# Investor Day Transcript

## June 15, 2022

**Mac Armstrong, Chief Executive Officer, Founder and Chairman of the Board**

Welcome, everyone. Thank you for attending Palomar's Inaugural Investor Day. We are thrilled to have you. We are really excited to walk you through a comprehensive overview of the business and afford you the chance to meet several members of our team. We have a fulsome agenda. We are going to be brisk, but we also will give you the chance to ask questions in a few different windows. And obviously, over the course of lunch, feel free to engage with our team.

I will not read this in its gory detail, but just a reminder that this presentation does contain forward-looking statements about the business. And there are also prospective remarks around the future conditions and potential opportunities within Palomar. Feel free to read this at your leisure, but just remember that this will indeed contain a fair bit of forward material.

For today's speakers, we have several members of our terrific team. You'll hear from a good portion of them. We also have other members in attendance who will be able to answer questions from everything around our casualty strategy to actuarial science to technology and the like. Unfortunately, Mr. Chris Uchida is remote, but he will be participating via Zoom, some may say that's a good thing, others will miss him. I won't say which camp I'm in. As you can see, the agenda is fairly detailed. I'm going to kick things off with just an overview/refresher on the business. The objectives for the day, I will go into what we think makes us a differentiated business and a leader in the specialty insurance market as well as introducing our long-term/intermediate strategy that we're calling Palomar 2X.

With that, let's get into it. The Investor Day, what are we really looking to accomplish? To me, the goal is twofold. First and foremost, we do want to introduce you to Palomar 2X, which is our intermediate-term objective of doubling the underwriting income of the business via organic growth in the intermediate term. Secondly, we just want to instill in you, what I would say is a confidence, a shared confidence that the management all has and our ability to execute on the plan that is Palomar 2X and also give you confidence that this is a plan that founded on an operational model that has guided us since our founding, that's replicable and proven and very formulaic.

Additionally, we do intend to provide you with the comprehensive overview of the business, as I said, some of the near-term strategic initiatives, and also importantly, introduce you to what I believe is a world-class team of professionals to give you a sense of the competence that they possess. If we are successful today, I think, you'll walk away with a few different takeaways, most notably that we have considerable room to grow organically, whether that be in the core earthquake franchise or in numerous other products. We do indeed have best-in-class talent and we are attracting and continue to attract best-in-class talent.

We have a replicable proven model that we apply to new markets as we enter them as well as the existing markets that we currently operate. We're innovative and adaptive not

only to the products that we build, but also to market conditions as they may influence the product suite. And then most of all, hopefully, that we're a market leader, one that our trading partners trust, respect and view as someone that they can grow with. This is the objective for the day. And again, I'm highly confident you'll walk away with those shared objectives and those are takeaways.

Just a bit more on the business. A lot of you are rather familiar with us, but for those that need some type of a refresher, Palomar, we are indeed an innovative specialty insurer. We want to marry data analytics, underwriting acumen and technology to develop and operate products that we feel are disruptive and that can take share in dislocated or specialty market segments. This approach obviously was first applied to the earthquake market, and where we have now become a national leader. It's our largest line of business, and we are viewed as best-in-class in that segment by reinsurers, producers, other insurers, and our policyholders. We have a comprehensive suite of products that are written on both at admitted and E&S basis, and those products are also both addressing both residential and commercial and personal lines, so residential, personal and commercial business.

We distribute those products through a multichannel, what we call open architecture model and one that if a risk fits in our underwriting box, we are agnostic on how it comes to us. The products that we have are buttressed by a comprehensive and conservative risk transfer strategy that simplistically is crafted to really limit our exposure to major events and reduce earnings volatility. And lastly, we think that we have an attractive culture, a world-class culture that attracts best-in-class talent and it's a culture that leads by example. And I think that's best exemplified by our commitment to ESG and matters of diversity and inclusivity.

This next slide just gives you a sense of how far Palomar has come in its eight years of existence. As I mentioned previously, we first look to apply our data-driven analytics approach to underwriting and the product framework that stems from that to the earthquake market. Earthquake remains our largest line of business at over 40% of gross written premium, but we have made significant investments in scaling the business and diversifying since our founding. And we've grown from one peril and one state to what I would say is a diversified insurer that's offering admitted and E&S products across a range of exposures in perils and lines of business for that matter.

We've grown the premium base to over $600 million since our formation eight years ago. We've launched an E&S company. We're building Inland Marine franchise from scratch. We've exited unprofitable segments. And last year alone started three new divisions, the general casualty, the excess property and professional liability segment as well as commercialize our fronting business and then guided The Street this year to $80 million – $85 million of adjusted net income.

I think it's important to point out that a lot of this growth and the investment came during the pandemic because it was really premised around this replicable approach, that's a formulaic approach that we'll describe in more detail, and we'll walk you through today.

It's been a good 8 years. We've come a long way, but we're only getting started and I look forward to kind of rolling this slide forward a few years and the next iteration of the Investor Day and the like.

Our strategy really is premised around our ability to combine analytics, underwriting acumen and talent and technology to create these flexible differentiated products that resonate with our trading partners and importantly, our policyholders. While our scope has changed and the organization has grown and matured, our approach and philosophy hasn't changed. What we're really trying to do is uniformly apply this replicable approach consistently to all lines of business. What we really look to do is identify markets that we view are attractive whether it be due to a need for innovation, some measure of dislocation or economic potential.

We develop flexible products that can be applied to both commercial and residential or personal lines and written on an E&S or admitted basis. We have an underwriting framework that should scale. It's often informed by a black box underwriting technology-enabled solution. It should be automated and straightforward in its complexion and portfolio. What we're trying to do is write what we know. You're going to hear that a lot today. The exposures that we take on, we understand. We have a comprehensive familiarity and understanding, and we know what to avoid as well. We want to write what we know.

Once this underwriting framework of box is established, as I mentioned previously, what we try to do is build a multichannel product specific distribution model that could include wholesalers, it could include program administrators, it could include retailers, but once we establish the box, we're going to have a multichannel approach to aggregating risk. And then the products are supported by a comprehensive reinsurance strategy. While one line is never 100% translatable, all of these attributes in some way, shape or form can be applied to another. The majority of our strategic approach is indeed replicable and we feel reduces the margin of error, and obviously, the failure rate associated with the product launch.

Turning to the next slide. I want to just check-in on several of the strategic initiatives that we put into place over the course of 2021. You'll hear a lot about these today and you'll get more detail, but we think it makes sense to just give you a quick synopsis considering there were several material investments made during the course of 2021. Notable endeavors included the build-out of PESIC. That was spun up in August of 2020. PLMR-FRONT, which we launched officially at the end of the third quarter of 2021, and the launch of our casualty and excess property divisions. Again, these efforts are going to be detailed later in rather fulsome detail, but I want to just trump with the respective success that we've all had.

