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OVERVIEW:

Co. reported 1Q22 net income of \$591m or \$2.12 per diluted share.

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PRESENTATION

Operator

Good day, and welcome to the W.R. Berkley Corporation's First Quarter 2022 Earnings Conference Call. Today's conference call is being recorded.

The speakers' remarks may contain forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words, including, without limitation, believes, expects or estimates. We caution such forward-looking statements should not be regarded as a representation by us that the future plans, estimates or expectations contemplated by us will, in fact, be achieved. Please refer to our annual report on Form 10-K for the year ended December 31, 2021, and our other filings made with the SEC for a description of the business environment in which we operate and the important factors that may materially affect our results.

W. R. Berkley Corporation is not under any obligation and expressly disclaims any such obligation to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise.

I would now like to turn the call over to Mr. Rob Berkley. Please go ahead, sir.

W. Robert Berkley, Jr.;

President, CEO & Director

Thank you very much, and good afternoon, all, and thank you for finding time to join us for our Q1 call. On this end of the call, in addition to myself, you also have Bill Berkley, Executive Chair; as well as Rich Baio, our Group CFO.

We're going to follow the usual agenda where I'm in short order, I'm going to hand it over to Rich. He's going to walk through the highlights of the quarter. Then once he's completed his comments, I'll tag along with a few of my own observations. And shortly thereafter, we'll be opening it up for Q&A and happy to take the conversation in any direction participants would like to do so.

That having been said, before I do hand it over to Rich, because I always like to steal at least a little bit of his thunder, though I don't think the comments will come as a surprise to anyone that's had an opportunity to review the release. It was a terrific quarter for the organization, really, by any metric to say the least. And quite frankly, we were able to achieve these results because of the efforts of the full team across the country and around the world all working together to achieve these types of outcomes.

I think what's important to that point is to just remind ourselves, remind each other that this effort, this is a team sport, as I've commented in the past, it's not an individual sport. And quite frankly, this isn't rocket science what we're doing. Yes, we are very fortunate that we have a lot of very intelligent people on the team working very hard, but a lot of our success comes about because of discipline; because we focus on blocking and tackling in a thoughtful and consistent way every day; because we are not only consumed by what's in the rearview mirror, but we are paying close attention to what we see out the front windshield.

It seems like common sense. But quite frankly, it requires great effort every day. And again, I think we're achieving these types of results because of the efforts of the full team. So congratulations to all.

I think beyond just the results, which again, I think, speak for themselves, I would suggest that perhaps what's as, if not more exciting, is quite frankly, how the table has been set for what is likely going to be a very strong balance of '22. Additionally, how things are being set up for what should be a very strong '23. And with every passing day, there are more pieces being put into place that would suggest that it's more likely than not that '24 will also be very promising as well.

So we, as an organization, continue to be very focused on building book value. We have an obsession around the concept of risk-adjusted return. I think that came into focus not just in this quarter, but in our ability to generate good returns regardless of what may have happened on the cat front in any quarter, it's the consistency have strong results that differentiate us in the marketplace.

So with that, let me hand it over to Rich to walk us through some of the highlights, and I will be back on the heels of his comments. Rich, if you would, please.

Richard Mark Baio - *W. R. Berkley Corporation - Executive VP & CFO*

Thanks, Rob. Appreciate it. The company continues to operate extremely well, as Rob had pointed out, reporting record quarterly underwriting income and net investment gains, both of which led to the 157% growth to record quarterly net income of \$591 million or \$2.12 per share on a common stock split effected basis.

Operating earnings also improved 52% to \$307 million or \$1.10 per share on a common stock split effected basis. The primary contributors were improvement in underwriting results by 2.3 points to a calendar year combined ratio of 87.8% and growth in net investment income of almost 9.5%.

Going more into the details with our top line first. Gross premiums written grew 15.1% to a quarterly record of approximately \$2.9 billion. Net premiums written also grew 17.7% to a record of more than \$2.4 billion. The higher growth in net premiums written is driven by our decision to retain more business, which is evident by the lower session rate.

In the Insurance segment, all lines of business grew, generating a combined 19.2% increase to total net premiums written of almost \$2.1 billion. The Reinsurance & Monoline Excess segment also increased 9.6% to more than \$300 million, driven by growth in casualty Reinsurance & Monoline Excess. This represents the fifth consecutive quarter of double-digit growth in premium, which will continue to earn through the income statement and can be seen by the higher growth rate in net premiums earned compared with net premiums written.

Record pretax quarterly underwriting income of \$274 million surpassed multiple quarterly records last year. The quarter improved \$92 million and more than 50% over the prior year. Catastrophe losses were well within expectations at \$29 million or 1.3 loss ratio points. This compares with \$36 million or 1.9 loss ratio points in the first quarter of 2021. The current accident year loss ratio, excluding catastrophes, improved 0.6 loss ratio points

to 58.3%, primarily driven by rate improvement. Prior year loss reserves developed favorably by almost \$1 million in the current quarter, bringing our calendar year loss ratio to 59.5%.

Expense ratio is in line with expectations at 28.3%, reflecting an improvement of 1.2 points over the prior year's quarter. As previously mentioned, the growth in net premiums earned continues to benefit the expense ratio even with higher fixed costs coming from compensation, a new operating unit and increasing travel and entertainment.

In summary, these components contributed to our current accident year combined ratio, excluding catastrophes of 86.5% for the quarter compared with 88.4% for the first quarter of 2021. Net investment income increased almost 9.5% to \$174 million for the quarter. The growth is primarily related to an improvement in investment funds of 33.6% in the core portfolio of 11.7%. Investment funds outperformed in the real estate, financial services and transportation funds. And the core portfolio benefited from rising interest rates and dividends received on equity securities.

