Polar Capital Global Insurance Fund

November 2023

POLAR CAPITAL

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The History

The first 20 Years[1]

Alec Foster: Fund Founder

Our experience and specialisation working in the London insurance market would prove a solid foundation to manage a Fund that invested exclusively within the insurance industry focusing predominantly on non-life property and casualty.

In 1976 I became the Group Investment Officer at Hiscox which at the time was a very small underwriting agency with two syndicates operating in the Lloyd's of London insurance market. In those days, it was capitalised through investment from high net worth individuals known as Lloyd's Names.

These Names invested into syndicates through a Members' Agency and I was responsible for Hiscox's one. For 22 years I helped 400 Names decide which syndicates they should back in the Lloyd's market. As we entered the 1990s the insurance business was not in good shape and Lloyd's in particular was going through a highly difficult period with significant losses. This caused a seismic change to how the Lloyd's market was funded and in 1993 the market introduced corporate capital, significantly reducing its reliance on Names. Many of the larger Agencies that managed syndicates incorporated and floated on the London Stock Market including Hiscox, with the likes of Amlin, Beazley and Catlin following. Hiscox decided that it would not continue to manage capital on behalf of their Names but many of them wanted to continue to invest in some way into the global insurance market. The Hiscox Insurance Portfolio Fund was created to facilitate exactly that with initial capital of £4.5m mainly provided by Hiscox Names, friends and staff. The Fund was launched on 16 October 1998 and is now the Polar Capital Global Insurance Fund.

Our experience and specialisation working in the London insurance market would prove a solid foundation to manage a Fund that invested exclusively within the insurance industry focusing predominantly on non-life property and casualty (P&C). We also had knowledge of many of the US and international insurance companies that average UK investors would not have been offered by their investment advisers. Our approach was to focus on companies which had reliable records of making underwriting profits over various cycles, good or bad, demonstrated prudent reserving to pay claims and finally not betting the bank with 'exciting' investments which rarely work and end in tears. These three are the bedrock of sleeping soundly at night. We look for stable, durable and prudent companies. With this in mind the investment philosophy first written at inception in 1998 remains the same today:

- Internal research-driven
- Invest in companies we understand
- 30/35 stock portfolio
- Management ownership
- Long-term investors

Nick Martin joined me at Hiscox in 2001 (the week of the World Trade Centre loss) and became sole manager of the Fund in 2016. We moved the Fund and four other specialist financial funds out of Hiscox in 2008 when we did a management buyout to create HIM Capital. This business was acquired by Polar Capital Holdings plc in September 2010. We expanded the team when Dominic Evans joined as an analyst in October 2012.

All opinions and estimates constitute the best judgment of Polar Capital as of the date hereof, but are subject to change without notice, and do not necessarily represent the views of Polar Capital.

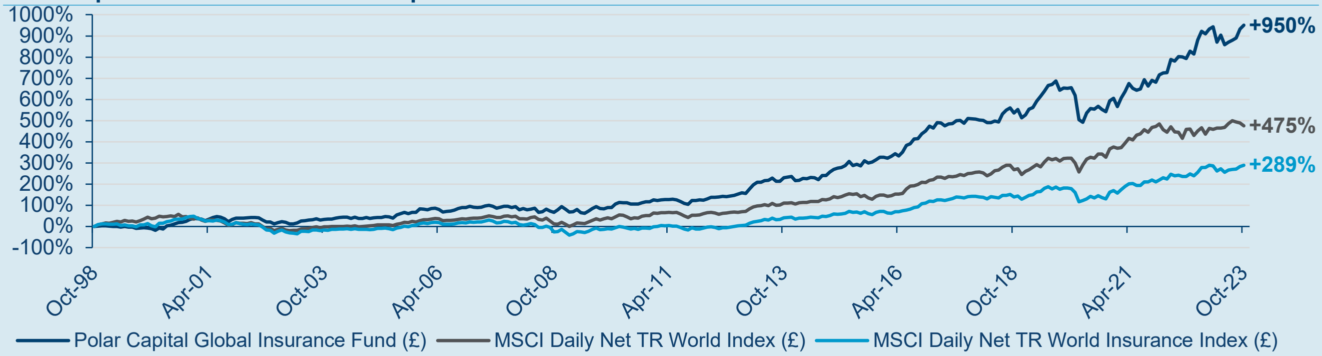
[1]Taken from 'The First 20 Years', a brochure to celebrate another significant anniversary for the Polar Capital Global Insurance Fund.

Nick and Dom both worked for accountancy firms where they were on the insurance side so came with excellent knowledge and insights.

Over 20 years the philosophy we started with has served us well. The 30/35 stock portfolio is very precious, and we have never had issue with wanting to increase that number. Long may that last. Insurance is not an industry where you want broad exposure as the returns are usually poor. You have to find and stick with best-in-class underwriters. The turnover of the Fund has always been low. There are four companies we have owned since inception. After 20 years, the Fund owned six since its inception; since then, one has been acquired, another sold. We are long-term investors, as experience has shown companies with competent management teams and significant ownership, thereby underwriting with their own money, are more likely to build a business that lasts. Shelby Davis, the pre-eminent insurance investor in the US before and after the second World War, once answered the question about the nature of his success investing in insurance companies: "It is not the winners that I have owned, it is the losers that I have not." As specialists we hope to avoid the banana skins and aim to continue generating solid returns for our investors for many years to come.