As I mentioned, PESIC was about almost two years ago now in August of 2020, and it has achieved terrific traction in its short history, and it's predominantly come through our core property franchises like earthquake and Inland Marine. We've been able to take advantage of attractive market conditions. We've also been able to use PESIC to expand

our distribution footprint and roll out new products beyond our heritage and core property franchise. The promise and strong results are best seen by the growth. In the first quarter, we grew 180% year-over-year and exited the quarter on a $160 million run rate. Long term, we think that the E&S company can be 50% of our business and the majority of our commercial lines.

PLMR-FRONT was commercialized in the third quarter of 2021. We had operated as a front historically in other segments of the business, but it was really in the third quarter where we made a full-suited effort to enter this segment and leverage existing talent that we had in-house. In the first quarter, we did over $30 million in premium with an average fee of close to 6%. PLMR-FRONT really allows us to generate a high-margin diversifying fee income stream. But furthermore, it affords us the opportunity to what I say, conduct kind of risk-free market diligence and R&D for future lines of business. I think that is really important right now when you look at the backdrop of the migration of talent in the insurance industry to MGAs and the need for those MGAs to find a fronting solution and someone that could potentially bring them incremental reinsurance support, something that we are very capable of doing. So very strong secular trends in this segment that we think we can capitalize on.

The casualty division, you're going to hear a lot about that today was launched in 2021 with the hiring of a long talented and long-tenured product expert, Ty Robben, Ty is here today. He joined us from American Financial, the Great American Insurance company subsidiary, where he had a large book of profitable casualty business. What we really bring to Ty and any of our talent that we bring on board is infrastructure, and that's technology and systems, it's back-office support, it's distribution and reinsurance. We allow the product experts to focus on underwriting and distribution build-out, things that they're good at, things that they'll like to do. We're just starting to write casualty business right now, but we don't need to set the world on fire from a production standpoint. We're taking a very deliberate approach to this line of business and all of our new lines of business employing quota-share reinsurance that allows Ty to write good business but not live in fear of a shock loss.

Excess Property is launching this quarter and it's launching into a dislocated market where capacity is constrained and pricing, frankly, is rather attractive. In this instance, our leader, Joel Usry can leverage our data analytics and reinsurance expertise to bring his long-standing distribution partners, this is a 20-plus year successful executive in this segment, new capacity and differentiated products in non-cat-exposed large property accounts. We're launching full scale this quarter with a facultative reinsurance solution and expect to have quota share and third-party capacity in place supporting us in Q3. As always, we started with talent. And today, you'll meet the executives and hear from them who are guiding all these initiatives, but you'll walk away impressed with the leadership that we have and what they're going to be able to accomplish.

The initiatives of 2021 really form a key component to what we think is a four-pronged strategic approach to 2022. And I've highlighted these in the first quarter earnings call, but I think they're worth reiterating. Because if we simply execute on these items, we'll

not only be well positioned and perform well this year, we think it positions us well in the long-term and intermediate future. The first objective is to sustain our strong growth, certainly both top and bottom line. Secondly, we want to monetize the investments that I just detailed and others that may have predated them, that are still in their infancy. We want to enhance our earnings predictability. And then, of course, we want to scale the organization. That fourth one is when we're going to probably have at next year's or the year after's Investor Day and it will be a strategic initiative for a long time.

Fortunately, we're off to a good start on all these measures. Top line, we grew 65% with Residential Earthquake. Our largest line growing 29% and generating record new business. Jon Christianson will go into that in more detail. Other strong performers included Inland Marine, now our second largest line of business that grew 130%. And as I mentioned, the E&S company growing 182%. I highlighted the traction of the new investments on the previous page, but I do want to reiterate the strong success of fronting in particular as we believe that we can do $80 million to $100 million of gross written premium in that line. And that includes one important change that we've made operationally to our Texas Homeowners book. The Texas Homeowners book, we converted that to a front effective 6/1. So that $80 million to $100 million excludes the roughly $35 million of Texas Homeowners business that now will be fronted. That actually is another prime example of our commitment to earnings predictability. Growth isn't everything, bottom line growth is.

We did renew our aggregate, as you're aware of, that not only protects us from multiple severe events, but it put a floor on ROE of 14%. At 6/1, we maintained our $12.5 million per event retention and commenced with the winddown of the volatile residential homeowners business, save, for Texas, which I said is now fronted. All of those measures are prime examples of our commitment to predictable earnings and managing the exposure base to sustain those predictable earnings. As it relates to scaling the organization, we continue to hire talent that will drive process optimization, system development to allow these new products to scale, and ultimately allow us to frankly attract more industry-leading talent that will lead to further system development and build out.

This next section that I'll go into is really around what makes us a specialty insurance leader. And frankly, it starts with this team. You'll hear from a lot of them today. A lot of them are here. There are several that are not here that are driving considerable change and success for the organization. But I think what you should walk away with is that this team is executing on a strategy that will be described in the slides to come in a world-class fashion. Their experience with the leadership team having over 250 years of industry experience. Chris Uchida contributing the majority of that because he's the oldest. But you also get a sense that our culture is really entrepreneurial. We have a shared collective commitment to entrepreneurialism, and we are not only applying that to on an individual basis, but we're applying that to the totality of the operation in the organization with the common goal of trying to build a specialty market leader. And our team is only getting deeper. We have added talent like Ty Robben and Joel Usry and Gerrit VandeKemp, who's leading professional liability for us. We continue to invest in Ethan Genteman, our

EVP of Analytics and Chief Actuary, as he builds out his practice, and we're attracting analytics talent like Eric Hennen, who Jon Knutzen will describe, but who was leading the Property Analytics team for a leading reinsurance broker.

The analytically driven underwriting approach that we take is really central to the ethos of the business. And it's a material driver of our long-term success. Jon Christianson, and Robert Beyerle, our Chief Underwriting Officer will describe this in more detail. But I think it's really worth emphasizing how our underwriting process is formulaic. It starts with the recognition of the ability to execute through market and distribution identification and then determining the viability of risk transfer that will ensure predictable and consistent economics. We then marry that with quantifiable didactic support whether that be through actuarial science, catastrophe analytics and financial modeling. We also overlay that with, again, this keep-it-simple-stupid approach to make sure that we write what we know and there are no surprises in the book of business.

The framework that incorporates an operational longevity focus that looks to assess regulatory impediments, the utilization of third-party capacity support and scalable technology. If we see that a product can check all these boxes, we know we're on to something, but it's also imperative that we continue to make sure that these products check the boxes on an ongoing basis. We want to make sure that both new and existing products adhere to this underwriting framework. We think if we do that, it's going to ensure sustained profitability and the viability of the business and the product itself.

