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Pelagos Insurance Capital Ltd. (PLGO)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Pelagos Insurance Capital Second 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, Group Chief Investor Relations Officer. Ms. Hunter, please go ahead.

Miranda Hunter

Group Chief Investor Relations Officer, Pelagos Insurance Capital Ltd.

Good morning and welcome to the Pelagos Insurance Capital's second 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 this 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 our 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. The reconciliations to US GAAP for non-GAAP financial measures, as well as descriptions of the proprietary financial measures, can be found in our earnings press release and financial supplement available on our website at pelagosinsurancecapital.com.

With that, I 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. This marks our first quarter as Pelagos Insurance Capital, and we are already benefiting from the increased clarity around our strategy of a capital allocator with a unique position in the market. This is driving broader interest and an increased flow of opportunities.

As I reflect on our second-quarter performance, I want to highlight three key things that continue to reinforce our confidence in our strategy and long-term outlook. First, we grew gross premiums written by over 6%, both in the quarter and year-to-date. In line with our expectations, growth was driven by strong performance from our new underwriting partners and targeted deployment into areas where we continue to see attractive risk-adjusted returns. This ability to allocate capital across a diverse and expanding universe of distribution networks with multiple points of access to the market is a key differentiator and one that is enabling us to grow in areas that we know and like and that meets our return thresholds.

Second, we manage portfolio volatility with an annual time horizon. As a short-tail specialty insurance business, we don't expect an even distribution of losses, that is why looking at our loss profile over a longer period is the best lens with which to assess our performance. And in that context, our higher loss activity this quarter should be viewed together with our lower loss activity last quarter.

When we look at our performance year-to-date, our combined ratio is 93.1%. Over the last 12 months, our combined ratio is 86.4%, in line with our through-the-cycle expectations. Third, we continued our strong track record of capital returns. During the quarter, we returned $73 million to shareholders, including repurchasing $60 million of common shares. This includes $32 million in privately negotiated transactions with Pine Brook, one of our original long-term sponsors.

Pine Brook remains a significant shareholder and a valued long-term supporter of the company. While our first priority is pursuing attractive growth opportunities, we believe repurchasing our shares is an accretive use of capital and our strong capital position gives us the flexibility to pursue both.

Taken together, we are confident in our long-term outlook and our strategy. Our book value per diluted common share increased by 23% year-over-year, reflecting our business and our continued focus on creating long-term value for shareholders through disciplined execution and capital allocation.

Turning to the top line within insurance, we delivered modest growth in gross premiums written in the second quarter. Growth was driven by strong performance in Property, Marine and Asset Backed Finance & Portfolio Credit. This was partially offset by our continued selectivity in areas where pricing no longer meets our return hurdles, reflecting our ongoing focus on portfolio quality and underwriting margin. Property again delivered strong performance with growth driven by expansion of our relationship with Bamboo Insurance.

Across our broader portfolio, we leveraged our leadership position and our ability to navigate dynamic market conditions to capitalize on compelling new business opportunities in areas where clients value underwriting expertise and lead capacity. Overall, the property market remains competitive following a number of years of compound rate increases. Against this backdrop, we maintained our disciplined underwriting approach and drove margin improvement through successful execution of our outwards reinsurance strategy.

Marine political risk and political violence all saw increased demand because of elevated geopolitical uncertainty during the quarter, particularly across the Middle East, where disruption to trade flows and heightened conflict-related risks resulted in strong demand and favorable pricing. We responded by deploying capital selectively into areas where we believe risk-adjusted returns were most attractive. Working closely with our underwriting partners to actively shape the portfolio as conditions evolved. This experience highlights the flexibility and agility of our operating model.

Through our ability to dynamically allocate capital, partner with leading underwriters and respond quickly to changing market conditions, we are able to capitalize on periods of dislocation but also to pull back when conditions no longer align with our underwriting appetite. While this was a highly profitable approach in the quarter with the reescalation of conflict in the region, and the increased competition in these lines, we are maintaining our commitment to underwriting discipline and our focus on long-term profitability.

