14-May-2026

Pelagos Insurance Capital Ltd. (PLGO)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Pelagos Insurance Capital First Quarter 2026 Earnings Conference Call. As a reminder, this call is being recorded for replay purposes. Following the conclusion of formal remarks, the management team will host a question-and-answer session and instructions will be given at that time.

With that, I will now turn the call over to Miranda Hunter, Head of Investor Relations. Ms. Hunter, please go ahead.

Miranda Hunter

Group Head-Investor Relations, Pelagos Insurance Capital Ltd.

Good morning and welcome to Pelagos Insurance Capital's first quarter 2026 earnings conference call. With me today are Dan Burrows, our CEO; Allan Decleir, our CFO; and Jonny Strickle, our Group Managing Director.

Before we begin, I'd like to remind everyone that statements made during the call, including the question-and-answer section, will include forward-looking statements. Management's comments regarding expectations, projections, targets and any future results are based upon current assessments and assumptions and are subject to a number of risks, uncertainties and emerging information developing over time. It's important to note that actual results may differ materially from those expressed or implied today. Additional information regarding factors shaping these outcomes can be found in our SEC filings, including our earnings press release issued last night.

Management will also make reference to certain non-GAAP and proprietary measures of financial performance. For reconciliations to US GAAP for each non-GAAP financial measure as well as a description of our proprietary financial measures can be found in our earnings press release and financial supplement available on our website at pelagosinsurancecapital.com.

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

Daniel David Burrows

Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

Thank you, Miranda. Good morning, everyone, and thank you for joining us today. I'm pleased to welcome you to our first earnings call as Pelagos Insurance Capital. The Pelagos rebrand marks an exciting milestone and a deliberate step in our evolution. Our new name is a stronger, clearer reflection of who we are, an expert capital allocator, accelerating our resilient high performing, diversified portfolio by bringing together strategic capital and underwriting expertise through our expanding community of specialist partners.

Our strong first quarter performance builds on our momentum from last year. I want to highlight three key areas that both underscore our progress and position us well for continued success. First, we once again delivered excellent results, demonstrating the strength and flexibility of our capital allocation model. We achieved a combined ratio of 86.6%, generated annualized operating ROAE of 15.2%, and grew book value per diluted share to $26.22, including dividends, an increase of 7.2% in the quarter. This represents our best ever quarter of value creation for our shareholders.

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Second, our growth this quarter highlights the unique advantages of our model. We grew gross premiums written by 7%, driven by our new underwriting partners, and as our platform evolves, we will continue to expand on this. What sets us apart in the market is our ability to allocate capital across a diverse and expanding universe of distribution networks. This gives us multiple differentiated points of access to the market and allows us to execute with agility.

Third, we continue to successfully balance profitable underwriting with meaningful capital returns, creating significant value for shareholders. This is underscored by the accretion to our book value per share, which to reiterate increased by 7.2% in the first quarter alone.

We continue to believe that our current market price of stock is undervalued and as part of our capital management strategy, we repurchased $219 million of shares in the quarter. This includes $163 million bought through a privately negotiated transaction to repurchase all the remaining shares of one of our original PE sponsors, CVC.

Importantly, following this strategic transaction, approximately 65% of our shares are now in the public float. At current market valuation, we do not anticipate any further secondary follow-on offerings with our remaining original and long-term PE sponsors in the near term.

Turning to our segments, within insurance, we grew gross premiums written this quarter by 13%, driven by the continued execution of our strategy to expand new underwriting partnerships across multiple lines of business. Property again delivered strong performance with continued growth and new business momentum.

Our disciplined underwriting approach has enabled us to maintain our margin through our leadership position and by optimizing our use of outwards reinsurance, even amid a competitive environment and rate pressure. This is evidenced by the fact that over the last three years, we have been running at an average sub-40% loss ratio for our property line, despite an active cat and secondary peril environment.

Within property, construction has had a strong start to the year, with growth driven by success in the open market, particularly in complex and post-loss accounts where pricing and terms are more attractive. While some segments continue to experience pressure, we have remained selective, while continually adapting our underwriting approach.

Asset-backed finance and portfolio credit continued its strong performance with both our existing and new underwriting partners, as we continue to convert our pipeline of opportunities. This is not only diversifying our portfolio, but giving us additional ways to grow in a market with high barriers to entry and where we have deep expertise. We continue to see strong margins across these products, which are insulated from traditional market cycles.

In marine, we saw strong new business flow, with a step change in marine war rates, driven by conflict in the Middle East. As a leader, our ability to quickly respond, executing bespoke trades in the open market enables us to actively manage our portfolio at the individual risk level. Our underwriting discipline is driven by a precise risk assessment process.

Along with our underwriting partners, we analyze each risk across critical factors like vessel, journey, crew origination, cargo and beneficial ownership, allowing us to underwrite vessel by vessel, avoiding broader coverage through facilities. Outside of war, market conditions in hull, cargo and liability remain competitive, and we continue to prioritize underwriting discipline to maintain portfolio quality.