One of the key tenets of the strategy, as you've heard from us since our formation and certainly since we went public, is our strategy to buttress our products with a conservative and comprehensive reinsurance program. Jon Knutzen, our Chief Risk Officer will go into that reinsurance program in much greater detail today and with much greater expertise. But simplistically, we're using reinsurance really for fourfold reasons: provide predictability in the earnings base; protect the balance sheet; insulate our attritional loss exposed business from a shock loss; and then position us well for post-event demand and market opportunity, especially in the earthquake market.

And we have three main components to our reinsurance program: XOL reinsurance, excess of loss reinsurance; catastrophe aggregate limit; and quota share. The excess of loss tower consists of $2.1 billion of limit to support losses from major catastrophes, most notably earthquake and hurricanes. We recently renewed the program at 6/1. We procured an incremental $430 million of limit to support our growth, and we preserved our per event retention at $12.5 million in what admittedly was a challenging and hard market. We have over 80 reinsurers on the program and over $650 million of collateralized multiyear limit through our Torrey Pines vehicles, our cat bonds.

The aggregate cover rewards us protection of after $30 million of retained losses, whether that be from an earthquake, a flood or a hurricane. It not only allows us to sleep at night after theoretically 2.5 full retained events, whether they be hurricanes or earthquakes or fifteen $2 million floods. It also establishes a floor of 14% on our ROE.

Quota share reinsurance is used for our lines that have attritional loss. The protection has allowed us to cede a pro rata percentage of our premium on a first dollar basis. It also allows us to manage our net limit in-line and minimizes the impact from a shock loss and then it gives us a fee income stream because we're typically earn-in an override above our expenses on the premium that we cede out and that is in the range of 5% to 7%. We'll go into that in more detail, but you'll hear how that is a foundational point to Palomar 2x.

As I said earlier, once we develop an underwriting box, we are agnostic on how we aggregate it. We want to accumulate risk that fits the parameters of our portfolio construct. And our job is to turn over every stone to build out that portfolio. Thus, we're constantly looking to expand our distribution footprint as we roll out new products, and constantly curating the production sources for each one of our products on an ongoing basis. I think this is best exemplified by the fact that we grew our business distribution footprint 16% in the first quarter. And much greater levels in lines like Inland Marine, but even in the core Residential Earthquake franchise, we grew our distribution footprint sequentially almost 7%.

We work with a variety of channels to sell our products. Retail agents, who access our PASS agency portal. PASS offers agents the ability to straight-through process the full policy issuance process in a streamlined fashion. It affords agents the ability to buy flexible coverages and also sell the products on a budgeted basis, they can determine how much they want to spend and then curate the coverage around that.

The retail channel tends to distribute more of our personal line products. It also tends to have the highest policy retention. The wholesale channel is going to be the predominance of our commercial business now, and it's also the primary distribution source for PESIC, the E&S company. The program administrator channel is a tried-and-true channel from us. A lot of us come from the PA/MGA space. And that really allows us the ability to rapidly scale, reduce upfront investment, but also it allows us the ability to access larger business, layered and shared property accounts, for instance. It's hard to deploy your capital efficiently in those segments, program administrators are a great channel for that.

The last channel is probably our most distinct and that is the carrier partnerships that we have in place. The carrier partnerships now consist of over 20 strong entities. They include household name companies like an Allstate or Liberty Mutual or emerging insurtech providers. But ultimately, what we are doing is putting together a technology-enabled solution that allows us to access a point-of-sale system and deliver a complementary product, whether that be hurricane or flood and most probably earthquake, it's bundled at the point of sale with a personal lines package solution.

The carrier partnerships are prime example of our technology solutions and how we are able to incorporate a data-driven solution as well as a technology-enabled solution into a technology platform. What we're looking to do is essentially, use technology and Greg Tupper, our Chief Information Security Officer; and Mark Brose, who's here as our CTO, have led our efforts to use technology in four distinct ways: to price and analyze risk; to

manage our portfolio; to provide a compelling end-to-end transactional experience; and most of all, scale and automate the business.

Prime examples of how we've deployed technology include the ability to clearly rapidly quote and bind business. Real-time data and event reporting, we'll give examples of that later today. The API capabilities to integrate into our partner's point-of-sales systems. And then a programming, a 30-by-30-meter grid for flood exposure that allows us to granularly price risk, carry pick against competition and avoid exposure that we don't want on our books.

As we'll grow the platform, we will add modular building blocks to better respond to the market and allow us to scale the business, especially as we build out new lines like excess property or the casualty strategy.

I think it's important to point out that we have several growth vectors. We've talked about these on our calls. But importantly, the growth is in a single source. It's not tied to one initiative or area. We've rapidly grown the business and continue to see numerous vectors for growth in front of us. We grew 65% in the first quarter. As I said, it wasn't tied to one initiative. Earthquake was and will be a meaningful driver of growth in the near term. And all the new initiatives, whether the described or products that were launched in 2020, or 2019 for that matter, that are still in their infancy, are still not quite at full scale will be nice drivers of growth.

We should be able to monetize the new investments in casualty and excess property. Obviously, fronting is off to a terrific start with line of sight on $80 million to $100 million of fee-generating premium. We should be able to grow the products not just through launch, but through expansion of the existing distribution footprint. New partnerships or interest into new geographies for lines like flood and builders risk.

Fee income will also be a meaningful contributor. Chris Uchida will go into it later in his segment, but we think fee income is going to be a terrific diversifying source of income for us, whether that be through fronting, third-party delegated capacity or the quota share overrides that we have.

I think it's important, though, to point out that these growth vectors are not governed by top line, they're governed by profitable growth. There are segments that could drive meaningful top line growth like the E&S all-risk business that we have, where we could grow our exposure and our footprint, but we intend to grow, frankly, just solely through rate increase. We are opting to avoid markets that are going to add incremental volatility and put us in a position where the results will be overly or better said, unpredictable. What we are looking to do is grow in a predictable fashion and placing an emphasis on bottom line growth over top line growth. Profitable growth is our mantra. And all of these vectors will abide by this principle.

What we think we have is a replicable approach. We call it the Palomar approach, is a mature operational process, and frankly, it's premised around the goal of earnings

predictability. All of the attributes that we described in these previous slides, and we'll describe throughout the rest of the day, really drive what we think is a replicable and mature operational process that started with the earthquake market, and it's whereby we consistently assess our lines of business to ensure that the product is adhering to the predictable earnings awards a mantra, if you would. And what we do is assess the product on a continuous basis to make sure that we have a keen understanding of market conditions, the performance of the talent leading these products, systems and analytical impact, reinsurance support and availability, and distribution to determine whether or not they can continue to hit targeted return on equity and targeted bottom line results or objectives.

