04 - 29 - 2026

Markel Corporation

First Quarter 2026 Earnings Call

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CORPORATE SPEAKERS:

Thomas Gayner
Markel Corporation; Chief Executive Officer
Brian Costanzo
Markel Corporation; Chief Financial Officer
Simon Wilson
Markel Corporation; CEO, Insurance Operations and Executive Vice President, Markel Group

PARTICIPANTS:

Mark Hughes
Truist; Analyst
Andrew Kligerman
TD Cowen; Analyst
Andrew Andersen
Jefferies; Analyst

PRESENTATION:

Operator^ Good morning. Welcome to the Markel Group first quarter 2026 Conference Call. (Operator Instructions) During the call today we may make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

They are based on current assumptions and opinions concerning a variety of known and unknown risks. Actual results may differ materially from those contained in or suggested by such forward-looking statements.

Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included in the press release for our first quarter 2026 results as well as our most recent annual report on Form 10-K and quarterly report on Form 10-Q including under the caption safe harbor and Cautionary Statements 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 2026 results or in our most recent Form 10-Q.

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The press release for our first quarter 2026 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, so much. Good morning, Day. And good morning to all. This is indeed Tom Gayner, and I'm joined this morning by my teammates, Brian Costanzo, our Chief Financial Officer; and Simon Wilson, the CEO of our Insurance Operations and Executive Vice President of the Markel Group. Andrew Crowley, the President of Markel Ventures and Executive Vice President of the Markel Group is also with us and available for questions. Thank you, all for joining us today.

Our headline is that we continue to do more of what's working and less of what's not. I'm deeply grateful to my colleagues who continue to adapt and improve our operations throughout Markel Group.

We all look forward to sharing our progress with you this morning. We're also delighted to take your thoughtful questions and for your ongoing interest in Markel. First, I'll make a few opening comments.

Then Brian will run through the financial results. Following Brian's comments, we'll turn the bulk of the call over to Simon, who will address our ongoing actions in our insurance operations and our progress to date. Insurance is our largest business and the one where the most change continues to be underway.

As such, it's appropriate to focus and allocate the most time there. Following Simon's comments, we will open the floor for questions. Continuing to do more of what works and constantly learning and iterating is not a new idea at Markel. It's been a hallmark of the company for nearly 100 years.

As we state in our cultural statement that we call the Markel style, we look for a better way to do things. That means being creative, adapting to changes in technology up to and including those being brought about by the development of AI and every other form of change and progress underway. Internally, we control what we can control.

We've taken extensive steps to focus on serving our customers, improve efficiency, develop new products and services, expand our geographical reach by opening and developing new markets and continuously improving and refining our operations in every nook and cranny throughout the company.

I'm beyond grateful to my teammates for their unrelenting actions to continuously learn and improve.

Our financial results show that our actions are working. Brian will give you details and explain some of the nuances from one-off events and business mix changes from last year.

But net-net, we're confident that we are making progress and that it is showing up in our results. Externally, outside our four walls, we continue to see cyclical pressures and softness in some end markets.

For example, property-related insurance coverages and certain industrial end markets like transportation equipment and residential construction continue to show normal signs of cyclicality. Longer term, those markets provide ample opportunity for good returns on our capital and continued growth, but they do not do so in a straight upward line. Curves are involved, both up and down, and that is normal.

In aggregate, our businesses continue to produce healthy amounts of adjusted operating income, cash and long-term growth.

Your company contains diverse resilient, high-quality businesses designed to produce all-weather returns and cash flows. That is the design of the Markel Group. With these cash flows, we enjoy a 360-degree set of reinvestment opportunities to put that cash to work.

We continue to deploy that cash with patience and discipline. Each incremental dollar goes to the highest and best use available.

Sometimes that means funding incremental growth in one of our existing businesses.

Sometimes that means adding to our investment portfolio of publicly traded securities.

Sometimes that means acquiring new businesses and sometimes that means repurchasing our own shares.

Sometimes that also means building up our liquidity and optionality for future opportunities, something we've been emphasizing of late.

We maintain a strong balance sheet.

We believe balance sheet strength will provide timely and unique advantages to grow and long-term stability to our operations.

As we observe the broader investment landscape and participate in conversations, we are observing more data points about global conflict, supply chain disruptions, low consumer sentiment and softening job markets. Despite those factors, the animal spirits in the financial market seems largely unfasedased.

As such, the number of external opportunities that appear attractive to us remain limited. Fortunately, as we've demonstrated over the last several years, we can and are continuing to repurchase our own shares. In 2023, we repurchased $445 million of our own stock.

In 2024, we made $573 million in repurchases. In 2025, we did $430 million in share repurchases as well as redeeming $600 million of preferred stock. We've done that largely with cash from operations and not by levering the balance sheet.

So far in 2026, we've repurchased $134 million of our own shares, and we remain highly attentive to opportunities to continue to do so. At this point, we've reduced our share count by roughly 10% from the peak of nearly 14 million. It's taken slightly more than five years for that 10% reduction to occur.

At current prices, I would expect it to take us less than five years to purchase the next 10% of the share count. The math suggests that repurchasing our own shares makes sense as our number one on the list of capital allocation choices right now.

We remain disciplined and methodical as we do so.

That should help us to persist through thick and thin.

We think that, that consistent behavior will serve our owners well.

We also continue to have a balance sheet which keeps us in good shape to pursue opportunities when it makes sense to do so.

We enjoy a strong degree of optionality.

We maintain the flexibility and ability to play offense in a wide variety of environments, not just the one we see today.

