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PRESENTATION

Operator

Good day, and welcome to W. R. Berkley Corporation's Second Quarter 2023 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, beliefs, expects or estimates. We caution you that such forward-looking statements should not be regarded as 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, 2022, 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 the 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.

Breanna, thank you very much, and good afternoon all. And again, welcome to our second quarter call. Along with me on this end of the phone, we also have our Executive Chairman, Bill Berkley, as well as Chief Financial Officer, Rich Baio. And we're going to follow our typical agenda where momentarily, I'm going to hand it over to Rich, who will walk us through some highlights from the quarter. I will follow up with a few observations after Rich makes his comments, and then we will be opening it up for Q&A.

Before I hand it over to Rich, a few comments from me. Based on everything, I can see -- it would look as though the stage is being set for what one might call yet another but-for quarter for the industry. It would seem as though cat losses don't make a difference. And bizarrely, from our perspective, people seem very quick to back out cat losses as though it's not real money. But ironically, they don't seem to back out the premium associated with the exposure that just had the losses. So again, from our perspective, it's no wonder why the industry struggles oftentimes to make good risk-adjusted returns. In order to do that, one needs to recognize the exposure taking on and not pretend that it doesn't exist, particularly when it occurs.

Through our lens, we are in the capital management business. We are focused on risk-adjusted returns, and around here, cat losses count. In our opinion, it is not Monopoly money. It is real money. And when we measure how we are doing, we do not back out cat losses. Perhaps we are a bit of an exception to the industry, but ultimately, we think it is an economic reality, and that's not something we shy away from. So with that, Rich, if you would, please.

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

Of course. Thanks, Rob. Net income doubled from the prior year quarter, resulting in $356 million or $1.30 per share. Annualized return on beginning of year equity was 21.1%, driven by strong underwriting and record investment income results. Operating return on equity was excellent at 18.4%, and the heightened industry-wide catastrophe activity in the quarter enabled us to once again demonstrate our underwriting discipline in challenging environments. Simultaneously, our decision to maintain a short duration, high credit quality investment portfolio has enabled us to benefit from higher interest rates.

Net investment income increased almost 43% to a record $245 million. The core investment portfolio grew 71.6%, driven by a higher book yield at 4.2% in the quarter compared with the preceding consecutive quarter of 3.8% and second quarter of 2022 of 2.6%. Second quarter operating cash flows of $709 million, combined with the first quarter, brings us to a first half year record of almost $1.2 billion and strengthens our ability to grow investable assets at higher interest rates. A duration of 2.3 years also positions us well to reinvest assets at a higher new money rate on fixed maturity securities compared to the roll-off of existing investments while maintaining our high credit quality of AA-.

The investment funds reflected a loss of $1 million, driven by a decline in market values in certain funds in the consumer goods, real estate and financial services sectors. Please keep in mind that we report our investment funds on a 1-quarter lag. Pretax net investment gains in the quarter of $59 million is comprised of net realized gains on investments of $47 million and an improvement in unrealized gains on equity securities of $21 million, partially offset by an increase in current expected credit losses of $10 million.

Turning to underwriting results. Underwriting income was $265 million, representing a calendar year combined ratio of 89.6%. Current accident year catastrophe losses were $54 million or 2.1 loss ratio points compared with the prior year of $58 million or 2.5 loss ratio points. Prior year development was favorable by $3 million or 0.1 loss ratio points, bringing our current accident year combined ratio ex cats to 87.6%. Current accident year loss ratio ex cats was 59.5%. The expense ratio ticked up 0.4 points to 28.1% in the quarter, consistent with the expectations we previously communicated.

The 2 main contributors include the change in reinsurance structures as well as increased compensation costs and start-up operating unit expenses. We're working hard to identify and implement innovative strategies to drive operating efficiencies and leverage technology in order to reduce operating expenses across the entire organization.

Closing out the underwriting discussion with premium production. We increased gross premiums written by 9.3% to a record $3.3 billion, and net premiums written increased 8.7% to a record $2.8 billion. All lines of business grew in the Insurance segment, with the exception of professional liability and workers' compensation, while property reinsurance grew in the Reinsurance & Monoline Excess segment.

Stockholders' equity remained strong at almost $6.9 billion after returning more than $320 million of capital to shareholders in the quarter. We repurchased almost 5.1 million shares for $292.5 million at an average price per share in the quarter of $57.79. In addition, we paid regular dividends of $28.3 million. The combination of these capital-related actions for the first quarter including the special dividend translates to $614.5 million returned to investors on a year-to-date basis or 9.1% of the beginning of year stockholders' equity.

Rob, I'll turn it back to you. Thanks.

W. Robert Berkley, Jr.

Rich, thank you very much. Very helpful. So look, I think the market continues to not operate in any type of lockstep where major lines, as we've discussed in the past, continue to somewhat march to the beat of their own drum. In addition to that, we continue to see the marketplace struggling with trying to strike the balance between rate need and keeping up with loss cost trend, on the other hand, a desire to grow.