"The 30/35 stock portfolio is very precious, and we have never had issue with wanting to increase that number. Long may that last. Insurance is not an industry where you want broad exposure as the returns are usually poor. You have to find and stick with best in class underwriters.

Polar Capital Global Insurance Fund performance[1]



Past performance is not indicative or a guarantee of future returns.

The past 5 years

Alec Foster retired from Polar Capital in March 2019 bringing an end to a 17+ year working relationship but not our friendship. I will forever be indebted to Alec for giving me a chance to join him in 2001 when I had a lot less knowledge and experience than the ideal candidate he was looking for. I like to think I made up for it in my enthusiasm and curiosity and over 22 years later hopefully I have justified the faith he showed in me. His original philosophy is unchanged and we look forward to continuing to benefit from his wisdom and mentorship for many more years to come.

The only other tweak to team structure in the past five years was Dom's promotion to Fund Manager, effective from 1 April 2022, following nine successful years working as the Fund's analyst. I remain as Lead Fund Manager supported by Dom as before and there are no plans to add to the team for the foreseeable future. There have been no changes to our proven investment process, or the way in which we work closely together.

Nick Martin, Lead Fund Manager

Source: 1. Polar Capital, 31 October 2023. **Basis:** includes the reinvestment of dividends and capital gain distributions, in pounds sterling. Fund performance is representative of the retail accumulation share class. Performance data takes account of fees paid by the fund but does not take account of any commissions or costs you may pay to third parties when subscribing for or redeeming shares or any taxes or securities account charges that you may pay on your investment in the fund. Such charges will reduce the performance of your investment. A 5% subscription fee can be charged at the Investment Managers discretion. The HIM Capital Financials team joined Polar Capital in September 2010. Alec Foster was the lead fund manager of the Hiscox Insurance Portfolio Fund since its launch in 1998 and is adviser to the Polar Capital Global Insurance Fund, which was launched on 27 May 2011 and into which the Hiscox Insurance Portfolio Fund was merged. Whilst the investment management team and strategy are identical between the Hiscox Insurance Portfolio Fund and the Polar Capital Global Insurance Fund, please note not all terms are consistent, including fees. Performance is not dated since inception of the Fund (19 October 1998), but from the launch of the MSCI Daily TR World Net Insurance Index on 30 October 1998. Polar Capital Global Insurance Fund R GBP Acc share class, net of fees, through to 31 October 2023. Forecasts are based upon subjective estimates and assumptions about circumstances and events that may not yet have taken place and may never do so.

The First 25 Years' Scorecard

Nick Martin: Lead Fund Manager

A well-run insurance company is a compounding machine. In insurance the rate of compounding is best measured as the growth in book value per share (or NAV) and dividends over time. Our entire investment process is to put together a 30-35 stock portfolio where the holdings, in aggregate, grow their book values at an attractive rate over time. It is a near certainty that over a reasonable time horizon Fund performance will follow. One of our companies, Markel, articulated this very well in their 2014 Annual Report:

> *"To give you some degree of understanding as to why we're so focused on the compound annual growth rate (CAGR) in book value per share, consider the following. For the past five years, the CAGR in book value per share was 14%. For the same five years, the CAGR of the Markel stock price was 15%. For the 21 years listed in the table* **[not included here]***, the CAGR in book value per share was 16%. The 21 year CAGR for the stock price was 15%. It is no accident that those numbers are so similar. If you want to have an idea of what you'll earn in the future from owning Markel, our estimate stops and starts with the rate at which the long-term CAGR of book value per share grows."*

> A well-run insurance company is a compounding machine... In order for the magic of compounding to work it is critical to avoid a significant loss. After all, if a stock loses half its value it must double to get back to even.

We estimate that our portfolio companies have compounded their book values (and dividends) at c10% per annum, doubling their value roughly every seven years. The Fund's retail share class has returned 9.9% per annum as shown in the table below. This puts the Fund in the fifth percentile of returns for the c3,400 funds that have existed for this period according to Lipper[1]. Returns for the institutional share class are 50bps higher and are therefore, like the Markel example, closely correlated with this book value growth i.e. the financial performance of our companies. Over the medium/long term, Mr. Market's view of the sector, best articulated by the price to book multiple, is largely irrelevant.

Period 31 October 1998 to 31 October 2023[1]	CAGR
Retail Accumulation GBP	+9.9%
MSCI Daily Net TR World Insurance Index (£)	+5.6%
MSCI Daily Net TR World Index (£)	+7.2%