The investment portfolio also maintained the same duration of 2.4 years and credit quality of a AA-. In addition, our strong operating cash flow has enabled us to put more money to work despite retaining a significant position in cash and cash equivalents of approximately \$2.1 billion. Record pretax net investment gains in the quarter of \$366 million is primarily made up of net realized gains on investments of \$277 million and the change in unrealized gains on equity securities of \$93 million. The key contributor to the realized gains was the sale of the real estate investment in London of \$317 million gross or \$251 million net of transaction expenses and the foreign currency impact including the reversal of the currency translation adjustment.

Corporate expenses increased primarily due to performance-based compensation arising in connection with the record level of earnings. The effective tax rate was 19% in the quarter, reflecting a onetime benefit from the release of a valuation allowance arising from the utilization of tax attributes as well as investments in tax-exempt securities and dividend-paying equity securities.

Stockholders' equity increased to almost \$6.9 billion as of the end of the first quarter, representing an increase of 3.2% over the prior year-end. Book value per share before dividends increased 3.5% in the quarter and would have marginally increased even without the gain from the sale of the real estate investment in London. The annualized return on beginning of year equity was 35.5% for the quarter and 18.5% on an operating earnings basis.

Rob, I'll turn it back to you for further comments.

W. Robert Berkley, Jr.; President, CEO & Director

Okay. Rich, thank you very much. That was great. So let me keep this somewhat brief because I'm sure people have their own topics and questions that I'd like to get on to. But maybe just through my lens, a couple of sound bites.

The top line, obviously, just shy 18%, from my perspective, by any measure is very healthy. And if we unpack that a little bit, a couple of other data points for folks, as far as the rate increase, that's a component in their ex comp. It came in at 8.3. And let me give you a couple other numbers, and then I want to dig into this a little bit more.

So the new business relativity, which is a metric that we've shared with some of you in the past, is how we measure our new business pricing relative to our renewal pricing. From our perspective, when you look at new business, one needs to recognize that there, oftentimes -- not always, but oftentimes, could be more risk associated with it. Your renewal book you know more about, new business you know less about. And to make a long story short, our new business relativity for the quarter came in at 1.018. So what does that mean? That means based on our macro measurements, we're charging just shy of 2% more for new business relative to renewal business.

Another -- at least in my opinion, relevant data point, is our renewal retention ratio came in at 82% and change. Why is that important? Because it tells you that we're -- to get the growth, we're not churning the book. We are keeping the portfolio intact. And from our perspective, that is a very healthy number. And certainly, from our perspective, also is an invitation, if you will, to keep pursuing additional rate.

I think that when you look at the 8.3%, it's also important that people understand that there's several dimensions that we're able to see that perhaps those from the outside looking in can't see. We look at this business by operating unit, by product line, and are constantly assessing the margin that we believe exists in the business. And there is a constant balance or rebalancing that we are doing on a daily basis as to what type of rate we need, what margin we think is in the business. And at what point in time when we see the margin that is available is growth of exposure the priority or is rate the priority. And between those 2 components, which one is more of a priority. So at this stage, we feel very good about the available margin. And as a result, in many product lines, we are willing to allow exposure growth to be the priority over rate, though not across the board.

I also want to spend a couple of moments talking about -- just staying on that topic of exposure. Because, obviously, for some number of years, we've been beating the drum about social inflation. I think we were on the earlier side compared to many of our peers. Some folks may have labeled us Chicken Little, but nevertheless, I am grateful that our colleagues have the insight, and we took the action that we did. That having been said, obviously, as of late, this concept of economic or financial inflation seems to be getting all the headlines with good reason. And it's important, I think, for observers to understand, to take into account, that in our organization's case -- I can't speak to others, but in this organization's case, the majority of the policies that we write are based on or priced off of, if you will, exposure. So what do I mean by that? I mean we price our policies off of payroll, off of receipts or revenue, or off of appraised value, which is done in a very timely manner at the time when we are underwriting the policy.

So I mentioned this because as people are grappling with what is the impact of economic inflation on our business model. Certainly, we are not insulated from it. We will, in a couple of moments, potentially get into the discussion around what does it mean for the investment portfolio. But from an underwriting perspective, while we are not completely insulated, the majority of our business activities, the pricing, if you will, feeds off of exposure. I.e., in other words, if you own a deli and you are charging \$1 more a sandwich, and we are pricing your GL. We are pricing off of your revenue and your receipts. Consequently, the premium is going up as your revenue and receipts are going up. That is separate and distinct from rate. Rate is a separate activity, if you will, and how one thinks about it from exposure growth. And again, obviously, inflation, to a great -- economic inflation to a great extent, is contemplated in exposure growth.

A couple of quick soundbites on the loss ratio. Continued improvement from there. As Rich mentioned, we did have some cat activity. Really, the 2 pieces that are most noteworthy would be: one, the European storms during the quarter as well as the Australian floods. To the extent people want more detail, we can certainly get into that in the Q&A or probably best just to pick it up in the queue.

The other piece I wanted to flag on the loss ratio, and I may have touched on this last quarter, I can't remember, and I didn't go back and look at the transcript. But it's something I look at and perhaps it's of interest to others. And that is the paid loss ratio. This going to -- which came in, in the quarter at a 45.3. I'd like to give you a couple of historical data points, which you could always dig up on your own, but let me save you the work. And the numbers I'm going to read off are over the past couple of years, for the first quarter, what the paid loss ratio was. And I want to give it to you for the corresponding periods because that way we're getting as close to apples-to-apples as possible. Though it's not a perfect comparison because of mix of business, et cetera. But if we again, 2022 for the quarter, it came in at 45.3.