This is an industry where you can, practically speaking, grow as quickly as you want to. It really becomes a much more challenging exercise, though, when you were looking to achieve a certain loss ratio which will deliver a return that is acceptable in the end. For us, rate adequacy to support a reasonable loss ratio and deliver an acceptable return has, is and will remain a priority for us. I believe that this has been demonstrated over time through our results and, obviously, our continued focus on making sure that we are keeping up with trend comfortably.

A couple of soundbites on the marketplace and major product lines. And I would hope it will dovetail in with some of Rich's comments and where we have been growing and parts of the marketplace that we find less attractive and we're playing a bit more defense. For starters, speaking of defense, I think public D&O within the professional line space is clearly a place that one needs to pause and tread carefully. We are seeing the pricing erode at a very rapid pace. Clearly, there has been good margin in the business, but that seems to be whittling away quite quickly.

As far as liability lines and maybe under the umbrella of social inflation, we continue, particularly in the auto space or especially commercial auto, to see great challenge. That's also spilling over into GL and, ultimately, umbrella. And what I mean by that is the plaintiffs' bar is very aggressive, and they are taking a variety of new tactics. We think that we are able to keep up with it appropriately through terms, conditions, attachment points and, of course, pricing. But it is not lost on us that it is a challenging moment and requires one pay close attention. In addition to that, there is growing evidence that the tail associated with some of these product lines maybe extending a little bit, particularly on the claims -- excuse me, on the occurrence front, and to a certain extent, on certain aspects of the claims made upfront.

Property, I think it has finally come into focus what needed to happen as it relates to cat-exposed properties, and that seems to be spilling over into the non-cat or risk property account where additional rate is required. The other piece that's worth mentioning, at least through, in my opinion, is Tier 2 cat, which I would define as severe convective storm, wildfire, winter storm, et cetera. These are things that were a bit of an afterthought. And I think after the past several years, they are becoming much more front of mind.

Last comment as it relates to market conditions would be workers' compensation, certainly a topic we have discussed on these calls in the past. There was a period of time during COVID, where clearly, there was a break that was caught on the frequency front for the industry. Frequency has returned to a more traditional norm, but one of the things that we've been waiting for, and we're starting to finally see rear its head is medical inflation. It is our expectation that you are going to see more medical inflation coming through to all payers, including the workers' comp space. And as a reminder, slightly over 50% of every claims dollar associated with workers' compensation stems from medical. So again, we can get into more details on that to the extent people are interested later on.

Last comment on the marketplace. There continues to be this bifurcation between where the standard market, particularly national carriers, have an appetite. They seem to be very aggressive. But where they don't have an appetite, that is creating great opportunity for the specialty, in particular, the E&S space. The submission flow that we continue to see remains robust, and we are very encouraged with what the balance of the year likely holds and beyond. And certainly, the early returns on July are positive.

Rich talked about the top line. Obviously, we benefited from the rate increases that we continue to get, the ex comp rate increase during the quarter was 8.2%, which was reasonably consistent with what we saw earlier this year. I think the loss ratio demonstrates, yet again, our strategy around how we manage exposure, how we have balance in the portfolio and how we think about risk and return. And certainly volatility is folded into that and, in our opinion, is a key component in building book value. As far as the expenses go, Rich touched on that as well. We remain very focused on making sure we're thoughtful about the dollars that we spend, and there's nothing that leads us to believe that, that number won't remain comfortably below 30.

And pivoting over to the investment portfolio, we remain -- we continue, I should say, excuse me, to be rewarded for the position that we took as it relates to duration. Obviously, as we've discussed in the past, we benefited in having less of an adverse impact on our book value as rates moved up. And in addition to that, we were able to put money to work at higher rates more quickly than many of our peers. The new money rate in the quarter was probably around 5.25%-plus, and as you would gather, relative to the book yield at 4.2%, that would suggest we still have significant upside, and that will come into focus over some period of time. Rich mentioned the duration at 2.3, I think it was at 2.4 last quarter. Just to clarify that, that was really as much as anything, just rounding. That having been said, we are paying close attention, as you would expect, for the window of opportunity; and when it presents itself, likely you'll see that duration start to push out again.

So all things being equal, I think a very solid quarter for us on virtually every front. I think when you take into account the cat activity that the industry faced, we fared particularly well. And in spite of that, our ability to generate a 21% return, I think, is really a great positive and a tribute to our colleagues and to our strategy and how effectively they are executing. When the day is all done, the goal of the exercise is to build book value. There is no question that is the goal. Ultimately, it's when building book value, it is not just about the steps you take forward. It is also about the steps you take -- that you avoid taking backwards.