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Our political violence and terror lines also presented opportunities for growth in the quarter, driven by our agile approach to selecting individual risks that meet our pricing hurdles. Pricing in the Middle East remains strong. We continue to benefit from our scale and lead position, enabling selective deployment and margin preservation in attractive segments. The evolving geopolitical landscape is creating new opportunities in this region, which we are well-positioned to continue executing on.

In our reinsurance segment, gross premiums written were $404 million for the quarter. This represented growth of 7%, excluding the impacts of the reinstatement premiums related to the California wildfires in Q1 2025. We are pleased with the results of our January 1 renewal season. Our underlying portfolio is supported by strong margins and sustained demand, and we delivered a three-year average annual loss ratio in the sub-20% for this segment, clearly demonstrating the healthy margin profile of the business.

Before I hand it over to Allan to discuss our first quarter results in more detail, I'd like to take a moment to highlight how our capital allocation model uniquely positions us in this market. While the market is seeing increased competition in certain lines today, that pressure is verticalized. By that, we mean the pricing difference between lead and follow markets continues to become more pronounced. And being a price maker, not taker, is increasingly important. As a market leader, we continue to see strong pricing, retention levels and access to business.

Our ability to pick and choose how, where and when we execute across lines and geographies and with the right partners gives us the flexibility to capitalize on the most attractive opportunities. For example, following the outbreak of conflicts in the Middle East, we immediately set an underwriting and risk appetite framework, and working alongside our partners, were among the first to underwrite risk and deploy capital. This enabled us to maximize pricing and set terms and conditions, demonstrating our ability to not only match the right capital to the right risk, but also to the right partner at the right time.

In summary, our strong capital position, deep relationships and access to the market, we continue to see significant opportunities for disciplined, profitable growth. And as demonstrated by our results this quarter, deliberate actions we are taking across risk selection, our outwards reinsurance strategy and capital allocation position us to deliver strong performance throughout the cycle.

And with that, I'll turn the call over to Allan.

Allan Carl Decleir

Group Chief Financial Officer & Executive Director, Pelagos Insurance Capital Ltd.

Thanks, Dan. Pelagos Insurance Capital delivered operating net income of $88 million or $0.94 per diluted common share in the first quarter, resulting in an annualized operating return on average equity of 15.2%. This performance was driven by another quarter of excellent underwriting results. Our combined ratio of 86.6% was a significant improvement of 29 points over the first quarter of 2025. Our book value per diluted common share grew to $26.22, including dividends. This increased by 7.2%, delivering outstanding value creation in the quarter.

Taking a closer look at our quarterly results. We grew our gross premiums written by 7% versus the same quarter last year to $1.8 billion. During the quarter in the Insurance segment, gross premiums written increased by 13%. We saw continued growth from new underwriting partnerships in several lines of business.

In the Reinsurance segment, we had growth of 7%, excluding the impact of the reinstatement premiums related to the California wildfires in Q1 2025. This growth was driven by new underwriting partnerships.

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Our net premiums earned were $515 million in Insurance and $54 million in Reinsurance. Through our network of underwriting partnerships, we saw additional opportunities to strategically deploy capital in the quarter, including in lines that have an accelerated earning pattern, enabling us to exceed the expectations provided on our last call.

Looking into the second quarter, we expect net earned premiums to be similar to the first quarter in our Insurance segment and $65 million to $75 million in our Reinsurance segment. Our excellent underwriting performance resulted in a combined ratio of 86.6%.

I will now break down the components of our combined ratio in more detail. For the quarter, our catastrophe and large losses were 12.7 points of the combined ratio, or $72 million. This represents a significant improvement compared to the same period last year when catastrophe and large losses were 55.3 points of the combined ratio, or $333 million, primarily related to the California wildfires. As Dan said, the evolving geopolitical landscape, particularly in the Middle East, has created underwriting opportunities for us. It is an ongoing situation and we continue to monitor it. The loss experience in the first quarter was minimal. During the quarter, our attritional loss ratio was 27.2 points of the combined ratio, consistent with the low levels we have reported over the last several quarters. We recognized net favorable prior year development of $3 million for the quarter compared to $41 million in the prior year period. We had continued positive development on catastrophe losses and benign prior year attritional experience in our Reinsurance segment and better than expected loss emergence in multiple lines of business in our Insurance segment. In the quarter, we, like others, recognized increased loss estimates related to the Baltimore Bridge collapse.

Turning to expenses. Underlying policy acquisition expenses were 26.8 points of the combined ratio for the first quarter, consistent with 27.8 points in the prior year period. Policy acquisition expenses to TFP were 15.3 points of the combined ratio in the quarter. The increase of 2.3 points from prior year related to the excellent underwriting results in the current year.

Finally, our general and administrative expenses were $29 million in the quarter. This is consistent with what we shared on our last call and continue to expect through 2026.

Moving on to our investment results. Our net investment income was $44 million, consistent with the fourth quarter of 2025. As of March 31, 92% of our portfolio is in cash and fixed maturity securities, yielding an average of 4.4%. The fixed maturity securities have an average rating of A-plus with an average duration of 2.7 years and a new money yield of 4.5%.

