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Markel Corporation

First Quarter 2024 Earnings Call

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CORPORATE SPEAKERS:

Thomas Gayner

Markel Corporation; Chief Executive Officer

Brian Costanzo

Markel Corporation; Chief Financial Officer

Jeremy Noble

Markel Corporation; President, Insurance

PARTICIPANTS:

Mark Hughes

Truist Securities; Analyst

Andrew Andersen

Jefferies; Analyst

Charles Lederer

Citi; Analyst

Charles Gold

Truist; Analyst

John Fox

Fenimore; Analyst

Scott Heleniak

RBC Capital Markets; Analyst

Robert Farnam

Janney; Analyst

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PRESENTATION:

Operator^ Good morning. Welcome to the Markel Group first quarter 2024 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.

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Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included in the press release for our first quarter 2024 results as well as our most recent annual report on Form 10-K and quarterly report on Form 10-Q including under the captions, safe harbor and Cautionary Statement and risk factors.

We may also discuss certain non-GAAP financial measures during the call today. You may find the most directly comparable GAAP measures and a reconciliation to GAAP for these measures in the press release for our first quarter 2024 results or our most recent Form 10-K.

The press release for our first quarter 2024 results as well as our Form 10-K and Form 10-Q can be found on our website at www.mklgroup.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, Chief Executive Officer. Please go ahead.

Thomas Gayner[^] Thank you, Sarah. I appreciate it. Good morning. Welcome to the Markel Group first quarter conference call.

This is indeed Tom Gayner, your CEO. I'm joined today by Brian Costanzo, our CFO; and Jeremy Noble, the President of our Insurance operations. As always, we look forward to checking in with you about our results.

We view our long-term shareholders as partners, we welcome the chance to provide you with an update on how things are going as well as our plans and dreams for the future. We also look forward to answering your thoughtful questions.

As a quick review of the bidding, at the Markel Group, we are working to build one of the world's great companies. We view a great company as one that operates a win-win-win system.

We want our customers to win because they bought products and services from us that served their needs. We want our associates to win by serving our customers, supporting their families and communities, continuously learning and being creative.

We want our shareholders to win as we earn profitable on the capital we use to do this work. That's what win-win-win means to us. I'm delighted to report to you that we're off to a good start and doing exactly that so far in 2024.

I'm going to channel my inner (inaudible) right now by saying in 1972, Johnny Nash recorded a number one hit called, "I can see clearly now the rain is gone" You have no idea how hard it is for me to just save the title without singing it.

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In 1993, Jimmy Cliff covered it for the movie called "Cool Runnings". Well covering that song continues. The Markel Group is laying down tracks of another cover so far in 2024, and we'll do our best to work our way through the versus as the year progresses.

Brian will quantify the notes with numbers in just a minute, but let me speak qualitatively about the music. Here's why that song comes to mind for me.

I've got four bullet points in mind. Usually, I try to keep the list of three, but I just can't help myself today. Point one; we've got improving results in our insurance engine.

Jeremy will provide you with some details in a few minutes. I want to thank him and his team personally for the efforts they have expended in improving our results. I am grateful for their work. Thank you. Point two; Our Ventures companies continue to produce excellent results.

I want to express my appreciation to the leaders of the Markel Ventures companies and their teams for their accomplishments. Point three; we enjoyed recurring investment income continues to rise rapidly.

We're investing our cash flows from operations and maturing bonds into higher-yielding securities. Dividends from our holdings of publicly traded equities also continue to grow. Point four; we continue to repurchase our shares.

We started to repurchase shares in meaningful quantities in 2022 as we believe the share price traded at a significant discount to our calculation of what we thought a share of Markel was worth.

In 2023, we thought that gap widened.

So we bought more shares than we did in 2022. In the first quarter of 2024 we thought the gap widened more, so we bought more. In fact, we nearly doubled our purchases in the first quarter to \$161 million compared to \$82 million a year ago.

From roughly 14 million outstanding shares as recently as February 2019, we ended the first quarter with 13 million. And as we speak now we are below that milestone. Each share of the Markel Group continues to own a greater percentage of our Insurance, Ventures and Investment Operations.

As a shareholder myself, with the majority of my net worth in Markel stock. That seems like a good thing to me.

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If we continue to earn the sort of returns that we are now and if the marketplace continues to assign a meaningful discount to our shares, at our current rate of repurchases we'll get the share count down to one in a little over 30 years.

I suspect the market will catch on before we get to that point. Also in recognition of our commitment to long-term thinking and progress, we updated our press release format to include five years of data as well as that of the current quarter.

We remain focused on long-term actions and measures, and we hope the new format speaks to that commitment. The format also describes the metrics we use to calculate incentive compensation.

We think 5-year measurement periods do a good job of demonstrating our commitment to long-term accomplishments and accountability.

We also hope that the report provides clarity as to how we measure progress.

Finally, I'd like to reiterate our invitation to join us for our upcoming Annual Shareholders Meeting, which we call "The Re-Union" We'll be back to Robin Center at the University of Richmond on May 22, and will start at 2:00 p.m. Last year, we had so many people that traffic got clogged.

