

TRANSCRIPT: EPISODE 362

26 June 2025 (pre-recorded 23 June 2025)

Please be aware that the accuracy of artificial intelligence-generated transcripts, such as those utilised in our interviews, may fluctuate based on factors like audio quality, subject matter complexity, and individual speaker enunciation. Consequently, these transcripts are unlikely to achieve 100% accuracy. However, it is important to note that, at FundCalibre, we do not consider the correction of automatically-generated captions to be an effective or proportionate use of resources.

Given the inherent limitations of machine-generated transcription, we strongly advise against relying solely on this transcript when consuming our content. Instead, we encourage you to use the transcript in conjunction with the accompanying interview to ensure a more comprehensive and accurate understanding of the topic.

Please remember we've been discussing individual companies to bring investing to life for you. It's not a recommendation to buy or sell. The fund may or may not still hold these companies at your time of listening.

[INTRODUCTION]

Staci West (SW): Welcome back to the Investing on the go podcast brought to you by FundCalibre. Insurance might not scream excitement, but its steady, behind-the-scenes role in global markets is anything but boring.

Chris Salih (CS): I'm Chris Salih, and today we're joined by Nick Martin, manager of the Elite Rated Polar Capital Global Insurance fund. Nick, once again, thank you very much for joining us today.

Nick Martin (NM): Thank you very much for having me.

[INTERVIEW]

CS: Insurance is perhaps not sometimes seen as like the sexiest area of the market in terms of investing. I often see that when I read stuff in articles, et cetera, but maybe just explain for those that don't know or perhaps haven't looked enough in-depth, why it deserves a place in a diversified portfolio. And maybe just a bit more about how your fund operates in that area of the market.

NM: Yeah, fantastic. Yeah, I think when we're talking about insurance we are really talking about non-life insurance, property, casualty. We can invest in life insurance, which just generally choose not to do that. And that's really been the case since we launched a fund back in 1998.

So non-life does represent over about 90% of the portfolio. So just to sort of make that sort of clear upfront here's a sector which is a relatively small part of overall market indices. So often you might say, well, you know, why bother at all? But actually, insurance is everywhere. I like to say it's the oil that greases the wheels of world trade. So ships don't sail, planes don't fly. Your Amazon packages don't drop through your

TRANSCRIPT: EPISODE 362

letterbox tomorrow without it. And actually the sector does have a lot of defensive qualities that we might get to a little bit later.

And I think if you look at the fund performance in over the years, we've typically done well in more difficult markets. And of course, that's when clients need it the most. And that's probably why I'd argue that it's deserving of a place in any diversified portfolio.

It does fly under the radar a little bit and and for for many people. But there's one or two notable exceptions to that. And probably the most famous one being Warren Buffet. You know, he stumbled on the wonders of insurance very early on in the history of Berkshire Hathaway. And it's been a sort of key driver of the success of that company, particularly in the earlier decades. And the thing that he sort of realised was one of the characteristics of the insurance business model is the existence of float.

And what that is, is that we all pay our insurance premiums upfront. So we give our money to an insurer, it holds onto that money for a little bit of time. And then it hopefully gives you some money back if you're unfortunate enough to have an accident and in the interim, the insurer earns a return on that money. And if it's Buffet doing investing, good things happen.

Now, of course, you know, most of the industry doesn't do that and actually invest in boring stuff like bonds and lots of cash because you need the liquidity to pay claims. But actually even the returns on those kinds of investments today, sort of 4% or 5% are way above what we were starting to get used to post a financial crisis, which is more like 1% or 2%.

So the earnings powers of our companies have risen pretty meaningfully in the last couple of years, you know, by over half. And it's interesting to mention Buffet, but he's been sort of selling down equity positions for some time since over \$300 billion of cash on his balance sheet. But one thing he's been adding to his considerable exposure to insurance. And we saw that investing about \$7 billion in Chubb, which is a bellwether of the sector. And for someone like Buffet who probably knows the sector better than anybody, as in maybe that's views to how he sees things in the next few years.

