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# Everest Group Ltd. (EG)

Q2 2023 Earnings Call

## CORPORATE PARTICIPANTS

**Matt Rohrmann**

*Senior Vice President, Finance/Investor Relations, Everest Group Ltd.*

**Juan C. Andrade**

*President, Chief Executive Officer & Director, Everest Group Ltd.*

**Mark Kocianic**

*Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.*

**Jim Williamson**

*Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.*

**Michael Karmilowicz**

*Executive Vice President, President & Chief Executive Officer-Insurance, Everest Group Ltd.*

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## OTHER PARTICIPANTS

**Elyse Greenspan**

*Analyst, Wells Fargo Securities LLC*

**Yaron Kinar**

*Analyst, Jefferies LLC*

**Michael Augustus Ward**

*Analyst, Citigroup Global Markets, Inc.*

**C. Gregory Peters**

*Analyst, Raymond James & Associates, Inc.*

**Michael Zaremski**

*Analyst, BMO Capital Markets Corp.*

**Brian Meredith**

*Analyst, UBS Securities LLC*

**Meyer Shields**

*Analyst, Keefe, Bruyette & Woods, Inc.*

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, everyone, and welcome to the Everest Group Limited Second Quarter of 2023 Earnings Conference Call. The Everest executives leading today's call are Juan Andrade, President and CEO; and Mark Kociancic, Executive Vice President and CFO. We are also joined by other members of the Everest management team.

Before we begin, I will preface the comments on today's call by noting that Everest SEC filings include extensive disclosures with respect to forward-looking statements. Management comments regarding estimates, projections, and similar are subject to the risks, uncertainties, and assumptions as noted in these filings. Management may also refer to certain non-GAAP financial measures. These items are reconciled in our earnings release and financial supplement.

With that, I'll now hand the call over to Matthew Rohrmann.

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### **Matt Rohrmann**

*Senior Vice President, Finance/Investor Relations, Everest Group Ltd.*

Good morning, everyone, and welcome to the Everest Group Limited's second quarter of 2023 earnings conference call. The Everest executives leading today's call are Juan Andrade, President and CEO; and Mark Kociancic, Executive Vice President and CFO. We are also joined by other members of the Everest management team.

Before we begin, I'll preface the comments on today's call by noting that Everest SEC filings, including extensive disclosures with respect to forward-looking statements. Management comments regarding estimates, projections, and similar are subject to the risks, uncertainties, and assumptions as noted in these filings. Management may also refer to certain non-GAAP financial measures. These items are reconciled in our earnings release and financial supplement.

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

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### **Juan C. Andrade**

*President, Chief Executive Officer & Director, Everest Group Ltd.*

Thank you, Matt. Good morning, everyone. Thank you for joining us.

Everest's second quarter's performance was outstanding. We grew the business at significantly expanded margins, taking full advantage of the hard reinsurance market and delivered industry-leading returns, including a near 22% operating return on equity and a record annualized 25% total shareholder return. We have strong momentum across the board, capitalizing on the hard market opportunity in Reinsurance, which continues globally, and both underwriting businesses continued to benefit from the global flight to quality amidst excellent and persistent market conditions.

In addition, our superb execution drove strong results in the June and July Reinsurance renewals. We continued to invest in our primary Insurance business, which is also benefiting from similar tailwinds with favorable pricing across a number of business lines. In May, we completed our successful \$1.5 billion equity raise. Response from

the market was excellent and validates the opportunity we see before us. We remain proactive and nimble with our capital deployment, and we are on track to fully deploy the capital raised by the January 1, 2024 renewal.

We changed our official company name and stock ticker symbol during the quarter. This was another key milestone. Our updated Everest Group name with our newly branded ticker symbol, EG, is a testament about our hybrid strategy and steadfast commitment to global Reinsurance and Insurance.

As we approach the back half of the year, our talent, underwriting discipline, and capital position give us significant firepower to achieve our objectives and drive superior returns. With that, I'll turn to our second quarter financial highlights beginning at the group level.

All of our group key financial metrics improved and included quarterly records for both operating income and total shareholder return. Growth was broad and diversified. We continue to see excellent opportunities for further expansion across our portfolio. We grew gross written premiums by 22% year-over-year in constant dollars led by exceptional Reinsurance growth, which had a new written premium record. Net operating income increased to an all-time high of \$627 million, up more than 62% year-over-year. This was supported by underwriting profits in excess of \$400 million.

The group combined ratio improved 410 basis points year-over-year to 87.7%. This is an excellent result, especially considering this is projected to be the worst second quarter for US catastrophe losses since 2011. Everest net catastrophe loss was just \$27.2 million. Additionally, our investment portfolio performed well, producing \$357 million in net investment income, a significant improvement from the prior year.

Turning now to our Reinsurance business. Second quarter Reinsurance results were also excellent. They're a product of our lead-market position, breadth of offering, and outstanding execution by our team. We grew our portfolio and we expanded margins. The property cat pricing remained strong. And the 2023 hard market has now surpassed the post-Hurricane Andrew market. This provided the backdrop for excellent mid-year renewals.

June 1 renewal centered on the Florida market was very strong with prospective returns exceeding the January 1 renewal. This momentum persisted into the July 1 renewal. Pricing was up sharply in key markets around the world. For example, the Australian market underwent a complete restructuring, moving away from frequency covers to true catastrophe structures.

Everest is the preferred market by many of our customers. And as I noted earlier, we continue to benefit from a flight to quality around the globe. We were able to deploy additional capacity to many of our core clients at attractive returns.

Gross premiums for the quarter were up 27% over the second quarter of 2022 on a constant dollar basis, \$2.8 billion. As I noted earlier, this is a record for the division. Growth was widespread across business lines and geographies. Property Cat premiums were up 30% from last year, along with casualty and property pro rata premiums at 16% and 35%, respectively.

We also grew in specialty lines, including marine and aviation. International growth was strong, particularly in Asia where we nimbly took share in dislocated markets like South Korea. Pre-tax catastrophe losses were modest despite the active Cat order for the industry. Our deliberate initiatives to shape the portfolio and manage volatility continued to improve our results.

We nearly doubled our underwriting profit to \$337 million, equating to a combined ratio of 85.9%, a 5.9% improvement year-over-year. Approximately 90% of our portfolio now renewed in 2023 at significantly improved rates and terms, we enter the second half of the year well-positioned and our outlook for the January 1, 2024 renewal is positive.