Within Asset Backed Finance & Portfolio Credit, we continue to generate high-quality opportunities. This year, growth in these lines was driven by one of our new underwriting partners. These more bespoke specialty lines, support portfolio diversification and provide favorable returns as the buying motivation is often driven by capital relief or underlying transaction facilitation and therefore are insulated from traditional insurance pricing cycles.

Finally, we maintained underwriting discipline in our aviation book, taking a highly selective approach when evaluating risks. Within Reinsurance, we saw strong growth in gross premiums written, driven by expanding relationships with existing clients and selectively increasing participation on programs where pricing remained attractive. We have taken advantage of the rate environment in the underlying direct market by shifting capacity towards quota share deals over excess of loss.

While our growth was strong, we remain selective in areas where pricing has moderated and competition is elevated. We are not chasing premium at the expense of returns and our PMLs have remained relatively stable. We continue to prioritize portfolio quality and pricing adequacy, and our client relationships, portfolio management and differentiated view of risk enable us to identify and execute profitable opportunities.

Before turning it over to Allan, I wanted to take a step back and share some thoughts on the market. The market remains bifurcated and we are seeing the difference between lead and follow markets becoming more pronounced. Increased capacity is driving continued softening in certain areas of the market with rate contraction across a number of classes. This has further highlighted the need to be selective and strategic with capital deployment and through the use of outwards reinsurance to improve margin and protect underwriting profitability.

As a market leader, we continue to see strong pricing, retention levels, and access to business. Our ability to quickly adapt as market conditions evolve has long been one of the defining characteristics of our business as we actively shape the portfolio to optimize margin in response to market changes. Today, we write over 100 product lines, and across those, we were able to pick and choose not only where we underwrite, but also who we underwrite with, dampening the impact of cyclical market influences.

This differentiated access to the market, through our broadening network of underwriting partners, sets us apart, and has driven our growth year-to-date. And our leadership position allowed us to retain attractive lines, grow high-quality clients, and maintain favorable terms and conditions at midyear renewals. At the same time, we continue to make disciplined portfolio decisions, including purchasing additional protection where we believe it improves the overall risk-adjusted return profile of the portfolio.

Looking ahead, we are encouraged by the momentum we are seeing across our underwriting partnership strategy and expect this to remain the key driver of our growth. Our pipeline is strong. We continue to attract interest from high-quality underwriting teams, and we see opportunities to deploy additional capital through both existing and new partnerships. Importantly, these opportunities allow us to pursue attractive business while maintaining the underwriting rigor and portfolio quality that would always be central to our approach.

In conclusion, we're pleased with our performance for the first half of the year. The flexibility of our capital allocator model, the exceptional execution of our team and our underwriting discipline position us well to continue creating value for our shareholders throughout market cycles.

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 $29 million or $0.34 per diluted common share in the second quarter and our annualized operating return on average equity was 5.1%. This brings our six month operating net income to $117 million or $1.31 per diluted common share, and annualized operating return on average equity was 10.1%. Our book value per diluted common share grew to $26.56. Including cumulative dividends, this is an increase of 23% over the past 12 months, creating significant value for our shareholders.

Taking a closer look at our quarterly results, we grew our gross premiums written by 6% versus the same quarter last year to $1.3 billion. The growth in our Insurance segment was primarily driven by growth from our broader network of new underwriting partners in our Asset Backed Finance & Portfolio Credit and Property lines of business. We also had growth in our Reinsurance segment from targeted deployment into areas where we see attractive risk-adjusted returns.

Our net premiums earned were $515 million in Insurance and $66 million in Reinsurance, both within our expectations provided on our last call. Looking into the third quarter, we expect net earned premiums to be similar to our second quarter in Insurance and $130 million to $160 million in Reinsurance. As a reminder, we earn a higher proportion of our Reinsurance segment business in Q3 and Q4 given our exposure to wind perils. And both segments' premium can vary depending on inward and outward reinstatement premiums.