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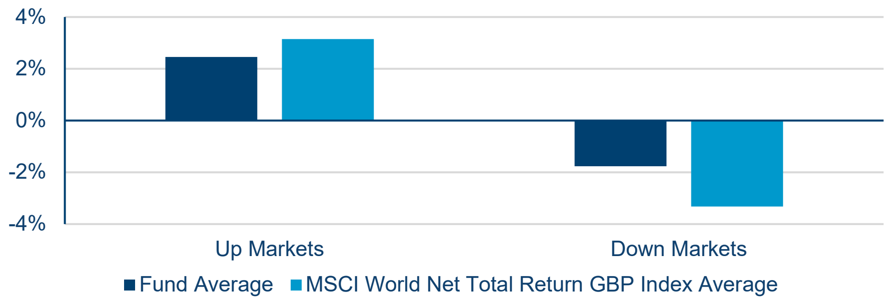
In order for the magic of compounding to work it is critical to avoid a significant loss. After all, if a stock loses half its value it must double to get back to even (my favourite quote on this is from David Einhorn who described a stock that has fallen by 90% as a stock that previously has declined by 80% and then halves). We spend most of our time thinking about what can impact the trajectory of book value growth of our companies rather than worrying about short-term movements in stock prices. As Warren Buffett says: "In investing, just as in baseball, to put runs on the scoreboard one must watch the playing field, not the scoreboard." Insurers are in the risk business and take on the risks that you and I, and companies, do not want. The best management teams are always very respectful of this and run their companies prudently. It can be a long road back if your balance sheet suffers from a material write-down due to, for example, excessive catastrophe exposure or from prolonged optimistic pricing assumptions. Insurance is a very unusual industry in that it sells a product where the costs of goods sold of that product are not known at the time of sale. Optimists need not apply.

Source: 1. Polar Capital, Lipper, 31 October 2023. **Basis:** includes the reinvestment of dividends and capital gain distributions, in pounds sterling. Fund performance is representative of the retail accumulation share class. Performance data takes account of fees paid by the fund but does not take account of any commissions or costs you may pay to third parties when subscribing for or redeeming shares or any taxes or securities account charges that you may pay on your investment in the fund. Such charges will reduce the performance of your investment. A 5% subscription fee can be charged at the Investment Managers discretion. The HIM Capital Financials team joined Polar Capital in September 2010. Alec Foster was the lead fund manager of the Hiscox Insurance Portfolio Fund since its launch in 1998 and is adviser to the Polar Capital Global Insurance Fund, which was launched on 27 May 2011 and into which the Hiscox Insurance Portfolio Fund was merged. Whilst the investment management team and strategy are identical between the Hiscox Insurance Portfolio Fund and the Polar Capital Global Insurance Fund, please note not all terms are consistent, including fees. Performance is not dated since inception of the Fund (19 October 1998), but from the launch of the MSCI Daily TR World Net Insurance Index on 30 October 1998. Polar Capital Global Insurance Fund R GBP Acc share class, net of fees, since inception through to 31 October 2023. Forecasts are based upon subjective estimates and assumptions about circumstances and events that may not yet have taken place and may never do so.

A key attraction of the sector is that the driver of book value growth for the best companies is underwriting profits. This profit stream tends to be largely disconnected with what is going on in the broader economy and financial markets. Combining this with the fact that insurance is mostly a compulsory purchase (often required by law), the industry exhibits robust demand characteristics which means the sector historically is defensive in challenging markets. As the bar chart below shows we have been able to mostly keep pace with rising markets and have materially outperformed during the more difficult times.

Fund vs broader markets since inception[1]



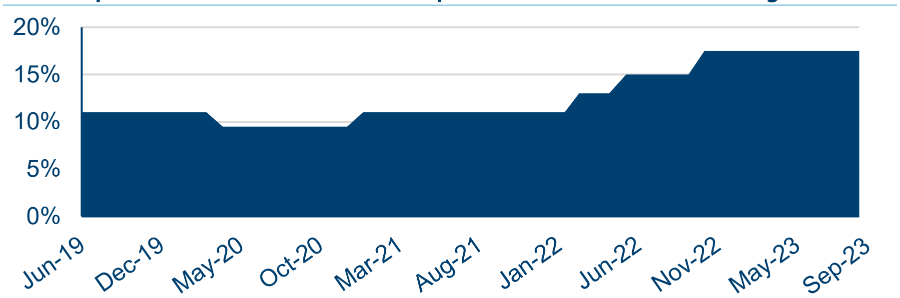
> From the global financial crisis to 2021 our company investments typically yielded 1-2%. As I write, these same investments have a 4-5%+ return potential.

Past performance is not indicative or a guarantee of future returns.

Given that growth in book value per share is a key driver of share price performance over any reasonable time horizon since the summer of 2019, we have published our best estimate (and in no way a promise) of the next 12 months book value growth. For 2019-21 our estimate was c10-11% per annum which was very much in line with our historical average. Over this period, prospective underwriting margins were increasing, reflecting the rise in (re)insurance pricing that began in 2018, but higher underwriting profits were largely offset by lower investment income with already low interest rates falling even further in response to the pandemic. However, the outlook for investment income changed materially in 2022 as the pandemic receded and inflation returned to the global economy.

Non-life insurer balance sheets are dominated by cash and short duration bonds of 2-3 years given the need for liquidity to pay claims and the fact companies do not want to double up their underwriting risk with "exciting" things in their investment portfolios. Short-term bond yields moved sharply higher in early 2022 and have continued rising since. For our portfolio, every 1% increase in investment yield is worth an additional c2% of book value growth. From the global financial crisis to 2021 our company investments typically yielded 1-2%. As I write, these same investments have a 4-5%+ return potential.