So let's go back to 2017. If you go back to 2017, Q1, paid loss ratio, 55.5; 2018 Q1 paid loss ratio 58.8; 2019 paid loss ratio 54.2; 2020 loss -- paid loss ratio, 56.1; 2021 paid loss ratio for the first quarter, 48.2. So I flag it because it's one of the first things that my father taught me about the insurance business. The paid loss ratio, there's really not much room for gray. It's a black and white number. It's a real number. And again, I think that it is 1 data point, which people can interpret anyway they want, but I think it's, in my opinion, a helpful indicator or trend as to where things are going.

Rich talked about the expenses. Obviously, there are 2 things that we're experience -- 3 things that we're experiencing there. A, earned premium continues to grow. We're getting a benefit there. Going the other way, T&E is starting to pick up again as, fortunately, knock on wood, COVID is hopefully in the rearview mirror and shrinking. And then lastly, we have 1 new operation, which now is feeding into the reported expense ratio. And it takes time for it to scale as we've discussed in the past, and we're confident it will be accretive over time.

Let me offer a couple of quick soundbites on the investment portfolio, and then I promise I'll be finishing up, and it will be the participants' turn.

The investment portfolio, I think, is a great example of some of the comments that I offered earlier around a focus towards discipline, a focus out the front windshield, not just the rearview mirror. And quite frankly, I think we started to see some benefit really towards the end of last year, and that benefit is really starting to crystallize and likely more to come.

So as Rich mentioned, duration for the portfolio at the end of the quarter was 2.4 years. Another data point, the book yield on the portfolio was 2.2%. Given where interest rates have gone, our new money rate in the quarter is approximately 100 basis points above that. So as they say, you can do the math and figure out what does the 100 basis points benefit mean for our investment income on our -- for our investment income, given the movement in rates that we are seeing on the fixed income portfolio. So when we talk about the table being set for the future and the opportunities coming our way and what this means for our economic model and the earnings power of the business, I think that's an important data point for people to be considering, again, in my opinion.

Another point that I'd like to make, and quite frankly, it's a little bit of a pet peeve around here, and that has to do with gains. Certainly, we've noticed that people have a tendency to back gains out of our results. And quite frankly, people can look at the numbers anyway they want. But from our perspective, we think that, that's just not appropriate. We give up a fair amount of operating income, if you will, to invest in alternatives, particularly some of the activities that have a focus towards gain. We are focused on total return, and we think that is what is in the best interest of the shareholders. And again, obviously, we take an approach very focused on risk-adjusted return.

So I think that we are already benefiting from the discipline that we have exercised over the past several years, keeping that duration short. I think that benefit is going to be coming more and more into focus over the coming quarters and years. And quite frankly, I think it was a few quarters ago, we talked about how, quite frankly, if rates move up, we didn't think that we were getting paid enough by taking the duration out. I think that reality has come into focus. And I think in part, that was demonstrated, as Rich referenced a few moments ago. But if you look at our book value, and even if you chose, which I do not agree with, but even if you chose to back out the gain from the building that we sold in London, our book value, in spite of what happened with interest rates, still went up, which I think given what has happened in the bond market, is pretty outstanding. So again, congratulations, job well done to my colleagues on the investment side.

So that was probably a lot more than anyone was looking for or bargained for, but thank you for your patience and listening to me. And Emma, why don't I pause there, and let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question today comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan - Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst

My first question, I was hoping to get just more color on what you guys are broadly seeing within the E&S market. It seems from the growth in the commentary, right, that you're not seeing competition pick up there. Just any color there. And Rob, when you think out over the balance of this year, how do you expect the underlying dynamics between the standard and the E&S market to play out?

W. Robert Berkley, Jr.; President, CEO & Director

So -- well, first, thanks for the question. And second of all, when we look at the submission flow that's coming into our specialty businesses in general -- in particular, the E&S businesses, but the specialty businesses in general. It was very strong in the quarter.

My observation from a distance, and again, we are much, much, much more a specialty player than not. But it would seem, again, from a distance that the standard market, they have a very firm view as to what is in their appetite, what isn't in their appetite. And if it's out of their appetite, they

weed it out of there very quickly and very abruptly. But if it's staying in their appetite, they seem to be, apparently very, very aggressive. It's almost if they don't understand the inflationary environment that we're operating in. But we're a specialty player more than not, so maybe I'm mistaken.

Long story short, flow of submissions remains very encouraging. And quite frankly, in particular, noticed March was particularly strong. So there's really nothing that we're seeing that would suggest that the momentum is getting derailed in the specialty, specifically E&S, I think was your question, but across the board.

Elyse Beth Greenspan - Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst

Okay. And then you guys seem still pretty positive on pricing. So how should we think about the rate versus loss trend dynamic as we think about what can be earned in over the balance of the year? So would you expect within range of, I guess, the 60 basis points that we saw this quarter?

W. Robert Berkley, Jr.;President, CEO & Director

Well there's, I think, a limit as to how far I can go without the room I'm in getting stormed by lawyers. But what I would tell you is this. I think that at this stage, based on how we think about loss cost trend and the rate that we are achieving, there is reasonably compelling evidence that the rate we are achieving is in excess of loss cost trend by something that would be measured in hundreds of basis points.

How quickly we recognize that, it's not lost on us how leveraged some of these assumptions are. And I think as at least we've discussed in the past on calls like this, we're just not going to push it. It's a complicated environment with a lot of unknowns. The business is running, from our perspective, quite well. We think we're on a good trajectory. But again, when we do the math, we think that it's a pretty healthy delta.

Operator

Your next question comes from Mark Hughes with Truist.