If when we measure these products, they are not hitting the aforementioned targets, we pivot quickly. We incorporate our experience and our learnings to move in an entrepreneurial fashion, in an agile fashion. And I think that's best typified by what we've done in the admitted all-risk market and the specialty homeowner segment, we were decisive. The approach that we have described here, where we're identifying markets, leveraging talent, defining sound risk transfer, building out systems is no different for Residential Earthquake than it is for real estate E&O. This approach is central to the philosophy and strategic objective that I'll describe now in Palomar 2x.

Palomar 2x is our intermediate term strategic objective to double our business and double our underwriting income through organic growth. It's a philosophy that whereby we're going to continually assess the product suite to ensure there is enough room for organic growth to double the business. We'll measure this at the end of 2021, we'll measure this at the end of 2022. We'll measure it on a quarterly basis to make sure that we think that we have products that afford us the requisite runway to double the business.

Chris will detail it in more in slides to come. But I think some of the key principles behind this really start with profitable organic growth. It's going to be a portfolio anchored by our binary no attritional loss business, most notably quake. We're going to continue to reduce our non-earthquake catastrophe exposure. What we're calling non-binary catastrophe exposure. We're going to have a conservative reinsurance strategy supporting the lines of business, whether it be the excess of loss, the aggregate and certainly quota share. We're going to build out fee income. This is a dead horse you're going to hear from us a lot today, but that is central.

And then we're going to be committed to scaling through technology to process optimization and also committed to ESG. Frankly, these principles should sound familiar to all of you because many of them are already in place, if not all. And they don't require significant leaps of faith. Key drivers of Palomar 2x include residential quake, Inland Marine, the new lines like excess property in the casualty segment, flood and fronting. Again, there's no leaps of faith. These are all lines of business that we have in the market. Some are more mature like earthquake, but they're still growing 29%, 30% a year. Some are just getting off the ground.

The financial objectives overarching Palomar 2X are simple. We want to double the underwriting income in the intermediate term. We want to push our ROEs above 20%, and we want to maintain what we believe are industry-leading margins.

With that, I'll open the floor up to some questions before I hand it over to Michelle Johnson to talk about our people and talent.

**Q&A**

**David Motemaden:** This is David Motemaden with Evercore ISI. Thanks for the presentation today. I guess I'm just wondering on doubling the underwriting income. Could you talk about the base, I guess, is that off $47 million in 2021, doubling off of that every few years? And then is that coming mainly from top line? And how should I think about the combined ratio, which I think was at 76% on an adjusted basis in 2022? That to me in top line and the underwriting margin improvement.

**Mac Armstrong:** Dave, I'll ask Chris to chime in. There are slides to come that will give you a bridge on all of that. The underwriting income is above that line. So the base that we're establishing it's around $110 million that was for 2021. It's doubling off of that $100 million base 2021, not to $47 million of net income. It's a kind of a pretax number. It's a pre overhead number. It's just what the baselines of business are generating. We will give you a full bridge of that and compartmentalize it. And so that you can see what comes from what we're calling the binary no attritional loss lines of business, what's coming from fee income, what's coming from underwriting income.

If I may reserve the right to come back to that because I think you can be including the underlying ratios as well. What I see is there is a high level of confidence in our ability to execute on that, a high level of visibility in how we bridge to it and the sustainability of the margins, including maintaining the loss ratio is very achievable when you see the breakdown of how the products contribute.

**Chris Uchida**: Mac described it well, but that's exactly what we're doing. We're starting with the $535 million of written premium from 2021, kind of generating a base…

**Tracy Benguigui:** If there's a bridge, I may reserve it. Tracy Benguigui, Barclays, but maybe just philosophically because you use a lot of reinsurance. When you're talking about doubling underwriting income, is it in the context more of gross underwriting income? Or how do you kind of – what's interplay of reinsurance, if you're going to get to it later, I could.

**Mac Armstrong:** No, it's a fair question, and we will talk about it and Jon Knutzen can speak to it as well as Jon Christianson. That would be the net underwriting income that's after excess of loss and what we cede out. Right now, approximately 50% of our business is ceded out, whether it's excess of loss or quota share. But that is – it's no deviation from how we currently operate. The underwriting income is the net though. It's what we retain. Meyer?

**Meyer Shields:** Meyer Shields, KBW. I think it's fantastic that you didn't talk about investment income in your introduction because it demonstrates a focus on underwriting profit, but I was hoping you could explain from your perspective, I guess the investment velocity, why you didn't want to bring it up?

**Mac Armstrong:** Yes. Meyer, it's a good question, and frankly, you somewhat answered it. We think that our shareholders look to us to underwrite, not to invest. I mean I think we've always taken the approach of let's not – our investment portfolio is there to pay claims and to not lose money. And so the underwriting income growth is above the line, so to speak, and not inclusive of investment income. Investment income currently should be additive to that and allow us, frankly to scale and potentially grow – do more than double from a bottom line perspective. But what we are focusing on is the products that we have and how we can organically grow them to double them. And we think we've got a very good blueprint to do so.

So underwriting income will be the focus, investment income should be supplementary. And while we don't want to take our eye off the investment portfolio on the asset side, it's not central to Palomar 2x.

**Mark Hughes:** Hey, Mac, Mark Hughes with Truist. You're doing a lot, a lot of different initiatives, you're talking about here, geographically, product line, launching a lot of new things. How do you manage, prioritize that? I think you're hiring at a leadership level, but how much infrastructure do you need to execute on these strategies? Just a little on that.

**Mac Armstrong:** Yes. No, absolutely. We're hiring at all levels and it starts with leadership and you're going to have the chance to hear from them today, and they can and I encourage them to address this concept during their sections. But fortunately, we've made a lot of investments in areas that have considerable runway for growth. The four initiatives that we highlighted in 2021, fronting, professional liability, excess property and general casualty, we're not going to have four a year. It's a circumstance now where we think that the framework for Palomar 2x can be built off of what we have right now. And that affords us to be a bit more serial in our approach and frankly, more disciplined in our approach.

It also affords us to be very specific in how we build out talent. Robert Beyerle is adding underwriters to builders risk and Inland Marine. Ty Robben will have more underwriters coming in and supporting him. Mark and Ethan will have it in technology and actuarial organizations that we continue to recruit people to support them and help them execute our overarching strategy, but then their departmental strategies. The good thing is we're seeing scale. You saw in Q4 of 2021 into Q1 of 2022, the other underwriting expense come down.

The headcount investments that we're making will not create reverse leverage, if you will, we should be able to continue to scale the business because we're not – you're not adding 100 heads, we're adding two or three heads in the department, that in many instances

should have books of business to come over with them, too. We think we're going to continue to have operating leverage. There will be investment. There will be considerable investment, but it won't be at the expense of our margins.

**Tracy Benguigui:** Tracy Benguigui, Barclays. I think you mentioned there were two sources of fee income. One was the fronting. I think you said quota share. Were you speaking about the ceding commissions and your view of where you get some upside from that? If you could flesh that out a little bit.