Polar Capital Global Insurance Fund expected 12 month book value growth[2]



As a result, prospective book value growth has increased from our historic 10-11% expectation up to the mid/high-teens as illustrated in the chart above. Our last published estimate was 16%+ in November 2022 which for the purposes of the chart is shown at 17.5%.

As noted above the book value growth of our holdings over the 25 years of the Fund has compounded at c10% per annum. More recent book value growth in 2020 and 2021 has been in line with this historical average which the market valued at the time at a price to book of around 135%, similar to the average valuation multiple of the US industry since the Fund's inception in 1998. Paying 135% of book value for 11% growth is a 'cash-on-cash' return of c8%. Today the market is valuing our mid/high-teens expected book value growth at a US industry multiple of c180%. For simplicity, if we assumed 18% book value growth going forward this would be a 10% cash-on-cash return, hence we believe investors are getting more for their money today than they have been in recent years and quite possibly at any time since the Fund's inception. We do not have the data going back to the Fund's earlier years to substantiate this, but we have rarely seen such a disconnect between the fundamentals and company valuations as we do today.

Given current valuations and some of the strongest earnings power in the Fund's history we are very excited about the Fund's prospects as we begin the next 25 years.

Source: 1. Polar Capital, Data as at 31 October 2023. Performance is not dated since inception of the Fund (16 October 1998), but from the launch of the MSCI Daily TR World Net Insurance Index on 30 October 1998. Fund performance representative of the GBP R Acc share class, index performance sourced from Bloomberg in GBP terms. **2.** Polar Capital, Global Insurance Team, September 2023. All opinions and estimates constitute the best judgment of Polar Capital as of the date hereof, but are subject to change without notice, and do not necessarily represent the views of Polar Capital, and may not be achieved. Forecasts are based upon subjective estimates and assumptions about circumstances and events that may not yet have taken place and may never do so.

An Underwriting Portfolio

Dominic Evans — Fund Manager

We like to find big fish swimming in small ponds run by management teams that are prudent and stay within their circle of competence. Here management ownership focuses the mind.

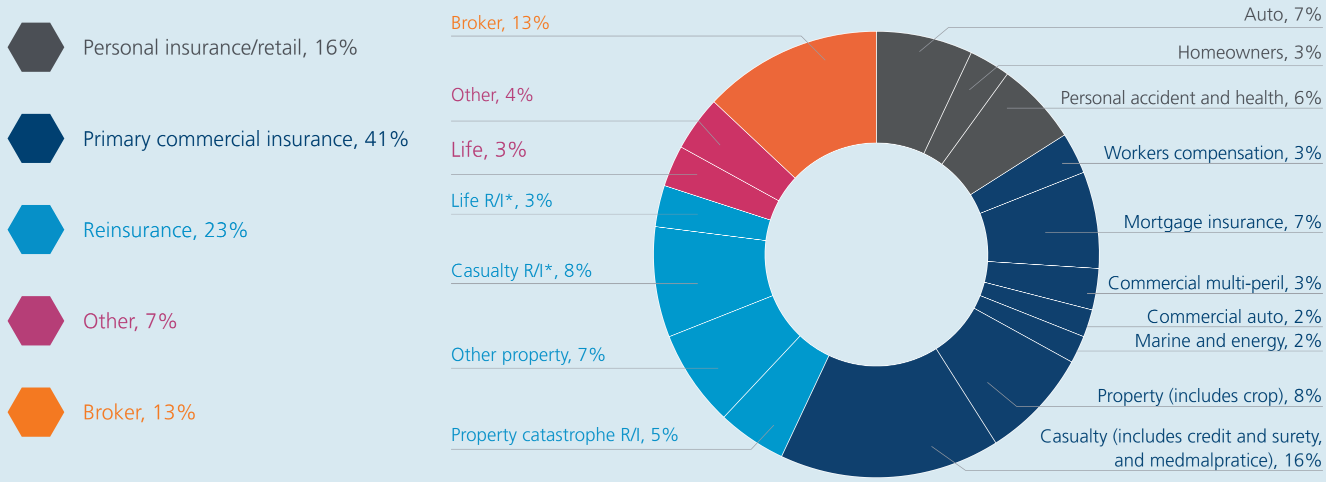
Insurers provide an essential function in the global economy by taking risks that others do not want to take. The insurance industry is the grease that keeps the wheels of the global economic machine moving. Without insurance, ships could not sail, planes could not fly, satellites could not be launched, skyscrapers could not be built, nor medicines invented. This is because insurance acts as a vital safety net that underpins society and businesses enabling trade, innovation, exploration, research, and economic growth.

Risk is rising almost anywhere you look across the world and the role of the insurance industry in providing resilience to society is growing increasingly more important. Losses from natural catastrophes have surged in the past six years with countless hurricanes, earthquakes, wildfires, floods, droughts and freezes. Verisk, a modelling firm, estimates that global insured natural catastrophes are now expected to top $130bn annually, exceeding the six-year average of $111bn. The Fund has always had a cautious approach to catastrophe risk and this has served us well. In addition, we have endured a global pandemic, ongoing political unrest and a war in Europe. Losses can also come from man-made events such as fires at oil refineries, warehouses or shipyards, environmental damage, cyberattacks or large liability claims as a result of accidents, negligence or misconduct. These events result in insurance claims which are largely disconnected from the broader economy, illustrating the fact that our industry tends to operate to a somewhat different drumbeat which is attractive to investors.