Mark Douglas Hughes - Truist Securities, Inc., Research Division - MD

How much of the improvement in paid loss ratio do you think comes from plains dynamics, frequency or severity? How much are they bouncing back relative to kind of pre-COVID? Or is that all a rate dynamic?

W. Robert Berkley, Jr.;President, CEO & Director

Look, I think we will not have clarity around that other than through the passage of time. That having been said, clearly, there was a pinch point, if you will, in the claims activity due to COVID, though we think it's gradually catching up. From my perspective, I think we are in a pretty good place. And to my many colleagues' credit, I think much of the improvement you're seeing is as a result of their efforts and their performance. That having been said, we will have greater clarity to your question with time. And I would be reluctant to try and answer it in a definitive way, but certainly, there are a lot of encouraging signs.

But that having been said, that's why we are carrying the loss picks in a -- what I would define as a thoughtful and measured manner and not wanting to declare victory prematurely. But even with that, taking a measured approach, obviously, the business continues to perform at a very healthy return with or without gains.

Mark Douglas Hughes - Truist Securities, Inc., Research Division - MD

Understood. And Rich, the reserve development in the quarter, what was it again overall? And then do you have it by segment by any chance?

Richard Mark Baio - *W. R. Berkley Corporation - Executive VP & CFO*

We -- in total, it was about \$1 million of favorable development. And we don't typically provide the split between segments. We disclosed that information in the 10-Q.

Operator

Your next question comes from Michael Phillips with Morgan Stanley.

Michael Wayne Phillips - *Morgan Stanley, Research Division - Equity Analyst*

Rob, I guess more on the loss trend topic. You talked last couple of quarters about kind of the picture is pretty foggy. And I imagine it's -- I'm going to ask, is it more or less foggy today than it was, say, 3 quarters ago? Is it harder to put numbers around that today than it was 3 quarters ago, was kind of the question.

And the reason I ask is because when you talk about that rate versus loss trend in excess of 100 basis points, I think it's pretty close to what you said the last couple of quarters as well. So I'm just curious how you look at that differential if the foggy picture is perhaps even foggier than it was 3 quarters ago.

W. Robert Berkley, Jr.;*President, CEO & Director*

Well, I don't think -- I think actually, with every passing day, the underwriting years become more seasoned than we can -- the policy years, I should say, become more seasoned. We have greater clarity as to what the ultimate outcome will be. But obviously, during COVID, there was a bit of a pinch point in the legal system and how quickly things were getting resolved.

From our perspective, with every passing day, we have more clarity around the '20 and '21 year. And we are refining our views. But even as I said, with a -- what I would define as a thoughtful and measured loss pick, we are still comfortably clearing that hurdle by what would be measured in hundreds of basis points.

Michael Wayne Phillips - *Morgan Stanley, Research Division - Equity Analyst*

Okay. That's helpful. Second question is just kind of more general higher level. You clearly are a specialty player, one of the best out there. That word, specialty, is getting more overview today than social inflation was part of COVID. And I ask, if you feel the competitive nature in your business is -- has it changed any and say, I'm not talking the last 3 months or the next few months, but it's more in like the last 5 years. Are there more players that are interested in that space than you thought were the case? Again, a longer-term horizon, because it's a term that everybody is kind of talking about.

W. Robert Berkley, Jr.;*President, CEO & Director*

Well, everybody wants to be special. I guess we all are special, right? But putting that aside, look, we certainly have -- we do have peripheral vision, but we spend a lot of time just trying to focus on what we need to be doing, what our goals are, how we need to execute. And are there -- one of the things, at least I think, is important to keep in mind and you may want to consider is that as opposed to past cycles, what's becoming more and more the cases that different product lines are marching through the cycle on their own. They are not all in perfect lockstep. So as a result of that, different product lines are in different places. There are certain product lines where we're watching the competition increase. There are certain product lines where we're watching the competition diminish. But overall, in the specialty space, the competitors that we view as real competitors, the ones that we respect, they're basically the same names today as they were 2 years ago.

We've been doing the specialty business, if you will. It's been a focus of ours since 1979. So it's not that the world is stagnant. It's not that any of us live in a vacuum. Obviously, it's continuing to change. But we have a lot of expertise. We've got a lot of data. We've got a lot of intellectual capital, and quite frankly, tribal knowledge and relationships that exist within the organization. And I think that bodes well for us. But that all having been said, in spite of a lot of the chatter, we -- the competitors that we respect today tend to be, by and large, the same list that existed 2, 3, 4, 5 years ago.

Operator

Your next question comes from the line of Yaron Kinar with Jefferies.

Yaron Joseph Kinar - Jefferies LLC, Research Division - Equity Analyst

I'll continue beating this beat, I guess, on loss trends. You say that you have several hundred basis points in excess of trend here in rate. I think you've made that comment in the prior year or 2 as well. So I guess with that, when do we start seeing some of that develop more fully in the fix themselves? I mean how many years of maturation do you need in the portfolio?

I guess what I tie it to is your comment around 2024, I guess, you're becoming more confident and how that will play out. Is that essentially going to come through reserve releases as you start gaining more and more confidence in the maturity of that portfolio?

W. Robert Berkley, Jr.; President, CEO & Director

Well, look, I think to your point, it takes time for this to come through, and we'll have to see how it develops. The assumption that I'm making or a statement -- or that I was suggesting or that I was alluding to around the balance of this year, '23 and '24, first off, obviously, we all know how the timing difference between written versus earned. Second of all, as far as next year goes, clearly, some of the business that we write on the reinsurance side, that positions us well.

I think the other piece is that we understand what new money rates are and we know what that's going to mean for our economic model as well. So again, with every passing day, as I suggested, the table is being set for tomorrow.