**Mac Armstrong:** Yes, absolutely, Tracy, and we'll have a slide that shows the breakdown of fee income. But you're right. It's the fronting where we're typically getting 5% to 7%. And then when we put quota shares in place, the overrides range from four to eight points above our cost so cost of acquisition, cost of underwriting. Those are the two primary, we have a third one which is a smaller modest one for a couple of different lines of business where we get a commission for delegated underwriting. But the majority of the fee income that we have, and we'll continue to have, is going to come from quota share and fronting.

**David Motemaden:** David Motemaden from Evercore ISI. Mac, could you just talk about the decision to move the Texas Homeowners book to a fronting arrangement, just what was sort of the thought process behind that? What was driving that?

**Mac Armstrong**: Yes, absolutely, David, and thanks for asking. It's a good question, and it's one that we wrestled with really over the course of the fourth quarter and the first quarter, and it really comes down to this Palomar approach. What we're seeing is that line of business not hitting its targeted risk-adjusted returns. And in particular, the ability to have a cat payback that's commensurate with flood or earthquake or Hawaiian Hurricane, even though the cat exposure is commensurate. When we measured it, we saw that the cat payback was starting to reduce or take longer. And much like we saw in the other homeowner segments, whether it be in Mississippi, the year before in Louisiana or some of the states on the Eastern Seaboard like North and South Carolina.

Fortunately, we knew that there was quota share support and reinsurers that could leverage a broader Texas solution. And so we pivoted and moved it into a fronted vehicle, where frankly, the economics being a broader Texas program versus one that's kind of a Tier 2 county Texas program could be achieved. It really was a prime example of the Palomar approach. This was a more graceful exit in the sense that it wasn't just a wind down. It was one where it was a transition to something that's fee generative.

**David Motemaden:** Got it. Thanks. And was there any change to the AAL as a result of this?

**Mac Armstrong:** The numbers that we've guided assume that some of that Texas business would go away. Over time, we do expect, and Jon Knutzen will give you some detail on that the AAL will continue to come down as all of the residential wind businesses wound off. But the Texas number was reflected.

**Fiona Diamond:** Hi, I'm Fiona Diamond from William Blair. I was wondering if you could talk a little bit about the carrier partnership distribution line and kind of how your risk assessment process looks compared to the other lines? Just how you make sure that you're aligned with your carrier partners in terms of suitability?

**Mac Armstrong:** Yes. It's a great question. And Jon Christianson, feel free to chime in as you oversee this. But yes, I mean it's 20 strong, if not 25 strong at this point. Our first partner was Oregon Mutual Insurance Company, a small regional mutual in Pacific Northwest, our most recent partner was Progressive in USAA. I think what we pride ourselves on is being flexible with how we construct them. Ideally, it's a technology-enabled solution. Sometimes it's a reinsurance solution. But importantly, what we need to do is make sure that it's our product or our underwriting that informs the pricing. It's our claims organization that's handling the claims and managing that process and that ultimately, we're an easy partner to transact with. So those are kind of the overarching tenets. It's price it, service it and make it easy to do business with. Okay. Well, if there are no other questions, I'm going to hand it over to Michelle Johnson.

**Michelle Johnson, Chief Talent and Diversity Officer**

Thanks Mac. Good morning, everyone. My name is Michelle Johnson, and I joined Palomar in December of 2019 after meeting with this impressive leadership team and learning more about their vision and goals. I often get asked why I joined Palomar and for me, it was the opportunity to build the strategic talent function. And being in front of you today, sharing these objectives is a clear indication that we consider our talent to be a strategic competitive advantage. Our organizational strategy has been built on the cultural pillar of being entrepreneurial, supported by our values of authenticity, agility and accountability.

These values are demonstrated in how we get work done every day. And we believe our words are meaningless without action. And this is a key differentiator in how we manage our teams across the organization and measure the impact. From the beginning, the leadership team and I and the Board have been aligned that our talent programs around professional development and total rewards should ensure that we're creating a promotable and engaged workforce. This requires building career pathing, succession planning and providing opportunities for development to all of our team members.

I'm pleased to share that in 2021, 30% of our workforce was promoted or moved into a new role in underwriting, analytics, actuarial and tech, and this is how we're scaling the organization. For 2022, we'll exceed that number. Our passion and accountability to be better than we were yesterday has created a tenacity unbeatable in our industry. We recognize more voices and diverse points of view are critical to our success, so we've created a D.I.C.E. Council that is comprised of internal team members of all different levels and departments within Palomar that meet regularly to discuss our initiatives and

review our metrics. This group is led by me and reports regularly out to the Board and to our leadership team as well as our ESG committee.

Our ability to retain our talent is a key area of focus. And we retain by listening and opening up lines of communication. Last year, we rolled out our first engagement survey and received 90% participation. Through this, we received lots to feedback in the areas that we'll continue to focus on, on our internal communication as well as operational efficiency. You've seen that scaling our organization is one of our strategic initiatives. And so, we're encouraging our team members to reach across departments, learn more about what other lines or what other teams do and to keep the lines of communication open as we launch new products and scale.

Palomar cultivates an inclusive workplace with 38% of our team members identifying as women and 38% identifying as members of underrepresented communities. We have a diverse workforce, but we know that we can do better. Our commitment to diversity also extends to our Board of Directors and 71% of our Board are women or members of underrepresented communities. We'll continue to recruit and promote women as well as underrepresented groups.

We believe our greatest asset is our talent. And during 2021, our workforce increased by approximately 23% compared to the prior year. And through the pandemic, we doubled in size and as organizations were challenged with the great resignation with national turnover over 50%, we hovered at about 20%. And we did this by focusing on meaningful connections between our organization, our leaders and our team members. And really, our focus has remained to create those deeper connections.

We have a dynamic mix of team tenure, with long-term team members that have been here to help build the business over time and then new talent that brings in new skills and experience as we grow. Our business relies on the ability to attract and retain talent. And in order to do that, we need to have a best-in-class talent and team member framework and a great experience for people to work. We've created competitive compensation benefits and health and wellness program that's integrated, and these programs build connections between our team members and across the organization.

As a part of our total rewards philosophy, we offer a transparent pay-for-performance compensation package that includes base pay, an annual bonus and long-term incentives. We communicate this annually at our all-hands meeting as we roll out annual bonus and PSU metrics and targets. Our annual bonus design is comprised of two financial metrics as well as management-based objectives. All of our team members, we're pleased to share, now also receive long-term incentive equity awards. The equity program for our management team also includes PSUs, which are tied to return on equity and gross written premium.

In 2021, 70% of our workforce received equity awards, and now that will be 100%. In response to COVID, as many of us know and have experienced, many of our team members have been working from home. We've made the decision to move toward a

hybrid work environment, and this has allowed us to recruit talent, no matter where they live. We offer team members a comprehensive benefits package that also delivers mental health resources. All of our team members receive a company paid subscription to Headspace, and we're benchmarking our programs regularly.