Insurers take many different types of risk onto their own balance sheet. To be able to accept these risks and have an overall expectation of profit, it is crucial for the insurer to not only price correctly but have a diversified portfolio and manage aggregate exposures judiciously. Owning one or two large conglomerate insurers provides an avenue for investors to achieve diversification in the insurance industry but even then, outsized losses can provide unwanted volatility and often such companies are a 'Jack of all trades, master of none'. The Fund takes a different approach and is focused on constructing a concentrated portfolio of 30-35 best in class underwriting specialists. We like to find big fish swimming in small ponds run by management teams that are prudent and stay within their circle of competence. Management ownership focuses the mind.

Our approach means that unlike the large conglomerate, we can flex the portfolio as market conditions vary, gaining exposure to lines of business where pricing is favourable relative to the expected cost of losses and move away from lines of business where returns are inadequate. In effect, the Fund is underwriting by its stock selection, something that goes back to its roots at highly respected London insurer Hiscox. The following chart shows the Fund's positioning at the end of March 2023.

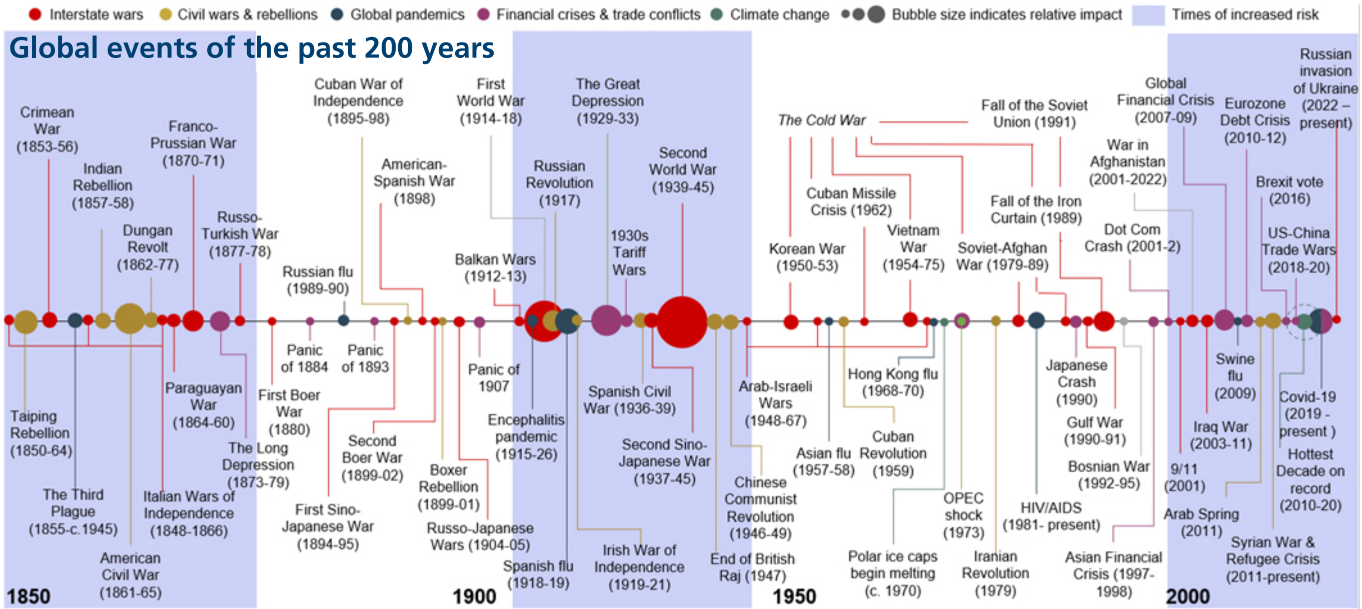
Indicative underwriting mix[1]



Source: 1. Polar Capital Global Insurance Fund, 31 March 2023. Totals may not sum due to rounding. ***Note:** R/I = Reinsurance. All opinions and estimates constitute the best judgment of Polar Capital as of the date hereof, but are subject to change without notice, and do not necessarily represent the views of Polar Capital. Forecasts are based upon subjective estimates and assumptions about circumstances and events that may not yet have taken place and may never do so.

Bad things can and will happen; after all, that is why the insurance industry exists. Downside protection is paramount to achieving a good return on capital over time. This is as true for the (re)insurers we invest in as companies in the broader economy. We are proud of a track record that has taken some of the biggest loss events of the past 25 years in our stride, protecting book value particularly during more difficult times.

The world is entering a more turbulent state



Source: Lloyd's of London, September 2023.

Avoiding major losses and capital drawdowns does not happen by accident. As one of our companies famously quipped: "We would rather underwriters spent their time on the golf course than write risks that are inadequately priced". Often it is not what you write but what you do not that protects capital and enables underwriters to benefit from returns when market conditions improve. This is easier said than done. Management ownership, expertise and culture all contribute to create the conditions to enable companies to underwrite prudently through the cycle. The dispersion of quality is significant and with ongoing technological innovation through artifical intelligence (AI) and machine learning, will only become more prevalent.