Turning to Insurance, we made strong progress in advancing our global Insurance business. We grew the segment more than 14% in constant dollars, generating a record \$1.4 billion in premiums. Growth was broad and diversified, both geographically and by product line. Particularly strong in property, both domestically and internationally, as well as in specialty lines like marine, aviation, and energy. We maintained our disciplined approach to managing and diversifying the portfolio, reducing our exposure in lines where the market is not well priced like mono-line workers' compensation and public company D&O.

While it's still early days, we are also gaining traction in international markets where we are methodically expanding our capabilities and local expertise. Market response has been excellent, reinforcing the abundant global opportunity that we see.

In aggregate, rate continues to exceed trend across our core portfolio. We achieved a double-digit rate increase, excluding workers' compensation and financial lines. Group pricing was particularly noteworthy in property, marine, and other specialty lines. The harder reinsurance market contributed to positive pricing in the primary market. This, coupled with persistent industry Cat losses and a heightened risk environment, supports continued favorable pricing in Insurance.

Despite severe weather in the US, our Cat losses were de minimis and reflect our consistent, proactive portfolio management and our focus on superior risk-adjusted returns. The enhancements we have made to augment our technology and streamline our infrastructure are yielding greater efficiencies and connectivity across our platform. Everything from claims to distribution is being scaled methodically around client need, allowing us to remain agile and responsive as we grow.

I'm proud of Everest's performance in the second quarter and our team's consistent ability to adapt and serve the needs of our clients and deliver leading returns to our shareholders. We have built a long and durable runway to profitably grow our hybrid platform. We're approaching the market opportunity with full force.

With that, I'll turn it over to Mark to review the financials in more detail.

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## Mark Kociancic

*Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.*

Thank you, Juan, and good morning, everyone. Everest had a very strong quarter, rounding out a solid start to the first half of 2023. The company reported record operating income of \$627 million or \$15.21 per diluted share in the quarter, equating to an operating income ROE of 21.8%. Total shareholder return, or TSR, stands at 25.3% annualized. We improved our overall combined ratio by more than 400 basis points while generating double-digit growth in constant dollars in both segments as pricing and terms remain attractive in most lines of business around the world.

Juan mentioned during May we completed a successful \$1.5 billion public equity offering in the quarter and are on schedule with the deployment of that capital. Company's strong performance in the second quarter was led by our team's high level of execution in our core markets. We have a number of tailwinds at our back throughout the remainder of the year and well into 2024.

Looking at the group results for the second quarter of 2023, Everest reported gross written premium of \$4.2 billion, representing 22.3% growth in constant dollars year-over-year. The combined ratio was 87.7%, which includes 80 basis points of losses or \$27 million from natural catastrophes. Catastrophe losses in the quarter were partially offset by \$30 million of catastrophe bond recoveries related to Hurricane Ian.

The group attritional loss ratio was 59.4%, a 40-basis-point improvement over the prior year's quarter led by the Reinsurance segment, which I'll discuss in more detail in just a moment. Group's commission ratio improved 50 basis points to 21.1% on mix changes, while the group's expense ratio was 6.3%, up modestly year-over-year as we continue to invest in our talent and systems within both franchises.

Moving to the segment results and starting with Reinsurance, Reinsurance gross premiums written grew 26.9% in constant dollars during the quarter. Strong growth came from the continued successful execution of our 2023 renewal strategy. We generated double-digit growth across every line of business. Combined ratio was 85.9%, which improved 600 basis points from the prior year. The attritional loss ratio improved 120 basis points to 57.6% as we continue to achieve more favorable rate and terms, which we expect to continue into 2024. The commission ratio was 24.5%, an improvement of 30 basis points from the prior year. The underwriting related expense ratio was 2.6%, which was essentially flat year-over-year.

Moving to Insurance, gross premiums written grew 14.1% in constant dollars to a quarterly premium volume record of \$1.4 billion. Growth was primarily driven by property and specialty lines in the quarter as pricing gained additional momentum. Overall, pricing remains ahead of loss trend, as Juan mentioned. Combined ratio was 92.7%, up 120 basis points year-over-year. The division benefited from zero natural catastrophe losses in the quarter, further demonstrating the success of our de-risking actions on our portfolio.

The attritional loss ratio was modestly higher this quarter at 64.4%, driven by business mix and one-off premium adjustments in our Lloyd's Syndicate. Commission ratio improved 100 basis points, largely driven by business mix as increased property writings earned through, as well as increased volume of ceding commissions and decreased gross commissions across multiple lines. The underwriting related expense ratio was 16.5%, largely driven by certain one-off expenses and continued investment in global systems and our platform. We expect the expense ratio to diminish over the course of the year.

And finally, to cover investments, tax and the balance sheet, net investment income increased \$131 million to \$357 million for the quarter, driven primarily by higher new money yields, our investment in floating rate securities and higher assets under management. Alternative assets generated \$59 million of net investment income, a sequential improvement as equity markets have continued to rebound. Overall, our book yield improved from 2.8% to 3.9% year-over-year and our reinvestment rate remains north of 5%. We continue to have a short asset duration of approximately 2.9 years, and as a reminder, the 22% of our fixed income investments are in floating rate securities.

For the second quarter of 2023, our operating income tax rate was 11.5%, in line with our working assumption of 11% to 12% for the year. Shareholders' equity ended the quarter at \$10.9 billion, or \$12.5 billion excluding unrealized appreciation and depreciation of securities. At the end of the quarter, unrealized losses in the fixed income portfolio equate to approximately \$1.6 billion, an increase of \$167 million as compared to the end of the first quarter resulting from increases in rates at the front end of the curve.

Cash flow from operations was strong at approximately \$1.1 billion during the quarter. Book value per share ended the quarter at \$251.17, an improvement of 18.1% from year-end 2022 when adjusted for dividends of \$3.30 per share year-to-date. Book value per share excluding unrealized appreciation and depreciation of

securities stood at \$288.64 versus \$259.18 per share at year-end 2022, representing an increase of approximately 11.4%. Debt leverage at quarter end stood at 19.1%, modestly lower on a sequential and year-over-year basis.