We provide numerous leadership and team member development programs with a focus on career mobility and internal growth across departments. Since we're a hybrid, we're able to offer these – we do offer these virtually and in person. To align with our pay-for-performance philosophy, we utilize coaching from performance methodology so that our leaders can coach in the moment. They can provide feedback and develop talent so that our team members can achieve their career goals and continue to grow Palomar.

In 2021, our team members completed over 1,100 hours of training and we continue to encourage them to stretch across the organization to share their skills. We know it's not easy to grow and scale in a company, and our goal has been to recruit experts, leverage their expertise, retain our talent and arm them with tools and resources to support the development and execution of differentiated products. This philosophy has enabled us to recruit top talent, many of which you'll speak with today. I'm confident in this leadership team and in Palomar's ability to achieve Palomar 2x.

Thank you for your time this morning, and it's now my pleasure to introduce our President, Jon Christianson.

**Jon Christianson, President**

Good morning. My name is Jon Christianson, I'm the President here at Palomar. I've been with the company since its formation and have served as the Chief Operating Officer as well as the Chief Underwriting Officer prior to assuming the current role within the organization. I'm very proud of the team we have assembled and our accomplishments to date. And most importantly, the exciting opportunities that we have ahead of us.

I'll begin by speaking to some of our specialty product expertise before handing it over to Robert Beyerle, our Chief Underwriting Officer. A cornerstone of Palomar's profitable growth is our product development work. Dating back to the formation of the company, a keen focus was placed on the creation of insurance offerings that were uniquely differentiated within our specialty segments. Early on, a road map was established and has served as a proven template as we approach new markets and products. Like many things at Palomar, informed decisions are made using quantifiable criteria. The process tends to start for us with the identification of an underserved or stale market. A good example is the Residential Earthquake market, which I'll address in greater detail shortly. With a potential market identified, we start to build a business case which eventually becomes a full-blown business plan.

On the heels of the business case, we incorporate financial modeling as we consider the projected P&L and the start of the process of statistical modeling and/or actuarial analysis

as we iterate and optimize the projected P&L. Among other things, this part of the process will begin to consider the cost of risk transfer in conjunction with balancing the price the market is willing to bear while achieving acceptable gross and net underwriting returns, ultimately informing the rates and coverages. As the business plan is informed by the analytics and financial modeling, we move towards refining a form set, develop rate filings, guidelines, engage with partners and ultimately March towards launch.

With regard to the development of filings, I will point out that step. That is more of an admitted company exercise as E&S has freedom of rate and form. And so, they are not required to file rate and form filings with departments of insurance. At virtually every step along the way, technology, reinsurance, analytics as well as people and talent are involved. Lastly, it's worth noting that as we think about our process illustrated on this road map, there is regular iteration and course correction as we head towards launch.

As an example, we spent considerable time and effort through repeated iterative analysis when we originally were developing the highly granular rates associated with our flagship Residential Earthquake products. Portfolio management becomes a far more predictable exercise when detailed analysis informs the original product design. On the surface, our products may appear unique and non-related, but there are many common threads that have been pulled through the product development history, both in our personal and commercial Lines businesses. These common threads are underpinned by analytical and data-driven underwriting through a combination of a tech-enabled platform with experience in entrepreneurial underwriters and product managers.

The Palomar approach that Mac talked about earlier is encapsulated in this underwriting paradigm. As examples, on the personal line side, we created our differentiated residential earthquake product that was premised on delivering an analytically driven product to a state market in an effort to not only appeal to the roughly 10% of homeowners in the State of California that had bought earthquake insurance at that time. But more importantly, to the 90% who had historically avoided the old-fashioned product.

Our earthquake product was differentiated by its granular rating that featured better risk-informed rates and flexible coverage backed by sound risk transfer. Some of the historical criticisms of the residential earthquake insurance market was that the product cost too much and only offered high deductibles. When we introduced greater flexibility in our product to allow our agents and customers to the ability to tailor coverage their specific needs, they could focus on what was important to their unique situation.

If they want earthquake insurance, but only want to spend a certain amount of money, they can reduce coverages like contents or different additional living expenses or raise a deductible on the policy. If the customer puts a greater emphasis on obtaining a lower deductible, they can pay more premium to secure a deductible that is lower than what was historically offered in the market.

By introducing this flexibility, Palomar created the ability for agents to precisely dial in the price and coverage during the sales process, increasing the likelihood of a sale and improving customer satisfaction. We then exported many of those successful features into our Hawaii Hurricane product, which has familiar binary loss characteristics and risk transfer mechanics, and we have now grown that line into a market leader position.

On the heels of that success, we identified the residential flood market as having similar hallmarks and once again repeated a strategy in analytical underwriting through flexible coverage and granular pricing model that we know very well. On the commercial lines side of the operation, there are similar characteristics within our common playbook of specialty product offerings that we've grown from commercial earthquake to Inland Marine and now to casualty, among other lines.

As our most tenured product in our flagship product, earthquake is a line of business that Palomar leadership knows extremely well. Our in-house commercial earthquake underwriting group is led by Evan Kuhn, who has been a senior level underwriter at Palomar, dating back to our first year of operation. He leads an experienced team of earthquake underwriters in our San Diego office. These underwriters are not only experts in earthquake policy form language but have long-standing broker relationships and a firm understanding of how earthquake model output contributes towards our primary objectives of profitable underwriting results.

As we talked about, our underwriting approach is highly analytical and we have the ability to deploy our capacity in either the admitted or E&S market, depending on the nature of the risk and the opportunity. Given the unique attributes of the specialty product, our technology team has developed our own proprietary systems as opposed to off-the-shelf systems that are customized for this product to deliver both an optimal experience to our internal underwriters as well as our distribution partners.

We widely distribute this voluntary product through an open architecture distribution model that encompasses retail, wholesale, program administrators and strategic partner insurance carriers. The approach towards distribution varies by product and geography with residential lines skewing more retail and commercial business via wholesale brokerage, but Palomar accesses all avenues to best achieve our growth and profitability objectives.

We'll get into the reinsurance more in a bit. But consistent with the maturity of the product, our reinsurance strategy is well established and robust with over $2 billion of vertical reinsurance limit supporting this line. The acquisition of earthquake reinsurance is a core area of expertise at Palomar as we continue to build our tower to support continued growth opportunities that we see in the market.

On that note, growth will continue organically throughout our earthquake franchise, including the small commercial and larger layered and shared earthquake segments of the commercial market. Growth will come from capturing market dislocation, new buyers

entering this voluntary market and will be supported by high premium retention rates of the renewal book that we've talked about.