We encourage you to come early. The annual meeting is the best setting to enjoy the company of your fellow shareholders, see what condition our condition is in.

Ask questions of management and meet some of the people of Markel from all around the world. Please make sure you register at www.mklreunion.com so that we can have credentials ready for you to get into the Robin Center quickly.

I love our team, and I am proud of what they continue to accomplish. I hope you feel the same way and I look forward to seeing as many of you in person in May as is possible.

Before I turn it over to Brian, I'll share what I hope to be saying in upcoming periods.

As Johnny Nash saying after the first line of "I can see clearly now" I can see all obstacles in my way. Going to the dark (inaudible) that had me blind.

It's going to be a bright-bright-bright Sun Shiny Day. That's what I hope to be saying in future calls.

We will do our best to make it up. With that, I'll turn it over to Brian. Jeremy will follow with his comments and then we'll open up the floor for your questions. Brian?

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Brian Costanzo^ Thank you, Tom. And good morning, everyone. Before I dive into the quarter's results, I'll make a few comments on the changes within our earnings release and 10-Q for the quarter.

We believe these changes provide a clear picture of our overall performance. First, we moved to a consistent measure of profitability of operating income across each segment of our business that excludes amortization of acquired intangible assets.

We do not consider these costs when assessing the performance of our businesses and believe it helps investors to provide a consistent performance metric across our operating segments.

Additionally, as Tom mentioned, we incorporated a longer-term view of our key metrics within our press release to provide more perspective on our performance, consistent with how we evaluate performance for incentive compensation purposes.

In any given quarter or year, there are many factors that can create volatility in results, which is why we consistently measure our performance over 5-year periods.

We hope you'll find these changes helpful as you review our results. With that, let me take you through our consolidated results for the period. Total revenues increased 23% to \$4.5 billion with each of our three engines achieving year-over-year top line growth with the most notable growth coming from our Investments engine.

Operating income grew by 77% to \$1.3 billion during the first quarter, driven largely by an increase in net investment gains in the quarter, highlighting our longer-term view where short-term changes in the valuation of our equity portfolio are more normalized, we have created cumulative operating income of \$8.7 billion over the past four years plus the first quarter of this year.

Total net income to common shareholders was \$1 billion in the first quarter of 2024 compared to \$489 million in the same period of 2023. With the change primarily attributable to higher net investment gains on our public equity portfolio in the first quarter of 2024 compared to the same period of 2023.

Comprehensive income to shareholders in the first quarter of 2024 was \$909 million compared to \$646 million in the same period of 2023, with the favorable change in the public equity valuations being partially offset by an unfavorable swing in our fixed maturity portfolio. Net cash provided by operating activities was \$631 million in the first quarter of 2024 compared to \$284 million in the same period last year.

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Operating cash flows in 2024 reflected strong cash flows from each of our operating engines with the most significant contribution coming from our Insurance engine. Total shareholders' equity stood at \$15.7 billion at the end of the first quarter.

As Tom mentioned, in the first quarter, we repurchased \$161 million worth of shares of Markel Group stock under our outstanding share repurchase program compared to \$82 million in the same period last year. With that, I'll now turn to the performance of each of our operating engines starting off with our Insurance engine. Gross written premiums within our underwriting operations grew 4% to \$2.8 billion for the first quarter of 2024 compared to \$2.7 billion for the same period last year.

Our increased premium volume reflects new business growth and more favorable rates on many lines within our international portfolio and select U.S. lines of business.

We are working hard to rebalance our diversified portfolio of products, which has resulted in contracting premium writings in certain classes, particularly within pockets of our U.S. Professional Liability and General Liability portfolios. Jeremy will go into more detail about changes in the mix of business and the impact of our underwriting actions on top line premiums in his comments.

Our consolidated combined ratio for the first quarter was 95% compared to 94% in the same period of 2023. The increase was primarily attributable to a higher attritional loss ratio within our U.S. General Liability and Professional Liability product lines within our Insurance segment. Prior year loss reserves developed favorably by \$77 million this year versus \$71 million in the first quarter of 2023.

Favorable development in the first quarter this year was most notable within our International Professional Liability and Marine and Energy product lines.

We remain cautious and conservative in our approach to both current year losses and reducing prior year loss reserves on our longer-tail U.S. Professional Liability and General Liability lines, given recent playing trends. Within our Program Services and ILS Operations, operating income increased 33% to \$23 million, primarily driven by growth within Program Services and other fronting. Moving next to our Investment results.

We reported net Investment income of \$218 million in the first quarter of 2024 compared to \$159 million in the same period last year.

We continue to benefit from higher interest rates as the yield on our fixed maturity portfolio, short-term investments and cash equivalents all increased.

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Additionally, we have been allocating more cash to money market funds and fixed maturity securities to capitalize on the higher interest rate environment.