In conclusion, Everest had an excellent second quarter of 2023 and is well positioned heading into the back half of the year and 2024. With that, I'll turn the call back over to Matt.

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## Matt Rohrmann

*Senior Vice President, Finance/Investor Relations, Everest Group Ltd.*

Thanks, Mark. Operator, we are now ready to open the line for questions. We do ask that you please limit your questions to one question plus one follow-up then rejoin the queue for any additional questions.

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from Elyse Greenspan with Wells Fargo. Please go ahead.

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## Elyse Greenspan

*Analyst, Wells Fargo Securities LLC*

Q

Hi, thanks. Good morning. My first question, I was hoping you could just walk us through your plans on putting the \$1.5 billion of equity you guys raised to work. I know, Mark, you said you guys are on schedule with deployment of the capital. Can you just give us a sense – expand upon that and give us a sense of the split that you see between property and casualty reinsurance writings as well as the expected ROE on the deployed capital?

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## Juan C. Andrade

*President, Chief Executive Officer & Director, Everest Group Ltd.*

A

Yeah. Thanks, Elyse, this is Juan. So let me get started and I'll ask Jim to join in and provide a lot more granularity to you on that topic. But as both Mark and I said in our prepared remarks, we're very much on track to fully deploy the capital by the January 1, 2024 renewals. As you saw from the numbers, we drove meaningful growth not only in the quarter but also during the July 1 renewal.

But in addition to the key renewal dates, and Jim will talk a little bit more about this in detail, we have also done a number of private or closely placed opportunities at excellent rates and terms that have also emerged outside of the renewal period. So, we continue to see plenty of opportunity. We don't see any change in the market and we're very much on track with the deployment. But now let me ask Jim to go a little bit deeper on that.

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## Jim Williamson

*Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.*

A

Sure. Thanks for the question, Elyse. And I'm going to be a little expansive here because I do think this is connected to a number of critical trends within the business. I mean, first, to take you back to a little bit of what we said on the last quarter's call around how we expected this to play out, we sort of laid out, look, this capital deployment really begins with the 7/1 renewal, which is, for us, about \$1 billion of expiring premium.

It would continue through the end of 2023 where you've got about another \$1 billion of premium, and then it would complete at the Jan 1 renewal, which, at this point, our expiring book will be somewhere on the order of \$6 billion.



And that proportionality would account for the capital deployment and that's playing out as we expected. In fact, I would add to that, that we did have some opportunities in a very targeted way outside of Florida but at the 6/1 renewal to take meaningfully increased lines with some of our core cedents which were very attractive.

That continued into 7/1. We grew strongly at that renewal and we did it at excellent rate. In fact, if you look at the rate we printed for North America in the second quarter of [ph] 47% (00:20:54), we actually exceeded that in many cases for the June and July renewals. So we feel really, really good about that. And then as Juan had indicated, we've participated on a number of private or closely brokered placements. And there's a variety of things in there, whether it's a large layer on top of a Cat program for a global ceding down to fac placements to deal with sort of dislocated single risks and everything in between.

And so we're on our front feet that way and taking advantage of those opportunities as they come to us. And I would also add, obviously, I'm focusing here on property Cat, but we've also taken advantage of trends in casualty where we continue to grow in some of the specialty lines. And one example I would cite in the second quarter is our aviation book, which on the back of really incredible rate change was up over 50% year-over-year at again terrific economics. And so as we've executed this, we've been focused on a number of key priorities. And before you even really talk about growth, it's a portfolio of quality, and so all the things that we mentioned in our last call continue to play out.

Attachment points are going up. Our average attachment point is moving further out in the curve, and certainly you saw proof of that in our second quarter Cat print which was simply outstanding. You saw us adjust our portfolio in Florida. A number of the Demotech-rated Florida specialists, frankly, did not pass our financial underwriting standards and we moved away from them and redeployed the capital elsewhere. So we are nimble that way and we're as focused on portfolio quality as we are on top line, even more so.

And the other thing I would say in terms of priorities is over 90% of the incremental capacity that we've deployed has been with our existing clients. These are people we know well and people who we play with across a wide variety of lines. And so that incremental Cat capacity not only is a tremendous opportunity in itself, it also further strengthens our core relationships.

And so as you play all that forward to Jan 1, our expectation is that we'll be confronted with just excellent prospective returns at the renewal. Why do we believe that? Pretty fundamental stuff. The first is that the supply/demand imbalance that's been playing out in the reinsurance market hasn't fundamentally changed. And we've certainly seen analysis that suggests there's still a very meaningful gap between supply and demand.

And I would posit to you that demand is pent-up and growing rapidly, and that's because I think many cedents weren't able to complete their 1/1 placements the way they wanted to. They're facing a risk environment, it's not getting any easier, climate change being at the front of that line but also inflation, geopolitics and other factors. And then obviously, while we had a terrific second quarter in Cats, many primary underwriters did not. In fact, it's a record level or near record level of second quarter Cat activity, particularly in the United States but also in other markets around the world. So a really tough spot to be in as a primary underwriter and that's increasing the demand for reinsurance.

We've also seen no capital formation of any meaningful extent, obviously, putting our capital raise aside, and I've heard of nothing meaningful in the pipeline that's going to really change that. The other factor that I think is important is if you go back to 1/1, many of the panels that got put in place, particularly for the global cedents, included a number of reinsurers that frankly, I think they'd rather not be trading with very extensively. And as Juan had mentioned in his opening remarks, there is a global flight to quality happening, and we think we'll continue to



benefit from that at 1/1 or we'll have an opportunity to help our clients clean up those P&Ls with a much higher quality underwriter.

And then the last piece that I'll cite, and I think it's important, it's a little harder to quantify or maybe impossible, but there's an underwriter psychology component at play which is there's a reason this market hardened and it's because underwriters have taken a number of years of Cat losses. And I haven't met anybody in this industry who, because they may have some additional capital coming into 1/1, wants to trade down or auction down pricing in property Cat. That is not the mentality that exists in our industry.

So, our expectation going into 1/1 is that we're going to push hard for increased rates. We think the industry should be pushing hard for more given the experience we've had and all those external factors we talked about. We're going to be looking to grow not just property Cat, which we will grow meaningfully, but casualty, specialty and a number of other areas. We are globally diversified so we can drive growth in multiple regions. We're also diversified by lines, so we can grow Cat, non-Cat, property, specialty, you name it, and we fully expect that we will complete the deployment of the incremental capital at the 1/1 renewal at outstanding terms. So, hopefully, that gives you the color you're looking for.