While we are reporting our quarterly results to you today we manage this business with a longer timeframe.

Looking out over the next five years, I think it's reasonable to expect that our insurance operations will grow and earn healthy returns on equity. I expect the same from our industrial consumer and financial operations.

I expect our public equity portfolio to compound at healthy rates and for our fixed income operations to provide appropriate interest income while protecting and preserving our capital. All of our businesses will face natural ups and downs, but I am confident in the direction of travel.

Those increasing amounts of earnings and cash flows should end up being divided by fewer share.

We think that you, as our fellow owners will be well rewarded with those results. In our equity operations, we continue to invest with discipline and patience in keeping with our long-standing 4-part investment discipline.

We invest in profitable businesses with good returns on capital and not too much debt, run by people with equal measures of talent and integrity, with reinvestment opportunities and capital discipline at fair prices. There are no changes to that process.

In fixed income markets, interest rates increased during the quarter. The good news is that we remain matched in currency and duration to our insurance liabilities and largely hold our fixed income securities to maturity.

The other good news is that amidst rising concerns about credit quality, our portfolio remains as high quality and pristine as we know how to make it. There were no credit losses in our fixed income portfolio in the quarter, and I do not expect any going forward.

Our public equity portfolio declined 5.2% in the first quarter compared to a 4.4% decline in the S&P 500 with broader market volatility.

Our approach is designed to withstand equity market volatility.

We believe our public equities portfolio will continue to produce strong returns for our shareholders over the long term.

In many ways, we've gone through a healthy amount of change in recent years at Markel. At our core, though, we remain unchanged in the enduring things that matter.

We remain dedicated to relentlessly compounding your capital.

Our specialization and diversification which we talked about in our very first annual report as a public company in 1986, remains just as relevant today as it was then. And as time has shown, it works. I believe that will continue to be the case.

Our values build value. With that, I'll turn it over to Brian.

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Brian Costanzo^ Thank you, Tom. And good morning, everyone. Before reviewing our first quarter results, I want to briefly remind listeners of the reporting and disclosure enhancements we implemented beginning in the third quarter of 2025. These changes were designed to improve transparency and better align our reporting with how we manage the business.

We now present operating revenues and adjusted operating income as key performance metrics, both of which exclude unrealized investment gains and losses as well as amortization expenses.

We also now report our results across four operating segments: Markel Insurance, Industrial, Financial and Consumer and Other, while providing a divisional view of our insurance businesses, organic growth for our industrial, financial and consumer businesses and annually providing capital metrics for all segments.

With that, let's turn to the results. Starting off with Markel Group's consolidated results for the first quarter of 2026.

Operating revenues which exclude net investment gains, were $3.6 billion or flat when compared to Q1 2025.

Operating income which includes unrealized gains and losses, was a loss of $273 million compared to income of $283 million in Q1 2025. Net investment losses were $728 million compared to net investment losses of $149 million in the first quarter of 2025.

Adjusted operating income which excludes net investment gains and amortization expenses, totaled $498 million, a 4% increase versus the first quarter of 2025, driven primarily by improved underwriting performance in Markel Insurance offset by the nonrecurrence of a gain from our investment in Velocity in the financial statement in the first quarter of 2025 and to a lesser extent, lower margins in the Industrial segment.

Operating cash flow for the quarter was $16 million versus $376 million in Q1 2025.

Operating cash flows for the quarter were net of payments totaling $108 million made to reinsure our exposures on our Hagerty business as part of the transition of that business to full fronting and also reflect lower premium collections resulting from the runoff of our global reinsurance business, along with higher payments for income taxes.

Comprehensive loss to shareholders was $340 million versus comprehensive income of $348 million in Q1 2025, driven largely by unrealized movements in our investment portfolio. Moving to Markel Insurance.

Adjusted operating income for Markel Insurance in the first quarter 2026 was $369 million compared to $282 million in the first quarter of 2025. Markel Insurance underwriting gross written premiums were $2.2 billion, a decrease of 21% for the quarter versus the first quarter 2025.

This was driven by the expected impact from our exit of Global Re and the transition of our Hagerty program to a fronting model which together totaled $797 million in underwriting premiums in the first quarter of last year compared to just $23 million this year.

As I mentioned on last quarter's call the exit of our $1 billion gross written premium global reinsurance business and the transition effective January 1, 2026, of our partnership with Hagerty to a pure fronting model will decrease underwriting gross written premiums for the full year 2026 by approximately $2 billion. A significant portion of the global reinsurance premiums were written in the first quarter of last year.

We expect these changes over the long term to benefit our combined ratio, adjusted operating income and our returns on equity. Adjusted underwriting gross written premiums which excludes the impact of the exit of Global Re and the Hagerty transition, grew by 10% in the first quarter versus Q1 2025.

This increase was driven by our International division within our professional liability and marine and energy products and our Programs and Solutions division, driven by growth in personal lines and programs, partially offset by a decrease in premium volume in our Wholesale and Specialty division due to declines in property driven by a softening rate environment and in general liability due to our continued underwriting actions and remixing of the casualty portfolio.

Earned premium decreased 2% to just under $2 billion in the first quarter of 2026. The combined ratio for Markel Insurance was 93% compared to 96% in Q1 2025. The improvement in the combined ratio was driven by improvements in our current accident year loss ratio.

First, we had lower catastrophe losses this year with $35 million or two points of losses from the Middle East conflict this year versus $66 million or three points of losses from the California wildfires in the first quarter of 2025.