So with that, Breanna, we'd be very pleased to open it up for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

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

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

My first question, Rob, is on the underlying combined ratio, the 87.6% in the quarter. I was just curious if there was anything one-off in that number. I know the last couple of quarters, we've seen some elevated non-cat fire losses that you guys have called out. Was there -- were there any similar losses in the quarter or anything within that 87.6% we think about the level of margin we could see in the balance of the year?

W. Robert Berkley, Jr.

That pig is still making its way through the python. I don't have a specific number for how much it contributed, but it is reducing, if you will, but it did play a role. I think the other piece is just general mix as well in the portfolio. As you can see, it shifts a little bit every day as far as the underwriting portfolio. But yes, there was a little bit of non-cat property in there, but it is diminishing.

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

And then in terms of the mix, right? So your rate ex comp in the quarter was 8.2, right? We can call that stable with the 8.3 last quarter. And I would have thought, like given we've heard of a lot of strength within property in the quarter that you might have seen the rates move up a little bit. Is that just a function of mix?

W. Robert Berkley, Jr.

Yes. I think it's a function of mix. And certainly, we are benefiting as much as anyone on the property front. At the same time, there are clearly challenges for workers' compensation. And you can see that and, quite frankly, how much we are growing or not there. And on the professional liability side, as Rich flagged as well, D&O is very competitive. So the number that we give you is an aggregate, obviously, but I can promise you that we are getting good traction on the property front. And the more cat exposed it is, the more traction we are getting, and it's significant.

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

And then one last one. The PYD, you guys said was favorable $3 million. I know you guys typically wait for the Q to give insurance versus reinsurance. But could you give us a sense of the magnitude in one segment versus the other?

W. Robert Berkley, Jr.

Honestly, relative to the reserve position in both, it was de minimis. I think one -- I don't have the number exactly in front of me, but one was a little bit positive and one was a little, I think, modestly negative, if [bad].

Operator

Your next question comes from Alex Scott with Goldman Sachs.

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

First one I had is on the reserve sort of a follow-up on the PYD question. In your commentary, you mentioned occurrence and the tail potential yet extended. You mentioned plaintiffs' bar and medical inflation and so forth. I mean I would think all of these things would potentially put pressure on some of those reserves. Can you talk about why you didn't feel like you needed to make adjustments, sort of confidence in those reserves despite some of those headwinds that you see?

W. Robert Berkley, Jr.

The answer is because a lot of what you -- I was referencing and you just referenced are things that we have been anticipating. And when people have been asking us, why aren't you dropping your current accident year? Why aren't you dropping your loss ratios? Because there's a lot of uncertainty out there. So we feel very comfortable about where we sit at this stage. We revisit and look at our loss ratios by product line at a very granular level with some regularity, that being every 90 days. And we think we are in a good place to be able to absorb what we are seeing.

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

Got it. And then a follow-up, maybe just a high-level question on excess and surplus versus standard lines. I know in the past you've talked about standard lines and a lot of things going over. I mean we're certainly hearing about it in personal lines. I mean can you help us think through that end and just how that's been going in the last quarter and where you're seeing opportunities?

W. Robert Berkley, Jr.

Our E&S businesses, their submission flow is very robust. And again, we are -- there's nothing that leads us to believe that the market, by and large, and the lines that I talked about is softening in any capacity. There's a lot of momentum out there not just in the property, but in the liability, including pockets of professional. That's why I called out D&O, in particular, because that is a particularly challenged line. That's why I called out workers' comp. It has been very competitive for an extended period of time. But much of the rest of what we do, we are seeing very strong submission flow.

Operator

Your next question comes from Mike Zaremski with BMO Capital Markets.

Michael David Zaremski - *BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst*

A follow-up on the question from Elyse in your comments about maybe about some non-cat property losses, and you, Rob, used that comment, the metaphor about the pig through the python. So are you saying that some current year property losses led into the underlying -- this -- from last quarter to this quarter? Because I thought you used that term when we're talking about kind of a reserve tail.

W. Robert Berkley, Jr.

No. What I'm talking about is that during the quarter, there was some non-cat property losses that contributed to the loss ratio. That is what I'm referring to. That is less elevated than what we've seen over the past couple of quarters, but more elevated than what we've seen historically. And the actions that we are taking, we believe, are taking hold, but it takes a little bit of time for that to work through the book in its entirety.

Michael David Zaremski - *BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst*

Okay. Okay. Good. And so that makes sense. And just curious, lots of your competitors call out and helps us -- tell us non-cat property was 2 points higher or 2 points less than expected. But Berkley has a smaller property book than some of those competitors. So just curious, are non-cat property losses, is that many -- is that 10 points of your loss ratio? Or are we talking kind of normal, it would be a [low active number of points] from the loss ratio?

W. Robert Berkley, Jr.

No. Property is not a huge part of our book, and no, it would not be anything approaching what you -- the number that you were referring to.