We expect, based on the current interest rates that the yield on fixed maturity securities will continue to increase slightly throughout 2024 as lower-yielding securities mature and are replaced by higher-yielding securities. Net investment gains of \$902 million in 2024 reflect favorable market movements, resulting in a return of 9.8% on our public equity portfolio in the first quarter.

This compares to net investment gains of \$373 million in the first quarter of 2023.

As you've heard us say often before, and I'm sure you'll hear me say again we focus on long-term investment performance expecting variability in the equity markets from period to period.

At the end of March, the fair value of our equity portfolio included cumulative pretax unrealized gains of \$7 billion. Net unrealized investment losses and other comprehensive loss in the first quarter of 2024 were \$123 million net of taxes compared to net unrealized investment gains of \$164 million net of taxes in the same period last year.

These movements correspond to changes in the fair value of our fixed maturity portfolio, resulting from changes in interest rates. Recall that we typically hold our fixed maturities until they mature and would generally expect unrealized holding gains and losses attributed to the changes in interest rates to reverse in (inaudible) periods as bonds mature.

Additionally, we continue our long-standing precedent of investing in the highest quality of fixed income securities.

As of March 31, 2024, 98% of our fixed maturity portfolio was rated AA or better, and there are no current or expected credit losses within the portfolio.

Finally, I'll turn to our results from our Markel Ventures engine. Revenues from Markel Ventures increased 3% in the first quarter of 2024 compared to the same period last year, reflecting moderate revenue increases at our consumer and building -- Consumer and Building products and Construction Services businesses. Markel Ventures operating income increased 13% and driven by higher revenues and improved operating margins at our Consumer and Building products businesses versus a year ago.

Our Markel Ventures companies continue their excellent long-term performance and meaningful contribution to our operating results and cash flows. With that, I'll turn it over to Jeremy to talk more about our Insurance engine.

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Jeremy Noble^ Thanks, Brian. And good morning.

As you heard from Tom and Brian, the actions we took from the start of the year to improve the overall health of our insurance operations are beginning to bear fruit.

We spent much of the first quarter implementing the significant corrective underwriting actions that I discussed on our earnings call a quarter ago, which I believe will improve future profitability. These steps addressed where we recently underperformed, particularly within our U.S. Specialty Insurance operations. At the same time, we work to meaningfully grow in the products, geographic territories and industries where performance meets or exceeds our long-term profitability targets.

For the first quarter of 2024, our combined ratio was 95%. That result exceeds our ultimate goal, but is in line with where we expected to be at this point in the year.

It also shows meaningful improvement from where we stood in the fourth quarter and for the full year of 2023.

The impact of our portfolio management actions are most evident in our gross written premium volume for the first quarter.

On the surface, we grew a modest 4% versus a year ago. However you need to disaggregate that growth a bit to appreciate the effectiveness of our underwriting actions.

We use portfolio management tools each quarter to monitor portfolio health and rate adequacy and to evaluate the profitability of each of our products. You might think of this like a traffic light system, where we assign a color of green, yellow or red to each product line.

Those colors show the degree of re-adequacy and associated combined ratio, deviation for market profitability target for each product.

I'll use this construct to demonstrate how we are remixing the portfolio towards our most profitable lines. Within our green product classes, which represent products that are significantly outperforming our combined ratio targets our premiums grew by 14% during the first quarter. Around 40% of our overall gross written premiums fall into this category at the moment.

On the flip side, our red product classes where profitability is underperforming our combined ratio targets. Gross premium volume decreased by 16% during the first quarter.

At present, a little more than 10% of our portfolio falls in this category, which is actively being managed. Let me be clear, for many of these lines, we are still operating in an underwriting profit, but at a combined ratio that is above our target.

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For each product, we have a robust set of underwriting action plans to get us back to an acceptable level of profitability in a reasonable period of time, and our plans take into consideration current market dynamics and long-standing relationships.

This contraction in the first quarter of '24, focused on several product classes within our U.S. and Bermuda Casualty and Professional Liability portfolio. These underwriting actions were most notable in our brokerage excess and umbrella and brokerage primary contractors general liability lines within Casualty.

Our large account risk managed errors and emissions and directors and officers' lines within professional liability.

Our underwriting actions consist of a mixture of rate increases, changes to terms and conditions, evaluation of limited attachment points and redistribution of geographical industry mix.

We also decreased the overall proportion of Construction business within our Casualty portfolio and improve the profitability outlook for our existing book.

In certain instances, we identified product lines that were not expected to be profitable.

In these circumstances, we made more meaningful changes including exiting certain products or subclasses.

We discontinued writing several product classes in our Insurance segment in the first quarter, where we believe underwriting action plans would not enable us to reach our profitability goals.

Some of the areas we exited included Retail Primary Casualty, Risk-managed Architects and Engineers and Intellectual Property Collateral Protection lines. In total, the Lines and subclasses we exited represented less than 2% of our Insurance segment operations on an annual basis.

We also non-renewed a handful of Professional Liability quota share contracts within our Reinsurance segment that did not meet our pricing targets.

Overall, we remain thoughtful and disciplined about how we handle long-term portfolio management. Turning to the positive.