Second, we had a 4-point improvement in our attritional loss ratio, driven by no losses on our CPI product line this year, a lower loss ratio within our International division and our U.S. property and general liability lines and the exit last year of our risk-managed D&O book within our Wholesale and Specialty division. The Global Re division reported a combined ratio in the first quarter of 114% as we continue to build margins and solidify reserves.

The results from the runoff of our Global Reinsurance division unfavorably impacted the insurance segment's combined ratio by two points. Prior year releases were five points in the

current quarter versus seven points in the first quarter of last year, down slightly due to lower takedowns this quarter within our international professional liability lines.

At a divisional level within Markel Insurance, starting with International, gross written premium of $861 million was up 28% versus Q1 2025.

We grew across the International division, driven by strong growth in professional liability cyber. The combined ratio of 90% compares to 89% in the first quarter of 2025, with the first quarter of this year including six points of losses from the Middle East conflict and the first quarter of last year including six points of losses from the California wildfires.

Within our Wholesale and Specialty division, gross written premium of $673 million declined 9% versus Q1 2025, driven by a softer property and marine premium rate environment and decreases in binding contractors and casualty. The combined ratio improved to 93% in Q1 ‘26 versus 100% in Q1 2025, with the largest impact coming from lower loss ratios due to our underwriting actions and the exit of the risk-managed D&O book last year.

Within our Programs and Solutions division, gross written premium was $656 million in Q1 2026 versus $806 million in Q1 2025. The 19% reduction was driven by the previously announced shift of our Hagerty program to a full fronting arrangement which reduced gross written premium by $220 million. Excluding this impact, the Programs and Solutions division gross written premium was up 12%, driven by personal lines property programs and growth in our Bermuda platform.

Our Programs and Solutions combined ratio improved to 91% compared to 97% in Q1 2025 due to improved loss ratios, primarily due to three points of impact from the California wildfires in the first quarter of last year and more favorable development on prior year loss reserves. Moving now to the consolidated investment portfolio. Net investment income for Q1 2025 totaled $256 million, up 8% from Q1 of last year.

This reflects higher interest income on fixed maturity securities and higher dividend income on equity securities due to higher yields and higher average holdings in 2026 compared to 2025. These increases were partially offset by lower interest income on cash and cash equivalents, driven by lower average cash and cash equivalent holdings and lower short-term interest rates in 2026 compared to 2025.

Fixed income portfolio yield during the quarter was 3.7% and reinvestment yields averaged 4.1%. Within the public equity portfolio, losses totaled $728 million versus $149 million last year.

We made net purchases of $28 million during the quarter. The portfolio ended the quarter with a market value of $12.3 billion and pretax unrealized gains of $8.2 billion. Moving to the Industrial segment.

Industrial segment revenues for the quarter were $883 million, a 6% increase versus Q1 2025 including 4% organic growth driven by increases in sales in precast concrete products, partially offset by lower revenues from sales of car hauling equipment due to softening demand within the auto industry.

Adjusted operating income was $49 million, down 16% versus Q1 2025, driven by a lower segment operating margin due to changes in the mix of business. Turning to our financial segment.

Financial segment revenues were $162 million for the quarter, representing a 9% decrease versus Q1 2025, driven primarily by a $31 million contribution in Q1 of last year from a gain related to our minority investment in Velocity offset by an increase in revenue from both higher investment management and program services fees.

Organic revenue growth for the segment was 10%.

Adjusted operating income totaled $36 million versus $80 million in Q1 2025, reflecting the $31 million onetime contribution from Velocity last year and a $14 million impairment of an equity method investment in an asset management firm in the first quarter of this year. Further, we're aware of the recent story regarding State National's fronting operations and potential credit exposure to a capacity provider.

While we acknowledge a current shortfall in collateral against our total exposure, management is actively pursuing all available recourse options under our contracts to obtain additional collateral.

We do not believe this situation will have a material impact on Markel Group's earnings or capital position. Moving to our Consumer and Other segment.

Revenues for the Consumer and Other segment were $281 million for the quarter, a decrease of 3% versus Q1 2025, driven primarily by slower demand for new housing, partially offset by the contribution of our acquisition of EPI.

Organic revenue growth for the segment was down 6%. Adjusted operating income was $40 million compared to $32 million in Q1 2025, with the increase driven primarily by the acquisition of EPI.

Finally, regarding capital allocation, during the quarter, we repurchased $134 million of common shares, reducing total shares outstanding to 12.5 million. With that, I will turn the call over to Simon.

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Simon Wilson^ Thank you, Brian. And good morning, everyone. It's pleasing to share another solid quarter for Markel Insurance.

As Bryan outlined, the overall combined ratio for Q1 '26 was 92.8%, a more than 3-point improvement versus the comparable period and in line with the steady progress we reported in the previous two quarters.

Our reported 93% combined ratio included a 2-point drag from our now exited Global Re business. While the combined ratio showed material improvement over last year, GWP growth at first glance looks to have declined significantly.

The two main drivers of this reduction were the strategic decisions to exit reinsurance and a change to our Hagerty program, where we now provide services for a fee versus taking underwriting risk. Excluding these two items, year-over-year GWP growth was 10% in the first quarter.

Our primary financial goals at Markel Insurance remain sustaining underwriting profitability and maximizing our return on equity. The decision to cease writing new business in Global Re is a clear example of this commitment. The old adage that top line is vanity, bottom line is sanity is and will remain a core mantra in this business.

Our focus on the bottom line will be challenged in the softer insurance cycle.

In more challenging markets, our underwriting teams are giving clear direction, always stay focused on profitability and growing businesses where we have a sustained competitive advantage.

That said, I'd like to think of Henry Ford's famous remark that we should always remember that the airplane takes off against the wind, not with it.