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**Mark Kociancic**

*Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.*

A

Elyse, it's Mark. I just want to add a few points to Jim's comments and Juan's to get to some of the specifics you were asking earlier. We still see greater than 90% of this capital raise deployment this year going into the Reinsurance division. That's the lion's share, that's where we have a very strong, an exceptionally strong franchise and underlying fundamentals that Jim just walked through that really gives us the confidence. Especially coming out of the 7/1s, our conviction just couldn't be stronger that that capital raise will be put to good use.

I do expect the property casualty mix to swing a bit more single digits into favor with property lines or property premium moving forwards, and I think you're seeing some of that evolution in our financial supplement. And again, the ROE on that incremental \$1.5 billion of capital is something we feel confident in exceeding our Q1 operating ROE going forwards.

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**Elyse Greenspan**

*Analyst, Wells Fargo Securities LLC*

Q

That's helpful and thanks for all the color. My follow-up, we've been – there's been headlines surrounding collateralized casualty reinsurance and I was wondering if you guys are seeing cedents looking to replace covers with high-quality reinsurers like yourselves or if this is something that you're expecting we could start to see play out in the market.

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**Jim Williamson**

*Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.*

A

Yeah. Elyse, this is Jim again. Yeah, we – look, we are definitely hearing a lot of chatter around the topic, particularly given some recent events. And you've seen some dislocation in a variety of parts, particularly in the fronting market. And look, what I would say to that is obviously we're opportunistic. We have the flexibility. If there's an interesting opportunity that emerges that gives us an opportunity to earn great returns, we certainly take it. But our priority remains building franchise positions with the best global underwriters over time. And that means that's where our focus is, and we don't get distracted by some of the noise that might exist around a particular opportunity even though we are ready to lean into it should those opportunities come our way.

**Elyse Greenspan***Analyst, Wells Fargo Securities LLC*

Q

Thank you.

**Juan C. Andrade***President, Chief Executive Officer & Director, Everest Group Ltd.*

A

Thanks, Elyse.

**Operator:** Thank you. Your next question comes from Yaron Kinar with Jefferies. Please go ahead.

**Yaron Kinar***Analyst, Jefferies LLC*

Q

Thank you. Good morning, everybody. Maybe [ph] just to (00:28:31) follow-up on the last line of questions, we did hear some commentary yesterday from a couple of your competitors, one saying that they believe that property Cat rates were now adequate for the industry and I noticed, Jim, in your response you said that you're still looking to push a lot of rate in 1/1. So I guess I'd be interested to hear your views on how adequate pricing and – or rates are today or if it's just a matter of just really just keeping up with the loss trends going forward.

And then the other comment we heard yesterday was a preference by one of your competitors to really deploy capital in property more into insurance than reinsurance, and clearly we're hearing a different tone from you, so would love to hear how you're thinking about the two from that perspective.

**Juan C. Andrade***President, Chief Executive Officer & Director, Everest Group Ltd.*

A

Yeah, Yaron, this is Juan. So let me go ahead and get started with that. Look, I think from our perspective, we obviously like the returns that we're getting in property Cat but in general as well. And I fundamentally agree with what Jim said, we will keep pushing for rate, terms and structure as we really haven't seen any fundamental changes in the external environment.

I think you've seen some of the headline news this morning with one of our competitors reporting that in the first half of the year, Cats were over the 10-year average at over \$40 billion. So, there's still an active Cat environment, that hasn't changed. We also see the general risk environment continues to be very elevated. You got geopolitical issues, you got social inflation, you got all these other things that are out there. That hasn't changed. And then you also have inflation that comes into the equation, right, there's impact on cost of materials, et cetera.

So this is why from our perspective, we don't see a change in the market and, therefore, we're going to continue to push price, rate, terms and structure. So from my perspective, that that is how we think about it. To your second question on insurance and reinsurance and property Cat deployment, we do like the property Cat environment right now in Reinsurance. But as you saw in our Insurance numbers, we also grew property and insurance by about 37% as we reported in the supplement. So we're leaning into it as well and, frankly, that's one of the advantages that we have in our hybrid model, is we can take advantage of the best risk-adjusted opportunities and move capital pretty nimbly to that. But let me have Jim also add some color on this.

**Jim Williamson***Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.*

A

Yeah. Yaron, thanks for the question. And maybe at the risk of repeating a little bit of what Juan said but I do think it's a critical point, the fact is whether we like it or not, we live in a cyclical industry and we've come through a period of a number of years where Cat pricing wasn't where it needed to be, losses were elevated, and that hurt a lot of underwriting companies and losses piled up. And so my view is we're not sitting here saying, okay, we're going to take rate change until we hit adequacy, declare victory and then just sit there. I mean, that's not how we're going to run this business. We want to be earning excellent returns. And you've heard me consistently say, starting with the 1/1 renewal in particular but really even going back to 7/1 of 2022, return – prospective return profiles are excellent.

That does not mean we're going to sit idly and just accept that. We want to continue to push. It is an elevated risk environment, there is inflation, there is geopolitical challenge, Cat is inherently volatile and we think reinsurers deserve to get paid for that and we're going to continue to push for it.

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**Michael Karmilowicz**

*Executive Vice President, President & Chief Executive Officer-Insurance, Everest Group Ltd.*

A

Yeah. And, Yaron, this is Mike Karmilowicz. I would just add on the Insurance side to the point that Juan made earlier, taking into consideration the last couple years, what we've done to really basically go through our portfolio strategy, not just on volatility, of muting that, but actually looking specifically at how we can actually take our concentration and de-risk that across not just the US but also the opportunity across the globe, so we basically lowered our [ph] gross limits (00:32:31) over the last two years by over 41%.

In addition to that, we lowered our PMLs, premium to PML ratios dramatically, [ph] from the 1 to 100 (00:32:38). But take into consideration of what's given us the opportunity and the capacity, to the point Jim just said, we're leaning in very heavy, seeing very meaningful returns with average rate increases of over 30%. When you add in the exposure change, you're talking premium change of over 40%. So we think the market is really robust. We see really good opportunity not just domestically but internationally with a really good strategy to de-risk and keep our concentration limited, a lot of pockets in both peak and non-peak areas, which I think just bodes well for us going into 2023 and 2024.