Are we banking on positive reserve developments in the statement I made? No, sir. We are not doing that. Do I think that we are being measured in our picks and there is certainly a chance that things could work out better than what we are carrying the reserves at? Yes, I do. Will that come into focus over time as we have more clarity? That is the expectation. But in part, as I think we've discussed as a group in the past, COVID perhaps has created a delay in how quickly things are coming into focus. I think there are some people that would suggest that there's a year, maybe 18 months of a delay in aspects of the legal system. And we're just not going to declare victory prematurely.

So it's going to take some time. We're going to see how things play out over the coming quarters and into next year. And as we have more clarity, you'll see us taking the action that we think is appropriate with the loss picks that we're currently carrying.

Yaron Joseph Kinar - Jefferies LLC, Research Division - Equity Analyst

Okay. And then my second question goes to premium growth. You had 19% net premiums written growth in insurance. I think at a conference a month or 2 ago, you talked about maybe 15% to 25% growth for '22. So it seems like you're kind of in the middle of that range. But 1Q '21 seems to be a little bit of an easier comp than the rest of the year. So can you help us think through that 15% to 25% growth number?

W. Robert Berkley, Jr.;President, CEO & Director

Ultimately, from our perspective, as I suggested earlier, there's certainly evidence that would suggest there continues to be great opportunity for specialty players. I can't promise to anyone, including myself, what tomorrow will bring, but I can share with you my interpretation of the available data. And when we look at the strength of the submission flow, particularly in the specialty space and including the E&S space in the quarter, including what we saw later in the quarter, we're feeling pretty good about it. Could May or June or something could have turned out to be something very different? Absolutely. Do I see that as the likely outcome? No, sir, I do not.

Operator

Your next question comes from the line of Ryan Tunis with Autonomous Research.

Ryan James Tunis - Autonomous Research LLP - Partner of Property & Casualty Insurance

First question on the expense ratio. I noticed in the past couple of years, it's a little bit elevated in the first quarter relative to the remainder of the year. Is there something seasonal to that? And is there a reason to think that might be true this year as well?

W. Robert Berkley, Jr.;President, CEO & Director

Rich, I don't know. Is there anything around remuneration?

Richard Mark Baio - W. R. Berkley Corporation - Executive VP & CFO

I was going to just say, I think it might be attributed to the incentive compensation, because we obviously accrue throughout the year based on our best views of what the year is going to play out for. But then, ultimately, we wait until the year ends, and then make any adjustments with regards to bonus accruals that are going to get paid out, profit sharing, long-term incentive comp and the like.

Ryan James Tunis - Autonomous Research LLP - Partner of Property & Casualty Insurance

Understood.

W. Robert Berkley, Jr.;President, CEO & Director

But Ryan, just to be clear, that would be -- that's not an overwhelming sum. I mean, that would be whatever, 10, 20 basis points, something like that, right, Rich?

Richard Mark Baio - W. R. Berkley Corporation - Executive VP & CFO

Yes, that's right.

Ryan James Tunis - Autonomous Research LLP - Partner of Property & Casualty Insurance

Understood. And then so, yes, Rob, in your prepared remarks, the comment on not feeling good about just '23, but also some confidence in '24. But you said you're not -- it's not based on you banking on reserve releases.

So maybe you could just go a little bit more into the specifics about what's giving you that level of visibility? Was that a comment about growth, pricing or just visibility in the solid underlying trends?

W. Robert Berkley, Jr.;President, CEO & Director

So from my perspective, a couple of things, Ryan. First off, I think we need to -- and I think you have, but I'm not sure if others have, given appropriate consideration to what this change in interest rate environment means for our economic model. And I tried to flag that when you think about what our book yield is today versus what our new money rate is and where that's likely to go.

So -- but let's put the investments to the side for a moment. The other piece is every day that we're writing business in '22 that goes by, and we're earning it in over 12 months, and we're achieving rate that we believe is comfortably above trend, that bodes well for what the outcome is likely to be. And number three, I just don't see things going -- it's not like an on-off switch. The market doesn't be on a great trajectory and then all of a sudden, the bottom falls out.

And I guess the last comment, and I apologize for being a bit repetitive, but I think that you're going to see certain product lines that have been doing particularly well over the recent past. At some point, they're going to peak out. But I think simultaneously, some of the product lines that perhaps haven't been as robust, at some point, you're going to see them start to tick up.

So let's use workers' compensation as an example. Workers' comp for the past several years, it's been a very competitive market. State rating bureaus have been taking the action they've been taking. And ultimately, if history is any indicator for what we should all be expecting, eventually, it will end in tears for the industry.

Commercial -- workers' comp is one of the largest components of the commercial lines marketplace. When that turns, that is going to be offsetting, is what I'm suggesting, other product lines that may have peaked and are going the other way. So again, I think that there is a lot of momentum out there today. I think that there are a lot of pieces in place that will bode well for tomorrow. And I think that there's arguments that you're going to be seeing, as the cycle has changed and all product lines aren't marching at lockstep, you're going to see other things that will come along and perhaps lift certain portfolios for certain carriers.

Operator

Your next question comes from Alex Scott with Goldman Sachs.

Alexander Scott - Goldman Sachs Group, Inc., Research Division - Equity Analyst

So I wanted to ask about this balance between growth and rate taking. Just listening to your comments, it sounds like maybe in more products than -- or growing number of products, you're letting exposure growth be the priority. When we think about that, which is sort of separate from what you're saying on exposure growth from inflation, where that directly feeds the premiums and then it's also separate from rate, I mean, because of that decision to maybe lean a little more into growth in certain product lines, should we expect to see maybe even more of an inflection in terms of the amount of growth that you can get despite rate decelerating a little bit?