Michael David Zaremski - *BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst*

Okay. And a follow-up on -- you made some interesting comments on some growing evidence that the tail is elongating on occurrence, but maybe also at claims made. Just curious if you can elaborate because when we look at -- I thought last time we looked at your -- the statutory pay to incurred loss ratios, we couldn't see that. And I also noticed you didn't give us an update, I don't know if you want to, on just how paid-to-incurred loss ratios are trending for you all.

W. Robert Berkley, Jr.

So as far as what we're seeing coming through, it was really more of a comment as far as the tail elongating based on discussions that we're having with our colleagues on the claims front and what they are seeing. So are we going to start to see it in the data? Yes. But one of the things that we try and do is not just wait to see it in the traditional actuarial data, but we're visiting with colleagues trying to understand what are they seeing very much on the front lines because that's the leading indicator as to what to expect.

I think the plaintiffs' bar is as aggressive as ever. And oftentimes, what they are trying to do is wait till the eleventh hour and then put forth a demand and try and create a situation that is optimal for them. But when -- I think we understand what they're trying to do and we are managing through it. So do I think that this is going to be a radical sea change? No. But are we conscious of it? Yes, we are. And I do not have the loss ratio in front of me, but we will follow up with that for you, Mike.

Michael David Zaremski - *BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst*

Okay. And I guess lastly, we've obviously -- we and others value your insights. So when you're -- you've been talking a lot about medical inflation is brewing. In the CPI data, at least, it looks like it's inching higher, but still looks a bit tame versus historic levels. Is this thesis kind of based on --

similar to what you just said about just talking with your folks on the front lines and understanding the macro and kind of you feel that there's going to be more inflation coming? Or are you actually seeing it? For example, and I'll be [quiet], Travelers commented today that the workers' comp inflation is still negative overall for them.

W. Robert Berkley, Jr.

I think the frequency trend is very attractive. I would -- I think as far as the medical trend goes, I don't believe that it's a negative, and I believe it's going to be ticking up, and that's just based on industry data that is available. I think if people choose to dig in, they will find out.

Operator

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

Joshua David Shanker - *BofA Securities, Research Division - MD*

So my first question, I just been asked a little bit -- earlier today, one of your competitors or maybe not completely a competitor, they reported a significant acceleration in the renewal price change for business written and they said it was pretty broad in their portfolio. And then, that said, 8.2% renewal price change is insignificant, but it's fairly stable with what it was last quarter. Has anything -- the mix changes over time, but would you say the market today is materially different than the market 3 months ago? Has anything you identified happening dynamically right now in the pricing of business?

W. Robert Berkley, Jr.

I think more people are starting to realize that they need to do something about rate. So I'm not going to comment specifically on other market participants. But whoever it is that you may be referring to, maybe they just recognize that they need more. And that's why they decided to put their foot harder down on the pedal. We had a view as to what we need and what rate adequacy is for some period of time and we feel comfortable where we were. It's consistent with where we -- what we believe we need today. So again, I think that we feel as though that we're in a pretty good place.

Joshua David Shanker - *BofA Securities, Research Division - MD*

Okay. And if my model is right, I think the quarter enjoyed the most share repurchase you've done on dollar value basis anytime in 15 years. It suggests to me that you probably find the stock attractive at the current value. At the same time, this quarter, you did a 15%, 16% operating ROE in a quarter with a lot of cat losses and poor results on the investment fund portfolio, which I think is a pretty good result given the headwinds.

W. Robert Berkley, Jr.

Did you say poor results in the investment portfolio?

Joshua David Shanker - *BofA Securities, Research Division - MD*

I mean the investment funds portfolio.

W. Robert Berkley, Jr.

Okay, yes. Okay, yes. Understood.

Joshua David Shanker - *BofA Securities, Research Division - MD*

Yes. Yes. And I mean that's volatile. We know it is. But I think it's a pretty good result. What I'm saying, you have a lot of headwinds and you still had a good result.

W. Robert Berkley, Jr.

Yes.

Joshua David Shanker - *BofA Securities, Research Division - MD*

The repurchases are a choice, but they're also a cost. You could have put that $300 million into more underwriting, but you bought back the stock instead. Can you walk us through, I guess, the capital utilization model and how you think about the trade-off between the value of Berkley stock and the value of putting money to work in the 2023 insurance marketplace?

W. Robert Berkley, Jr.

Yes. Sure, Josh, and thanks for the question. And if I keep it too high level, we're very happy to catch up offline. But ultimately, we look at the business today, we look at where things are going tomorrow. We want to make sure that we are well positioned from a capital perspective to have not just what we envision our need are, but plus a cushion. And when the day is all done, to the extent that we have a surplus of capital beyond what we have today, plus -- beyond what we need today plus and see we need tomorrow plus a cushion, then we're going to think about what's the most efficient way and effective way and thoughtful way to return that to the people that it belongs to, that being the shareholders.