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**Yaron Kinar**

*Analyst, Jefferies LLC*

Q

Thanks for a very comprehensive answer. And then maybe if we continue with you, Mike, and I apologize for nitpicking here on a very good quarter, but one thing that did stand out was the 170-basis-point deterioration in the underlying loss ratio in Insurance. I know Mark called out some premium adjustments and mix shift, but could you maybe give us a little more color there and quantify some of the changes?

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**Mark Kociancic**

*Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.*

A

Yeah, Yaron, it's Mark, maybe I can start. So, couple of components. Like I said in my scripted remarks, the premium adjustments were – they were a reasonable size. You're talking \$5 million, \$6 million lion's share coming out of the Lloyd's Syndicate, so that's flowing through earned premium and altering the ratios mechanically. Unfortunate situation but definitely we would consider it to be one-off in nature.

And then you've got a mix of business component where we do see property becoming a much, much more substantial portion of the earned premium moving forwards, and that's going to help to change the composition of the loss, attritional loss ratio within the combined ratio. And you'll also see I think A&H subside in terms of the size of its contribution to the combined ratio and the dynamics it brings in terms of expected loss ratio and expense

within there. So this is something that should mechanically move towards a lower attritional loss ratio moving forwards.

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**Juan C. Andrade**

*President, Chief Executive Officer & Director, Everest Group Ltd.*

A

And what I would emphasize, too, Yaron, this is Juan, is as Mark was saying, the uptick was really from one-time and non-recurring adjustments. And just to emphasize his last point, is as we continue to write more property at excellent prices, and you heard the numbers being quoted by Mike, and as we write frankly more specialty products, too, which we also wrote, you saw the growth in other specialty in the quarter of over 39% like aviation and marine energy, et cetera, all of that is going to have a very positive impact on the loss ratio as it earns in during subsequent quarters.

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**Yaron Kinar**

*Analyst, Jefferies LLC*

Q

Thank you.

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**Operator:** Thank you. Your next question comes from Michael Ward with Citi. Please go ahead.

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**Michael Augustus Ward**

*Analyst, Citigroup Global Markets, Inc.*

Q

Thanks, guys. Good morning. Maybe a somewhat similar question, but for Reinsurance, just curious if you could talk about the pace of underlying margin improvement from here.

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**Jim Williamson**

*Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.*

A

Yeah, Mike, it's Jim Williamson, thanks for the question. Look, I'd say if you look at the improvement in the current quarter, that's really driven by two factors. One, we have selected a lower current accident year attritional loss ratio for our Cat portfolio based mostly on our experience. So, just in prior years, we've outperformed that pick and so we reduced it. Obviously, I expect a tailwind from all the rate we're getting to continue to improve that pick over time, so that would be a factor.

And then the second factor is really the beginning of a mix shift toward property from casualty, not because we are not growing casualty. So we continue to do that. Q2 had a slightly lower rate but that property growth has picked up and will continue to earn through the portfolio. So, all those tailwinds that I described will continue. In particular, you're really just really at the beginning of earning through all of these positive impacts, so really positive that way.

And I know you're talking loss ratio, but while we're talking margin, the other tailwind I would describe is around commission. You did see a little bit of commission improvement in the quarter, which, obviously, a good thing which we welcome, that was driven almost entirely by mix. So that's a mix shift toward property, and a property mix on the earned premium side increases, that'll continue. The piece that you're really not even seeing yet but you will see is the fact that casualty ceding commissions have been coming down. We've seen that pretty consistently starting with 1/1, and it's really just beginning to earn into the portfolio, so a tailwind there. So, the bottom line is we expect some really good trends in terms of total margin.

**Michael Augustus Ward***Analyst, Citigroup Global Markets, Inc.*

Q

Thanks. Really helpful. And then – so I guess net investment income was pretty strong, including alts for the quarter. Just wondering if you have any outlook for the second half of the year?

**Mark Kociancic***Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.*

A

Mike, it's Mark. So a couple of points to make here, I'll split it between the interest income component and then the alts performance. I think the interest income has got very good momentum. We've taken advantage of structuring our portfolio taking into account the short end of the yield curve. And so you're seeing those floating rate securities that we speak about frequently really pay off in terms of the resets and the higher yield that is generated from those securities.

So, I see a strong tailwind there. You're seeing our book yield rise year-over-year. We're clearly investing well north of a 5% new money rate on a global basis, And the AUM I think is turning north, even beyond the equity raise contribution, we're getting some nice pickup on that. So feel very good, I think the credit quality of the portfolio is quite strong. We're really at the north end of an A+ credit quality on the fixed income portfolio, bordering a AA- but – so that's important as we contemplate credit adequacy in the portfolio.

And the alt performance is something we're very pleased with. Difficult to forecast but we've got a broadly diversified set of investments there on the private equity side for the most part, and that is expected to give us a nice, stable, relatively stable distribution given the diversification of over 200 limited partnerships.

Now it's somewhat cyclical in terms of how that contribution comes in but generally correlates well with where the S&P 500 is coming in over time. I don't think you're seeing any kind of one-off type contribution in the quarterly performance for Q2, but rather you're seeing a broad-based support from the alts in the income.

**Michael Augustus Ward***Analyst, Citigroup Global Markets, Inc.*

Q

Thanks, guys.

**Operator:** Thank you. Your next question comes from C. Gregory Peters with Raymond James. Please go ahead.

**C. Gregory Peters***Analyst, Raymond James & Associates, Inc.*

Q

Hey, good morning, everyone. I guess I had one macro question and then one more detailed question. On a macro basis, can you just speak, and I know you've spoken or talked about the hard property market, can you talk about your perspectives on the facultative portion of the market versus the treaty portion of the market? I really don't hear a lot of commentary but I believe you're pretty active in the facultative side, too.

**Juan C. Andrade***President, Chief Executive Officer & Director, Everest Group Ltd.*

A

Yeah Greg, this is Juan Andrade. Look, facultative is seeing some very strong growth as well. And it's frankly for the same reasons that we've been talking about, right? Basically, cedents are looking for opportunities to off-load, if you will, some of the risk that doesn't necessarily fit into their treaty structure. So, from our perspective, our

global fact book right now is also growing pretty significantly. We feel very good about that as well. But, Jim, maybe you can add some specific color.