W. Robert Berkley, Jr.;President, CEO & Director

Well, a couple of things there, just to make sure we're on the same page. I think clearly, as we're seeing inflation in the economy, and we are seeing prices go up on goods and services. We are seeing wage inflation, which has an impact on payrolls. That is impacting exposure growth. And as we write the business, we price the business off of exposure to a great extent. That is, as you pointed out, separate and distinct from rate. So when we think about rate going up and rate going up in excess of our view on trend in other words that could suggest that you will see further margin

expansion on a policy year basis. Furthermore, again, as I said, in the aggregate, our rate increases are outpacing what we believe our loss cost trend is. And that is the case in the aggregate, and that is the case in the majority of the product lines we write. Did I answer your question?

Alexander Scott - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Yes. I think you did. Yes, I think you got it. Maybe just for a follow-up separately on net investment income. Do you mind giving an update on just how you're feeling about the duration at this point? And what -- at what point would you consider lengthening out the duration? I mean, I think the EPS sensitivity to you lengthening it out to where liabilities are is reasonably material. So I'm just trying to understand over what time period you'd consider looking to do that.

W. Robert Berkley, Jr.;President, CEO & Director

It's something that we're looking at every day. At this stage, taking -- starting to buy bonds out in the 5- and 10-year range. We don't think you're really, at the moment, getting paid for it, but it's certainly something that we're paying attention to. And as -- from our perspective, we are paying close attention to it. But taking out the duration is an option that we have, but we're going to exercise that option when we think it makes economic sense, again, through a lens of risk-adjusted return. I don't know if you want to add a...

William R. Berkley;Executive Chairman of the Board

I would only say that we think that the uncertainty of inflation, when it is going to end and how quickly it ends, as well as issues about flow of funds as well as investment of the Fed in non-government securities, altogether make us want to be a little bit hesitant. So for now, if you said you want your duration to go from 2.4 years to 2.5 years, yes, that would be great. Do you want your duration to go with the 3 years? No, I don't think so. So we're happy where we are going out a little bit maybe, but we're not yet comfortable that this is where we should start to move it out.

W. Robert Berkley, Jr.;President, CEO & Director

And just as a reminder, we have a lot of runway ahead of us because the average duration of our liabilities is -- Rich, I believe it's about 4 years, yes?

Richard Mark Baio - *W. R. Berkley Corporation - Executive VP & CFO*

That's correct.

Operator

Your next question comes from the line of Meyer Shields with KBW.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Third question, I guess. It looks like growth in the Reinsurance segment slowed more quickly than in the Insurance segment. And I'm wondering if there's anything meaningful in that?

W. Robert Berkley, Jr.;President, CEO & Director

Not really. Quite frankly, I think -- what does it mean? Obviously, on the surface, I mean, we wrote less Reinsurance business than the Insurance or Reinsurance & Excess business. But I would suggest that people not lead to any conclusions on that. We obviously are paying attention to it. But

we're not really bothered by it at all, and we'll see what the balance of the year holds. But again, I would encourage you not to read too deeply into that. We'll see what unfolds from here.

Meyer Shields - Keefe, Bruyette, & Woods, Inc., Research Division - MD

Okay. That's helpful. You also mentioned on the insurance segment, lower sessions. And I was wondering if there's any profile of that, that you could provide? Are you retaining more lower level risk? Or is there some other component of reinsurance buying that seems less necessary?

W. Robert Berkley, Jr.;President, CEO & Director

Look, we look at everything we buy, and we think about, is it something that we think makes sense? How do we think about the risk and the return? How do we think about the volatility? How do we think about the rate that we're paying. And ultimately, we also have a panel of reinsurers. Some are our partners, some are people that are just people that we trade with. So long story short, we have the luxury of buying reinsurance when we think it makes economic sense for the company to a great extent, because again, we, as an organization, are not a big limits player for the most part. Approximately 90% or so of our policies have a limit of \$2 million or less. At the same time, we buy when we think it makes sense for the shareholders. And at the same time, of course, we're conscious of our long-term relationships with our partners on the reinsurance side. So long story short, we -- we're happy with how we are and we look at what makes sense for the company.

Meyer Shields - Keefe, Bruyette, & Woods, Inc., Research Division - MD

Okay. Understood. And 1 last question, if I can throw it in. You talked about that 1.8% premium on new businesses versus renewal. And we've generally...

W. Robert Berkley, Jr.;President, CEO & Director

1.18%. Call it [2-plus]...

Meyer Shields - Keefe, Bruyette, & Woods, Inc., Research Division - MD

Okay. Right. So historically, we've looked at that as sort of a reflection of competition in the industry where it's below 1, maybe the industry is being more competitive. But I was wondering if you could talk about how that delta actually -- how well does it represent the lack of knowledge in newer business? Is that enough of a premium? Should it be bigger? Could it be smaller?

W. Robert Berkley, Jr.;President, CEO & Director

Look, long story short, one, you need to understand that's an aggregation of 57 different operating units. Number -- so please keep that in mind. Number two, is it enough, if you will, cushion or are we appropriately taking into account the risk? I guess the short answer is that, yes, I think so. My colleagues that are selecting on price and risk are, I think, very skilled, very thoughtful, and generally speaking, very experienced.

And it's not like it's just whatever being thrown over the transom or spaghetti being thrown against lawn and we see what sticks. These people are experts in their field. They understand the exposures and they're able to make judgments as to what's an appropriate rate. So is it the right number? I guess we will all see with time. But do I think it's sensible and reasonable? Yes, I do.

Operator

Your next question comes from the line of David Motemaden with Evercore.