We've seen profitable growth within our U.S. Specialty Insurance Operations within our Property and Inland Marine, Personal Lines, Programs, Binding and Commercial Professional Liability products.

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Within our International portfolio, we've seen profitable growth across a number of products including our Marine and Energy, U.K. and European businesses. Within our Global Reinsurance Operations, we opportunistically pursued growth within the London market Specialty Marine and energy space. With a large, well-diversified global platform, we see plenty of opportunities to grow and enhance our overall portfolio construction.

We are focused on doing just that. We've taken strong and decisive actions to deliver improved combined ratio results going forward.

It will take time for these underwriting actions to earn through and impact our combined ratio, but we're confident that we're on the right track. Meanwhile, we remain conservative in our reserving practices, especially in regard to our longer-tail product classes.

We also continue to increase reserve margins of new business to buffer against uncertainty, around longer-term loss trends. Finally, I'll share a few thoughts on the current pricing environment and overall insurance market dynamics.

In general, we continue to see ongoing modest rate increases across our diversified product portfolio. Property continues to see meaningful rate increases, although at a more moderate level than a year ago.

In our Casualty Lines, we are achieving high single-digit -- in some cases, low double-digit rate increases across most of our product classes. Rates remain in line or better than our view on loss trends.

We've seen a mild softening of rate increases throughout a large part of our International portfolio.

Our international book continues to be priced attractively compared to loss trends and combined ratio targets.

As such, we continue to actively grow in many of these lines. Finally, within Professional Lines, we see ongoing rate decreases in many classes, most notably in Public D&O.

As a consequence, we decreased writings in these classes. In closing, I want to reiterate we finished the quarter largely where we expected.

We recognize that it takes time for actions to earn through and create credibility.

However with our refreshed leadership team and renewed focus, I believe it is only a matter of time before we begin reporting results more in line with our longer-term aspirations. Thank you. With that, I'll turn things back over to Tom for questions.

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Thomas Gayner[^] Super. Thank you, Jeremy. Thank you, Brian, and Sarah, if you'd be so kind as to open the floor for questions.

Operator[^] (Operator Instructions) Your first question comes from the line of Mark Hughes with Truist Securities.

Mark Hughes[^] If You could make any observations about the loss development, some of those problematic lines, I think the GL Professional Liability, there's been a little more volatility around that. You saw it in your results last year. And clearly, you switched back to kind of your more historical norm of good reserve development.

But you highlighted that. It sounds like it was international in the Marine and Energy.

But anything you're seeing that loss development, again the GL, Professional Liability that is better, worse or about the same as what you saw last year?

Thomas Gayner[^] Thank you, Jeremy, would you handle Mark's question, please?

Jeremy Noble[^] Thanks, Mark.

So a couple of things. You're exactly right.

We spoke about that a quarter ago.

We did a very extensive review in the fourth quarter.

We would have reviewed in excess of \$4 billion of reserves within our General Liability and Professional Liability portfolios in the U.S., and we took action at that time.

In the first quarter, our -- there was very little movement or activity in those areas. Certainly nothing that was unexpected, unanticipated or any concern.

By and large, in our insurance, the prior year -- the favorable prior year development was more weighted towards our international book, and that was more weighted towards some of our Professional Lines in that space.

With regards to sort of General Liability in the U.S.

As an example, we would have seen modest favorable prior year activity in the first quarter this year versus modest unfavorable activity in the first quarter of last year.

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So it's been pretty quiet on that front.

Overall, General Liability, Marine and Energy, Professional Lines in the International space are the largest contributors to our favorable prior year development in the first quarter.

Mark Hughes^ You had mentioned how in Casualty, you're seeing high single, maybe low double digits in line or better than loss trends. There's been some discussion of whether those Casualty Lines were firming whether pricing was accelerating in early 2024?

Are you seeing that?

Or is it steady or down?

Jeremy Noble^ Yes. We've certainly seen a pretty favorable pricing environment within the Casualty Lines.

If anything, I would say that that's accelerated over the course of the first quarter.

I think that's wholly appropriate and necessary.

I did comment on the fact that our rate that we're seeing is in excess of our estimate around loss trends, which we would hope would be beneficial longer term.

That being said, we're certainly being cautious and trying to build a margin of safety into our current accident year attritional selections within the GL space. The rate is pretty clear what we're getting. The trend is more of an assumption.

So we want to make sure we have an appropriate margin of safety around that, given the backdrop of the last couple of years.

Mark Hughes^ And if you noticed anything between the admitted and E&S?

Are those -- is there still business shifting out of admitted into E&S.?

Is it more stable any observations there would be helpful.

Jeremy Noble^ Yes. I think the E&S market is still incredibly strong. And certainly we have a long-standing history and a very sizable presence within the E&S space.

We've got a wide portfolio of products that we're focused on delivering through to the E&S space.

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I think those trends will continue. Certainly a lot of what we're doing in the casualty space is oriented around focused on our product offerings within the E&S space.

Operator^ Your next question comes from Andrew Andersen with Jefferies.