Turning to taxes. Our effective tax rate for the first quarter was a negative 4.8%. In the quarter, we recorded a one-time benefit due to the UK government updating its tax laws to conform with the most recent OECD guidance on Pillar Two global minimum tax. Excluding this discrete item, our effective tax rate remains in line with our expectations at 16%.

Turning to capital management. We are in a very strong capital position, which has enabled us to grow our underwriting portfolio and also return capital to shareholders.

In the first quarter, we repurchased 11.5 million common shares for $219 million at an average price of $19 per share, which includes our previously disclosed repurchase from CVC. Our repurchases have been highly accretive on both a book value and earnings per share basis to our shareholders, contributing $0.75 to our diluted book value per share in the first quarter alone. We have repurchased an additional $14 million of common shares

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through May 8, with $185 million remaining on our share repurchase authorization. Since our IPO, we have repurchased $600 million of our common shares or 30% of our shares at an average price of $17.66 per share.

We continued to pay a quarterly common dividend in the first quarter and last week we announced a $0.15 dividend payable in June. In April, we also redeemed our $125 million junior subordinated notes, reducing our debt and resulting in a pro forma debt to capital ratio of 24.2% as of March 31.

In summary, our financial results once again demonstrated strong earnings power as well as effective capital management, resulting in 7.2% growth in book value per diluted share.

And with that, I will now turn the call over to Jonny.

Jonathan Strickle

Group Managing Director, Pelagos Insurance Capital Ltd.

Thanks, Allan, and good morning, everyone. As Dan mentioned, at a time when the market is finding it more challenging, our model continues to drive profitable growth as we grow and form new relationships with trading partners.

As a capital allocator, we bring together underwriting partners, each with our own strengths, expertise and differentiated access points to the market. And based on our underwriting and risk appetite framework, we strategically allocate capital to the right partners to execute on our plan. Each of these partners has their own unique way of accessing segments of the market. Utilizing several partners in the same marketplace enables us to grow and diversify in areas we already know and like and where we have extensive expertise.

For example, in Property through The Fidelis Partnership, we have broad access to the E&S market, which has been a great source of growth for the past few years, and it continues to deliver attractive underwriting margins. As competition has increased in that area, we have been able to complement our existing portfolio by expanding our focus and diversifying to other areas of the property market through some of our new underwriting partners, an example of which is Bamboo Insurance, who are market leaders in providing coverage for homeowners in California and Texas.

Similarly, our long-term partnership with Euclid Mortgage enables us to diversify our mortgage book geographically. Our existing European mortgage portfolio has performed exceptionally well over a number of years. However, achieving consistent access to the US market has historically been difficult due to the limited number of well-established participants. By partnering with Euclid and leveraging their unique relationships in this market, we have been able to successfully grow our US mortgage book, building a more diversified and robust overall portfolio.

This highlights how we are leveraging the agility our model provides us to change how we are accessing risks and driving profitable growth in existing classes of business we know well and like. These new partnerships are becoming an increasingly meaningful part of our business. We have a strong pipeline of potential partners and we expect continued growth with the partners we have already onboarded as these relationships are structured with scalability in mind.

So as opportunities develop or market conditions evolve, we are able to scale efficiently and access risk in a differentiated way that complements and is diversifying to our existing portfolio. This underpins our full year outlook and we continue to expect top line growth of mid-single digits across the entire portfolio.

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Outwards reinsurance is another key area of focus for us and it plays a critical role in managing exposures, reducing volatility and continually optimizing our risk profile. This year we have taken advantage of market conditions and leveraged our position to materially improve our outwards coverage, moving to aggregate structures where possible on our nat cat protections, cutting quota share sessions on the most attractive lines of business and purchasing a new whole account aggregate excess of loss cover, reducing overall portfolio volatility while enhancing margin.

The combination of these actions has significantly improved our risk profile and helps to offset rate pressure on our inwards book. We have now secured the majority of our outwards reinsurance for the year and are very pleased with the position we are in today.

I will now pass it back over to Dan.

Daniel David Burrows

Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

Thanks, Jonny. To sum it all up, our first quarter marks an excellent start to 2026. Our results speak to the strength of our business and demonstrate the resilience of our approach as a strategic capital allocator. Our diversified portfolio, deep relationships and ability to allocate capital dynamically give us clear advantages in navigating an evolving risk environment. And at a time where market access and risk selection matter more than ever, these differentiators will allow us to grow profitably and continue to deliver strong results.

With that, operator, we will now open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Before we take your questions, I'd like to kindly ask everyone to please limit your question to one primary question along with a single follow-up. And if you have any further questions, please rejoin the queue. With that, our first question comes from Meyer Shields with KBW. Your line is open.

Meyer Shields

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thanks so much and good morning. Allan, you mentioned that there was, I guess, adverse development on the Baltimore Bridge, and we've certainly seen that. I was wondering, first, if you could maybe quantify the impact of this particular loss reserve increase and give us a sense as to the underlying favorable development from other lines.

Jonathan Strickle

Group Managing Director, Pelagos Insurance Capital Ltd.