CS: You mentioned the float there. I mean, that's probably gonna be one of the sort of parts of the answer to the next question. But, you know, we talked about performance. I looked at some of the performance recently of the insurance sector. It sort of looks up very favourably to global equities in general over 5, 10 years. But perhaps what maybe swings it as an alternative is that idea of low correlation to other asset classes.

Look at 2022, for example, in bonds and equity struggles. And I think insurance, the sector was up like 15-20%. It did really well in that nightmare scenario. Maybe just give the listeners a bit of an idea of, you mentioned the float. What other building blocks offer that defensiveness and that correlation that perhaps is useful in volatile times, like the likes of now pretty much now. I mean, now is a perfect example. What is that ballast that it offers that perhaps people don't see? And maybe now is a good time to look at with the idea of this end of US exceptionalism.

NM: Yeah. Absolutely. I mean non-life insurance is a must have product. You know, it's often required by law. We have to buy car insurance, we we're told to do that. Your mortgage lender will tell you to buy home insurance. And it's exactly the same for companies as well. I've been doing this for quite a while now and one of the things that's certainly changed in more recent years is there's probably never been a greater appreciation of risk in company boardrooms than there is today. And I think we can thank things like ESG

TRANSCRIPT: EPISODE 362

reporting regimes like TCFD and what insurers do is take the risk and volatility away from us as individuals and companies.

And I think as long as risk is rising in the world, so should the demand for insurance, and I think, very sadly, as you alluded to in the question, risk is only going up, whether that's climate change or wars or geopolitical uncertainty or pandemics, the list goes on and on. And that rising insurance demand driven by that ever rising risk, it is pretty disconnected to what's going on in the broader macro. You don't need healthy economic growth to drive insurance revenues higher. So therefore it marches to a little bit of a different drumbeat.

The other thing to consider is because the insurers are taking on the risk that we don't want, the last thing they really want to do is double up that risk with exciting things in their investment portfolios as I just mentioned in terms of, the companies actually have very boring balance sheets, lots of liquidity, short term bonds, but they're a little bit less boring than they were given.

We're in a bit more of a normal interest rate environment now. And the other thing that can be a little bit misunderstood is actually the investment leverage in our companies now, it is pretty low or much lower than what you typically find in other parts of financials like life insurers and banks. I think that's a little bit misunderstood as well. And you put it all together and you have a sector that has very much these defensive qualities.

And, and as I say, we're probably, investors need it the most. And if you look at our returns over time, you know, we've outperforming the MSCI World, by about 3% a year since we started doing this 26 plus years ago. And that our performance has typically come in more volatile times. And when the sky is blue and everything's great, insurance is a bit dull and boring, frankly, but we still go up 80-85% of the way we do it right. But it's when markets drop we've historically fallen about half as much. And you put that together and you get a pretty interesting risk reward for investors if the past is any guide.

CS: Just quickly in terms of the universe of companies you have, you mentioned it's a small part of the universe. How has it grown much in the past 10 years?

NM: It hasn't grown significantly. I mean, we have a 30 to 35 stock portfolio, and that's very much by design. It's a concentrated portfolio compared to many others, but frankly, that's because the insurance sector overall is not a very good one. And therefore you don't really want a broad exposure to the sector, at least if you look at the sort of benchmark returns that have happened over, you know, the last quarter of a century or so.

So we've got a watch list of a similar number. So we're looking at 70 companies or so at any one time and we probably can invest in probably double that. So it is certainly enough to keep us busy looking at everything, but it's not like some of the say the more exciting sectors where, you know, tech has lots of startups, biotech, other things like that where you as a fund manager are always having to sort of assess you know, new and exciting companies for us. We only have a handful of IPOs and the like over time. So it really is a sort of patience game investing in this sector that over time has been very rewarding.

CS: It's been almost 10 minutes since the start of podcast. So it's about time I asked about AI <laugh>, it sort of invades every other market for good and bad, whether, you know, but I guess it's playing a role in yours with the likes of underwriting and claims. Are they good and bad sides to it? I guess the insurers have to

TRANSCRIPT: EPISODE 362

embrace it because I'm guessing that the bad guys won't not ignore the insurance sector. So you have to look at that in terms of a number of things, be it cybersecurity as well. Maybe just talk me through the role of AI.

