction in the amount of the reserves.

Now as an accounting matter, we don't discount our reserves to their net present value. So economically, what we're doing is we're hedging and matching and saying straight up either way, because one of the things that we fully believe is that we have no idea how to predict accurately what interest rates are going to do. So either way, whether they go up or whether they go down, we're hedged, we're matched, we're making a spread of return between the positive yields on the bond portfolio and the negative cost to float that we get through underwriting profitability. And as long as we keep that spread positive number, they add up to the good over time.

Operator

The next question comes from Mark Hughes of Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

The cat losses were pretty low in the quarter, couldn't get much lower. How much -- other than the Russia-Ukraine, but how much is that your underwriting versus the backdrop, just a more favorable cat backdrop in 1Q? And any thoughts on kind of implications when we think about future trajectory on cat losses? Is this signaling something important to us?

Richard Reeves Whitt
Co-CEO & Director

It was a relatively light first quarter in terms of cats, Mark, excluding Russia-Ukraine. And so I would say it's a combination. I would say it was a relatively light first quarter in terms of where we write cat exposed business. But also, I mean, I think it is showing up the fact that we have been derisking in terms of cat over the last several years. And so whereas we would have budgeted probably 3 or so points of cat losses the last year or 2, our budget for cat losses in '22, I think, is around 1%. Is that right, Jeremy? So it's a combination of both, a relatively light first quarter and the fact that we have been diligently working to reduce cat exposure in the portfolio. So that's it.

Jeremy Andrew Noble
Senior VP & CFO

Mark, it's Jeremy. I'll just add one other point. We typically only call out large significant named events within our cat. So we don't tend to sort of get all that sort of cat activity and disclose that when there's smaller amount. So there's always a little bit of, if you will, almost like attritional cat that we sort of embed in our underlying results. But then to Richie's point, our modeled average annual losses have come down significantly in recent years as we've addressed reducing the volatility in our focus associated with catastrophes.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

That's helpful. And then on the expense ratio, any onetime benefits in the quarter? Or was that just the efficiency and leverage?

Jeremy Andrew Noble
Senior VP & CFO

Yes. It's more -- Jeremy, again, it's more efficiency and leverage, right? We continue to enjoy growth -- significant growth on the top line, and we're able to sort of not see the direct and controllable expenses on that base grow at the same rate. So we continue to benefit in that way. So nothing significant besides that, that I would really call out.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. I think you've touched on this, but kind of your latest thoughts around the workers' comp market, you non-renewed treaty, I think, in the reinsurance book. How are you looking at that business both on the primary and reinsurance?

Richard Reeves Whitt
Co-CEO & Director

Yes, the market -- that is the one part of the market that has resistant hardening. And rates have continued to gently drift down 2%, 3%. As a result, I mean, we still think there's margin in the primary side of the business. And so we continue to write business there, but we recognize that the margin is smaller in workers' comp right now.

When we got to looking at that reinsurance deal, with the cumulative rate decreases that have happened over the last few years, we didn't believe it stacked up, and so we stepped away.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

When you say the margin is smaller, are you saying -- are you thinking relative to other lines that you're writing your preferred categories? Are you talking about relative to what you might have written in comp last year or the year before?

Richard Reeves Whitt
Co-CEO & Director

Right, relative to workers' comp over the last few years. Workers' comp has been a great line of business for several years now, which that helps explain why people have been competitive in it. There have been good results. But I just wouldn't expect the kinds of results we've had -- we've enjoyed in workers' comp over the last several years in the next few years unless something changes in terms of the pricing dynamic.

Operator

[Operator Instructions] Our next question will come from Mark Dwelle of RBC.

Mark Alan Dwelle
RBC Capital Markets, Research Division

A few questions. First, maybe for Jeremy. On the Hagerty mark-to-market, I guess, for the equity investment accounting, is there a way that you can help us understand like kind of how to track that number? I mean I knew that Hagerty shares had declined in the quarter, and so I expected there would be some adjustment for that. But the amount that you adjusted by was different in both percentage terms and obviously, in dollar terms, than what the stock price performance was. So is there a way that we can kind of think about that or get our arms around it?

Jeremy Andrew Noble
Senior VP & CFO

Sure, Mark. It's Jeremy. I'll take a stab at that and Richie or Tom can join in as well.

With regards to where we provide what the approximation to the fair value might be based on the traded A shares, you can rough, rough, rough think of Markel having about 23% ownership in Hagerty and so just think of that in terms of their sort of market capitalization at a certain point in time. That's a little bit of that fair value proxy. As far as what's recorded in our books, it's more a function of us taking our proportionate share of Hagerty's underlying earnings and any other capital sort of transactions.