The Fund's underwriting exposures are focused towards non-life insurance, split between personal, primary commercial and reinsurance. We have little exposure to life insurance where contracts are often long term and exposed to macroeconomic factors. We take on non-life risks we understand, in lines of business where we can take the temperature and get a good look under the car bonnet.

When most investors think of the insurance industry they tend to think of their own (usually bad) insurance experiences in buying auto or homeowners' cover (we are all above average drivers!) or when you are unlucky enough to need to make a claim. However, personal lines are only a small portion of the portfolio typically comprising c15-20% compared to c50% of the global non-life insurance market. This significant underweight is because we see many parts of the personal lines market as highly commoditised and more exposed to secular changes such as driverless cars and connected homes that will likely lower risk to these asset owners. Our personal lines holdings focus on certain best-in-class companies in lines of business such as US auto, classic cars or high-net-worth homeowners.

The outlook for growth in commercial lines, which comprises the bulk of underwriting exposures in the Fund, remains robust. Opportunities for our companies remain abundant given a significant increase in rates (55% in the four years to 2Q23 according to Marsh's Global Pricing Index) that exceed loss cost trends. At the same time, the changing nature of risk – discussed further in the article on pages 8-9 – means more business is flowing towards specialty firms where the Fund is more focused. In addition to the strong commercial markets, reinsurance finally had a 'reset' at 1 January 2023. Rates and terms and conditions moved swiftly upwards in an effort to end a poor run of returns for the reinsurance business that have borne the brunt of a six-year period where average insured catastrophe losses have exceeded $110bn a year. While we expect Mother Nature to remain active, given the change in pricing and terms and conditions, we now believe that a more appropriate premium is being charged for these risk exposures. It is a good time to be an underwriter. Underwriting opportunities abound and underwriting margins are excellent. We believe the earnings outlook for both the companies we invest in and the Fund is bright.

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The Changing Nature Of Risk

Dominic Evans: Fund Manager

Global risks ranked by severity over the short (two years) and long term (10 years)

Two years

1.	Cost-of-living crisis
2.	Natural disasters and extreme weather events
3.	Geoeconomic confrontation
4.	Failure to mitigate climate change
5.	Erosion of social cohesion and societal polarisation
6.	Large-scale environmental damage incidents
7.	Failure of climate change adaptation
8.	Widespread cybercrime and cyber insecurity
9.	Natural resource crises
10.	Large-scale involuntary migration

10 years

1.	Failure to mitigate climate change
2.	Failure of climate-change adaptation
3.	Natural disasters and extreme weather events
4.	Biodiversity loss and ecosystem collapse
5.	Large-scale involuntary migration
6.	Natural resource crises
7.	Erosion of social cohesion and societal polarisation
8.	Widespread cybercrime and cyber insecurity
9.	Geoeconomic confrontation
10.	Large-scale environmental damage incidents

Risk categories

Economic Environmental Geopolitical Technological Societal

Source: World Economic Forum *Global Risks Report 2023.*

We are undoubtedly living in the Age of Risk. The evidence is all around us as it fills the airwaves, social media and 24-hour news channels. The risks we are facing are broad, ever changing and becoming more complex. These range from climate change, natural catastrophe risk, political risk or war, all the way to newer risks such as AI, robotics, cyber and even genomics.

Against this backdrop (re)insurance has never been more relevant as a solution to managing these challenges and supporting the climate transition that is required for us to reach a net zero world. We believe boards of directors have a greater appreciation of the risks their companies face than ever before. The emergence of ESG is contributing to increased societal awareness about these issues as are reporting regimes such as TCFD (Taskforce on Climate related Financial Disclosures). These all shine a brighter light on risk and what companies are doing to mitigate them. Managements are under greater scrutiny than ever to make sure they are stewarding their businesses through this environment and are protecting all their stakeholders. If you do not act to safeguard your business, the guillotine of public opinion can be swift and CEOs who fail to adequately protect their business can quickly be out of a job. (Re)insurance is one of the ways that management teams and boards of directors can better protect their business, enhance sustainability and manage unwanted volatility.

In recent years, as the economy has rebounded following the pandemic, carbon emissions have started rising again and a war has broken out in Ukraine that has further pressured supply chains and contributed to a cost-of-living crisis across advanced economies. We cannot predict what is around the corner but, for those of us in the risk business, preparing for the unexpected is part of an underwriter's everyday role. How the insurance industry responds to future crises will determine the value afforded to it by society in providing resilience and a helping hand to get people and businesses back on their feet after adversity, misfortune or a catastrophe strikes. It is a role that is often underappreciated but utterly essential.

It is interesting to look at how the perception of risk has evolved among businesses over time. The World Economic Forum's Global Risk Perception Study provides insights into the risks that lie at the forefront of executives' minds at some of the largest global companies. This year's report highlights the top-10 risks that include the cost-of-living crisis, natural disasters and a failure to act on climate, geoeconomic confrontation, the erosion of societal cohesion and cyber threats. Interestingly, if you were to go back just 10 years, management teams were focusing on entirely different issues, with only greenhouse gas emissions making both lists. The world back then was more concerned with income disparity, fiscal imbalances, weapons of mass destruction and aging populations. A further five years previously, the fears were retrenchment from globalisation, civil wars, breakdown of critical infrastructure, pandemics and oil price shocks.