Andrew Andersen^ Maybe back on reserves. Just given a couple of years of adverse development on GL and Professional Liability. I think you had also mentioned you're releasing from some recent accident years.

So can you kind of talk about these releases here and perhaps why you didn't let them season a little bit longer given the longer tail?

Thomas Gayner^ Jeremy, if you could be so kind?

Jeremy Noble^ Yes, of course. Yes, maybe we would take that offline, Andrew. I don't believe I would say that there are longer tail lines of business. General Liability and Professional Liability, particularly in the U.S. that we've done any real releasing on those core reserves on the most recent accident years.

There could be occasions in other product classes where we might see favorable takedowns on more recent accident years.

But I don't think there's anything that's standing out as far as that trend.

I would say we're more in the most recent years, we're more wait and see mode. Actually we commented a quarter ago, that part of the reserving actions we took in the fourth quarter was to increase our reserve positions and that margin of safety on those years, on the more recent years.

So we're sort of in a wait-and-see mode, I would say on that.

Andrew Andersen^ Okay.

So perhaps the recent accident year commentary was specific to International development?

Jeremy Noble^ Yes.

Sorry. That's the other thing I would say that's a great point is that, that can be a little bit different in International.

International, as an example, take our Professional space.

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We have a very meaningful Professional Lines portfolio there. Again broad product set offering, but that predominantly focuses on International Professional Lines, not U.S.

Professional Lines that get placed in the London market.

We don't do a lot of the U.S. business out of London.

Andrew Andersen^ Then you had also mentioned that Line exited represented less than 2% on an annual basis. Kind of where are we in the cutting business phase?

Is that largely over?

Or is it an ongoing process throughout the year?

Jeremy Noble^ It's not that frequent to business. we're always going to be focused on overall profitability.

We obviously have a broad and wide product set at any point in time. Lots of products are going really well some things that we're working on.

As far as product exits go, I don't anticipate anything else in the foreseeable future.

There's nothing else that we're sort of taking a hard look at.

We really acted decisively around those, and we took the action in those instances where we didn't feel like the product was as core to our overall offering, and we didn't think we could address the profitability within that product space in a meaningful time.

Our work now is largely focused on improving the overall profitability on a handful of lines that we feel like are either not as rate adequate as they need to be, or aren't delivering the overall profitability profile we want.

That's a little bit what I talked about in my comments and obviously from a quarter ago.

But I wouldn't expect further product exits.

Operator^ Your next question comes from the line of Charlie Lederer with Citi.

Charles Lederer^ Jeremy, you mentioned the 95% combined is above target, but in line with expectations, I guess Wondering if you can unpack that a little bit. Are you holding more IBNR here in the first quarter to reflect uncertainty?

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Or any color there that, I guess should we expect that to improve as the year progresses?.

Thomas Gayner^ Yes, Jeremy, go ahead, please?

Jeremy Noble^ Yes.

Of course. Thanks, Charlie. Yes. I would expect that, that would improve over the course of the year. I'm not going to put any specifics around that or any guidance around that.

But what I would say as you know is we've taken a lot of actions. It takes a while for that to earn through the book.

So where we've exited unprofitable products and products are really disproportionately contributed to some of the underwriting loss reported in the fourth quarter a year ago.

Where we're taking underwriting actions to improve the profitability profile of ongoing lines.

It takes a little while to give credibility to the actions that we've taken, and it takes a little while for that earnings to come through.

Then also to your point, we are carrying more of a margin of safety within our reserve selections.

As I mentioned before, we can be pretty clear on some of the actions that we're taking, and we can be pretty clear about the pricing environment.

Overall, what the actual end of day inflationary environment, trend environment that were going to experience is a little bit uncertain.

So we're going to be cautious in that space.

But I think over the course of the year, on a like-for-like basis, barring on something that's unforeseen, we should continue to see the result, improve as we earn through the effect of the actions we've taken.

Charles Lederer^ Got it. That's helpful. I guess just within the current accident year picks either in insurance or reinsurance, did you guys have any exposure to the bridge collapse in Baltimore?

Thomas Gayner^ As Jeremy and I were joking, anything you see on TV from around the world, we probably have some of.

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We have a global book of business all around the world.

So when you see disasters happen on TV, you can count that we probably have some of that.

But that is the business we are in, and that's how we backstop our customers and take care of them in times of need, but that's normal course of business for us. I don't know if you want to add anything, Jeremy?

Jeremy Noble^ The only thing I would add to that is, which really is complementary to what you just shared, Tom, is there's nothing that's unusual or outsized about that event for us, which is why we don't call that out separately.

It is a significant event, obviously for the industry and there'll be sort of ripple effects over time as we assess liability and we evaluate contingent exposures and those sorts of things.

But nothing that we would point to that's unusual or outsized.

Charles Lederer^ Okay.

So we shouldn't really think about that as being kind of a meaningful contributor to the attritional loss ratio increase year-over-year.

It's more just a higher loss pick?