On the topic of growth and market opportunities, I wanted to comment on several market dynamics that will continue to provide tailwinds for Palomar's residential earthquake line of business. First, I wanted to highlight some of the recent changes at the California Earthquake Authority or the CEA. As many of you may be aware, the CEA is a privately funded publicly managed entity that is the largest provider of earthquake insurance in the state of California. The CEA was established following the Northridge earthquake in the 1990s and is associated with 25 participating insurers who delegate the offer of earthquake insurance to the CEA rather than offering it on their own paper.

Some of these participating insurers are very large homeowners carriers, and in total, the participating insurers comprise 80% of the homeowners market in the state of California. As a publicly managed organization, it is overseen by Governing Board whose voting numbers include California State Treasurer, the Governor and the Insurance Commissioner. Over the past year, the CEA has been working on a new strategic plan to address a negative scale challenge that is unique to their organization.

One of the proposals that has received approval is the release of a circular communication that not only permits but encourages its participating insurers to seek alternative earthquake options in the private market, like a Palomar. Further, a few months later, the Governing Board reduced the required threshold for claims paying capacity, which prompted a rating agency downgrade by Fitch. With the CEA's moves over the past six months and its signal that further changes with a similar objective may be coming, we are optimistic that we'll see greater growth opportunities by accessing this portion of the market that has been historically less available to Palomar.

Independent of those recent CEA changes, we've experienced a strong trend in new business from our flagship residential earthquake product over the course of 2020 and 2021. Certainly, a component of the strong growth is due to the remarketing of homeowners policies, which give our agents the ability to sell either admitted or E&S residential earthquake policies. This is a wildfire driven market dislocation, and it has not shown any signs of tapering. And as a result, we expect to see continued opportunities stemming from this uplift in applications.

To complement our strong product development and analytical underwriting framework, we are investing in an inside sales team to not only drive earthquake sales, but other lines such as flood insurance that benefit from casting a wide net across a sizable producer base and have impactful LTV to CAC matrix. Early returns show this effort not only accelerates the appointment of new agents but further deepens relationships with existing agents. With regard to the appointment of new agents, this team converts 20% of its outbound contacts into new producer relationships.

Not unlike other areas of the organization, this is a metric-driven department that uses its activity and results data to inform its strategic outreach approach. Voluntary products

such as earthquake and flood are sold, not bought and by proactively arming our sales force, whether that be through independent or strategic channels, with information about our products and systems, we better position our producers to drive more submission flow. We are also able to pinpoint those areas of our business that deliver greater margin, further enhancing the sales model.

And from here, I'll hand it off to Robert Beyerle, our CUO, to talk more about our entire stable of specialty insurance products.

**Robert Beyerle, Chief Underwriting Officer**

Thanks, Jon. Good morning. My name is Robert Beyerle, Chief Underwriting Officer for Palomar. Thank you for taking the time to attend our Investor Day. I started with Palomar in 2019 after 16 years at Great American Insurance Company and three years in commercial insurance production. I joined Palomar due to the values-based entrepreneurial culture, integrity, collaboration, accountability and diversity matter to all of this. I think our team is stock full of talent, many in this room and many interoffice in La Jolla, in Minneapolis, in Charlotte and all throughout the country.

Today, I'll talk about the evolution of our business mix, introduce some key teammates and take a deeper dive into a handful of our lines of business. As planned, Palomar's business has evolved from a specialty earthquake insurer to a specialty property and casualty insurance company, while our business mix has shifted with the addition of lines like Inland Marine and E&S property, 63% of our gross written premium is not subject to attritional net loss. Many of our attritional lines have quota share reinsurance support to reduce our potential net loss. Residential Earthquake is our most significant line of business, with its substantial profit margins accounting for 27% of our premium.

This slide provides some additional color around Palomar's business mix. What's consistent across our products, there's underwriting expertise, the use of data analytics, risk transfer and our distribution relationships are strong. As Mac mentioned earlier, with these products, the Palomar team is focused on profitable growth with minimal volatility, all leading to predictable earnings.

Before I dive into the slide on Inland Marine, I wanted to give additional comments on our thoughtful approach to bringing new products to market. The foundation of our strategy is having the division led by a subject matter expert with a track record of profitable growth. Additional critical elements include determining whether the business will meet Palomar's return thresholds, risk transfer to reduce potential volatility and working with distribution partners all in preparation for our launch.

Underwriting discipline, risk analysis and identifying and addressing critical perils with the correct terms and conditions are all tenants to our sound underwriting approach. Palomar's Inland Marine launch in 2019 was another step in our evolution as a specialty insurance company.

Palomar has best-in-class talent in this space. Our underlying leadership, Paul Kim and Cecil Wilson and the underwriters not listed above, have over 100 years experience in the industry with most of that time in Inland Marine. In addition to our industry veterans, at Palomar, we take a long view of our approach on talent, and we're actively developing and recruiting the next generation of underwriters.

Now you might be asking yourself, what is Inland Marine? It does not cover boats. It does not cover those massive cargo containers that are sitting on ships waiting to come into the port. But once that cargo gets into the port, and it's loaded on top of the truck, that's when Inland Marine takes fold.

Over the years – historically, Inland Marine covers materials and equipment when transported over land. Over the years, the Inland Marine definition has expanded, and it's quite broad. Inland Marine includes multiple products that service many industries, with construction and transportation being the most common.

Palomar's primary focus is servicing those two industries, with our builders risk and our motor truck cargo lines being our most significant lines of business. Inland Marine opportunities are time-sensitive. A policy might be needed to – for a construction loan on a new project to ensure a new piece of equipment or for a trucking operation to finalize a contract for new clients.

So having experienced underwriters gives us an edge. Offering E&S and admitted capacity also gives Palomar an additional edge over our competition. Our distribution is multi-channel, with many of our key partners having long-term relationships with our underwriters. Inland Marine's loss history historically outperforms the broader property market, creating interest from reinsurers when you have experienced teams.

Palomar has quota share reinsurance treaty placements across our portfolio, which allows us to have limited net line exposure and assume fee income from ceding commissions. Our Inland Marine growth path is wide in terms of geography and distribution.

Another step on our specialty evolution is the addition of casualty lines of business to our diversified product suite. As we built our casualty strategy, it started with identifying a leader with a strong track record and profitability. Ty Robben, who has that track record, was in a division of Great American for 15 years. The results of that operation had a loss ratio of below 50% for 14 of those years. Ty joined Palomar in 2021 and is the architect of Palomar's casualty franchise. Ty has joined on Palomar's leadership team by Gerrit VandeKemp, who spent his entire insurance career in the professional and management liability sector and joined Palomar in 2021. Ty and Gerrit are focused on bringing long-term profitable capacity to the marketplace.

For our general casualty operation, we target small to medium-sized businesses with low frequency and low severity loss exposures, such as a trade contractor whose primary exposure is slipped and falls on the job site or water intrusion loss. We leverage our

expertise in this product segment to identify favorable legal venues that perform better than an overall state.