We are present in more than 100 product areas and operating in 16 countries. In no market do we have a share greater than 2%.

And in most territories, our share is less than 1%. When people ask me, where does the opportunity lie?

My response is that we have potential everywhere.

We need to remain disciplined about which opportunities we take.

We are looking forward to the challenge and remain confident we will find areas of profitable growth. Recent improvements in our financial results are important and provide clear evidence of progress.

However the transformational changes we've made to the organization over the past year will drive our future success. After one year into the CEO role, allow me the opportunity to outline how the business is positioned across our five core pillars: strategy, structure, oversight, operations and culture.

On strategy.

Our goal is simple.

We aim to be the preeminent specialty insurer on the planet.

We win in the market by focusing on four key areas: number one, customer focus.

We obsess over the customer. Everything we do must provide something that the standard market does not. Number two, market-leading expertise.

We build local expert teams across the globe who deliver deep capability in every product that we sell. Number three, speed.

We make decisions and serve customers at speed, all enabled by leading technology and local empowerment. And number four, consistently doing the right thing.

We honor long-standing commitments, act with integrity and fairness while providing dependable claim service.

On structure, Competing successfully in many different areas of the specialty insurance industry across many geographies requires us to operate a business of businesses. In this model, specific leaders have clear responsibility for and control over their P&L.

Today we have 14 distinct business units across Markel Insurance, each with a single leader and a discrete P&L. These business units are grouped under our three ongoing divisions to ensure proximity to executive leadership. Clarity of business ownership and simplicity of decision-making sits at the heart of the new structure.

Each P&L leader is responsible for selecting their teams, producing their strategy, agreeing to their business plan, designing their product set and overseeing their expenses. Their total compensation is aligned to the long-term profitability. A second key structural change was shifting most resources from the corporate center to the business units themselves, aligning

capabilities with business needs and giving leaders greater control over the resources that they use.

On oversight, our new structure empowers P&L leaders to build market-leading businesses with clear accountability. By shifting ownership into the organization, executive management can focus on setting expectations and monitoring performance at both the financial and strategic levels.

Our financial reporting and management information now fully align with this structure, giving us much clearer visibility into performance and enabling us to quickly identify and address issues where they arise.

On operations, technology and AI. People often ask me, what are we doing with technology?

What does our tech stack look like?

And more recently, how are we approaching AI?

I want to make two things clear. First, I have a great deal of personal interest in this subject.

I truly believe that the winners in our industry will be the companies that develop exceptional operational capability and maintain a culture of continuous improvement. Every leader at Markel Insurance is expected to aim for excellence in operations and technology.

Second, within our business of business structure, there's no single answer to what we are doing around technology and AI.

Our products span highly diverse markets from excess casualty to workers' comp to global war and terrorism across multiple geographies. A single technology solution for this breadth of business doesn't exist.

So what are we doing in operations and technology and AI?

A lot. More specifically, each of our 14 business units have developed a strategic plan outlining how they will invest to become best-in-class in their respective markets.

These plans are tailored to distinct customer groups and include core system modernization, enhanced data and analytical capability and AI deployment.

We are committed to investing in operational excellence and technological excellence. Within Markel Insurance, the current state of our technology is mixed. For example, our London market data and analytics capabilities are outstanding.

Our growth in U.S. personal lines has been driven by exceptional operational leadership. At the same time we need to bring our U.S. wholesale and specialty operations up to the required standard.

Our operational investment is occurring at a time where we stand to benefit from rapid advances in AI. Historically, the specialty nature of our businesses made it hard to find a market-leading technology tailored to our needs.

Scale was insufficient, forcing us to build bespoke systems or to heavily customize off-the-shelf solutions. Both these types of systems are costly to maintain and typically struggle to keep pace with broader technological advancement. AI changes that.

We can now develop cutting-edge solutions for our specialized businesses far more quickly and at a significantly lower cost. AI is helping us serve our brokers faster and policyholders more effectively.

AI is helping us create new value, provide more quotes more quickly which supports premium growth.

We also see AI augmenting underwriting judgment and claims adjudication with the potential to improve loss ratios in selected classes of business.

We do not believe AI threatens the core economic value we provide including risk transfer onto a balance sheet with a customer focus. Instead, it expands our ability to serve our customers and helps us assume more profitable risk.

For example, we deployed Harvey AI into our London Market warranties and indemnities business last year and extended it to our U.S. financial institutions and environmental lines in the first quarter of this year.

We also partnered with Cytura to build a data ingestion system for our U.S. Wholesale and Specialty business that will significantly accelerate our underwriting analysis and speed to quote.

In parallel, we are building a new operating model from the ground up to revolutionize our competitiveness in the hard-to-place U.S. small and midsized U.S. wholesale market.

Operational excellence is something that I expect from our leaders. We’re fully embracing AI across the organization.

Our business of businesses model is an asset, allowing individual units and their leaders to deploy AI quickly and locally without having to wait in a centralized prioritization queue.

We are on the road to transforming our operational capability.

On culture, the culture that permeates Markel Insurance is one which encourages leaders and their teams to build businesses that will endure over a long period of time.

We expect our business leaders to act like owners.

We talk about how to win, not doing work.

We have a respect for authority, but a distain for bureaucracy. The clarity of our structure and its alignment with the new P&Ls provide a strong degree of transparency and accountability. There is a building sense of excitement for what we can achieve.

In short, the Markel style when 40 years ago is alive and well. In conclusion, for the past year, I've emphasized what we're doing to bring clarity to Markel's insurance strategy while simplifying the structure underpinning it.