Jeremy Noble^ I think what Tom said, large losses are happening all over the world all the time across a broad set of products and classes.

We're obviously more acutely aware of the significance of that event that we might be in the U.S. around loss events occurring elsewhere around the world.

But whatever might be happening, there's a chance that we're going to have exposure in our portfolio.

So I think that's true for us.

I think that's true for most of the global players we don't tend to call out every single individual loss event to try to carve that out from our underlying results.

Operator^ Your next question comes from Charles Gold with Truist.

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Charles Gold^ Congratulations to the three of you and the whole Markel team for the performance you just posted.

Tom, I wanted to follow up on a comment that you made about shares outstanding after the quarter end being below 13%.

Is that from the number in the (Q \$137 million?) Or is there another number that was the starting point for that comment?

Thomas Gayner^ No.

It would be reflective of the fact that we were darn close to 13% as of March 31, and we have purchased shares between the time of March 31 and May two where we stand right now.

Charles Gold^ Right. That's well.

I was asking what number was at the end of March?

Do you have a...

Thomas Gayner^ It was 13 something. Brian might have the exact number there. Yes.

Brian Costanzo^ The (13.1) that you quoted, that was the number at the end of March, Yes.

To Tom's point Yes. The comment was the subsequent purchases post the number in the Q, which will be the March 31 number have dropped below.

Charles Gold^ Right.

Tom, I would enjoy building out some of those tunes with you reunion, if you just get me some of the lyrics and make a hell of a party songs.

Thomas Gayner^ That's right. You got yourself a deal.

Operator^ Your next question comes from the line of John Fox with Fenimore.

John Fox^ So I'm curious in the other insurance operations, Looks like there was a \$17 million reserve increase.

I think I remember from reading the Q last night that it was an aspects and environmental, which we haven't heard from in a long time.

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I recall you used to review that in your third quarter.

So maybe Jeremy could comment on what's going on there?

Is that a one-off or what's happening?

Thomas Gayner^ Jeremy, could you give the details on that?

Jeremy Noble^ Yes, of course you're exactly right.

Your memory is very sound with regards to how we used to approach our annual reserving.

So in the other discontinued segment, we did recognize about \$15 million of strengthening associated with claims -- ongoing claims handling costs for really a large outstanding remaining APH or specific environmental exposure. That hasn't moved in some time.

We regularly review that.

We would look at that, in some ways, more frequently than annual.

We don't have as much of an outstanding pot of reserves in as many ways that we're monitoring.

So we don't have that annual study the way that we used to.

We just review that time. Nothing -- I would not expect any more in that space anytime soon.

We just tried to put that behind us.

John Fox^ Okay. Great. Then Tom, I have a bigger picture question.

It was interesting with the change in the proxy this year moving from book value to operating income and, my sense is there's a lot of shareholders in Markel that think about 10, 20 years ago when you're primarily insurance and book value was a good way to look at the company.

But you're really signaling a change going to operating income. And could you talk about how you think about how Markel is a better, stronger company, right?

Being more diversified than just especially insurance?

Observations are not correct, please correct me.

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Thomas Gayner^ No. I think your applications are spot on. Yes. You go back 10, 20 years ago when the business was dominated by the insurance engine, and we didn't even call it that then because that would have implied that perhaps there were other engines, which they were not. And book value is a pretty darn good proxy for describing economic progress of insurance operation, a bank, a financial institution like that.

As we have emphasized investments, and we've emphasized that for a long time and the growth of the ventures businesses, the economic value being created by those businesses doesn't get well reflected in book value.

So they do make money.

They are worth something, and we think the operating income line that we gave you over multiple full years and with the multiyear horizon. That is sort of a separate component of the overall value.

Now that's sort of accounting presentation and trying to pencil out what it's worth. To the meta point of the Markel Group being a resilient and robust company.

I like the idea of three distinct streams of income that are flowing into the coffers.

In any given period, one of those engines might not be fired, two of those engines might not be fired.

But usually, at least one is, in the first quarter was a case where all three were.

So it makes things more robust, more resilient more able to absorb volatility in any one line of business.

In fact, I think one of our major competitive advantages is that throughout the entire Markel organization, when we're faced with the business decision, Oftentimes, it's pretty clear that there are things which might cost you something in the short term, but it's better for the long term.

Now if you're under pressure to pay a short-term bill or meeting a short-term quarterly estimate. The temptation to take the short-term decision exists.

We try everything we can possibly do to not have that temptation.

We want to do things that are in the right long-term interest of the Markel Group our shareholders, our customers, our associates.

We've just taken away a lot of the noise.

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I think it's a beautiful piece of architecture that underpins what we've been trying to do for a long time.

And it's nice to get to a quarter like this where you see all three engines firing, and it's clear.

John Fox^ Right I just have a suggestion on the presentation.

I think Brian referenced like a 5-year cumulative investment gain or something, maybe you could put the 5-year cumulative on your releases.

Because one quarter of investment gain which was nice to make \$1 billion last quarter, but a lot of -- some of that's already gone in the month of April in stocks and bonds.