NM: Yeah, absolutely. I mean technology and AI is impacting most industries and non-life insurance is not an exception to that. But I think something to bear in mind though is that we have seen in other examples of big tech turn other industries upside down, you know, almost overnight and sort of rewriting the rules and business models. I don't really see that happening in my world because insurance at the end of the day is a promise to pay that if something bad happens, you know, you get some money and as wonderful and as disruptive as big tech are, they're not gonna take risk out of the world anytime soon. So that sort of demand for insurance, I think is largely unaffected by some of these changes and actually demand for insurance is growing faster than sort of GDP because there's this increasing risk in the world that we touched on.

And within that, the risk itself is becoming ever more complex. We are seeing AI and technology being more widely used now in the sector. And you think about things like broker submissions to underwriters. You know, underwriters get presented with risks all the time. The inboxes get filled up with opportunities and you can use AI to triage those and make sure you're focusing on those risks that are most suited to your risk appetite and where the sort of business you're really targeting, but it won't be too long before that sort of thing is table stakes for everybody. And I think what we really see and know, or where the differentiation is most likely to come is in the pricing of risk itself.

As I mentioned, the non-life insurance industry is not a great one. It barely makes its cost of capital. Really where the difference between the returns come is on the underwriting side, companies typically have very similar investment portfolios and therefore similar returns. So it's all about how well you can slice dice and price risk. And that is not easy because fundamentally, when you sell insurance, you are selling something where at the time of the sale you don't know your cost of goods sold. And I can't think of another industry where that's true.

I think what is happening, particularly with the more complex risks, is that AI is adding a powerful new tool to the underwriter toolbox. And what we're expecting to see is this already wide dispersion between, the quality of insurers' returns widening even further and therefore their own underwriting moats growing a bit and that which should be positive for the fund returns.

And the other thing we're seeing is with this sort of better understanding of risk data and analytics more generally is some of the volatility that you've seen in the past where it takes, you know quite a few years before underwriters realise that they've made underwriting mistakes and price risk wrong. You've got a lot more sort of early warning signs now with the data and analytics that's being used, and therefore corrective action could be taken a little bit quicker.

CS: Well, I wanted to sort of jump on that because I was gonna ask you about, I mean, you've described the insurance industry as sort of being original data business. How do you distinguish between insurers that are using data well and those that aren't? How do you do that? Is that a cut and dry thing? Is that because you're actually close to these companies, for instance, it's a small sector, so I'm guessing you are keeping very close tabs on all. Maybe are there two or three things that just jump out or are, how does that work?

NM: Yeah, it's a great question because I'm sure you see in any sector now day, any CEO of any company in any industry is probably gonna be able to tell you, how AI is gonna be great for their business at the expense of others, et cetera, as part of what a CEO's role is.

TRANSCRIPT: EPISODE 362

So we always try and go a few layers deeper than that to try and understand what's really going on at our companies within our industry. And I think when it comes to insurance, and this is probably true for other interests as well, it's not just how much data you have, it's really how you use it. And I think in insurance world that sort of data and that sort of secret source, it's really coming from the claim side.

And that's a little bit different because that means for most companies their key data advantage is proprietary. And it's not like you can go and buy this stuff off of the shelf. So it is all about can you effectively utilise, that data asset that you have. And that's what we kind of say that insurers are the original data companies because that's the foundation really of their business model mm-hmm.

Now in terms of seeing which companies are doing well and which aren't, which are using it effectively or not, ultimately, that will come out in underwriting returns over time. But we obviously want to try and be ahead of that and see what's going on. So, you know, we spend a lot of time with management teams, trying to drill into some of the examples of where they're using things, but trying also to go, say a step deeper than just the top executive, the CFO and the CEO.

So, seven or eight years ago, we really got involved with the what was soon to be called the in InsureTech ecosystem and community. So this was insurance's version of FinTech to really understand, can startups come in and disrupt what's likely to happen, what new risks were evolving, all of that kind of thing. Because when you run a sector fund like we do is probably very easy just to focus and stare at your own little goldfish bowl and just sort of keep your fingers crossed that you're not gonna be disrupted.