These changes aim to empower great leaders to go out and build great businesses. Markel Insurance is now positioned to do just that and to return to the very top of the global specialty insurance marketplace. Achieving this goal will take time but we are on the right path.

With that, I'll pass you back to Tom.

Thomas Gayner^ Thank you very much, Simon.

With that, Eiley, we will now open the floor for investor questions.

Operator^ (Operator Instructions) The first question comes from Mark Hughes with Truist.

Mark Hughes^ A very strong growth in the international insurance business. I think you've talked about professional lines, marine and energy. How sustainable is that?

I know you've put some new initiatives in place to drive the top line. How do you think about the longevity of that market opportunity?

Thomas Gayner^ Let's have the man who was running that international insurance business speak to that.

Simon Wilson^ Yes. Actually, a lot of things happened just after my tenure as well.

So credit to Andrew McMellan over there in London and the rest of the world.

It's an important question, Mark. There is a number of specific initiatives and growth areas that we've put in place around about the second -- at the start of the second half of last year.

So we bought an MGA called MECO in the first half of last year. That started putting premium on the book from 1st of July forward.

We opened up in Italy which was a new measure.

We took part in some structured portfolio solutions which are like London market facilities which were new to us during the course of last year.

So a number of things there are new initiatives that have taken off which is probably new things that will not have as bigger growth increases during the remainder of this year.

There are also a lot of things where we invested in people, in technology, in teams, in new products which are now coming to critical mass, I suppose.

So this time last year, they were still getting going, and now we're seeing some real momentum building behind those.

So there is some natural growth underneath there. I think to be honest, 28% which we struck this year will be at very much a high point.

But I'm pretty confident that we'll see for the duration of the year, you should expect decent growth from international probably in low to mid-teens of the -- sort of from a GWP perspective.

But yes, 28% was a terrific start to the year.

We genuinely believe, and this is the most important point, that, that is profitable growth with our international operations because they're finding new places to go and compete with new and high-quality teams that we're bringing into the business.

Mark Hughes^ And a related point, the favorable development in international was very strong. Was there -- I won't say one-timers related to that, but was there anything unusual?

Or is that you're just seeing good underwriting performance emerge in that line?

Brian Costanzo^ Yes, Mark, this is Brian. I would say this quarter was a pretty quiet quarter on the reserving front. Really no kind of chunky increases, chunky decreases, pretty much our normal kind of just releases of kind of our margin and what we do on a regular quarter-over-quarter basis coming through in the period.

Certainly, the one kind of thing year-over-year is we did have some bigger releases a year ago in that international professional book. That book is still holding up very well. It just is not quite as big of a release this year as it was a year ago.

Mark Hughes^ Yes.

Then on the other side of the coin, GL, a lot of talk about the kind of re-underwriting declines in GL premium in the U.S.

Can you give us an update on that?

How much of that is market?

How much is maybe inflation, loss inflation?

How much progress have you made on those initiatives?

And when might that return back to positive growth?

Simon Wilson^ Yes. Thanks, Mark. It's Simon. I think from a U.S. GL, we did a lot -- this is the area of the book of business where we've probably done the most work to re-underwrite.

And the two major things where we've re-underwritten. The first is to lower our average limits quite significantly, probably north of 20%.

So if you think you were writing $15 million lines and now $10 million lines, $10 million lines quite often now are $7.5 million or $5 million.

So we've spread the portfolio more broadly, and we've lowered the limits per risk that we're taking quite materially, especially in the excess areas of that particular book of business. What that does is protects us a little bit more from what we call a frequency of severity problem.

And what I mean by that is what we're seeing in the U.S. is that when we see cases going to court or being settled, those numbers are often a lot bigger now than they were maybe 8, 9, 10 years ago. People call that social inflation.

Well the way that we and several of our peers have dealt with that is by reducing limits.

So if one of our insureds were to have a claim against them, our net loss and gross loss will be lower than it would have been, say 7, 8, nine years ago.

Now that takes time to bring that down, but I think we're in a much better shape in terms of our limit profile over the whole book of the business. Now because we're not writing as much limit, that will have a slightly depressing effect on the amount of premium that you take in.

So -- but I'll take that trade any day because I think it helps profitability. The second thing we've done in that book of business which is material, is reduce the proportion of construction-related business that we're writing from around about, I think it was 40% to 45% of that book of business down to around 20% and maybe slightly below 20% now.

We saw a lot of impact on our book.

And when we took some of the reserve strengthening a few years ago, it was really that construction part of the book of business that were causing us issues.

We've moved pretty hard and fast to reduce that proportion within our book overall. Again that hurts us on the top line but benefits us on the bottom line.

That's absolutely the mantra that we're running.

Now that we've gotten into a position where we feel much better about the shape of the book and the way in which it reacts in the circumstances we see ahead of us, we can now start to look for opportunities.

There are still opportunities within the U.S. casualty market for us to look into and the way in which we choose to go and underwrite that risk and market to it.

I would signal one note of caution on that, though, in that clearly, the trend -- the claims trend in U.S. casualty business continues to run in probably, we think the low double digits at the moment.

Where we did see very good rate increases probably for the past year or so, we've started to see those rate increases come under a bit of pressure in the last, I would say two to three months.

And perhaps one of the reasons for that is as the property market has become more competitive, some of those underwriters are now looking for alternative ways to deploy capital and they're moving into the casualty market.

I will say this, and I can't tell you how much I mean it, we will not follow a casualty market down, and we will not lose discipline in that area.