Obviously, there are different tools that we can use to return that capital. Part of the analysis when we think about the returning of the capital is not just what do we think the value of the business is today and what is our view on what real book value is, we also think about what the earnings power of the business is for the foreseeable future. And then we make what I believe is a thoughtful decision, with all of that and a few other things taking into account the best way to return the value to the shareholders.

So that's sort of a long story short. Do I believe that we are able to continue to grow the business at a pretty healthy pace? Yes, I do. Do I believe that we're going to be able to continue to generate very healthy returns? Yes, I do. Do I think we'll be able to do that with an eye towards risk-adjusted return and do it in a consistent way? That is certainly the expectation.

So if you want to get a bit more into the details, we can try and do that offline. But we are not going to just try and hold on to capital that we don't need. In addition to that, we're conscious of what the capital needs will be in the future, and we're aware of the fact that certain rating agencies are reexamining potentially what their view is going to be, and we have a view as to what that may mean for us.

Operator

Your next question comes from Mark Hughes with Truist.

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

I appreciate the call. On the Reinsurance segment, your loss ratio was pretty low, hasn't been that low in a while. Is that just good experience in the quarter? Or is this maybe the impact of cumulative rate increases over the last few years?

W. Robert Berkley, Jr.

I think it's a combination of both good underwriting and a job well done by many of our colleagues. And again, we also had a bit of positive development coming through there.

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

And then in the GL line, you had a nice acceleration sequentially back up into double-digit growth. You'd mentioned the challenges around the plaintiffs' bar and the inflation, but you seem to be enthusiastic. Any additional commentary about what you're seeing in GL?

W. Robert Berkley, Jr.

Look, we -- places that we're growing, it's because we like the opportunity. I would tell you, a meaningful amount of the growth in that product line is coming from our colleagues that are managing E&S businesses.

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

And then finally, the casualty re was down, presumably a judgment on your view on -- again, on the plaintiffs' bar. But is that something you'd probably likely to shy away from here in the foreseeable future?

W. Robert Berkley, Jr.

No. It's not so much the plaintiffs' bar, though. Obviously, that's a contributor to how we think about loss cost and trend and rate adequacy. But it would seem as though the reinsurance marketplace struggles to have discipline across the board. So just as they're getting more disciplined in the property space, would seem as the professional and liability space may not have the same discipline it had yesterday.

Operator

Your next question comes from Ryan Tunis with Autonomous Research.

Ryan James Tunis - *Autonomous Research US LP - Senior Analyst of Property & Casualty Insurance*

First question, just on reinsurance. The attritional loss ratio improved quite a bit there. Maybe you could just talk a little bit about either the sustainability of that or the drivers this quarter?

W. Robert Berkley, Jr.

Yes. Look, we're pleased with how the business is performing, Ryan. We're not going to get into a whole lot of minutia around that. But we think that the various businesses that make up that segment have positioned themselves well and they're reaping the benefits from it. And we think that it's likely that for the foreseeable future, that we'll continue to see good performance. That having been said, as I mentioned a few moments ago, there was some positive development; and that came out of one of the operations in that segment, which was helpful.

Ryan James Tunis - *Autonomous Research US LP - Senior Analyst of Property & Casualty Insurance*

Got it. And then I guess in the Insurance segment, just thinking about growth. Yes, it seems like some of the primary carriers are growing quite a bit more than what the level of rate increases are. And some, like you, your top line growth looks more similar to the type of rate that you're reporting. So I was wondering if maybe you could talk a little bit about, I guess, why we're not seeing something a little bit from a growth standpoint on top of the rate. Is it -- is retention lower than it was a year ago? Are you writing less new business? Just, I guess, give us a look into that.

W. Robert Berkley, Jr.

When you look at the group, we're a bit of a bouquet. And there are certain parts of this group that are growing very rapidly. So for example, many of our E&S businesses are growing at a very healthy pace, to say the least. And there are other parts of the organization that are growing as well. But we're believers in underwriting discipline. And as you can see in the release, there are parts of the business that are growing quite quickly, perhaps in keeping with your comment relative to some others. And there are parts where we're just going to be more disciplined. So you would have taken note that workers' compensation, we are concerned about how competitive that marketplace is.

And even with the growth in payrolls that we've seen, we are -- I would suggest in somewhat of a defensive mode. A similar story when it comes to professional liability, and we're kind of scratching our head around public D&O. If you want to talk about the reinsurance, obviously, the casualty reinsurance is down a little bit, and the monoline excess is up incrementally. So I think that -- and I can appreciate why people might look for a broader brush, but we're looking at our business and we're looking at each part of the market that we participate in with a very fine brush. And we are trying to make sure we make good decisions in every pocket.