Our underwriting performance resulted in a combined ratio of 99.5% for the quarter. This was due to a higher-than-normal number of large loss events. For the first half of 2026, our combined ratio was 93.1%. I will now break down the components of our combined ratio in more detail. For the quarter, our catastrophe and large losses were 27.8 points of the combined ratio or $162 million. The two largest events in this bucket were losses of $60 million from the Middle East and $34 million from the gas plant explosion at the Ras Laffan facility in Qatar. There are also other large loss events impacting our Property and Marine lines of businesses. We view this quarter's loss activity as random variability in the timing of losses and not an indication of an underlying increase in overall frequency or severity.

During the quarter, our attritional loss ratio was 28.2 points of the combined ratio. Most of our attritional loss comes from the Insurance segment. Looking across the past four quarters, our average Insurance attritional loss ratio was 30.4%, in line with our long-term expectation for this segment. As we've indicated previously, we expect our overall loss ratio to be in the mid-40% range. Within Insurance, we would expect roughly two-thirds of losses to be attritional and one-third catastrophe and large losses, while Reinsurance is more evenly split between attritional and catastrophe and large losses. We recognized net favorable prior-year development of $33 million for the quarter compared to adverse development of $89 million in the prior-year period. We had better-than-expected loss emergence in multiple lines of business in our Insurance segment and continued positive development in our Reinsurance segment.

Turning to expenses. Underlying policy acquisition expenses were 32 points of the combined ratio for the second quarter, consistent with 31.4 points in the prior-year period. Policy acquisition expenses to The Fidelis partnership were 12.1 points of the combined ratio in the quarter and 13.7 points for the year-to-date period. Finally, our general and administrative expenses were $29 million for the quarter.

Moving on to our investment results. Our net investment income was $44 million, consistent with our income last quarter. As of June 30, 91% of our portfolio is in cash and fixed maturity securities, yielding an average of 4.5%. The fixed maturity securities have an average rating of A+ with an average duration of 2.9 years and a new money yield of 4.7%. In the quarter, we had $26 million of net income from other investments, primarily from our portfolio of hedge funds, which, as a reminder, we exclude from our operating income. Turning to taxes, our effective tax rate for the second quarter was 16%.

Now looking at capital management. We are in a very strong capital position. This has enabled us to grow our underwriting portfolio, return capital to shareholders, and provide significant flexibility in how we deploy capital. In the second quarter, we repurchased 2.8 million common shares for $60 million at an average price of $21.60 per share. This includes 1.4 million common shares that were repurchased through privately negotiated transactions with Pine Brook. Our repurchases have been highly accretive on both the book value and earnings per share basis to our shareholders with $280 million of repurchases in the first half of the year, contributing $0.90 to our diluted book value per share. Since the inception of our share repurchase program in 2024, our strategic approach to share repurchases has contributed $2.14 to our diluted book value per share. We maintained our quarterly dividend and last week, we announced a $0.15 quarterly dividend payable in September.

In summary, we are executing against our plan. We grew our top line, returned capital to shareholders, and further increased our book value per share. We remain confident in the strength of our portfolio, the resilience of our earnings, and our ability to continue creating long-term value for shareholders.

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 a capital allocator, broadening the options we have to access risk is key. We are delivering on that objective by capitalizing on our deep relationships to position us to execute on new underwriting partnerships. Our growing network of new underwriting partners continues to perform well, delivering results both in the quarter and year-to-date that beat our through-the-cycle targets. This is reinforcing the strength of our model and its role in our long-term capital allocation strategy.

As we've said before, each of our underwriting partners bring expertise and a proven track record in specific underwriting areas. The Fidelis Partnership remains a good example as we've been able to execute on opportunities created by geopolitical uncertainty and the current macro environment. It demonstrates how our partnership model enables us not only to match our capital to the right risk, but also to the right partner at the right time.

We continue to engage with a growing number of underwriting teams seeking to partner with us, and we have seen that momentum build following our rebrand to Pelagos. We are actively evaluating a number of potential opportunities across multiple classes of business with both new and existing partners and the level of interest we are seeing is further validation of our ability to attract high-quality underwriting talent in specialty business lines.