It's so critical to us that we keep that casualty portfolio in a position which we've gone into it now and start to go into just be in areas where we feel confident that we can make an underwriting profit over a long period of time.

But casualty, there's been a huge lift credit to the people that have been involved in that. It hasn't been easy at the front line in the market because we've had to say no to a lot of brokers that we used to say yes to.

And you can imagine how that might go down from time to time.

But the heavy lifting, I think in many respects has been done and I feel very, very good about where the portfolio is at the moment.

Mark Hughes^ Then one more, if I might. You talked about the collateral issue and your potential exposure. Any numbers you can share related to that situation?

Brian Costanzo^ Yes. I mean as we sit here today Mark, we acknowledge we've got a shortfall in the collateral. A lot of work is going into that.

Weeks ago, we engaged an outside actuarial firm to kind of take a look at this for us at another level, get another opinion in the door. We're not going to share a number today or anything forward, but we certainly believe that, that is not material to our operations and capital position.

Operator^ And your next question comes from the line of Andrew Klingerman with TD Cowen.

Andrew Kligerman^ My first question is around book value per share. It sequentially in the quarter came down to $1,553 from $1,566.

It was in part due to a loss on the equity portfolio of about $58.

So I'm wondering now with the S&P 500 Q-to-date up, I think more than 9%, where would that book value be now assuming that equity gain?

Could you help out with that in the equity portfolio?

Thomas Gayner^ Yes, Andrew, it's Tom. It will be higher.

We wouldn't do mid-period calculations on that, but your math would be correct and the number

would be higher. That first quarter equity market volatility is something we've had decades of experience with. That's just normal mark-to-market stuff. Those changes were unrealized gains and losses, not anything realized.

Andrew Kligerman^ Okay.

But I would think materially higher.

But anyway two quick housekeeping ones.

One, the $14 million impairment on an asset manager, could you clarify what that was?

Then on the industrials, 6% revenue growth, but 16% operating income decline due to business mix change. What was that business mix change?

So two kind of just clarification items.

Thomas Gayner^ Yes. I'll ask my partner, Andrew, to chime in as well.

On the industrial market, again almost like the equity markets, that's just normal volatility.

It's a relatively soft overall GDP kind of environment out there, the K-shaped economy that people talk about. Well we've got both pieces of the Ks going on out there, and I think the economist description of that is real. I'll ask Andrew to chime in from that point.

Andrew Kligerman^ Yes, Andrew, on the financial question first, from time to time we test business units for impairment around here. That's part of normal GAAP accounting procedures.

Sometimes there's triggering events that cause us to do that on a shorter-term basis. In a small business unit within there, we felt like the carrying cost was not appropriate.

We tested it for impairment, and we concluded that an impairment was the case.

However if you step back and you think about the cash earnings potential of that segment, there is no change. That performance was already baked into results you've seen in recent quarters.

So I think you need to separate out the noncash charge versus the cash potential of that business going forward.

As it relates to your transportation question, you're right.

We mentioned mix in the quarter and the transportation being a drag there.

One, I think Tom hit it on it today and just now again. Two, if you recall four or five quarters ago, Brian actually laid out a nice narrative around these are cyclical businesses, but they produce great returns on capital over time. Just to add a little data for you, look, dry van shipments which is one measure of industry volume, have declined from all-time highs a few years ago to multi-decade lows today.

There's a whole host of factors contributing to that oversupply during post-Covid years, weakened freight rates, higher financing costs and now elevated fuel costs, at least temporarily. The good news is this equipment must be replaced over time. And as the economy grows long term, so does the demand for this equipment.

Our businesses operating in that segment are market leaders. They operate with no debt. They're led by industry veterans, and they maintain a long time horizon for each investment that they make.

We continue to believe we're still well capitalized -- well positioned to capitalize on growth in the future.

Thomas Gayner^ And I'll close Andrew, just one second, Andrew, probably, I appreciate the detail. Let me add one bit of color to your comments about the amplitude of the cycle this time around.

So in the immediate aftermath of the onset of Covid, there was a super cycle of demand for these businesses were wonderful and produce sort of above long-term trend line results.

We're now in a period where that equipment is out there. It's part of the inventory. It's getting used up.

So we're through a soft part, but the size and scale of the amplitude of that wave has been bigger this time around than normally has been the case.

Last thing I'll say about it is if we had the opportunity to buy those businesses again at the price we paid for it, we would do it in a New York minute because they produce wonderful returns on capital measured over meaningful periods of time and we have every expectation that will continue to be the case, and we would love to find more of them as we can.

Brian Costanzo^ Maybe real quick on the impairment, Andrew. It's a little bit different than the normal impairment.

So Here, we're talking about a single equity investment that goes through an impairment calculation.

That's a little bit different in the accounting world, not to go too deep into that in terms of the evaluation and what's done on an individual security that we hold versus a business impairment.

They run through different parts of the financial.

So the impairment on an equity investment, you see that go straight to adjusted operating income and our kind of reoccurring earnings, whereas if you had an impairment on a business unit, it would go into the amortization kind of below the line section.

So we're talking about the former here, not the latter in terms of the evaluation we did.

Andrew Kligerman^ That was very helpful. And just two last hopefully, real quick ones. Simon, I love your comment about vanity and sanity. And as we look at the rates from a backdrop in the release, you talked about notable rate increases in personal lines and general liability and notable decreases in property, cyber and energy. Any quick numbers you could share with us?

Then I have -- I'm sorry for so many, one more quick one.

Simon Wilson^ I'm turning to Brian's notes on this, you might be able to give you a bit more detail on that.

Brian Costanzo^ Yes.