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**Jim Williamson**

*Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.*

A

Yeah, Greg, thanks for the question. I think it's an astute one because, as we mentioned, it's a tough environment for our cedents and they're looking to manage risk. And if their treaty attachments have gone up, they're looking at their per risk exposures and their concerns. So, they turn to the fac market. We grew our fac portfolio in the second quarter by almost 40%.

Based on those trends, with a real emphasis on property as well as some segments of casualty and specialty lines, what I would add to that is very similar to what you'll hear us say about our insurance property business, the same factors are playing out in facultative in terms of our approach to underwriting. We're controlling limits deployed, so keeping limits very tight, focused on quality risk selection, and ensuring that we're getting paid extremely well for the risks we're taking. And I would say similar again to primary insurance market, the fac retaking has really accelerated steeply, particularly as our competitors are dealing with their own reinsurance cost. So, we view it as a nice opportunity.

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**C. Gregory Peters**

*Analyst, Raymond James & Associates, Inc.*

Q

Makes sense. I wanted to pivot to the Insurance operations as my second and follow-up question. When I look at some of the lines of business, accident, health, maybe not so much the specialty casualty, professional liability, workers' comp, we're observing other primary companies report some volatility around prior-year development and really not seeing that out of you guys. So, maybe you could spend a minute and just update us on sort of the give and takes out of some of the older accident years inside your book and how the reserves are developing.

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**Mark Kociancic**

*Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.*

A

Yeah. So, Greg, it's Mark here, a few points to make. Look, the social inflation and the pressure that you're seeing in the industry from 2016 and 2019 is real. That's something that comes through in the reserve studies.

A few points about our portfolio. Last year we had pluses and minuses in our Insurance reserves. We had very modest movements, I'd say, in those specific years for longer tail lines, the casualty lines. And we also had positive offsets coming from some shorter tail lines, workers' comp as well, etcetera. And so, one of the points to make here is that we do have a broad-based portfolio that allows for pluses and minuses over the course of time.

We also benefit from a couple of things. I think we've, since 2021 Juan started, I'd say, the prudence of our loss picks has been quite good. We try to be conservative, particularly on the longer tail lines. And we want to hold those picks until we have quite a bit of certainty. And so, that conservatism I think is helpful when you've got this level of uncertainty in the marketplace.

And then I think the proportion of the business that we wrote in 2020, 2021, and onwards, particularly in Insurance, is significantly larger than the set of reserves that we have for, say, 2016 and 2019. So, the kind of relative scale is really quite meaningful. And one of the reasons that's important is you really saw rate take off pretty much so. I would say it probably started more Q4 2019, and it's been compounding throughout those quarters since that time. And so, that I think it helps the equation.



And then, overall, we're obviously vigilant in how we track rate versus loss trend and the margin therein over time, and we make adjustments as needed in the ELRs, in the reserves, and so forth. And so, that's what gets us comfortable with where we are.

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**C. Gregory Peters**

*Analyst, Raymond James & Associates, Inc.*

Q

All right. Fair enough. Thanks for the answers.

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**Juan C. Andrade**

*President, Chief Executive Officer & Director, Everest Group Ltd.*

A

Thanks, Greg.

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**Operator:** Thank you. Your next question comes from Michael Zaremski with BMO. Please go ahead.

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**Michael Zaremski**

*Analyst, BMO Capital Markets Corp.*

Q

Hey guys, good morning. Thanks. Maybe touching on that subject. Now, we see I think in your numbers on the paid to incurred levels ex-Cat and PYD that they're creeping up a bit but still well below, I guess, pre-pandemic ratios. So, are you kind of broadly seeing – I know there's – it might be tough to paint a broad-brush, but are you seeing a bit of an inching up in loss cost inflation maybe ex-property Cat within [ph] or that's (00:46:41) a different discussion?

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**Mark Kociancic**

*Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.*

A

Yeah. Mike it's Mark again here. That's definitely a concern, a trend. You have different levels of inflation. So, whether it's – obviously the social inflation I think is well understood and you've got excess – what I would call excess inflation driven by CPI or certain segments, medical loss inflation, wage inflation, depending on which lines all of this pertains to. And so, those are things that we monitor.

Clearly, there's an elevated risk environment as we've seen some of these increase, in other words, more moderately. So, it's something we take into account with loss pick setting and the monitoring rate adequacy. But, again, I would reiterate the excess of rate versus loss trend.

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**Juan C. Andrade**

*President, Chief Executive Officer & Director, Everest Group Ltd.*

A

Yeah. Let me jump in there, Mike. This is Juan. Because I think that's a very interesting point and to build on what I said in my prepared remarks at the beginning of this call. We are ahead of trend in a very comfortable way, right? So, for instance, our Insurance rate level, when you take out comp and financial lines, which are really not core to us right now, we increase rate by over 12%. And loss trend for us in Insurance, on an aggregate basis, is significantly lower than that. And then, you can leverage on exposure on top of that. And that gives you a pretty good level of comfort on how far ahead of that we are, which basically means you're building margin.

So, obviously, we look at loss trends on a very frequent basis, as I've mentioned on other calls in the past. We keep very close track of it. But we are comfortably ahead of trend right now with rate. And then, you add exposure on that, that gives you another buffer.



**Michael Zaremski***Analyst, BMO Capital Markets Corp.*

Q

Got it. Okay. No, I guess, we've – I think most investors feel comfortable that what you're saying is happening. It's just we're not yet really seeing much reserve releases from Everest, which [ph] that's not a knock (00:48:52). It's sometimes tough triangulating some of the math.

I'm just curious, on the pricing environment, also kind of excluding property Cat, we're seeing some conflicting data points like the Marsh McLennan commercial pricing index was kind of flattish sequentially quarter-over-quarter. Although, on the other hand, some of the carriers, larger carriers especially, have seen a bit of acceleration. Broadly for your portfolio, maybe even more on the pro rata side, is pricing changing much sequentially?

**Juan C. Andrade***President, Chief Executive Officer & Director, Everest Group Ltd.*

A

Let me start, Mike. This is Juan, and then I'll have Jim and Mike Karmilowicz to add a little bit of color.