A

Hi, Meyer. It's Jonny here, actually. I'll take that one. I'll just give a bit of background on what happened on Baltimore first and then get to your question. So, I mean, you've probably seen in the press, the state of Maryland announced a settlement with the international group over the quarter, and we provide reinsurance for them. And that came at a level above where the market had its reserve set. So reflecting that in our results had an impact on prior year development, as you've seen in the results that we reported through.

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To put that into context, I think we're really pleased with where prior year development is overall. I mean, we ended the quarter with favorable prior year development if you factor the reinsurance cover in as well. And I really think that demonstrates the resilience of the portfolio. We can absorb significant impacts like this without resulting in a deterioration.

In terms of the movement itself, I mean what I can say on it is we moved our reserves appropriately in line with the underlying market loss and reflecting the dynamics of the various components of what's quite a complex claim. If I think outside of Baltimore, we also mentioned property D&F in our release where we had two or three large losses coming through on the prior year on that.

So to give a bit of context around that, Q1 is when we'd really expect to see losses like that coming through. And these are events that happened at the end of 2025 and were reported to us in 2026 rather than deteriorations on things that we knew specifically about at that point in time. But of course, we set IBNR provisions to allow for things like that.

So actually, even when you take into account those three losses coming through on D&F, D&F had favorable prior year development in the quarter. And I don't think that was clear in some of our release, so I just wanted to clear that up and provide clarity. It actually ran at a sub-30% loss ratio. So I think it's a really great marker actually to show rate adequacy in that class of business that even with three losses hitting our large threshold coming through on the prior year in one quarter, 30% loss ratio and favorable PYD overall. So I just wanted to clear things up there. Hopefully that gets your question.

Meyer Shields Q
Analyst, Keefe, Bruyette & Woods, Inc.

It does.

Daniel David Burrows A
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

And Meyer...

Meyer Shields Q
Analyst, Keefe, Bruyette & Woods, Inc.

Looking for more [ph] clarification (00:26:50). Go ahead. I'm sorry.

Daniel David Burrows A
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

Sorry there, Meyer. I was just going to kind of frame that Baltimore event. As you know now it's the biggest marine loss in history. And I say historically, my experience would tell me that type of event would move the market. So we'd expect a price correction when a particular cover renews early next year. So right now, we're focused on opportunity. So that's really the crux of our businesses is that we're always looking for opportunity.

Meyer Shields Q
Analyst, Keefe, Bruyette & Woods, Inc.

Okay. No, it's completely understood. If I can switch gears just briefly, I'm trying to get a sense as to the lines of business where you're going in Reinsurance specifically.

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Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

A

In the Reinsurance pillar is that, Meyer?

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yeah, that's right. Taking out the reinstatement premiums from last year, so there was some growth and I'm wondering which lines of Reinsurance. Well, which lines you are growing your inwards reinsurance.

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

A

Yes. Property cat reinsurance we have a broadened offering out in that line in terms of lines of business. What we have done is add a new underwriting partner that we talked about a bit last time, Oak Global. A big chunk of their book is property cat reinsurance. I think they provide us a slightly different access point into that market. Their CEO who heads up the underwriting there ex-RenRe for 20 years, really well known in the market, a proven track record of delivering in that space. And as a capital allocator, we like to have options. And I think having Oak alongside The Fidelis Partnership to write property cat risk gives us access to more of the market and helps give us that optionality to flex between partners, depending on where the market is at any one time.

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

A

Yeah. And I think I'd just add, Meyer, with – we have very high hurdles for our underwriting partners, for all of them. I mean, we look at Oak in their first year as a Lloyd's syndicate. They came in with a sub-85% combined ratio, which we think about year one with expenses. That's a really good performance and ahead of our sort of target plan. So onboarding more of that is really what we're looking to do in the future.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay, fantastic. Thank you so much.

Operator: Your next question comes from Peter Knudsen with Evercore ISI. Your line is open.

Peter B. Knudsen
Analyst, Evercore Group LLC

Q

Good morning. Thanks so much for taking my questions. My first one, you guys talked a bit about your outwards reinsurance. I'm just wondering if you could potentially size the savings that you achieved from outwards reinsurance this year/what you expect going forward and how much of that can offset some of the pricing pressure on the inwards book. Thanks.

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

A

Hey, Peter, it's Jonny here. I'll start off on that one. There's certainly price reductions in that space. I think we gave some color on that last time, about 20%, if you think about it that way. The way we tend to deal with that is to buy more coverage rather than bank for saving, and we've certainly done that. I mentioned we bought an aggregate excess of loss cover that's more targeted around frequency of large loss. So that's where some of the

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spend when some of it came on lowering retention levels relative to our overall portfolio or broadening coverage on an excess of loss basis. So we really see it as an opportunity to enhance our risk profile and manage volatility down, rather than something to just bank as a cash saving.

Peter B. Knudsen
Analyst, Evercore Group LLC

Q

Great. Yeah, thank you. And then I was just wondering if you could provide an update on RPIs. I most specifically interested in property D&F. I know you just mentioned that you still see that segment as rate adequate. But I would be curious, how does this change from year end or more broadly just in Insurance and Reinsurance versus the RPIs, I think, last disclosed in the third quarter, how those have changed? Thanks.