David Kenneth Motemaden - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

I guess just maybe just a question on the loss trend assumption. And if you made any changes to that during the quarter, whether that be on the property side with regards to higher CPI inflation or also just on the liability side. And maybe if you could just comment on what you're seeing from the court activity standpoint, whether you're seeing it start to thaw in the legal system thus far during the year.

W. Robert Berkley, Jr.;President, CEO & Director

So the short answer is that we are constantly thinking about our loss picks, and we are equally conscious of what economic inflation means for our loss picks just as we are -- continue to be preoccupied with what do we think social inflation needs for our loss picks. So I don't think it makes sense for us to get into the nooks and crannies as to what it means for these various different product lines. But what I can tell you is by operating in a by product line, we have and continue to do, in a pretty timely way, a drains-up review around what do these various components mean for loss trend and how it may impact our costs.

Sorry, the second piece, I beg your pardon, sir?

David Kenneth Motemaden - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

I guess I'm just wondering in terms of specifically this year, what you're seeing...

W. Robert Berkley, Jr.;President, CEO & Director

The legal system?

David Kenneth Motemaden - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

Yes, yes. Are you seeing any more verdict? Or the size of the verdict that you are seeing, are those noticeably higher than they were in the past?

W. Robert Berkley, Jr.;President, CEO & Director

Social inflation persists. Anyone who doesn't see it probably either needs to slip on their glasses or look a little closer. And anyone who doesn't appreciate -- again, it's very much a reality. It's more severe in certain regions of the country than others. But I would say, just generally speaking, it's pervasive across the nation. There's probably a variety of contributing factors. Clearly, society is opening up, and that includes the legal system. Have we completely caught up? Probably not. But are we in the process of catching up? Yes, gradually, would be my estimation.

David Kenneth Motemaden - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

Got it. Okay. That's helpful. And then if I could just sneak one more in. You mentioned it just the standard lines players within their defined risk appetite, competition appears to be picking back up. Are you seeing them expand at all into some of those higher excess layers in casualty lines or starting to maybe expand what's in their risk appetite? Or is that just still not happened yet?

W. Robert Berkley, Jr.;President, CEO & Director

Yes, not really. Honestly, my -- I got a lot of colleagues that could probably answer the question better than I. But based on my engagement with them and what they've shared with me, I think it is still a very good market for us, and we are looking forward to making -- continuing to make as

much hay as we can while the opportunity continues to present itself. But no, we're -- the standard market, they see -- again, based on the flow that we're seeing, they seem to continue to be in a moment where they're contracting much of their appetite. But again, from a distance, it looks like whatever is still within their strike zone, they are really leaning into.

And it's bizarre to me, just to digress for a moment, it kind of makes me wonder, do they really understand what the impact of social inflation? Are they fully contemplating certain aspects of economic inflation and what that may mean for their portfolio that may not necessarily be being captured in the exposure component. But look, the -- we got enough to worry about on our end, just the business that we all work for, and I'm sure they know what they're doing. So we wish them well, and we hope they wish us the best, too.

Operator

Your next question comes from the line of Josh Shanker with Bank of America.

Joshua David Shanker - BofA Securities, Research Division - MD

A lot of moving parts in the quarter. You guys sold this wonderful building in London and have big profit. And you grew book value. Of course, you should be very proud of that. But I want to be able to compare your results apples-to-apples with everybody else. And obviously, you're a different kind of apple. Can you talk a little bit about what the mark-to-market on the bond portfolio was? You're shorter than everyone else? I assume that you're going to compare very favorably on that compared to others.

W. Robert Berkley, Jr.; President, CEO & Director

Rich, can -- do you have the number handy? Forgive me, Josh. I don't have it off the top of my head. Rich, if you don't have it, Josh, can we circle back to you?

Richard Mark Baio - W. R. Berkley Corporation - Executive VP & CFO

Josh, we disclosed in the supplemental information, I think that was Page 7. I believe from memory, the movement from year-end to the end of first quarter was about \$425 million after tax.

Joshua David Shanker - BofA Securities, Research Division - MD

Okay. That's great. And in terms of thinking about your various alternative styles of investment, is this a time to be deploying into arbitrage? Is this a time to be deploying capital into the partnerships or maybe real estate. How are you thinking about the nontraditional aspects of the investment portfolio?

W. Robert Berkley, Jr.; President, CEO & Director

Josh, from my perspective, no different than on the investment side, we have a lot of very capable people that understand the goal of the exercise is a good risk-adjusted return, but obviously, with an eye towards total return. From -- when we think about it, we are happy to wait all day long for our pitch. And I think the teams have done a great job doing that over the years.

So there's a lot of challenge and there's a lot of opportunity out there, and I expect they'll continue to do a great job separating the wheat from the chaff, but I don't think we have any specifics. Dad, I don't know, you may have additional comments.

William R. Berkley;Executive Chairman of the Board

No, I think that we've, over the past year reduced our exposure in real estate by a substantial amount. But I think we're constantly opportunistic in looking individually at the kinds of things we do and then we'll continue to do that. So we have no individual particular thing that's going to make us change our mind, at least that I can see.

W. Robert Berkley, Jr.;President, CEO & Director

Josh, did you have another one...

Joshua David Shanker - BofA Securities, Research Division - MD

Yes. Just one quick one. This is probably maybe a little longer, but can you compare-contrast? Is there anything we should take away different that's going on in the workers' comp market versus the excess workers' comp market?

W. Robert Berkley, Jr.;President, CEO & Director

I think the -- it would seem as though, at least in the recent past, the primary comp market has been notably competitive. It would be wrong to suggest that the excess comp is not competitive, but I would suggest that the primary comp is probably even more so. Obviously, that varies based on region or specialty, but we have noticed in the comp market, putting aside rating bureau action, we have seen certain players looking for ways to buy market share through increasing commissions. We have seen examples where it would appear as though people are miscategorizing exposures in order to justify how they can write premium.