During the quarter, we expanded an existing relationship within our underwriting partner network with a well-known specialist in Asset Backed Finance & Portfolio Credit, broadening our participation across a wider portfolio transactions while further enhancing diversification within our portfolio. Asset Backed Finance & Portfolio Credit has been a significant source of profitable growth for us over the past few years, and this partnership gives us yet another way to access risk in this attractive market through a new distribution avenue. More broadly, it's a good example of the benefits of our underwriting partnership strategy. Rather than relying on a single route to market, we're intentionally building multiple points of access to these classes of business that we know well and like.

By partnering with specialist underwriting teams that have differentiated relationships and expertise, we can grow, diversify, and shape the portfolio while maintaining our underwriting discipline. As we have said before, our goal is not simply to grow premium but to grow through opportunities that broaden our market access, continually optimize the portfolio and deliver sustainable risk-adjusted returns through the cycle.

Turning to outwards reinsurance. Outwards reinsurance is a strategic portfolio management tool that allows us the benefit of taking meaningful gross positions while managing net volatility. It enhances risk-adjusted returns while maintaining discipline around capital and exposure. Consistent with this approach, we're continually optimizing our protections, and we remain opportunistic.

To that end, we were pleased to secure an additional whole-account quota-share arrangement with a leading US insurance partner effective July 1. This not only supports our growth and optimizes capital, but also provides further validation of our strategy, the quality of our portfolio and the attractive opportunities being generated through our expanding underwriting partner network. Our outwards strategy has enabled us to grow while maintaining our net risk profile. To provide some context on our risk exposure, as of July 1, our 1 in 250 California earthquake probable maximum loss remains in the mid-single digits as a percentage of shareholders equity. And our 1 in 100 Southeast, Gulf, and Caribbean clash exposure remains below 10% of shareholders' equity. We are very pleased with the positioning of the portfolio today. The deliberate actions we continue to take across all our underwriting partnerships, outwards reinsurance, and capital allocation position us to deliver attractive returns through the cycle.

With that, I'll hand it back to Dan.

Daniel David Burrows

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

Thanks, Jonny. Stepping back, the first half of the year is a clear demonstration of our long-term strategy, delivering continued profitable growth, optimizing our risk profile, and returning capital to shareholders. Taken together, this is creating significant value for shareholders, as underscored by the 23% growth in our book value per diluted share year-over-year. While the market remains competitive, I firmly believe that this is the kind of environment where our business stands out because we are purpose built for agility, moving quickly and deploying capital through our expanding network of partners to the most attractive opportunities.

Against this backdrop, we maintain our disciplined approach in how we deploy capital focused on generating strong risk-adjusted returns and committed to accretive capital management actions, all of which we believe positions us well to continue creating value through the cycle.

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 questions to one primary question along with a single follow-up. And if you have any further questions, please rejoin the queue. And our first question comes from Meyer Shields at KBW.

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

Q

Great. Dan, I hope you could share a little bit about how you evaluate the underwriting profitability associated with the Middle East conflict, because obviously part of the strategy is to lean in, and that's going to carry the risk of randomness and losses. So, internally, how are you thinking about how this opportunity is playing out?

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

A

Yeah. Thanks, Meyer. Good question. I think as we discussed on the last call, it was a really good example of the capital allocator model that we were able to identify who we thought would be the best underwriting partner to execute on what we saw as an opportunity. That was The Fidelis Partnership. We immediately set a risk framework and they started deploying capacity, but on a per vessel, per voyage, per cargo, so very specific. We didn't want to enter the market with the broader facilities. So being a first mover in the market, we're able to take advantage. It's very fluid. It's been very profitable business since the beginning of the conflict in the Middle East this year. I think we've written our business and it's running at something like a sub-20 loss ratio, so that's been very profitable.

I think right now, we've seen a re-escalation and we've also seen a bit more competition in the market, so we're seeing less risks that will align with our risk appetite. But we were very quick with a partnership over that weekend setting out that risk framework, and that's what gives you the first-mover advantage.