So thinking about that and showing it out of 5-year and what the cumulatives are might help communicate that.

So that's the suggestion.

Thomas Gayner^ All right. Good stuff.

Operator^ Your next question comes from Scott Heleniak with RBC Capital Markets.

Scott Heleniak^ You mentioned the rate increases picking up in casualty. Just wondering, are you seeing that across the board?

Is there any lines where it kind of sticks out and it's perked up a lot more?

Relative to the past few quarters?

Then just the second part is any sense on where just generally a loss cost trend is in casualty?

I know it's tough to do by -- given your product set, but -- anything you can share on either one of those?

Thomas Gayner^ Jeremy, if you'd be so kind to address that?

Jeremy Noble^ Yes. Sure.

Sure, Scott. I would say that the biggest pockets of our overall casualty portfolio, the ones that we're working on most focused on and the ones that probably heard my comments around rates are really going to be in the primary casualty and excess and umbrella space, within the U.S.

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That contract from -- and also our larger risk managed excess casualty offerings, both in the U.S. and Bermuda.

I would contrast that a little bit with let's say what's happening in the pricing environment per say our binding lines or other sort of casualty offerings, be it be in the sort of healthcare space or the environmental space where the rates wouldn't be quite as strong as what I commented on.

So across the portfolio, that's the case.

As far as loss trends go, I said high single digits to low double digits for rate.

I would tell you it's -- loss cost trends are a few points below that.

Scott Heleniak^ Okay. That's definitely helpful.

Then just switching to Reinsurance. I know you've been kind of remixing that business for a while and doing non-renewals just kind of getting a book to where you want it to be. Do you feel like it's pretty close to that point and maybe you could see some growth in later in 2024 and 2025?

Just anything you can share there on, just the reinsurance side?

Jeremy Noble^ Sure, Scott.

So I mean overall, you're exactly right. We've been working really hard.

We have been remixing the portfolio, taking a lot of actions over the last several years. I'm pretty pleased with our position within reinsurance.

And I think the market conditions are pretty favorable at the moment in the current trading environment overall.

We have walked away from renewals where the pricing was at the levels we wanted to support.

So I know that the team is acting with discipline.

We're certainly being prepared to push and be exacting around pricing in terms of conditions and structures.

So we need to continue to see a favorable trading environment within Reinsurance.

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So our overall focus is absolutely on bottom line financial performance and underwriting profitability.

But that being said, we certainly had a broad portfolio within the Casualty Professional and Specialty space. We're writing that on a global basis. We're seeing pockets to grow.

I think Marine and Energy is a good example right now in '23 and '24, where we're opportunistically growing.

So we're -- and we're exploring other product areas or clients so we can support.

So we're certainly not at all opposed to growth but we're also not chasing growth right now.

We want to active a great deal of discipline, and we want to really see that total performance underwriting profitability come through. There is really a sort of a contrast between having to address those older accident years, which we talked about, where we've seen some of the reserve development over the last couple of years in Reinsurance, and that current portfolio that you point to that we're feeling pretty good about.

Scott Hleniak^ Okay.

Okay. Great.

Then just lastly, can you share what the new money yield is?

I know you mentioned you have higher yields now in money market and some of the fixed income.

Can you just talk about what -- give the spread on what the new money is versus existing?

And any kind of major shifts that are going on in the investment portfolio at all?

Thomas Gayner^ Yes. This is Tom. The new money yields are basically what you can see on your Bloomberg or Yahoo. Finance if you want to go the bargain route.

We are buying treasuries and government securities and the high-high credit quality.

So there's really nothing new that happens for us that you don't see on a day-by-day basis. I don't have the numbers with me on what the rolling off on the quarter.

But -- we do have a continuing increment of investment income coming on the books as the time goes by.

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Scott Heleniak^ Okay.

But nothing really new happening on the fixed income side in terms of just good positioning, repositioning it all there, that's pretty steady state?

Thomas Gayner^ I can assure you that I've been in Markel 34 years now and we really don't do anything differently on the fixed income side ever.

Operator^ Your next question comes from Robert Farnam with Janney.

Robert Farnam^ Unfortunately, again another question for Jeremy on the insurance operations. Looking at that international professional liability, favorable development.

I'm just trying to get a feel for -- it's probably several questions.

One, did you do a review of that at year-end?

And if so, kind of what changed in the first quarter?

But I'd also like to know if there's much differentiation between the International book versus the U.S. book?

I'm trying to talk -- are the tails similar?

Are there loss trends similar?

Or is the litigation environment similar?

Just trying to get a feel for what that book looks like relative to the U.S.?

Thomas Gayner^ Jeremy, if you'd be so kind to respond?

Jeremy Noble^ Yes, of course.

So nothing at the usual a little ordinary with regards to our loss reserves in the first quarter. I mean we do a comprehensive loss reserve across our product portfolios in each of our businesses -- each quarter.

We're always looking at actual experience versus expected and seeing whether or not we should make any modifications.

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As we've sort of said over the years very consistently, we react to bad news very quickly, and we take a very measured approach to the good news.

