POLAR CAPITAL

Global Insurance Fund

Q&A with Dominic Evans, Fund Manager

Reinsurance, growth and wildfires

Q: Gary Corcoran (Head of Corporate Communications & Content): Dom, you're seeing some of the best pricing in reinsurance in a generation. Do you expect that to continue after the 1 January renewals?

A: Dominic Evans, Fund Manager, Polar Capital Global Insurance Fund: We've seen a much more normal pricing environment emerge from the 1 January 2025 renewals. A number of our companies described it as 'a renewal with no nasty surprises'. Pricing overall was down between 6 and 10%. Guy Carpenter talked about 6.6% reduction and Howden about 8%. Most of the companies we've spoken to following the renewals have suggested that this sounded reasonable. However, if you break that down a little further, you can see that it varied quite significantly by territory, geography and cedent.

So, as you would expect, a more normally functioning market. Those that are loss impacted have seen rates flat or up, perhaps 30%. Those that have run loss-free for the past couple of years have seen reductions, probably at the higher end of that.

The retrocessional market (that's the reinsurance for reinsurers) has been off even more. On a net basis, a number of our companies suggested that their reinsurance margins are probably going to be flat year-on-year. In terms of supply and demand, demand was up about 5% and supply was up around 10 to 15%.

That's unsurprising on the back of two very strong years for reinsurance profitability. 2023 was very quiet from the perspective of large hurricanes in particular. In 2024 we had Hurricane Helene and Hurricane Milton, neither of which hugely troubled the market, and a lot of those losses have been retained more in the primary markets overall.

In terms of new capital, it's very much at the margins. We've not seen anything substantial coming into the market at the 1 January renewals. In specialty and casualty rates, markets moderated down slightly; casualty has shown some marginal improvement in overall profitability expectations on those lines.

In summary, reinsurance returns remain excellent and we're at all-time highs. Attachment points completely reset at the 1 January 2023, and that had significant implication for forward reinsurance returns. It's not surprising to see a few points given off pricing, given that we've had excellent results for the last couple of years.

Q: GC: In terms of your Fund and the company holdings, how have they been impacted by the recent California wildfires?

A: DE: In terms of our exposure to this event, personal lines insurance and in particular homeowners, is a very small part of the Fund. Those companies have been grappling with increased climate risk across the United States from multiple perils over many years.

With the increase in reinsurance costs, it's been more difficult for those companies to pass those losses off to the reinsurance companies. For our Fund exposure, just 2% of look through premiums are in homeowners. California is also an inherently different market, the regulation is very challenging there and many private companies have been pulling out of that market. So, we have pretty low exposure across the Fund in terms of losses on the ground.

In high net worth, clearly Chubb have an enviable franchise in that business. They will undoubtedly pick up some losses, but in the context of a company that has excellent risk management, a very diverse portfolio and a $65 billion equity base, we do not expect it to be substantial.

In the specialty markets, much more risk has been moving towards those more specialist markets in recent years. The Fund has about 9% of look through premiums in property – it's a very diversified portfolio. Arch, Berkeley, RLI and companies like that have been growing their footprint within property. While there will of course be losses in commercial, we expect that 75% of this loss is going to fall into the homeowner's market and will predominantly affect those homeowner's companies we don't invest in.

There are likely to be reinsurance losses arising from many of those losses from the homeowner companies, but in the context of the reinsurance market and the strong, robust pricing we're seeing, we do not expect that to be material overall.

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Q: GC: What's your current positioning and how might that change given your outlook for both the Fund and the reinsurance sector as we move into 2025?

A: DE: Well, book value growth, which is the predominant driver of Fund returns, has been very solid over the last couple of years. We estimate that book value growth was 19% for 2024, and that's coming off the back of a pretty similar level for 2023. The reason for that growth is the strong underwriting markets we continue to see across the majority of lines of business where the Fund is focused.

In reinsurance in particular, we're coming off generational highs in pricing but even then, pricing after the 1 of January 2025 renewals remains extremely attractive. As a result, the Fund will most likely will continue to modestly increase its overall exposure to reinsurance.

Our reinsurance exposure is towards the bottom end of its historical range. We're in the region of 20 to 25% in reinsurance, of which property catastrophe is just 5%. So, this Fund is not a bet on Mother Nature. Reinsurance pricing was not adequate, in our view, prior to 2023 and we had a low weighting to it as a result. That's increased a couple of points since then but nothing spectacular and well within our self-imposed limit of 10% of look through premiums. The reason for that increase is the pricing we're seeing across the commercial and specialty markets remains excellent, and of course that means that our outlook for underwriting margins remains very robust.

In addition to this strong backdrop from underwriting, we've also got interest rates at significantly higher levels than we've seen for the last 10 years, after that increase in rates in 2022. This is of course very helpful for our companies given the float that our companies generate. Said another way, this is the fact that premiums are paid up front and those claims are paid out a couple of years later. In between, that money can be invested in a US two-year treasury, plus a little bit. For most of our companies, that's probably standing at just over 5% today, above our assumption of 4.25%.

So, when you combine those two factors together, you have an outlook for book value growth that's substantially above the historical level. Over the 26 years of this Fund's history, we've grown book value by 10 to 11% annually, and the Fund's price has broadly followed in line with that.

Our expectation going forward is for book value growth to be at +16% . So, a nearly 50% increase in earnings power from that historical level and we don't see anything in the near-term that would substantially reduce that.

In our view you're paying a very reasonable multiple of 180% price to book at the end of 2024, which we think puts cash on cash returns at nearly at 10%, which is the most attractive we've seen over that 26-year period of the Fund and compares against 8% historically.

Looking ahead, we expect underwriting conditions to persist for the foreseeable future, over the next two to three years. Insurance is of course a lagged business, so the underwriting results we're seeing today really reflect those conditions of 12 to 18 months ago. This gives us a lot of confidence as we look forward in that +16% trajectory for book value growth.

Dominic Evans

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Find out more

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Polar Polar Capital Global Insurance Fund

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- **Past performance is not a reliable guide to future performance. The value of investments may go down as well as up and you might get back less than you originally invested as there is no guarantee in place.**
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