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

Q

And it's Jonny here. Just to add some numbers around that, Meyer. We think about our war book overall, for example, since Russia-Ukraine, we've written over $1 billion of premium there with a sub-20% loss ratio, and that includes the losses that we've picked up in the Middle East. So, we continue to think that war-related lines are a very attractive area to deploy capital to.

If I think about the Middle East specifically, as Dan said, post-conflict, the business that we've written there is running at sub-20% loss ratio. I'd also add that that type of business, there's no reporting delay in the claims coming through to us, so if a ship's hit, we know about it within a day, and that's because we write them risk by risk so can track them risk by risk.

And if I think about our overall Middle East loss, our market share in these lines is north of 5%. So I think with that context, if you look at the size of our loss versus the size of our market share, we think the portfolio's performed very well in the conflict overall. And the reason we think we've got that result is our underwriting approach, we think risk by risk, ship by ship is the way to go, and I think that's proven out if you look at our results in context.

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

Okay. That's very helpful. Thanks. And if I can briefly switch gears and I apologize if I missed this, I was looking for a little bit of insight into the Reinsurance segment acquisition expense ratio because it's a little higher than we'd anticipated before the quarter?

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

Yeah. It's Allan here, Meyer. Thanks for the question. As you know, we focus on the overall profitability of our business by looking at combined ratio, and there can be some changes between acquisition ratio, loss ratio, expense ratio as we move through our underwriting process. And what you're seeing a bit of this overall is that with our new underwriting partner business and as that's earning through, there is no Fidelis Partnership commission related to that, and so more of the cost goes into the acquisition line.

And second of all, for 2026, it's been prepared into – or Dan said in his prepared remarks, there was more quota-share premium written and earning through our books. So that would have a higher commission but hopefully overall still meet our mid to high-80s combined ratio.

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

Okay. That's helpful. Thank you.

Operator: We'll move next to David Motemaden at Evercore ISI.

David Motemaden
Analyst, Evercore ISI
Q

Hey. Thanks. Good morning. Just bigger picture, I was wondering if you could just talk about how the catastrophe and large loss ratio here in the second quarter compares to your expectation for a typical second quarter? Understanding that there is some randomness to some of the losses on the specialty lines, but 50% of the book is property, which has some seasonality to it. So, I'm hoping you could sort of help us think through that.

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

Yeah. Thanks, David. It's Dan here. Great question. So I'll kick off. Just to kind of frame how we think about the business, I think we've said before we're not looking at it quarter-to-quarter. We manage the business through an annual plan, and then we believe viewing our business through that lens is the best way to evaluate our performance.

The combined ratio for the last 12 months is 86.4%, which is in line with our expectations, in line with our plan. First half this year, we're running at just over 10% ROAE, so at 93% combined broadly in line with the plan. Q3, Q4, historically, we've earned more premium in those quarters, so that has a more profound effect on combined ratio. So, we think, as we get to halfway through the year, we are on plan and we're very pleased with that.

David Motemaden
Analyst, Evercore ISI Q

Got it. Is the – for like a full-year cat load, I think it was like 22 and 23-ish, call it, in 2024 and 2025? Is that sort of just as a follow up, is that sort of how you would think about it going forward as well?

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

Yeah, it's Jonny here. So, how we think about it is a mid-40s loss ratio overall for Insurance, and about a third of that coming from large and cat. In Reinsurance, we think mid-40s loss ratio and half of that being big events that go into our large and cat bucket. If you think of that in dollars, David, you get more dollar cat and large load in the second half of the year because we earn more premium through it for the cat-exposed lines.

David Motemaden
Analyst, Evercore ISI Q

Got it. That makes sense. And then my next question, just on the partnership pipeline, it sounded like that has gotten a bit more traction, so I'm wondering if there are any more details you could share in terms of some of those coming online and potential impact to the top line relative to I think you guys just called out about half of last year's premium growth is coming from the new partnerships. Is that something that can accelerate from that level, just sort of wondering how you guys are thinking about it here?