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

A

Yeah. Thanks, Peter. It's Dan here. I'll take that. Look, firstly, I think you'll hear from us a consistent theme with others you've heard in this earnings season. It is a competitive market, but we think across our diversified portfolio, we have 100 lines of business plus, many of which aren't actually impacted by markets cycles where we see plenty of margin. Jonny has talked about loss ratios. I think we scripted out earlier around the property direct running the last three years [ph] sub-40 (00:31:18), property reinsurance running [ph] sub-20 (00:31:21) loss ratio. So plenty of margin in the business after years of compound increase.

That said, we would categorize the retrocession market as probably the most competitive where we've seen terms and conditions broaden. Jonny states 20% there, thereabouts in terms of rate improvement, which as a buyer has been really good to improve margin.

When we look at property direct, property reinsurance, 1:1, 4:1. Like others, we would say mid to high-single digits, low-double digit reductions. But there are other factors to think about. Obviously, our lead position, how we can leverage that to get better terms and conditions in a verticalized market, how we use outwards reinsurance. And again, talking about those loss ratios, there's plenty of margin in the book. I think, obviously, we see an improvement in Marine, via the war breach products, political violence through the conflicts in the Middle East. But we're happy with the margin across most lines.

I think still an outlier would be aviation, and we've cut our premium, as detailed in the last call, by about 50% in the last year. We haven't seen any upside there. But it's all about margin. So that's how we think about the market. Not so much about RPI, but we allocate capital to a risk because we think about the margin it provides to our portfolio.

Peter B. Knudsen
Analyst, Evercore Group LLC

Q

Great. Thanks so much.

Operator: Your next question comes from Leon Cooperman with Omega Family Office. Your line is open.

Leon G. Cooperman
Analyst, Omega Advisors, Inc.

Q

Thank you very much. I have a observation and a question. Is there anything unusual in your first quarter results that you would consider non-recurring, or do you think that the – that's a good example of the earnings of the company?

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Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

A

No, obviously, in the first quarter, we did have a large PNT with CVC. As I said on my introduction to the call, we do not anticipate any further secondary offerings in the near term with our existing original PE sponsors. We will continue to buy back shares. And when we think about underwriting, we will allocate to the highest margin business that we can. So other than that one PNT, there's nothing unusual in the quarter.

Leon G. Cooperman
Analyst, Omega Advisors, Inc.

Q

So that means at the end of this year, it would seem to me your book value would be in excess of $30, if I just take the $1 of earnings roughly in the quarter and multiply that by three remaining quarters of the year [indiscernible] (00:34:09)...

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

A

Lee, if we can execute our plan for the rest of the year, we could be close to $30, there or thereabouts. So...

Leon G. Cooperman
Analyst, Omega Advisors, Inc.

Q

So...

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

A

...that demonstrates since the formation of the business in 2023, we've grown book value per share by about 68%. So it's quite exceptional growth and we continue to do that. And so long as we can consistently compound good quarters, performance, combined ratio, increased book value, it makes it impossible for investors to ignore that. So that's what we're focused on.

Leon G. Cooperman
Analyst, Omega Advisors, Inc.

Q

Yeah, that's my second observation. I'm not an insurance expert, but I mean, I am an analyst. So I basically – the typical analyst has a price objective of about $22, $23, $24, which is below book value. I see no reason why the stock should sell below book value, given your rates of return and how you're allocating your capital. I'm just curious, the only explanation could be either that people think you're earning in excess of what is normalized and you don't think it's the case. Or there are people who are not paying attention because you have not had the agency in the market. So over time, I would expect that your returns would either – your market would either do better or the market would be validated at this lower price objective.

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

A

Yeah. And we're working hard to make sure we're impossible to ignore, Lee. Compounding successful quarters on top of each other is what we're striving to do.

Leon G. Cooperman
Analyst, Omega Advisors, Inc.

Q

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Right. Okay, very good. Well, good luck, because it seems to be the market is making a major mistake in valuing you guys. And as long as they continue to make a mistake, they are looking at you as a pile of capital. And at a minimum, it should be worth book value, which is $30, $31. And given your expertise in allocating capital, I think you deserve a significant premium to book value. And if you were in line with the industry, your stock would be well over $30. At 1.5 times book would be a reasonable number.

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.
A

Yeah.

Leon G. Cooperman
Analyst, Omega Advisors, Inc.
Q

Everybody tells me because of the structure of the company, that I'm too optimistic. And I say, no, the management is allocating capital intelligently. And Mr. Brindle is a very good underwriter and now we are going to supplement Mr. Brindle with other people that are going to give you good investment opportunities and you're going to allocate to the best capital returns. So why are you selling at a discount to book value I don't understand.

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.
A

Yeah, and we agree, Lee. And I think what we would say is the performance is because of the structure. It works exactly as intended and we're going to keep on doing what we do well.

Leon G. Cooperman
Analyst, Omega Advisors, Inc.
Q

Good, good. I'm happy. I own about 8% of the company. I'm happy. Good.