If I'm not mistaken, I think the Marsh numbers are global numbers. And so, you are going to have variations in those numbers from Latin America, Asia, Europe, etcetera, etcetera. The rate environment that we continue to see is actually quite good. And as I've just said a couple of minutes ago, we have seen sequential improvement in pricing in primary insurance and certainly on the reinsurance side of things.

So, that is the environment that we're living in right now and that we're seeing as we trade on a daily basis. But, Jim, can give you some color on the pro ratas and then Karm can give you some more color on the primary side.

**Jim Williamson***Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.*

A

Yeah. Mike, it's Jim. So, look, I think in the conversations we're having with our cedents and the analysis we're doing on renewals, I think, fundamentally, as Juan had indicated, the key trend is that rate is moving in the direction it needs to to keep up with loss costs and hold loss ratios in place on that front. And what I would just caution in terms of looking at industry indices as a measure of this is portfolio mix really does matter. And if you look at, in particular, some of the areas of the "casualty market" that are under pressure and are not experiencing some of the reacceleration that Juan discussed, things like D&O or workers' comp, where we have very little exposure. And so, that can move an index, but what we're focused on obviously is our own portfolio. And we continue to feel good about where those metrics are heading.

**Michael Karmilowicz***Executive Vice President, President & Chief Executive Officer-Insurance, Everest Group Ltd.*

A

Sure. Yeah. Now, [indiscernible] (00:51:13) from the primary insurance group, I focus on a couple of things. We always stress the importance of cycle management. So, when you talk about D&O, which we've been talking about for the last year as well as workers' comp, you've seen that, as an example, workers' comp go from what was 27% years ago now down on the mono-line guaranteed cost down to 4%. And then, when you see opportunity where we're really leaning in besides the property side is the first-party aviation, marine, things that really actually we know we can drive rate to terms and really take advantage of the marketplace.

So, I think, based on Juan's comments about what we're seeing not just with rate itself and then exposure change, I think we see the benefit and we see opportunity, particularly in the foreseeable future.

**Michael Zaremski***Analyst, BMO Capital Markets Corp.*

Q

That's helpful. Thank you.

**Operator:** Thank you. Your next question comes from Brian Meredith with UBS. Please go ahead.

**Brian Meredith***Analyst, UBS Securities LLC*

Q

Yeah. Thanks. A couple [indiscernible] (00:52:07). First, one, Jim, I wonder if you could talk a little bit about some of the private transactions, top-up deals that you did in the quarter and are those continuing? And maybe you can kind of give us a sense of, if they're not continuing, kind of how that would have sort of benefited your growth. I want to make sure I'm not, from my forward estimates, assuming those are continuing or maybe they are, I don't know.

**Juan C. Andrade***President, Chief Executive Officer & Director, Everest Group Ltd.*

A

Sure thing, Brian. Jim?

**Jim Williamson***Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.*

A

Yeah. Yeah. Thanks, Brian. Yeah. Look, we're seeing a variety of types. So, to the first part of your question, one of the biggest features and I think one that points to this pent-up demand for capacity issue is a number of our large global clients have come out into the market, either in a closely brokered or, in some cases, a private placement situation looking to top-up their existing Cat programs. And I think the reality is they would have liked to have bought those top-ups at [ph] 1/1 (00:53:05). I think they were advised, and probably appropriately so, by their brokers that that wasn't the time to try to get that done. And so, they waited. We started seeing it really at [ph] 4/1 (00:53:16) right around that time, and it's continued and it's been nice activity.

And then at the other end of the spectrum, as I had mentioned earlier, some of this is we have a variety of partners coming to us with even large facultative placements, smaller treaties, etcetera, where they just want to deal with per risk exposures and peak zones and get a little more creative on how they manage their total risk profile, but still keep the economics acceptable.

And so, it's continuing. I would say though, look, the reality is the bulk of this market, particularly in North America, is an open broker market. The big renewals are driving the bulk of all the results that we're reporting. I would just view these other transactions as a nice tailwind. I think they're also, more importantly, a key indication of what we expect to have happened in the future in terms of supply and demand. And so, they're extremely useful that way, right?

**Juan C. Andrade***President, Chief Executive Officer & Director, Everest Group Ltd.*

A

Brian, this is Juan. I would amplify the last point that you made, because this is exactly what we have been saying all along, right? What this really illustrates is the fact that the fundamental macro environment that we're all operating in has not changed, right? You still have high Cat activity. You still have a heightened risk environment. And our cedents are looking to also manage earnings volatility. And so, therefore they're still coming to market to

try to figure out a way to do that while at the same time they're also trying to attack the property market on the primary side at the same [ph] side (00:54:44).

So, look, all of these are signs, and I think Jim is exactly right, that the demand is still absolutely there and they want to trade with carriers like us, right, highly rated, great quality, etcetera.

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**Brian Meredith**

*Analyst, UBS Securities LLC*

Q

Great. That's really helpful. And then, the second question. Juan, I'm wondering if you could talk a little bit about kind of where we are in the international build-out on the Insurance business. Looking at operating expense growth, it's up 20%, call it, a little over 20% year-over-year. Should that continue here for the foreseeable future, just big year-over-year increases as you continue to build that out and kind of where are we in the process?

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**Juan C. Andrade**

*President, Chief Executive Officer & Director, Everest Group Ltd.*

A

Yeah. No. Thank you, Brian. Look, I think, for us, it's still early days. We really began a very methodical build-out of the strategy really at the beginning of last year. We are now essentially in France, in Germany, in Spain, in Chile, in Singapore, and in Australia at this point in time with a couple of other markets coming online later this year. We're really very excited about the opportunities that we see. And, frankly, the market reaction has been phenomenal.

I've traveled the world over the last two years, as I normally do, meeting with our brokers, our people, our clients, etcetera. And, frankly, the reception has been terrific. They love the fact that we have the A Plus paper. They like the name of the company. They like the people that they are trading with because they know us. And so, from that perspective, the opportunity set has been there. Part of that methodical build-out has been that the systems, the target operating model, the people, the underwriters, etcetera, etcetera.