So if you look at kind of where we are, I mean property, as you would expect kind of what we're seeing there from a rate decrease across our portfolio, I'd say high single digits across the gambit from a decrease standpoint. That varies dramatically depending on the size of accounts.

So larger accounts, we're seeing a lot more of that. That's where we're doing probably more judicious underwriting, smaller SME accounts, not as large.

So it kind of -- it does vary based on the spectrum.

Maybe the other place I'll go, casualty, Simon talked about that and just kind of what we're seeing, our view on trend in the low double digits. Rates are still in the double digits, but they are weakening a little bit from where we would have been in the low teens a year ago, now into the lower double digits range.

On the personal lines side, I mean a lot of products in there, but most of that book is in our personal lines property space, not nearly under the same amount of pressure there as the general property market.

We write that on an E&S basis. It's very customized in terms of the coverage and what's out there. Those rates are more flattish compared to the broader property market.

Andrew Kligerman^ Got it.

I guess lastly, stock looks like it's trading off about 7% this morning. It looked like some pretty stellar property -- I'm sorry, property casualty results, a little mixed elsewhere. What do you gentlemen think it takes to kind of get the stock moving up north from here?

Thomas Gayner^ Performance.

I think we've demonstrated a few quarters of doing that.

If the market disagrees with the performance that's happening, we'll continue to repurchase shares.

We are price sensitive in our repurchasing.

So when things are -- when the stock price is going down, we buy more.

Operator^ Your next question comes from the line of Andrew Anderson with Jefferies.

Andrew Andersen^ On the collateral discussion, if I look at some statutory data related to this reinsurance relationship at year-end, it looked like the collateral relative to the recoverable was near 100%.

So I guess my question is, has there been some loss development on this relationship?

Or is the collateral shortfall that you're thinking about in a low single-digit million range?

Brian Costanzo^ Yes. Sure, Andrew, it's Brian.

So we evaluate loss ratios on all of our programs every quarter.

So you're right, if you go to our annual statement, we would have had a loss ratio where the collateral was sufficient.

We did increase that loss ratio a little bit here in the first quarter as we react to incurred claims trend.

So that is what creates the shortfall that we're looking at today. Like I said, we're getting an independent actuarial review with a third party, bringing in some other data, bringing in more robust data to really refine that estimate a little bit better than what we've got today.

So that's kind of our next step in the process, along with the State National team that's done this for a long, long time continuing to pursue all their avenues under the contract to get additional collateral and offset against where we sit today.

Andrew Andersen^ Okay.

Simon, I think I heard you mention underlying claim severity running low double digits. How should we think about your implied reserve margin today?

And how much conservatism remains embedded in those carried reserves?

Simon Wilson^ Yes.

So when I made those comments, it was a general comment about the industry.

So claims trend. If anyone knows what the claims trend is in casualty, if they could tell the industry, that would be fantastic.

So I think that is genuinely a -- that is obviously what we get paid to do to try and have a view on that.

But coming back to that, how do we feel about the reserves?

We have been extremely conservative in our reserving of that GL portfolio because we saw this start to happen three and four years ago.

And I think looking back on that, I would say Markel were one of the first canaries in the coal mine to really see these trends developing.

Therefore when we've looked at those reserves, over the last, I would say 18 to 24 months, we haven't had to touch the GL reserves a great deal specifically to strengthen those ones up.

So I feel with the re-underwriting that we've been doing recently and the way in which that the portfolio as a whole has performed against those GL reserves that we've got, look, from what

we can see, I feel quite good about that. What we will be watching for, though, is this pricing dynamic which I mentioned in comments earlier.

If people start to get ultracompetitive in U.S. casualty, that is where things go badly wrong in this industry.

I am concerned, and I'll say this on the call about a number of kind of new entrant MGAs in the space backed by sidecars and private capital effectively which in some areas being very competitive in areas that we know have caused significant losses in the past.

And that is where people might get hurt, certainly financially, I think over the next few years, we're going to be staying out of those games, and we're going to keep focusing on the areas where we know we can perform and bring some tremendous value.

But from a reserve perspective, from my perspective, everything we've done on that -- doing that conservatively early has put us in a nice position to start producing the results that we've done in the last few quarters.

To Tom's point around performance, that's exactly what we're focused on for the next few quarters as well.

But Brian, you might have some extra detail on that.

Brian Costanzo^ Yes. I couldn't agree more with what you say Simon. Maybe one thing I would add on the casualty space specifically, we've talked about this a little bit before is we do have a reinsurance protection that we started pseudo, call it, 2019 and forward.

It's a risk attaching treaty.

So it's not perfect to that.

But that is a stop-loss treaty in terms of how it functions.

So that also gives us a backstop if we were to have to strengthen reserves.

And we've done some nominal strengthening of the gross since we have took our charge in 2023, not very much of that falls down to the net.

But overall, as Simon says, we've been able to -- we took a big crack at it over a couple of quarters in '23 and then a big swing at the end of '23.

We have not had to do so much with that since that time which is what we had intended to do when we did all the deep dives, brought in third-party firms, took a really long and hard look at the construction trend, what is that construction defect kind of tail risk factor and longer tail than maybe the industry had projected there.

And that's a lot of -- that drove a lot of the re-underwriting actions we were talking earlier about is kind of what we saw coming out of some of those reserving observations and being out in front of that and really adjusting the portfolio to the areas where we feel we can compete and do well from a profitability standpoint.

Operator^ Your next question comes from the line of Mark Hughes with Truist.