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

Yeah. I think we did estimate mid-single digit growth for the year. We delivered 6.4 growth in the quarter, 6.6% growth year-to-date, and I think the strength of the model has enabled us to deliver this and that's obviously that model allows us to work with our core partner, but also work with a new distribution network and we've seen that growth play out in our numbers. I don't think we expect Q3 to deliver the same sort of growth, and that's really around the seasonality of the book, but we're still very comfortable with that mid-single-digit growth. And yes, we have opportunities on our pipeline with both the partnership and new partners and that's what we're focusing on.

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

And it's Jonny here, just to add to that, if you think about our new underwriting partnerships, then most of those are portfolio-level deals, so there's a higher weighting of that to the first quarter. So, if you look back our results quarter-to-quarter, you'll see Insurance in particular grew more in Q1 than Q2 and that's reflecting some of that seasonality that Dan mentioned.

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

But I think, the way we think about it is we're comfortable with the plan to grow mid-single digit in 2026.

David Motemaden
Analyst, Evercore ISI Q

Thank you.

Operator: [Operator Instructions] We'll move next to Pablo Singzon at JPMorgan.

Pablo S. Singzon
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. First question I had, as you add underwriting partnerships, can you talk about the profitability threshold you apply to new partners and lines of business? I think at least for in my head, right, the sort framework I had for you guys was something like mid-to-high-80s combined, maybe ROAE in the mid-teen through the cycle. Are you sort of like applying the same lens as you evaluate new partners? Thanks.

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

A

Hey, Pablo. It's Jonny here. I'll take that one, and thanks for the question. Yes is the short answer. We apply exactly the same lens to the new underwriting partnerships. I mean, we think about it as where should we deploy capital to get the best risk return relationship that we can and therefore new underwriting partners have to compete with existing underwriting partners when we think about that.

Obviously it's reasonably early days in terms of new underwriting partnerships earning through in our result, but as I mentioned in my prepared remarks, their performance is beating those hurdles so far, so they've been performing very well and we're really pleased with that.

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

A

Yeah. And, I mean, we've said before, when we think about new partners, they've got to meet or beat the existing framework when we think about performance. I'm pleased to say that's happening.

Pablo S. Singzon
Analyst, JPMorgan Securities LLC

Q

Yeah. Thank you. And then my second question was about the new quota-share arrangement. Did you strike that in anticipation of an uptick in gross premium growth or was it more of a surplus management strategy? Thank you.

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

A

Hi, Pablo. It's Jonny here again. This was much more a strategic relationship and something that we would expect to build out and support our portfolio over the longer term. And as a reminder, it covers all the business that we write, whether that be through The Fidelis Partnership or the new underwriting partners so it positions as well to scale in either over time.

Operator: We'll take our next question from Brian Meredith at UBS.

Brian Meredith
Analyst, UBS Securities LLC

Q

Yeah. Thanks. Dan, I'm just curious, could you talk a little bit about what you're seeing kind of the effective alternative capital in the marketplace right now and maybe kind of remind us or talk about your approach and what your thoughts about using alternative capital, perhaps as a vehicle to capital vehicle for yourselves?

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

Yeah, it's a great question, Brian. Obviously, we see one of the characteristics of this earnings season is conversation around abundant capital, and that comes through not just traditional players, but as you rightly say, alternative capital. We see more of that interaction with our buying hat on, thinking about ILS and some of the funds that are out there. And we do actually think the retrocession market as a buyer has been one of the most competitive markets for quite a while now. But as a buyer that's enhancing our outwards reinsurance program, improving margin and managing volatility so that we've got a long history of trading with alternative capital. It's here to stay, but it is helping us improve our margin.

Brian Meredith
Analyst, UBS Securities LLC
Q

Great. It's helpful. Thanks. And then perhaps maybe talk a little bit about the hyperscale opportunity for you all, data center build out. I know it seems like limits continue to increase there.