And so, all of this is really, frankly, within our expectations when we think about particularly the expense comment that you're making. But we do see that beginning to trend down over time, I think as Mark had indicated in last quarter's call. And we're doing this in a very disciplined way. We're managing the expenses, we're managing the build-out in a very careful way. But we're very excited about what we're seeing and, frankly, the reaction that we've had in each of these markets.

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**Brian Meredith**

*Analyst, UBS Securities LLC*

Q

Thank you.

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**Juan C. Andrade**

*President, Chief Executive Officer & Director, Everest Group Ltd.*

A

Thanks, Brian.

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**Operator:** Thank you. Your next question comes from Meyer Shields with Keefe, Bruyette & Woods. Please go ahead.

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**Meyer Shields**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Great. Thanks. One introductory question, I guess. Jim, you talk about being more cautious on some of the cedents in Florida. I'm hoping you could update us on how you're thinking about the reforms themselves holding up. In other words, how comfortable you are with the Florida market as long as the individual companies are okay.

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**Jim Williamson**

*Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.*

A

Yeah. Meyer, thanks for the question. Look, and I'll kind of break that into two parts. First, I'd tell you a little bit more about what we did and why and then get the reform.

So, one of our most important, I think, underwriting screens when dealing with those Florida specialists, particularly the Demotech-rated Florida specialists, is our financial underwriting. And particularly given the stress these folks have been under over the last couple years and the experience from last year, just a number of clients that we did business with in the past didn't have that screen. A little over a third of our Demotech-rated clients didn't pass that screen. And so, we were just no longer able to support their programs. And so, we ended up deploying less capacity to those folks. We're in a terrific market, so we simply reallocated it to both Florida and non-Florida opportunities. So, I think a really good trade for us overall.

In terms of the reforms, look, we think they're terrific reforms. We think the political class in Florida exercised a lot of fortitude and courage to tackle this problem head on. It was absolutely necessary. I think given the fraud and abuse that was happening in the state, it was heading to a place where you're going to have an insurance and reinsurance crisis.

So, we're positive on the reforms, but we're also – we're folks that make decisions based on facts, and it's not yet 100% clear how the reforms will play out in loss costs. I don't expect the plaintiffs' bar in that state to simply acquiesce to the reform. And so, we need to see that play out.

So, as the results of the reform reveal themselves in actual loss activity, if they show that loss costs are coming down, obviously that would make us more favorable on the Florida market, all other things being equal. And if that's not true, obviously less so. The only other piece I would add to that though is the commitment we have to Florida I think is the right size. I don't necessarily – not necessarily looking for signs to double down on the state either sort of irrespective of what happens.

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**Meyer Shields**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Okay. Perfect. That's very helpful. Second question and we talked a little bit about sort of broad concerns about casualty loss trends. I was hoping you could update us on your appetite for loss portfolio, writing loss portfolio transfers and how you see demand there evolving.

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**Jim Williamson**

*Executive Vice President, Group Chief Operating Officer & Head-Reinsurance, Everest Group Ltd.*

A

Yeah, Meyer, it's Jim again. Look, it's an area of the market where we've done a few transactions over time. It is really not something we focus on. It's obviously highly competitive, and you're typically competing with companies who do not carry the kind of rating and quality balance sheet that Everest has. And so, that changes their economics. We would rather build strong, forward-looking franchises with the best global and local cedents across multiple lines. And that's where the bulk of our effort [indiscernible] (01:00:40). So, I just don't see that being a big piece of what [ph] we'd be (01:00:42) going forward.

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

Okay. Fantastic. Thanks so much.

**Operator:** Thank you. Your next question comes from Elyse Greenspan with Wells Fargo. Please go ahead.

**Elyse Greenspan***Analyst, Wells Fargo Securities LLC*

Hi. Thanks. I just had one follow-up on the Insurance segment, right? You guys had laid out that 91% to 93% combined ratio target, right, with that financial plan a couple years ago. Obviously, the market is much better today, and I know there were some one-offs this quarter. And then, the Q1, that impacted the reported results. But do you have a sense, given the market dynamics, when we could perhaps see that margin come in towards the lower end of the guided range?

**Mark Kociancic***Executive Vice President & Group Chief Financial Officer, Everest Group Ltd.*

So Elyse, it's Mark. Look, I think there's some very good fundamentals that we have on the Insurance side. You do have a little bit of noise coming from a few factors, so let me just develop this a little bit. So, a few points to make.

One, we've got very solid top line premium, and you can see pretty good growth in property more expected. It's not necessarily translating to the earned right now. Some of that is coming in from our international expansion. And so, that's going to be a driver and that exacerbates the expenses a bit as we're putting in some of the foundational pieces for the expansion, but that – no issue there. I think that's more timing. The key thing is that the business that we're writing internationally and domestically gives us very good confidence. And so, from that standpoint, the mix changing, the expected margin, the growth overall is what I think is going to drive us to that lower end of the range.

And I think to add to it even further is it's really the conscious de-risking that we've done on the Cat side for Insurance. And so, when you take a look at this quarter, for example, a zero print on the Cat loss and a pretty low number in Q1, and some of the tactical changes we've made in how we're constructing our Cat appetite for insurance, that's another meaningful driver of how we get there.

And then, maybe the last part, I think you can see this in all the commentary we give, written and verbal. The cycle management capabilities that we have in the Insurance division are quite strong. You've got a fairly diversified set of lines of business that allow us to transition into higher margin lines when the markets are favorable in that respect and minimize other areas that are less favorable. And so, I think those pieces are really what's going to get us to the lower portion of the 91%, 93%. And we're still quite comfortable with that working assumption that we gave you on the IR day two years ago.

**Elyse Greenspan***Analyst, Wells Fargo Securities LLC*

Thank you.

**Operator:** Thank you. This concludes our question-and-answer session. I would now like to turn the conference back to Juan and Mark for any closing remarks.

**Juan C. Andrade**

*President, Chief Executive Officer & Director, Everest Group Ltd.*

Great. Thank you for all the questions and the excellent discussion. And I'll close this call by reiterating the confidence in our strategy and our team, frankly, the exceptional talent that's driving our execution. We remain on offense and we remain disciplined and opportunistic in this hard market. We have an unwavering focus on creating sustained value for our stakeholders, and that is top of mind.

I look forward to seeing all of you again to discuss our third quarter results. Thank you.

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

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