Looking ahead to the top risks over the next 10 years what is really concerning businesses is the issue of climate change. Environmental issues comprise six of the top-10 risks facing businesses over the next decade (as shown in the table to the left), whether that is our failure to mitigate it, adapt to it or manage it. The remaining risks centre around societal cohesion, geopolitics and cyber, all important areas of risk. This is why the Fund has been so active in working to understand our climate risk exposures and companies' modelling assumptions alongside judicious management of underlying exposures through both invested assets and underwriting.

However, one of the largest global insurance brokers recently described climate as potentially the (re)insurance market's single biggest opportunity, at $100bn. The opportunity lies not just with rising risk awareness from companies and individuals but also with expanding the role of governments. Governments are increasingly realising that public/private insurance partnerships can provide immense value in supporting resilience. The World Bank has been at the forefront of initiating and supporting many such initiatives. One example is the Caribbean Catastrophe Risk Insurance Facility which was the world's first regional fund utilising parametric insurance. The facility includes 16 countries and has already made payments that provide immediate liquidity, making a real difference to post-disaster recovery in a region frequently impacted by hurricanes.

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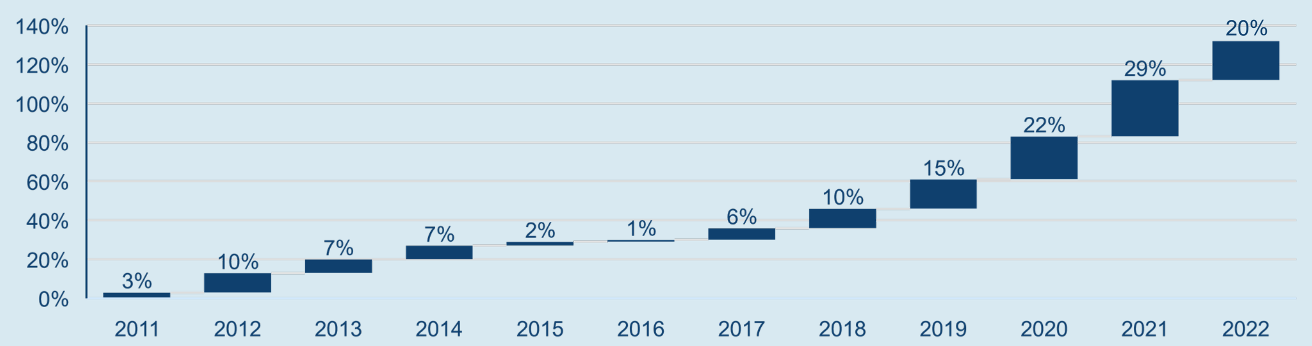
More recently, the Moroccan government received a maximum payment of $250m because of their own (re)insurance policy following the devastating earthquake measuring 6.8 in September 2023. Other governments are already taking note of the effectiveness of such tools. While regional catastrophe funds already exist, the potential for public/private partnerships to increase climate resilience has barely scratched the surface. There is also much that can be done to help societies adapt in terms of supporting biodiversity and using nature as a risk prevention partner to reduce the effects of storm surges or flooding.

Cyber is another near term and longer-term risk that is top of mind for CEOs as shown in the Risk Perception Study. There is huge demand for insurance cover. Many companies have worked hard to partner with clients to provide cyber support and pioneers in this area have developed a holistic set of capabilities where insurance sits alongside consulting to help a company deal with the reputation and regulatory issues arising from a breach. The cyber market has grown rapidly and is close to $10bn today but the Fund and many well respected insurers in this market remain cautious given the ever-changing nature of the risk and the potential aggregation arising from systemic risks such as power failure or war that implicitly cannot be insured. Market commentators expect the cyber market to grow to $50bn by the end of the decade which will require a material increase in capacity. As it stands today, insurance will only be available for those companies that have made the required investments in their own cyber security and resilience. Cyber insurance demand will likely be multiples of supply for many years to come.

From the Fund's perspective, probably the biggest opportunity for our companies is the ever more complex nature of risk. The ever changing and complex nature of risk, not to mention the challenges from climate and cyber risk discussed above, means that even well resourced US national insurers are finding it harder than ever to underwrite risk that used to be much easier to price. The challenge for a small regional mutual is even greater. More risks today are falling outside the mass market-focused underwriting capability of the larger companies. They are simply too hard for them to insure, whether as a result of complexity arising from supply chains, technology and innovation or simply the propensity to be impacted by convective storms, floods or wildfires. In the highly regulated US-admitted market it can often be difficult to persuade local elected insurance commissioners to approve the required rate to compensate for the increasing complexity and impact of catastrophes, a notable issue in California in recent years. This results in business flowing out of these and into what the industry calls the excess and surplus lines (E&S). These specialty markets, such as at Lloyd's of London, have the freedom to price to a level commensurate with the risk and use terms and conditions they deem appropriate. Many of the Fund companies have large footprints in the E&S markets and have proved adept at managing the market cycle by growing into these more specialty risks as the traditional markets pull back their risk appetite. E&S market growth has compounded at over 20% in the past three years which has helped grow its share of the US commercial markets from 10% back in 2017 to around 20% today. The underwriting opportunity set for our companies continues to grow far faster than the global (re)insurance market overall.