What you're seeing in those Professional Lines in the International is more of that latter bucket, where we've sat cautious and trying to understand whether or not some of the inflation trends that we would have witnessed within the U.S.

On Professional Lines might come through in the International portfolio, and we've gotten more confident over time as actual experience has been better than what we anticipated or expected in our actuarial models.

And when that's the case, we release reserves.

So -- and that was -- it's not that all of the favorable prior year takedowns by any stretch was just that line. That's just example in a more meaningful year-over-year contributor.

As far as the book differential, I spoke a little bit about this earlier, the biggest difference is our international portfolio is just that. It's risks that are outside the U.S.

And as far as are there different risk profiles between U.S. risks and International risk, I would leave it to you to draw your conclusions about legal environment, social inflation trends, litigation financing and what you would see in the rest of the world versus what we would experience in the U.S.

Our view is that, that looks a little bit different. And economic inflation, I think trends are a little bit different as well. The profile of the client, the insured, the products themselves, there's also some differences there as well between what we do in the U.S. in there.

But also it's the case that EBITDA in the U.S.

Internationally.

We have very broad product capabilities, coverage capabilities and customer capabilities ranging from small businesses all the way to very large Global 1000 risk managed accounts that we would do in U.S. and Bermuda.

So -- but there's definitely sort of differences.

Our international would weigh towards smaller and just that international non-U.S. risk.

Operator^ Your next question is a follow-up from Charlie Lederer with Citi.

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Charles Lederer[^] So Tom mentioned in the shareholder letter a couple of months ago about the improving earnings trajectory at Nephila as it gets above its high watermark. Wondering if you can update us on the outlook there post 1Q?

It doesn't look like we saw the uplift in 1Q. Should we think about that coming soon?

Or are revenue accelerating there?

Any color?

Thomas Gayner[^] Yes. I'm going to take the first pass at that.

I would like Jeremy and Brian to chime in. Given the nature of Nephila's business, generally speaking, they're going to do their work through the course of the year, and we're not going to put up a lot of accruals for until after the year is closed, and you see what their share of profits are.

So it will tend to be reported with a year lag because you got to get into the first quarter of the subsequent year till you recognize what happened in the year before.

So during the first, second and third -- excuse me, second third, fourth quarters of the year, you're still just showing sort of what happened last year. Not so much what's happening this year.

Jeremy Noble[^] Yes, Todd, it's Jeremy. I'll just -- I'll add to that, Charlie, a couple of things.

One, there is -- probably most importantly, within our disclosures, I would just caution you or make the observation that the insurance-linked securities line alone doesn't include all of the economics and contributions from Nephila because within the program services and other fronting line, where you can see there's more revenues as well as a higher margin there. A portion of that is associated with the Nephila's operations as well. That's part of the overall earnings profile of that business.

So in fact, the overall results would be better than just what you would see in the ILS line and would be profitable overall. The other thing that's really important is there is certainly sort of seasonality.

So in the first quarter is a low earnings period within the funds because we're less on risk. That increases in the second quarter, the third quarter is the highest earnings.

That is largely correlated with wind season and exposure within the portfolios.

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Then the last point to build off Tom's comment is that idea of the performance management fees are just that.

They come in as fees once we've performed by and large, that is going to be measured in the most meaningful way to the extent that it's earned and available kind of at the stroke of midnight at the end of the year.

So we don't make any provisions or accruals or assumptions around that until we were to get to the end of the year. We'll be back, I guess in three quarters' time, and we'll tell you how that went.

Charles Lederer^ Got it. That's very helpful.

So that's a 4Q or 4Q dynamic with performance?

Jeremy Noble^ That would be most significantly a fourth quarter, a full year dynamic.

That's not absolutely the case for all investors across all funds.

But by and large, that's what it would be.

Charles Lederer^ Okay.

If I could just ask one more.

So Tom started the call I think by complementing the management team for turning the insurance business around and the results are much improved. Just curious, given some of the headlines we've seen with certain teams maybe defecting or just some of the changes within the last 6-plus months. Do you feel like you have the pieces in place now to accelerate growth as you lap some of the top line headwinds?

Or do you think you need to -- or should we expect you to kind of keep adding?

Thomas Gayner^ I think we have a wonderful team on the field. It's a dynamic business. People come and people go, but we have a wonderful roster of long-term committed veterans, they've signed up to be part of the Markel Style and The Markel Group, and I feel very good about our people. Again we're not focused on top line growth.

We're focused on profitability and creating value for the Markel Group shareholders over time.

So we might judge ourselves by a slightly different metric than you would look at or can be easily quantified, but I love our team that's on the field.

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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 Gayner^ Thank you, so much. And again I'd just reiterate the invitation for you all to join us on May 22 at the Robin Center at the University of Richmond at 2:00 in the afternoon.

It's a wonderful time.

We would expect more than 2,000 people there.

So -- it's an event that you don't want to miss, and I hope to see so many of you there. Thank you, all for calling. Bye, bye.

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