CS: Doesn't big data create that? Doesn't it build about oligopoly or does it allow or vice versa?

NM: Yeah, I think it's gonna increase that edge that the good underwriters have because the reason that they have it, that edge in the first place is because up to now they've been able to use that data and other underwriting tools successfully price and dice risk better than their competitor companies and take advantage of the opportunities when they present themselves. So I think that's why we think that advantage is likely to widen over time. And that's probably to the advantage of the incumbents rather than some new sort of startup that we haven't seen, you know many examples, if any of companies coming into the sector in a relatively new.

CS: Obviously climate is climate sort of change and climate risk is something that's not new to the insurance world. Are companies still adapting quite well to the challenges and are you sort of finding opportunities within that, obviously climate risk?

NM: Yeah climate risk is clearly a challenge to the industry, obviously makes underwriting catastrophe and weather exposed risks harder. But it's also a great opportunity. Clients need cover at the end of the day, and, I started on the fund back in 2001, and back then probably the key concerns in the insurance and boardrooms from a catastrophe perspective was hurricanes and earthquakes. But in more recent years, you can really add flood and drought and hail and particularly wildfire to your list of worries. And all of those are really closely linked know to climate change. And I think what we're seeing really is risk becoming more and more complex. And as a result of that risk is becoming more difficult to underwrite if you are a big mainstream main street conglomerate.

If you are one of the big sort of names that we all know, it's really moving over to the sort of specialty markets like Lawyers of London because they're better equipped to prices ever evolving risk. And fortunate for us, that's really where we've invested over over many years where we would typically avoid those bigger

TRANSCRIPT: EPISODE 362

conglomerate companies that they're harder to analyse. They often have sort of adjacent businesses like life insurers that asset managers that make them more correlated to the broader markets.

One point to always remember, is that even though the underwriting and pricing of this risk is super hard, policies get renewed annually. So this means that these losses happen, but you can adjust your underwriting prices pretty quick to reflect that new experience. That's with one big caveat, of course, you need to be around, post that event to take advantage of that. So that means, you can't be too aggressive in your catastrophe exposures because there's always a chance you might get your numbers wrong a little bit, and you don't wanna be in a situation where you've had a massively outsized claim.

So one thing we've certainly seen in more recent years, it is many companies having a very healthy respect for what's going on with climate change. They're not risking as big of a portion of their balance sheets against climate risk as they may have done, 15, 20, 25 years ago or so, because company executives see the same things as what we all do on our TV screens. And actually, non catastrophe risk today is also got you a healthy margin. So there's a good reason to have some balance between that catastrophe, climate exposed risk and not. And I think as a fund, we've always wanted to have a pretty low level of catastrophe risk because we don't want our money or our client's money blown away with the wind or with the earth shaking.

CS: We talked right at the top about geopolitical concerns and volatility and the impact thereof. I mean, we speak to lots of fund managers all the time, and they tell us how they're perhaps looking to reevaluate their portfolios in this new sort of economic climate. How does this work for you? Are you just a safe house over here?

NM: Nothings safe, we're in the risk business. There's no such thing as a safe house <laugh>

CS: You know what I mean. Your portfolio is there nice and ready for people to jump into if they're thinking that the world's a bit too hot for them is do you make or are you just sitting there going happy days? This is with my time to shine sort of thing?

NM: Well, yeah, as we talked about, there's a lot of reasons why no life is as a good hide place in more uncertain times. And a lot of the things that other managers are probably thinking about in terms of, you know, macro challenges, recession, tariffs, all this kind of stuff really doesn't affect us in any sort of really material and meaningful way. And all of us and especially stock markets don't like uncertainty, don't like volatility, but that's exactly what the insurance industry is there to provide.

So actually in times like this, when everyone's a bit more scared than they were previously and know it is actually a time when insurance and is showing its true worth, it is more valuable probably in times like this then when everything is going well in the world.