And when you add up all the pieces, this is where it came out. Do I think that there is opportunity for there to be pockets of further momentum? Yes, absolutely. But I think that when push comes to shove, that's just the reality of when you put all the pieces together, this is where it came out.

Ryan James Tunis - *Autonomous Research US LP - Senior Analyst of Property & Casualty Insurance*

Got it. And then just following up, we've heard I guess, partially in response to the softer professionalized pricing market, there's been a more diverse set of players that find the cyber line attractive. Would you count yourself among that? Or has cyber been a big growth area for Berkley?

W. Robert Berkley, Jr.

It's not a big growth area for us these days. There were moments in time where we found it to be very attractive. And then to your point, we saw a lot of people coming into the space. And again, we have the underwriting discipline that we're not going to do foolish things. So have we ever been a giant player in the space? No, we're careful and selective and we're conscious of how to manage the systemic exposure that comes along with that product line. But clearly, cyber has become a more competitive market, and we have a view as to what an accurate rate is and appropriate terms and conditions. And we will draw the line in the sand and stay on the right side of it.

Operator

Your next question comes from David Motemaden with Evercore ISI.

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

So I had just a question on these fire losses. Just had a question just in terms of how far along we are in fixing that and specifically how many more quarters would you expect this to really have an impact on results?

W. Robert Berkley, Jr.

I think you're going to see it having a diminishing impact on results between now and the end of the year, and it will be diminishing gradually.

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

Got it. And then I guess, I'm assuming that the shift in mix, just sort of excluding the fire losses, the shift in mix would mean that something in the neighborhood of the loss ratio ex cat, ex reserve development is somewhat of a sustainable level just given the mix shift is obviously enduring. Is that the right way to think about it?

W. Robert Berkley, Jr.

I apologize, but I'm not sure I fully understand the question. Could we do that once more, please?

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

Yes. So looking at the 59.5% accident year loss ratio ex cat, you cited mix as a sign as to why one of the reasons why that was at that level and it deteriorated a bit year-over-year. Obviously, in addition to the fire losses. Is that something -- just given the mix is obviously a more sustainable change, is that something we should expect around that level for the remainder of the year?

W. Robert Berkley, Jr.

I can't answer the question with certainty, but we think that ultimately, the way the portfolio is running and our ability to deliver a 90 combined or better and then 18% or 21% return, depending on how you look at it, feels like we're in a pretty comfortable spot. Do I think that there's the opportunity for the 59 to potentially improve a little bit? Yes, I do, but we're not going to push the envelope unnecessarily and set the stage for disappointment in the future, particularly in an environment that's as complicated and volatile as this. We just don't think that's in the best interest of anyone. So we're -- in our book, at least, achieving very healthy outcomes for stakeholders while still ensuring that we are not putting undue pressure on the situation. And that's a good place to be, in our opinion.

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

Got it. And then maybe just a follow-up. Obviously, not a big impact on the entire book with the $3 million of favorable reserve development. But you guys have been on top of the 2019 and prior casualty lines. Can you just talk about any changes you may have made to those lines for those years in the second quarter and how you feel about your reserving position there going forward?

W. Robert Berkley, Jr.

Yes. I mean you'll see more detail when the Q comes out. And to the extent it leaves you scratching your head, we're happy to catch up offline. But I would tell you, we feel very good about where our reserves are, and we think they're well positioned to endure some of the things that we think either are ahead of the industry. And again, I think there's been a lot of chatter amongst some observers as to given all the rate we've gotten, why haven't we dropped our loss ratios more, and it's because of all the uncertainty. So when the day is all done, do I think that we're in a good place? Yes.

When push comes to shove, if you look at the average duration of our loss reserves there, give or take, 3.5 years. So if you think about that and you think about what that probably means as far as how far along that '16 through '19 year is, those years are as far as development, I think that things are -- that would suggest things are quieting down. And of course, as far as the more recent years, we are feeling as though that they're an exceptional place.

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

Got it. And then maybe if I could just sneak one more in, just on that last point, the more recent years. I know you had mentioned on the last call that you guys have been measured in terms of how quickly you recognize the progress from 2020 onwards and that could have implications for how you think about loss picks as you make your way through 2023 and into next year. Have you updated this view at all? This most recent quarter, just thinking about some of the comments you made about lengthening tails on occurrence and [claims-made form].

W. Robert Berkley, Jr.

Obviously, the tail comment has applicability in different ways to different product lines. I think some of the comments, if I recall correctly, and maybe I'm mistaken, that you may be referring to would stem from policies that are written on a claims-made form. And when you write on a claims-made form and there is no notice, then that chapter is closed. So putting that aside, to the extent that you do have a notice or you have an occurrence form, then you need to spend some time thinking about how do I think about that tail extending or not. So we, as you would expect, bifurcate the book as we examine it in a variety of different ways and look at it at a very granular level. But I think perhaps what I was just referring to may touch on what you had been raising.