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.
A

Thanks. Thanks, Lee.

Leon G. Cooperman
Analyst, Omega Advisors, Inc.
Q

Good luck.

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.
A

Thanks for the question.

Operator: Your next question comes from Alex Scott with Barclays. Your line is open.

Alex Scott
Analyst, Barclays Capital, Inc.
Q

Hi. Thanks for taking it. Can you expand just on what you're seeing in the pricing environment for the why – I guess just more broadly in property, maybe separate from some of the niche areas that have grown into like you

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mentioned the Bamboo partnership. And I get that that's very different, but in terms of like the E&S property cat, we're hearing rates down as much as 30%.

I mean, what are you seeing in your markets? What are you doing to bob and weave around that? I mean, are you going to have to pull back in some of that where it's not rate adequate, or do you feel like even with some of these moves, you're still finding good shots on goal?

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.
A

Yeah. Thanks, Alex. Look, first thing, as I said previously, when you just look at the loss ratios for our direct property book, sub-40% for the last three years. Yes, there is more competition. We operate as a leader. We can restructure, reallocate, think about the risk. It's a verticalized market. What we're seeing is more in the single to high-digit – single-digit decreases, low double-digit decreases. But optimizing the outwards is how we think about it to improve the margin. So there is going to always be a range; we completely agree. We wouldn't follow the market to the sort of extremes that you're talking about. But as a leader that's relevant to our clients, we don't have to.

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.
A

It's Jonny here. I'll just add to that. It's a very short-tailed line of business. So I think if rate adequacy was starting to get tighter, you would see that come through very, very quickly. As Dan said, we've run at less than 40% in aggregate since we launched the business, and this quarter in particular we are less than 30%. And that's despite getting three big losses coming through that happened at the end of last year. So I think that really shows two things. That rate adequacy for us is still in a great place and outwards reinsurance has helped us manage the volatility and improve margins in that line as well.

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.
A

Yeah, I think – it's Dan again. It goes back to the point, when we think about the market, it's not about the RPI; it's about the margin in the business, and that's how we allocate our capital.

Alex Scott
Analyst, Barclays Capital, Inc.
Q

Makes sense. Okay. Thank you. And then could you give us more on just how impactful some of these partners that you're bringing online are to the capital you're deploying? And are there an increasing amount of opportunities there? Is that something where you expect to continue to grow this partnerships? So I just want to think through how that can support growth.

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.
A

Hey, Alex, it's Jonny here. I'll take that one as well. In terms of our growth, yeah, they've been a meaningful component of that. We said last time they were around half of our growth last year. They've continued to grow into Q1 this year. I don't think that is necessarily growing the number of partners we do business with in a dramatic way. I mean, I think that's something, but certainly not going to be in the 100s, it's going to be in the 10s, for sure.

And the way I try and think about that is at the moment, every single partner we onboard, every opportunity they bring, the entire management team is fully engaged in reviewing that and deciding how to size it, how to approach

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it, how to execute on it. And we will not move away from that. So, it won't get to a quantity where we aren't able to do that anymore.

What I would point to is some of the partners that we've talked about publicly, Euclid and OAK being great examples, really scalable platforms. So, they're growing in that first few years of business, we're able to grow with them alongside it. And actually scalability is one of the key factors we think about when trying to onboard partners. So, if I think about that strategy into the future, I would expect this to grow with new underwriting partners, but don't expect that to be a continual increase in terms of number of partners. Some of it is going to be growth with existing.

Alex Scott
Analyst, Barclays Capital, Inc.

Q

Okay. All right. Thank you.

Operator: Your next question comes from Pablo Singzon with JPMorgan. Your line is open.

Kevin Wijendra
Analyst, JPMorgan Securities LLC

Q

Hi. This is Kevin on for Pablo. Just wanted to hear what your medium term outlook was for the mortgage partnership with Euclid. I think a lot of the growth that has come from Euclid has been taking larger share of the mortgage reinsurance market. So, with the underlying market not growing as much, what are your thoughts on medium term growth?

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

A

Yeah. I think actually, I think, Euclid made an announcement yesterday. So, consistent with that, we see opportunity for growth, but we also can grow with the partnership. They have a very high performing portfolio there as well. So, that's really what it's all about. It's combining the partnership with new underwriting access to build a really strong platform for growth. So, yeah, we're excited and we see opportunity there.

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

A

Yeah, I think – it's Jonny here. It's all about balance in sort of the asset-backed finance class of business, it's trying to get balanced geographically by industry, by product type, by distribution point into the market. We haven't historically had much of a footprint in the US mortgage market. So, naturally there's more room for us to grow there. And by growing there, it helps diversify the portfolio. And I think Euclid is a great partner to execute on that with.

Kevin Wijendra
Analyst, JPMorgan Securities LLC

Q

Great. Thanks. And then on the loss experience, loss experience has been good in recent quarters. Is that changing your full year outlook on loss ratios? I think you had said mid-40s ex-TYD last quarter, but you've been running in the higher-30s, low-40s.

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

A

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It's Jonny here. I mean, we're still comfortable with our mid-40s pick, I think. I mean obviously we're pleased to have beat that in the last two or three quarters and hope we do into the future. But I think that's an appropriate place to set expectations.