We do have to record that, however, on a quarter lag because obviously, Hagerty is a publicly traded company, we want to have access to the information on time. It's not significant period-over-period. So just thinking of the relationship between the 2 figures that we report on and a little bit of how to think about that sort of fair value proxy that we put in.

Thomas Sinnickson Gayner
Co-CEO & Director

And it's probably worth talking about the warrants and how they impact.

Jeremy Andrew Noble
Senior VP & CFO

Yes, sure. So one of the things that will create a little bit of underlying volatility with regards to our held so what we hold on the actual Markel balance sheet and other assets, we'll see a little bit of volatility relative to the mark-to-market that Hagerty has relative to their warrants.

So if you think of the warrant activity because of the move in the Hagerty stock price through the end of the year, that would create sort of a liability and an expense, but we reflected as part of the reduction, we would have seen at 3/31 versus 12/31. So that creates a little bit more volatility. As a kind of more of a one-off, they also in either year-end results would have had the transaction costs associated with going public. But that's really a onetime event.

Mark Alan Dwelle
RBC Capital Markets, Research Division

So the primary thing that we're picking up there is the earnings results. So it's not really the movement in the stock price that sort of...

Jeremy Andrew Noble
Senior VP & CFO

What we hold on the balance sheet is just a function of their underlying -- our proportionate share of their underlying earnings and any other capital transactions. But it's not the movement in the fair value of their stock.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Got it. That's very helpful. Second question, this one is maybe for Tom or Jeremy. Could you just provide -- you talked already at length about kind of how you think about your investment portfolio and duration matching and so forth. Could you just provide a couple maybe general statistics in terms of what the portfolio duration is right now, kind of what the book yield is and where new money yields are relative to that?

Thomas Sinnickson Gayner
Co-CEO & Director

Yes. I don't have precise numbers on my fingertips, but the duration will be roughly 4 1/4, 4 1/3, something like that. The new money rates are a little bit higher than what the existing yields are. So when we are investing new money, we are at the point over the last couple of months with rates having gone up, the new money investment rates are higher than the embedded yield.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. That's fine. And then the other question I had, obviously, you've sold the Volante and Velocity over the last couple of quarters here. Could you just talk about strategically why it's better to be out of those as compared to retaining them? They really -- I mean they don't have a lot of capital associated with them, and they seem to make money. So I guess the question would be, why not keep them is compared to realize a little bit of cash flow at the moment?

Richard Reeves Whitt
Co-CEO & Director

Sure, Mark. Well, both of those organizations were acquired, obviously, as part of the Nephila acquisition. And they were investments, quite honestly, that Nephila had made in these 2 operations.

We've looked at it 2 ways. In both cases, management head ownership, had partial ownership of those businesses. And so they had an interest in realizing the value of those organizations at some point. And that had been sort of memorialized through the deals that Nephila put together with management in both cases. So we wanted to be fair to the management of those 2 operations and allow them to realize the part of the value that they had created there. Obviously, we were able to unlock significant value for Nephila and Markel Corporation.

And honestly, great businesses, great people, but there is quite a bit of time that is spent in terms of managing those operations that now we can fully devote to the core business, which is fund management for cat risk and climate risk. And we think the opportunity right now in the cat arena is significant. And so all of those things play into it, but really just getting super focused on our core business is probably the driver.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. That's helpful. And then one last question, if I may. In terms of the Russian-Ukraine exposures, I mean you had reasonably good disclosure of that in the Q. But could you just talk about in terms of how many -- it'd probably be in fairly broad terms. I mean do you have considerable more exposure that could arise there? Or have you already been impacted on most of the accounts or transactions that you would expect to be impacted? Or just -- I'm trying to get a sense of like how much of this is the tip of the iceberg and how much of it is the whole iceberg?

Richard Reeves Whitt
Co-CEO & Director

To be just blunt, Mark, very -- we have very little information at this point coming out of the conflict. Obviously, as we all know, the war is still ongoing. And so it's not like you're able to send adjusters in and see what the status is on the ground.

So we tried to make a good faith estimate of what could potentially be our exposure. I would tell you what we've put up it is 100% IBNR at this point and really sort of thinking about what our net retentions could be and how our reinsurance worked, trying to put up something that we felt like was a very best estimate of what could happen. Obviously, the longer it goes on, both from a humanitarian standpoint and just economic damages standpoint, things get worse.

But we do not write that much business in Ukraine or in Russia for that matter, tiny in respect to our overall book of business. But obviously, when you start adding up policy limits, you can get to some big numbers. But we really don't believe it is a material issue to Markel Corporation, but again, the longer it goes, the worse it gets from a humanitarian situation as well as an economic situation.

Operator

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

Thomas Sinnickson Gayner
Co-CEO & Director

Thank you very much. We enjoyed being with you. We hope to see you either in Omaha or Richmond soon. Be well.

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