Operator

Your next question comes from Yaron Kinar with Jefferies.

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

If we could look at the insurance underlying loss ratio, I think you said that the impact of the non-cat fire losses has diminished a bit year-over-year -- or quarter-over-quarter, sorry. And I think that the overall year-over-year result was greater deterioration than what we had seen in the prior 2 quarters. So I guess what else is driving that today? Is it that you have fewer favorable offsets relative to previous quarters? Is it mix? Why are we seeing that?

W. Robert Berkley, Jr.

Putting aside the property piece, to your point, I would say the leading contributor to the question you're raising is mix of business: different product lines, say, different loss ratio picks.

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

Okay. But I guess on that front, it seems like you are growing the short tail lines faster than most of the other businesses I would have thought those may have a lower loss ratio, underlying loss ratio. Or am I not thinking about that correctly?

W. Robert Berkley, Jr.

Some of them do and some of them are -- hold on, I'm just pulling out a couple of papers. Why don't we, as opposed to me fumbling through our papers, why don't we catch up offline?

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

Okay. Fair enough. And then I'll admit I'm intrigued by your comment, and I think it's not the first time you've made it about the kind of the but-for approach that the industry has with regards to cat losses. I am curious if we look at the underlying combined ratio that the company reported, the 87.6%, what would that be without the cat-exposed net premiums earned?

W. Robert Berkley, Jr.

If we backed out? I'm not sure I understand the question, sorry. What would the 87 be without what?

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

So I think in your opening comments, you said the industry uses but-for approach and removes catastrophes, but doesn't take out the catastrophe-related premiums.

W. Robert Berkley, Jr.

Right.

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

So what would that be -- what would the 87.6% be for Berkley this quarter if we made that adjustment?

W. Robert Berkley, Jr.

Well, we don't really spend a lot of time doing that because we don't fool ourselves that cat losses don't count.

Operator

Your next question comes from Brian Meredith with UBS.

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

So Rob, just curious, property reinsurance, huge growth in the quarter. Is that you all leaning into the cat reinsurance market? Or is there something else going on there?

W. Robert Berkley, Jr.

That is us seeing opportunity in the property reinsurance marketplace. Certainly, cat is a meaningful component of that. And while it's not -- having an overwhelming impact on the group overall, it's certainly a window of opportunity that we're going from a toe in the water to maybe a foot plus in the water. So the short answer is yes.

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

Good. That's helpful. Second question, I'm just curious, Rob, you talked a little bit about pricing. You talked about D&O being challenging and some pressures you're seeing in commercial auto. I wonder if you can kind of bifurcate a little bit in what you're seeing kind of large commercial and then as you work your way down middle and small. Is it more competitive kind of in the excess liability for larger companies? And as you get down less, any differentiation?

W. Robert Berkley, Jr.

As far as the liability lines, the larger the account, by and large, the more competitive it is at this stage, and that -- and there's our benefit because by and large, we are a small and middle market player compared to many of our peers. But yes, clearly, there is growing competition -- or is more visible with larger accounts.

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

Got you. And I'll just throw one more in here. I'm wondering if maybe you can characterize your primary commercial property book. When you write commercial properties, is that cat-exposed stuff? Is that regular homeowners? What exactly are we looking at when you're seeing that growth in your commercial property book?

W. Robert Berkley, Jr.

So in the commercial property book, it's a combination of a variety of different things. Certainly, there's a piece of that in there that's associated with Berkley One because probably we'll be splitting that out as that grows. In addition to that, we certainly write a bit of property that is cat exposed on the commercial line side. And -- but much of it is not a Tier 1, if you will, cat-exposed property.

Operator

Your next question comes from Meyer Shields with KBW.

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

A couple of really quick questions, I think. You talked about medical inflation, but if I understood your comments correctly, that seemed to be mostly emerging in workers' compensation. And I was wondering whether you're seeing the same sort of pickup in medical costs in, I don't know, commercial auto or medical malpractice?

W. Robert Berkley, Jr.

So it is -- as far as medical malpractice, I would separate that as to -- that's a different issue. But as far as the medical costs go, as far as what is the Band-Aid cost today versus what does it cost yesterday for an injured worker, our expectation is that, that is clearly on the rise. Are you going to see it in other product lines? Yes, but to a much lesser extent because when you think about a claims dollar, medical plays a far more significant role with workers' comp than any other product line that we're in.

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

Okay. Perfect. That's helpful. And then early on, I guess, in Richard's comments, you talked about -- well, I guess, I don't know if it's his or your commentary, actually, but the expense ratio [sit] comfortably below 30. Was there any in the quarter's expense ratio that benefited it? Basically, the premise of the question is that comfortably below 30 doesn't even seem to be that high of a hurdle to achieve.