Kevin Wijendra
Analyst, JPMorgan Securities LLC

Q

Great. Thank you.

Operator: Your next question comes from Andrew Andersen with Jefferies. Your line is open.

Andrew Andersen
Analyst, Jefferies LLC

Q

Hey. Good morning. How would you characterize the political risk market today versus the pre-conflict environment just in terms of pricing, capacity and attachment points?

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

A

Yeah. Great question. I think as we've mentioned earlier, for us, when we think about specifically through the conflict, the opportunity created would mostly be a war breach and political violence/terror. There were minimal losses in Q1. We are only six weeks into Q2 and there have been some very high profile losses in the market. Our exposure to those is very manageable and well within our large loss load.

I think it's also a really good example of the capital allocation model and how we work with our partners. We were very quickly able to set an underwriting risk appetite and framework. We allocated our capital to the Fidelis partnership. We think they're best in class. They have significant experience, depth of knowledge, and they are best placed to take advantage of opportunities that we're seeing.

But our approach is also a little bit different to others. We prefer to individually write each risk on its own merits. So, when we think about war breach, we'd look at per vessel, per voyage. We think that's essential in a live fluid environment, and a much more accretive routes to the business rather than writing facilities, which often end up giving a broader cover.

You don't really get the data, exposure tracking is less precise. So, we're seeing the same opportunity. Political risk to the side has been running really, really well. We've seen a good pipeline of business before and during this conflict, but the immediate opportunity is more around lines like war breach, political violence and terror.

Andrew Andersen
Analyst, Jefferies LLC

Q

Thanks. And you mentioned earlier on the call just some competition in certain lines. Can you just expand a bit on how durable you think the pricing advantage is from being a lead underwriter? Are you seeing any signs of maybe follow-up, follower catch-up compressing that pricing advantage?

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

A

No. If anything, we're seeing a more pronounced state of verticalization. You're seeing follow markets aren't even showing renewals. That's happening, and that is what happens in a more competitive environment. We've got to

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make sure that we're relevant. We stay, leveraging our position, multi-class, there's been very attractive compound increases for the last six, seven, eight years in some classes. And I think the loss ratios especially that we've talked about demonstrate the margin in the business. You can then use outwards reinsurance to supplement the margin. So, at the moment, it works for us. We're confident with our targets for the rest of the year. You just got to work hard. It's as simple as that.

Andrew Andersen
Analyst, Jefferies LLC

Q

Thank you.

Operator: Your next question comes from Mike Zaremski with BMO. Your line is open.

Mike Zaremski
Analyst, BMO Capital Markets Corp.

Q

Hey, thanks. Good morning. Nice to see the stock popping this morning. I guess my question is more specifically whether directionally Fidelis has head count growth kind of aspirations within a quarter or maybe near term or longer term? And I ask I guess in the context of kind of looking at some of the employee and G&A growth, kind of juxtaposing that with the market environment, but also some of the core things you guys are doing with third parties and then also with the pretty material Bermuda tax credits that also come online, came online last year and will continue to come online. Thanks.

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

A

Yeah. Thanks, Mike. Just to remind you, we are Pelagos and the structure was built meant to be efficient, meant to be lean, and that will continue into the future. So, there's multi-layers to your question. I don't know if you, Jonny?

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

A

Yeah. Being lean is really important to us, I think. And we can – we feel we can execute the strategy that we started on in the last year, year and a half, in terms of moving to new underwriting partners and remain lean. I think one of the big advantages you have from being a lean company is it opens up margin to spend on reducing volatility.

Bamboo again is a great example of that. We've been able to access the property market, but not take cat risks to have an event cat that completely removes that and the margin still remains attractive. How do you get there? You get there by having a really low expense ratio. So, it's something that we've got our focus on, it is something that I think in terms of a long term run rate, we've given some color on before, but it's certainly not something that we see growing as a percent of premium.

Mike Zaremski
Analyst, BMO Capital Markets Corp.

Q

Got it. That's helpful. So, I guess just switching gears, I don't think it was touched on, but if it was, you can – be a short answer. But in the press release, you talked about non-renewing cyber policy. I know that there's plenty of a very high quality peers that have set that line of business, probably doesn't typically meet their appetite in terms of

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making it a much bigger line of business in their portfolios. But maybe you can kind of touch on what's taking place in that marketplace and why it was not renewed? Thanks.

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

A

Yeah, sure. I mean, for us, I think we've been pretty consistent on how we think about cyber. The bit that stopped us entering that market in the past has been the systemic risk. So, the risk in the tail. A product that emerged over the past few years was capped quota share, so us reinsuring someone else and having a loss ratio cap that really removes the worry about that systemic risk. That's when we entered into the cyber market and was successful in doing a number of deals.

As we come into this year, there's been pressure in some places on where those caps are or having them removed completely. I think that's a term and condition that we just cannot move on. So, where we can't get the cap to be a level that we find acceptable, then we walk away from it, and that's exactly what's happened with the example that we mentioned this quarter.