Mark Hughes^ I think you've touched on this, but kind of some sense of what you think the noninsurance business profitability might be in coming quarters. Tom, you pointed out how you're just looking at some cyclical pressures in certain end markets and these businesses have certainly created a lot of value.

But when we think about kind of profitability through the balance of the year, it sounds like insurance, good.

Then how should we think about those noninsurance businesses?

Thomas Gayner^ I think the first quarter gave you a pretty good picture of just the conditions in the economy, and we have 20-some businesses out there array through industrial and consumer.

We've got some that are doing very well. We've got some that are setting all-time records, and we have some that are on the softer side of the curve.

So I don't really have an aggregate point of view other than that they have always done a pretty good job of coming through.

I'm looking at Andrew, if you want to add a comment to that.

Mark Hughes^ Yes. I agree with what Tom said. I think if you simplify the three divisions together, one, adding industrial to consumer and other, you start to see just more flattish.

Then within Financial, we called out in our comments both a $31 million gain related to the sale of Velocity last year as well as the $14 million impairment of an equity method investment within.

If you take those two numbers and you simply appreciate the unique nature and in one case, noncash nature, financial is also flat.

So overall, I think when Tom colors the first quarter, we are not a company that adjusts earnings, but I would encourage you to look at it through that lens and marry that with Tom's comments around it's a reasonable representation of the state of affairs.

Thomas Gayner^ Yes. And let me conclude just by drawing back to the 80,000-foot level, if you look at Markel Group as a whole.

So first quarter is done.

As we went into this year, here's the sort of back of the envelope math we were looking at.

With the business plans that existed within our insurance operations, that's in round rough numbers, call it, $700-some million of underwriting profits that we think was a reasonable number.

I think we're on track to hit something like that.

If you add the industrial, commercial, financial businesses, that set of businesses last year made about $850 million, rough, rough, rough.

We fully acknowledge that we thought it would be down from that wonderful result last year but not by major amount.

So just in round numbers, so we can do math in our head, call it, $750 million, something like that. You take the investment income, the recurring interest and dividend income, that's pretty solid. That rounds to $1 billion, and we're on track on that.

If you take the equity portfolio and just normalized returns, let's say we're at 8% total return normal expectation that we've got 2% of that through dividends.

So 6% of that would be the normal unrealized gain that would take place. That's another $700 million or $800 million.

So you add all those numbers together and you get to a number of over $3 billion. There's a couple of hundred million dollars of interest expense and you have tax expense, some of which is deferred by virtue of the fact that we have the unrealized depreciation taking place in the equity portfolio.

You add all those kinds of numbers up even on an after-tax basis, you get to double-digit returns on the capital we have, and we're continuing to divide them by fewer shares. And just to give you some numbers on that, it was interesting because I know the three of you who have asked questions, and Mark, I appreciate the fact you've asked a broader question.

We oftentimes get compared against insurance company peers and not so much to some of the industrial company peers and the holding companies that I would include.

But let's keep it within the yellow lines of insurance. I was looking this morning.

So with our share count at about 12.5 million shares, as I said in my comments, that's down about 10% from the peak of 14 million shares, and it's taken us about five years to do that. Going through the list of looking at things, Allstate these days is down about 260 million shares. And basically, you go back five years, they bought in 10% of their shares in five years as well.

Going in alphabetical order, American Financial Group has about 82 million shares outstanding. If you add 10%, that would be 90 million shares.

We have to go all the way back to 2011 to get to where they've taken out 10% of their share count. Go to Arch Capital, a wonderful company, 359 million shares outstanding currently. Again you go back about five years, and they have bought in 10% of their shares as well.

W.R. Berkley, a wonderful company we have a lot of respect for, about 380 million shares. You got to go all the way back to 2014 to see them having 10% more shares than they do right now.

Berkshire Hathaway which obviously we admire and think a great deal of. You got to go back to 2019.

So six years, it took them to buy 10% of their stock in. Chubb at 391 million shares, again about five years since they were at a 10% increase to that.

So same kind of timeframe we've done that. Fairfax currently at 22. Similarly, it would be a 5-year count to go back to get that 10% in. Hanover Insurance Company, 35 million shares.

I say you got to go back seven years for them to have bought in 10%. Kinsale, 23 million shares. They've just recently started buying in some stock, but the stock count has been going up.

If I were them, I would do the same thing, their valuation. You look at us, again it's taken us five years to do it.

I think it will take us less than five years for the next. Progressive, 586 million shares. You got to go back to 2010 for them to have had 10% more shares outstanding than they do right now. RLI, wonderful company, 91.8 million shares outstanding.

You go back over the 17 years of data I'm looking at, they've never bought back a meaningful amount of stock. And again ROI has been very well valued.

So I think that's a correct capital allocation decision on their part. Travelers, 216 million shares. And again it would be about just a little over four years for them to have bought in 10% of their share.

So I think we actually stacked up pretty well. And again someone was asking me about the stock price and I said performance. Well again actions speak louder than words.

So you're seeing us execute. And even through some of the challenges that we've had over the last couple of years which we've spoken frankly and honestly about all the way along, we still had enough money buying 10% of the shares and not add to balance sheet leverage to do it.

That's been out of cash flows. I think it's a very strong statement. And given the conditions of the business right now the people we have running it, I'm optimistic about how the next several years play out.

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 very much.

We appreciate your participation.

We look forward to catching up with you. We've got the reunion coming up on May 20 here in Richmond.

We would love to see you there.

It's a wonderful way to instead of hearing from three or four of us to hear from hundreds, if not thousands.

So we would love to see you here in Richmond on May 20 for our annual meeting which we call the reunion. Thank you.

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