W. Robert Berkley, Jr.

I think we're just trying to give people guidance for the long run. And ultimately, our expense ratio can, at any moment in time, be adversely impacted by investments that we are making, whether that be in technology or whether that be in a new business that we are starting that's early on or in its infancy. So I think we're just trying to give people guidance as to what they should be expecting going forward longer term.

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

Okay. Fair enough. And then one final question, if I can. I know it's really early in the third quarter, but there's been a school of thought out there that maybe once we went through a full year of professional liability rate decreases that they would calm down. Based on your comments, it doesn't seem like you're seeing that...

W. Robert Berkley, Jr.

Are we talking specifically about -- are you referring to the public D&O?

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

Absolutely, yes.

W. Robert Berkley, Jr.

Yes. There's nothing that we're seeing as of now that would suggest that it's bottoming out, or let alone, pivoting.

Operator

Your next question comes from Scott Heleniak with RBC Capital Markets.

Scott Gregory Heleniak - *RBC Capital Markets, Research Division - Assistant VP*

The first question I had was just on the investment funds. You had a loss there in the quarter. And I'm just curious if you have changed any allocations there? Or just any kind of update on what's going on there in the strategy for that -- for the second half of the year and into 2024, if there's any change in that thinking.

W. Robert Berkley, Jr.

Yes. Look, the -- just to qualify that a little bit, certainly, we weren't happy with the performance, but the loss was about $1 million or so. And what is driving that? It was primarily a participation in some alternative investments or private equity specifically, where there were some marks that they took down on some investments and then that trickled through to us. How do we see that unfolding from here? We'll let you know. But at this stage, I think that we're comfortable that people are taking the action that they need to take to make sure that those funds are appropriately marked, but we're dependent on getting that information from the managers.

Scott Gregory Heleniak - *RBC Capital Markets, Research Division - Assistant VP*

Okay. Were those marks significant then for the quarter for the alts? Is there a number that you had on there?

W. Robert Berkley, Jr.

You can follow up with Rich or Karen for the specifics, but it was enough to take what's been a reasonably healthy run rate and bring it down to essentially zero.

Scott Gregory Heleniak - *RBC Capital Markets, Research Division - Assistant VP*

Yes. Okay. Got you. And then just one more question. You mentioned there'll be a window of opportunity to deploy capital into higher-yielding securities in your durations at 2.3 years now, and I'm just wondering if we might be getting close to that window of opportunity and how you see that playing out as well.

W. Robert Berkley, Jr.

It's certainly our hope and we're waiting for that to occur. And yes, we think it's coming, but it may take some time. And ultimately, as in everything we do, we're focused not just on risk-adjusted return, but we're not going to -- in an effort to -- we're not going to compromise, if you will, in a foolish way. And again, we are eagerly looking for the opportunity to allow us to extend that duration out a little bit. But right now, we are getting reasonably well rewarded for the position that we've taken.

Operator

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

Joshua David Shanker - *BofA Securities, Research Division - MD*

I'll give one more question, but I don't know if I can get a great answer. Can we talk about share repurchases versus special dividends and how you think about the value of doing both those things?

W. Robert Berkley, Jr.

Josh, I think that was a pretty good prediction on your part as to the quality of the answer, at least that you'd get from me. But why don't I hand it over to our Chairman, who also moonlight as our Head of repurchase.

William R. Berkley

Josh, so I think that it's a constantly changing thing. It's based on the opportunity at any point in time. We will never do either if it precludes us from investing the money in the business opportunistically. So we will never do any of those things if they constrain our management of the business. At the moment in time where we think we're generating extra capital and we look ahead and see that we're going to have extra capital, we'll then make the judgment as to the share values, sort of looking out ahead versus the kinds of returns we think we should get to give our shareholders money. There's not an absolute rule, I think, that when the stock gets down to what we would say is an attractive price, we sort of -- we pay that, and it just got, relatively speaking, more attractive price until you go back probably -- certainly more than 15 years.

So we were more inclined to do it. And it's a judgment we make each time we decide that we think we're going to have excess capital for a period of time as far ahead as we can see. And we try and make the judgment at that point in time, the stock price versus what we view as the intrinsic value of the enterprise. And we look ahead. So it's not that there's an absolute rule changes as we look at where we are, we're -- our leverage is a lot more stable now.

We have the longer-term debt. We don't have any of those kinds of uncertainties that we had before. So there's not really a single rule that we go by. It's really looking ahead and saying, how do we think we'll best treat the shareholders by using the money effectively. And that obviously has to do with the price of the stock relative to the intrinsic value of the company.

Operator

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

W. Robert Berkley, Jr.

Okay, Breanna, thank you, and thank you all very much for joining the call. Again, I think this was a moment where the company once again demonstrated its ability to manage risk and to focus on return and recognize that volatility is an important piece of that. We will look forward to speaking with you all in about 90 days. Thank you.

Operator

This concludes today's conference call. You may now disconnect.