Mike Zaremski
Analyst, BMO Capital Markets Corp.

Q

That's good color. And just lastly then, do these cyber policies kind of – are they standalone or do they touch other policies that they need to be written in a bit of a package when you broker them through – when you're buying them through the brokers?

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

A

Yeah. Thanks. It's Dan here. That's a standalone single policy, we effectively just didn't like the structure, simple as that.

Mike Zaremski
Analyst, BMO Capital Markets Corp.

Q

Thank you.

Operator: Your next question comes from Rob Cox with Goldman Sachs. Your line is open.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Thanks. Good morning. Yeah. I'm just curious, a question on the new partnerships. As you expand beyond the Fidelis partnership with these new partners, how do you maintain the same level of differentiated underwriting as you have with the Fidelis partnership, where you have the frequent underwriting meetings and the right of first refusal? Are you employing any of those same arrangements with these new partners or is it more about selecting them at the beginning of the partnership?

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

A

Hey, Rob, it's Jonny here. I'll kick off on that one. Yeah. I think it's one of the attributes we look for in a partner. We want someone that truly wants partnership, and by that we mean they want our input into their business plan,

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how they execute, what their risk profile is. If it's someone that's not looking to do that, then they would fall at the first hurdle and it wouldn't be someone that we entered a partnership with.

In terms of then monitoring that as they execute on it for us, for the Fidelis partnership, write over 100 lines of business, we've been doing that since we split the business and there's a whole oversight framework we've got around that which we've copied over to new partners effectively. So, yes, we're just as involved with them. Obviously, there's proportionality in terms of sizing of different partnerships and how much of our time we spend on it, but it all goes through exactly the same process, same level of oversight. And like I say, one of the key things we look for in a partner is a partner that's open to that.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Great. Thank you. And then just as a follow-up, just a question on premium leverage. At least on a GAAP basis, we've noticed the premium leverage at 1.3 times surplus, which we kind of have observed is more or less similar to some of the other companies we follow that have less exposure to property or short tail lines that may have more volatile underwriting returns. So, I'm just curious, how should we be thinking about where the firm is comfortable running the business within its risk framework going forward?

Allan Carl Decleir
Group Chief Financial Officer & Executive Director, Pelagos Insurance Capital Ltd.

A

Yeah. Thanks, Rob. It's Allan here. Absolutely. Our approach to capital allocation has been similar over the last few quarters. We're always looking for opportunities to strategically deploy capital into profitable underwriting. But certainly, as you've seen over the last few years, we're more into the specialty market and less into the nat cat space. And we're 80% insurance now and 20% reinsurance.

Also, with our capital management strategy, we have bought back, as I said in my prepared remarks, $600 million of shares over the last three years. So, we're a lot more efficient, I guess, on the capital management front. So, when you look at premium to surplus between the types of business we write, our level of capital, our level of debt, we're a lot more efficient than we used to be. And I think what you're seeing now is where we are comfortable in terms of capital, in terms of rating agencies, in terms of regulators going forward.

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

A

And it's Jonny here. Just to add to that, in terms of the risk profile, I mean, there's no real change in that relative to the premium that we've been writing. And what I'd point to there is, as we've said before, the number of options in the outwards reinsurance space, whether it's through cat bond, ILW, UNL cover that has really opened up in the last 18 months or so. So, we've been able to take advantage of that to keep the net risk profile where we want it relative to our capital position.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

That's helpful. Thank you.

Operator: Your next question comes from Matt Carletti with Citizens. Your line is open.

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Matthew J. Carletti
Analyst, Citizens JMP Securities LLC

Q

Hey, thanks. Good morning. Just to follow-up to Andrew's question, a few questions ago, Dan, specifically around some of the opportunities coming out of the Middle East war breach, political violence, et cetera. Just in terms of timing, when the event kind of started in the quarter, can you just help us a little bit of context understand kind of how much of those opportunities might be reflected in kind of what we saw on the quarter versus how much of those might be coming in the future, whether it be 2Q or forward?

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

A

Yeah, yeah. Thanks, Matt. Thanks for the question. Yes, I think it obviously spans both quarters. You'll see a bigger uptick in Q2 than Q1. I think that's probably the only way I can really frame it for you, but it's obviously an ongoing situation. We still see opportunity in that area, but it's going to be loaded more to Q2 than it was in Q1.

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

A

And just keep in mind, it depends how people participate. If you participate through a facility or give a pen away to some extent there, you may have booked your expected uptick in that in the first quarter, whereas if you write risk by risk and look through to the underlying, then it's just as you incept each policy.

Matthew J. Carletti
Analyst, Citizens JMP Securities LLC

Q

Okay. Great. Thank you.

Operator: Thank you. That concludes today's question-and-answer session. I'd like to turn the call back to Dan Burrows for closing remarks.

Daniel David Burrows
Group Chief Executive Officer & Executive Director, Pelagos Insurance Capital Ltd.

Thank you very much. We really appreciate everyone joining us today. If you do, as usual, have any additional questions, we're here to take your calls. We thank you for your ongoing support, and I hope you will enjoy the remainder of the day.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

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