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

Hey, Brian, yeah, it's Jonny here. Yeah, we still continue to see that to be an attractive opportunity. We've said before our risk appetite in that area is pretty vanilla. We want to stick to the construction risk, we want to stay away from the chips, business interruption, any covers sort of related to that in any way. But still it's one of the factors that's driving economic growth, particularly in the US at the moment. And so, where we can participate in a vanilla way, then it's something we'll continue to look to do so.

Brian Meredith
Analyst, UBS Securities LLC
Q

Great. Thank you.

Operator: Our next question comes from Karol Chmiel at Citizens JMP.

Karol Chmiel
Analyst, Citizens JMP Securities LLC
Q

Good morning. Apologies if this was already mentioned, but can you just specify how large that new quota share agreement is?

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

Hi, Karol, it's Jonny here. That's not something that we're able to disclose at this point in time, but we'll continue to give color on that as it evolves over time.

Karol Chmiel
Analyst, Citizens JMP Securities LLC
Q

Thank you. That's all.

Operator: And next, we'll move to Mike Zaremski at BMO Capital Markets.

Mike Zaremski
Analyst, BMO Capital Markets Corp.

Q

Hey. Thanks. Good morning. Maybe just a big picture question. Thinking through kind of the cycle dynamics currently versus a year or two ago and kind of your – the ROAE targets, I know that a couple of years ago we were thinking kind of ROAEs when we were at the top of the cycle, so ROAEs could probably be in the teens. And now, the cycle is kind of moving to a softer marketplace, but then also the progress, the company has changed a lot, too, there's things have transpired the last couple of years.

So, just kind of curious, I know you give guidance and really helpful guidance and kind of ratios for each segment, but should we be thinking kind of the consensus ROAEs you know, where they are, should we be thinking kind of we're at the very low end of the range for the foreseeable future given the market dynamics or any kind of thought process you could add would be helpful. Thanks.

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

A

Yeah. Thanks, Mike. It's Dan here. Great question. So I think we have a lot of confidence in our guidance around ROAE and combined ratio. So, if you look at the last 12 months, our combined ratio is running at 86.4%. So, we've been trading through that more competitive term, but still being able to deliver our target metrics. We don't see any reason to change that. Halfway through this year, we're pretty much on plan. And as I said earlier, Q3, Q4, we have more of our premium, so we would expect those quarters to bring us in line with our targets.

13% to 15% ROAE, mid to high-80s combined ratio, we think that's achievable. We don't see any reason to change that plan at the moment. It is more competitive, but as a leader there's a big bifurcation of the market between lead and follow, we're managing that through improved outwards reinsurance, which is helping the margin. But, we've seen those – we're confident in our performance metrics for 2026.

Mike Zaremski
Analyst, BMO Capital Markets Corp.

Q

Got it. Excellent. Very clear. And then just lastly on some of the share buybacks, is that still an opportunity on the private market versus public market on a go-forward basis what you all been able to to do there?

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

A

Yeah. Thanks, Mike. It's Allan. Yeah. I mean, in the first half of the year, we repurchased $280 million worth of shares. $216 million of that was through privately negotiated transactions. So, certainly, we worked with our existing institutional shareholders to buy back some of their shares. We don't comment on our shareholders' aspirations, what they plan to do with their share capital. Obviously, they've sold down some of their shares. We will continue to talk to them when they come to us. But right now we'll focus on the open market and work with our private shareholders as the need arises.

Mike Zaremski
Analyst, BMO Capital Markets Corp.

Q

Got it. Okay. Thank you very much.

Operator: [Operator Instructions] And with no further questions, that concludes today's question-and-answer session. I apologize. We do have one more question. Alex Scott from Barclays.

Justin Lee
Analyst, Barclays Capital, Inc.

Q

Good morning. This is Justin, on for Alex. I just had a quick question on the Asset Backed Finance & Portfolio Credit. It seemed like the release highlighted that growth was coming from – with new partnerships. So, I was just curious if growth – if there was any growth coming from your existing partners in this line of business.