And again, Josh, look, my crystal ball is no clearer than anyone else's. Probably would help if I change the batteries in it. But the long story short, I think comp is going to have a bumpy road over the next, I don't know, more than 12 less than 36 months. But that's just one person's personal view.

Joshua David Shanker - BofA Securities, Research Division - MD

That's a very reasonable view.

Operator

Your next question comes from the line of Mark Hughes with Truist.

Mark Douglas Hughes - Truist Securities, Inc., Research Division - MD

Just a quick question. The investment funds, I think many of those are priced on a 1-quarter lag. Any early read on what we might expect when you report Q2?

W. Robert Berkley, Jr.;President, CEO & Director

Nothing that's particularly noteworthy at this stage, and that's not leading one way or the other. It's just we -- for a lot of it, we don't have the information yet. A lot of the funds, it takes them some time to get the marks and deliver it to us. So we'll see how it plays out. But we don't have clarity to share with you at this stage. But just 1 thing to the extent that it's helpful, we are not a heavy participant in the tech space, if you would, if that's of interest.

Operator

Your next question comes from the line of Brian Meredith with UBS.

Brian Robert Meredith - *UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist*

A couple of ones here for you. First, I'm just curious, noticed kind of a meaningful slowdown in the growth in professional liability and commercial auto. Anything noteworthy there? And then particularly on commercial auto, just kind of given the hiring environment that we're hearing about in the trucking business, any caution there with respect to potential frequency?

W. Robert Berkley, Jr.; President, CEO & Director

Look, I think the -- maybe taking them in the opposite order, if you don't mind. As far as commercial auto, I think that there's clearly a shortage of drivers. It's been a problem. It's a bigger problem today than it was yesterday, but it was a problem yesterday. Clearly, training and experience is also something that I think one needs to recognize, and what does that mean?

Presumably, people take that into account. We are certainly trying to take it into account when we are looking at exposures and how we underwrite, whether it be purely in the underwriting and the data and the information that we collect on the employees and the hiring practices and so on and the training. Obviously, we're getting into that in our loss engineering or loss control as well. So it's an important piece, and I share the question, and quite frankly, the concern.

Brian, I would suggest that one could expand that a bit even beyond the challenges that the commercial auto space faces to the broader. The reality is it's a very tight labor market. And I think as we have shared the observation in the past, oftentimes, that will lead to people working over time. That's when things sometimes can go wrong. In addition to that, oftentimes, you'll have people that are not as well trained in positions, and that can lead to unfortunate situations as well.

As far as the professional liability space, I would suggest that you not read too much into it. There is 1 piece of the professional liability space that I think we have an appropriate level of severe caution around, and that is large law firms. And that may be a contributing factor to what you're referring to. But generally speaking, we still see a lot of opportunity in the vast majority of the professional space, and it's still a cyclical business. But at the moment and for the foreseeable future, we like the opportunities.

Brian Robert Meredith - *UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist*

Great. And then my follow-up question here, if I look at your short tail lines and pretty good growth. How much of that growth is coming from your homeowners insurance business. And also on that, are you seeing more opportunities in that high net worth homeowners business, just given the incredible increase we've seen in housing prices in the U.S.?

W. Robert Berkley, Jr.; President, CEO & Director

So first off, certainly, a meaningful percentage is coming from the high-net-worth operation, but it's also coming from lots of other parts of the business that are writing property. So it's not all on their shoulders. It's shared amongst many.

And as far as your specific questions on the high-net-worth space, as far as I'm concerned, while I'm sure there are some outside of the organization that may disagree. I think by a wide margin, we have the best team in the business, and it's all about knowledge, expertise and, quite frankly, how they work as a team.

So I think the value proposition that they bring to the marketplace is second to none. And I think that is, quite frankly, reflected in how the distribution and by extension customers are responding and engaging with them. So lots of good momentum there, and I think it's really just a reflection of the people.

Operator

Your next question today comes from the line of Alex Scott with Goldman Sachs.

Alexander Scott - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

I just wanted to ask if you could comment at all on just the Russia-Ukraine conflict and if you have any exposure we should think about? And if even if there was a small amount, if you had any claims associated with it?

W. Robert Berkley, Jr.;President, CEO & Director

So we have, to say limited, would probably be overstating it dramatically. We're closer to none than limited. And during the quarter, I think we had claims associated with that of, Richie, you'll correct me here if I'm wrong, but I think it was about \$2.5 million?

Richard Mark Baio - *W. R. Berkley Corporation - Executive VP & CFO*

Yes. On a net basis, that's right.

W. Robert Berkley, Jr.;President, CEO & Director

So again, it's a very concerning situation. Our hearts go out to those that are affected. But as far as the business and the exposure on the underwriting side or the investment side, it's barely rounding as that.

Operator

There are no further questions at this time. Mr. Rob Berkley, I turn the call back over to you.

W. Robert Berkley, Jr.;President, CEO & Director

Okay. Emma, thank you very much. We appreciate your assistance on the call and also thank you very much to all those that dialed in. We appreciate your engagement, too. I think, again, as suggested earlier, the quarter clearly speaks for itself. I think that what is more exciting and hopefully appreciated by those that are observing the business is not just performing well today. But everything is sort of lined up, planets and stars, for us to have a very, very attractive '22, likely '23, and ever more increasingly likely '24 as well.

So thanks for dialing in, and we'll talk to you in 90 days or so. Take care. Good night.

Operator

This concludes today's conference call. Thank you for attending. You may now disconnect.

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