And we're seeing examples all the time of insurance losses sort of illustrated just how important it's to have the product. You know, the California wildfires is a great example of that. It is sadly shone a light on just how dysfunctional that market is, where regulators don't allow insurers to really charge an appropriate price for the risk they're assuming, and there's no obligation for any insurer to go into a market and underwrite an unexpected loss. They're just not gonna do it. So what that means is that some people have an under insurance or they can't get insurance. Hopefully there's some state insurance scheme there to accommodate and help out. But ultimately that's at the expense of taxpayers and that's not a very sustainable thing. So when we see these things happen, hopefully we'll see insurance become a little bit more widespread.

TRANSCRIPT: EPISODE 362

But in terms of how we respond with the portfolio at times like this, really we don't do anything too explicit because when you do have these sort of changes going on and with things like war and the like, new underwriting opportunities emerge. Something like war is not really covered in standard insurance policies. So if your ships are suddenly going in what's now a war zone, you have to go and buy a new policy to accommodate that. So that leads to opportunities for companies. And if we're in the right ones, they're gonna lean in and out of these opportunities as they evolve rather than us having to do any sort of, let's call it top down asset allocation in terms of changing our own overall underwriting mix.

CS: Just expanding on those opportunities. And this is the last question. Obviously you've run the fund had it involved for a couple of decades, more than a couple of decades now. We've seen global financial crisis, Eurozone, Brexit, COVID, all sorts. How would you describe your, I don't wanna use the word optimism given how volatile, but your optimism, your outlook for the sector at the moment. I mean, do you think now is a good point for investors to consider the market?

NM: Yeah, so I've overseen the funds a lot over the time that we've been doing this, and you, you mentioned some of the events themselves. But if you look at that, we've compounded returns at about 11% a year for institutional investors for 26 plus years. We would hope obviously can't promise to do a bit more of the same. And if you look at our returns, you know, have actually been driven by the underlying book value growth of our companies, it's grown on a compounded basis about 10.5-11%. So, really the fund performance just reflects the company fundamentals. And, you should expect that over any reasonable timeframe. Almost no matter what industry you are thinking or investing in I think the exciting thing to steal your word is that I think we can do a little bit better in the next few years in terms of the book value growth side, as I mentioned before, the increased investment income we're getting and that sort of step change in 2022 that that increased our expected book value growth rate to 16% plus at the end of that year.

Now we've had a couple of years since then, so you know, how have we done? But we've done about 20% book value growth in 2023 and 2024, and we think we're on track for another 16% plus in line of our expectation for 2025. So fund performance can keep up with that sort of book value growth trajectory. We should be in line for some attractive returns for investors. As I say, of course, we can't promise that, but I think, given where we are in terms of the industry fundamentals and also where we are from a broader market perspective with a lot of the uncertainty going on, hopefully we can have a decent absolute and relative numbers.

And maybe one last point is that whenever you sort of look at sector funds I'm sure you know, the audience will be thinking about, timing and the like, and I think that's, you know a valid sort of question and know most of the time. But I think in some ways non life insurance is a little bit of an exception to that. And I think, sadly, very few people get excited about insurance. And except for me, of course but that really keeps valuations in the balance. There isn't, say the excitement you get sometimes in other sectors, maybe tech where you arguably see some hype and then things get overextended and therefore investors, they could put some money in, but could be vulnerable to a meaningful correction. And actually what we've seen over many years is that investing in insurance and it's all about getting rich slow. It's about sort of the steady compounding of returns. And that's been driven by the company's performance themselves.

And for me personally what I've done over the years, it is just regularly invested into the fund. And I made a significant addition only a couple of weeks ago. And you know, if we look at 2025 our performance we think we've lagged the book value growth of our companies a little bit this year. And when there's a short term disconnect like that, maybe it's a good time to get the chequebook out.

TRANSCRIPT: EPISODE 362

CS: On that positive note, which is nice. Nick, thank you very much for your time today.

NM: Fantastic. Thanks very much.

SW: There are few managers with a more detailed knowledge of their market than Nick Martin. His many years of experience working in the risk and casualty insurance markets are fundamental to the success of this fund, which provides access to this specialist and often undervalued sector. To learn more about the Polar Capital Global Insurance fund please visit fundcalibre.com