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

A

Hey, Justin. It's Jonny here. I'll take that one. Thanks for the question. Yes, we've been growing pretty consistently with The Fidelis Partnership over the last few years in Asset Backed Finance & Portfolio Credit, and we think we'll continue to do so. The new partnership we onboarded are targeting a slightly different client base, so it's the same product, a different set of clients with a different geographical focus, so very complementary to what The Fidelis Partnership do, and that's why we onboarded them. But we continue to see both opportunities outside The Fidelis Partnership and opportunities to grow with them in this line of business.

Justin Lee
Analyst, Barclays Capital, Inc.

Q

Got it. Thank you. And then as a quick follow up, I think now, like, if I look at Asset Backed and bespoke in general, like it's about 12% where Asset Backed ABS is about 12% of your portfolio. So I guess from like a portfolio mix standpoint, you guys did mention sort of like the diversification benefits of growing into these bespoke areas. Like should we be thinking about these mix shifts more as we think ahead into 2027 in terms of like ABS has been a big contributor to growth in 2026. I was just curious if that will continue to be the case as we kind of look out into sort of the outer years as well?

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

A

Hey, Justin. It's Jonny again. Yeah, I really think about Asset Backed Finance is something that's grown steadily over the last four or five years, whereas the other lines of business are much more cyclical in nature. You saw us grow our property D&F book very significantly for a period of time when it was attractive and then growth slows as the market changes. So looking forward, it's really difficult to predict because we don't know what market we'll be in next year. What we know is Asset Backed Finance & Portfolio Credit I think will continue to grow at the same rate and other lines of business will evaluate the market conditions depending on how they change over time.

Operator: And we'll take another question from Andrew Andersen with Jefferies.

Andrew Andersen
Analyst, Jefferies LLC

Q

Hey. Thanks. Good morning. You've talked about a bifurcation between the lead and the follow markets. Could you talk about how that dynamic has evolved over the last 6 to 12 months and how you think about the durability of that bifurcation?

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

A

Yes. It's Dan here. So, yeah, great question. I think – so, looking specifically, so at the reinsurance cat renewals midyear, we've heard from peers, from broker estimates rates are down 15% to 20%. I think a good example here would be where you're able to leverage your lead position, which includes obviously in your enhanced outwards reinsurance structure, but also your ability to kind of pivot capacity, restructure, get in first, we think we're outperforming this metric, it would be closer to single digits for us. So, I think that's the kind of delta that we would think about when we talk about the bifurcation of lead versus follow verticalized markets, et cetera, et cetera. I think we've seen that spread widen a little bit in the last 12 months. It does depend a little bit on line. But, yeah, I mean, it's being a leader has a distinct advantage. It gives you a differentiated outcome without any shadow of a doubt.

Andrew Andersen
Analyst, Jefferies LLC

Q

Thanks. And when you talk about kind of this quarter's losses, including an element of just random volatility, how do you think about just pricing and portfolio construction? Is there any change in frequency assumptions going forward?

Jonathan Strickle
Group Managing Director, Pelagos Insurance Capital Ltd.

A

Hey, it's Jonny here. Thanks for the question. I'll take that one. No, we don't see a change in frequency assumption. I mean, we said maybe a year ago that we expect three or four large events per quarter. We had one in the first quarter, we had five in the second quarter. So, frequency wise, we're still along that same run rate. The Middle East, I don't like using this term, it is a larger large loss, and it's kind of what we'd expect given our market share in that line versus our market share in other lines. So, again, I don't really see any change to the frequency coming – the severity, rather coming through it either. And all of that adds up that we don't see a reason to change our guidance. And I think the number that punctuates that best is, if you look over the trailing 12 months, our combined ratio is 86%, so right in there in terms of overall profitability.

Andrew Andersen
Analyst, Jefferies LLC

Q

Thank you.

Operator: And 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.

Well, thanks, everyone. We appreciate you joining us today. As usual, if there are any additional questions, we're here to take your calls. We thank you very much for your ongoing support, and enjoy the remainder of your day.

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