Annual E&S premium growth (2011-22)[1]



Source: 1. Dowling & Partners Analysis, Investor Presentation, 1Q23. All opinions and estimates constitute the best judgment of Polar Capital as of the date hereof, but are subject to change without notice, and do not necessarily represent the views of Polar Capital. Forecasts are based upon subjective estimates and assumptions about circumstances and events that may not yet have taken place and may never do so.

The next 25 years

Nick Martin: Lead Fund Manager

We live in the Age of Risk and the ability to transfer risk continues to gain in importance. Insurance fundamentally is simply a promise to pay an amount of money when something bad happens. The sorts of thing that trigger claims payments are accidents, human negligence, bad weather, natural catastrophes and terrorist events. The risks we face are broad, ever changing and becoming more complex, expanding the opportunity set for specialty underwriters at the expense of more Main Street insurers. This is exactly where we invest.

In today's technology-enabled world, the pace of change continues to accelerate, in many cases exponentially. Insurance has been and will continue to be affected by technological innovation, but we believe the impact is more muted than in many other sectors and is a significant opportunity for our companies. Technological advances in AI and machine learning will likely enhance the understanding and pricing of risk and further widen (the already sizeable) gap between the best underwriters and the overall industry. We invest in big fish who are happy swimming in small ponds whose underwriting success comes from a relentless focus on narrow portfolios of specialty risk. These companies slice and dice their portfolios far better than their peers and we expect they will further expand their underwriting edge through AI and machine learning.

Buying insurance is an excellent way for individuals and companies to manage rising volatility and will be relevant for as long as risk remains. We believe a boardroom's understanding of risk is as good as it has ever been, seeing natural catastrophe and geopolitical events evolving around the world in real time. As Dominic noted earlier, companies have a greater requirement to explain how they are managing risk given the rise of ESG and reporting regimes such as TCFD. This is one reason why we expect growth in insurance demand to comfortably exceed rises in global GDP for the foreseeable future. Lloyd's of London estimates that global insurance premiums are set to reach $9-10trn by 2030, representing compounded annual growth of c6% over the 2020s, up from c4% seen in the 2010s.

It is likely insurance will continue to be the oil that greases the wheels of world trade for decades to come. One sizable growth opportunity is increasing insurance penetration. Presently, c70% of economic losses from natural hazards remain uninsured. In lower income countries the uninsured proportion of economic losses often exceeds 90%. The global protection gap between insured and economic losses continues to widen. Swiss Re estimated a protection gap for the global non-life industry of $368bn at the end of 2022. Since 2012, the gap has grown roughly at the rate of global GDP, 3-5% annually on average.

Much less talked about than the more measurable protection gap is the insurance industry's communications gap. In our view, the industry continues to struggle to articulate the full value of its product. The best customer solution is not having a loss in the first place. Research has shown that you get 6x the benefit if you focus resources on risk prevention rather than risk repair.

Policymakers faced with a decision to spend money on preventing something that might not happen often choose to spend on more immediately tangible priorities. We hope this attitude changes as governments and policymakers use improving analytics and climate modelling to better understand the risks faced.

With the impacts of climate change accelerating and insurers needing to raise prices accordingly, a growing portion of risk is likely to become unaffordable to buyers. If so, more risk moves onto individuals' and ultimately taxpayers' balance sheets.

Institutions such as the Insurance Development Forum continue to develop more public/private partnerships between the insurance industry and governments, but these have so far proven difficult to scale. Some of these partnerships focus on nature-based solutions, where insurers use nature as a risk prevention partner – it is better to protect coastlines from hurricane-induced storm surges by planting mangroves than building ever higher cement walls. We hope these will become a much better part of the risk prevention toolkit.

With the opportunities from long-term secular demand growth and closing these gaps, we believe the industry's growth prospects have never looked better. This should over time be a tailwind to industry returns. However, our portfolio companies' performance does not necessarily require overall industry growth because one of the secrets to compounding returns in insurance is staying within your circle of competence and not seeking growth for growth's sake. What matters is per-share growth. The best insurers rightsize their balance sheets to the underwriting opportunity they see and can continue to generate per-share growth almost irrespective of the market conditions they face. That is why the Fund has continued to compound returns during a variety of financial markets, underwriting and macroeconomic environments over the past quarter century.

As we look back on the past 25 years, much has changed but much, also, stays the same. What remains undiminished is our determination to deliver strong and consistent returns to shareholders. Insurance is disconnected to many parts of financial markets and can therefore provide valuable diversification for investors, as is an industry where the power of compounding is evident, something not lost on Warren Buffett many decades ago when Berkshire Hathaway entered the insurance business. Few people get excited about insurance which leads to relatively steady valuations over time and a strong correlation between stock performance and growth in book value and dividends per share (as discussed on page 4). We believe our companies can continue to grow book values at attractive rates for many years to come and over any reasonable timeline share prices will inevitably follow. In our dull and boring insurance world, short-term returns are unlikely to shoot the lights out but that is fine with us. We will remain content to eat our own cooking and getting rich slowly.

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