Our initial focus for our professional liability lines is middle market private company management liability and primary or excess miscellaneous errors and emissions. Our professional line strategy for market penetration involves offering low limit capacity to low severity risk. Both lines of business are sourced from key wholesale relationships and program administrators formed over the last 15 years.

Across the insurance industry, reinsurers are reducing line size or exiting treaties altogether. It's undoubtedly a testament to our casualty leadership, their track record and Palomar's overall strategy that we were able to secure a new reinsurance treaty with a well-diversified panel of blue-chip household name reinsurers.

Our combined general casualty and professional liability treaty covers first dollar quota share support with a max net line of $2 million. Our reinsurers are so confident in the strategy, they're willing to pay us an override to access this business. The lines of business that require underwriting involvement like Inland Marine and casualty also use analytics to assist our teams in making informed decisions when setting terms and conditions. As our portfolio grows and our exposures increase, we constantly accumulate new data to optimize our products. In the Q&A later, Ty and I are happy to share further insight into these two operations.

PLMR-FRONT launched in September of 2021 led by Jason Sears, our Executive Vice President and Head of Programs. Jason's here today. Jason joined Palomar in 2020 after – and has two decades of experience in the reinsurance programs and fronting space. Brandon Loyd and Kent Watson bring a combined 29 years industry experience to the team as well.

PLMR-FRONT is yet another extension of our franchise into the specialty insurance market. Like any Palomar product, our fronting partners must demonstrate best-in-class, subject matter expertise, focusing on sound underwriting and profitable growth. Palomar's attractive fronting option due to our AM Best A- rating in our admitted and non-embedded offering. Palomar does not take a risk position in our current fronting arrangements and receives a fee from the reinsurance placement.

We do have the flexibility in our hybrid fronting model to assume some risk for the right opportunity. We require collateral greater than accounting requirements to support future claims payments, and we manage that relationship with underwriting claims and financial audits. Fronting distribution is a mix of insurance carriers, reinsurers or MGAs. And a comprehensive panel of reinsurers supports every program.

PLMR-FRONT further diversifies our business, generating new income streams and compelling risk-adjusted returns for our shareholders. Like Mac mentioned earlier, we expect to generate between $80 million to $100 million in gross written premium with the continued focus on reducing volatility in addition to what Mac mentioned earlier, we are

moving our Texas Specialty Homeowners business into a front effective June 1. The premium forecast does not include that Texas transition.

This next slide represents the economic structure of Palomar's fronting model. Our carrier MGA partner utilizing Palomar paper, cede the premium and risk to Palomar. In turn, Palomar cedes the premium exposure to our reinsurers, and the reinsurers provide Palomar with a fee for this transaction. Our fee incomes range from 5% to 7% of gross written premium. Two points to mention. First, the collateral is required before the launch of the partnership above statutory counter requirements. And further, we have a contractual view into our counterparty's reinsurance exposure and financial position, which is reviewed on a consistent basis.

Second, we provide the same auditing and compliance as our existing business using our internal personnel. We audit each PLMR-FRONT in four areas once a year, underwriting, financial, claims and sox. This does differentiate Palomar from similar fronting initiatives by demanding that our counterparty risk be properly vetted and managed similarly to our existing operations.

And finally, we want to highlight three products in our Inland Marine, casualty and our fronting operations. Builders Risk was Palomar's first and is our most significant Inland Marine product. The Builders Risk policy is a first-party insurance coverage, ensuring a building while it's in the course of construction for perils like fire, wind, theft and vandalism an insured may be a general contractor, a real estate developer or a homeowner. Builders Risk policy may cover a single-family dwelling in Newport Beach or a high-rise office building in Manhattan.

Palomar has a unique advantage. We have the ability to insure 100% of the risk of one project or up to 25% of the risk on a pro rata basis for a more extensive project. Our Builders Risk line is growing, and it's very profitable. Our year-over-year growth rate was 133% with a loss ratio under 25% in 2021. From a valuation perspective, Builders Risk is well hedged against inflationary increases. With every new project, we capture real-time labor and material costs, which leads to charging the adequate rate for the exposure.

Our real estate E&O program is an example of being laser-focused on a casualty line of business. Real estate errors and emissions is a type of professional liability insurance that protects businesses against claims and mistakes, negligence, misrepresentation or similar allegations. Palomar's program partner in this space has significant management and underwriting experience. And in keeping with our focus on reduced volatility, this product is a low limit, low frequency, low severity loss exposure. Our current offering is sourced for real estate agents in California with the ability to expand to additional states. Our year-over-year quarter one growth rate was 150%.

One of our top running partnerships is with Cowbell Cyber, an industry-leading cyber MGA. Cyber insurance is a specialty insurance product, protecting a business from risk against information technology activities and infrastructure. We formed our partnership

with Cowbell Cyber in October of 2021, and we're very pleased with the robust rating environment and underwriting acumen of their team. The Cowbell Cyber program is the ideal fronting relationship with a world-class panel of reinsurers, an industry-leading cyber leadership. All these products are profitable. They're growing and have minimal volatility.

And with that, I think we're coming to a break. And then following the break, we'll have the Q&A. There's refreshments in the back, and we look forward to talking again soon.

**Jon Knutzen, Chief Risk Officer**

Good morning. My name is Jon Knutzen. I'm Palomar's Chief Risk Officer. I joined the company in April of 2019. Prior to that, I spent over two decades in various senior leadership roles, encompassing both analytics and reinsurance broking, various reinsurance intermediaries such as Guy Carpenter and TigerRisk. Two of my key responsibilities here at Palomar involve executing on our reinsurance strategy and managing our analytics teams.

One of the things I enjoy most about Palomar is the extremely talented dynamic and experienced team that I get to work with. Two of these talented individuals, Chris Cebula, our SVP of Reinsurance; and Ethan Genteman, our SVP and Head of Actuarial, join me here today. Chris spent over 10 years at an ILS fund manager, where he was responsible for underwriting, trading and managing portfolios of catastrophe bonds. He joined Palomar last year and is a CFA charter holder. Ethan is a fellow of the Casualty Actuarial Society with over 10 years of experience. Prior to joining Palomar in 2019, he held various actuarial and catastrophe modeling roles at Intact Specialty and TigerRisk.

Over the next 14 slides, I'm going to review Palomar's approach to reinsurance, walk through our current reinsurance program, including, however, response to some lost examples and provide an overview of our analytics team and capabilities. Reinsurance is Palomar's primary tool for transferring risk and for supporting its claims-paying capacity needs should a large earthquake or hurricane affect our portfolio. Reinsurance is a critical component of our business model and a key enabler of Palomar 2X by: one, providing the risk capital support exposure growth, including any increase in demand we might experience post event; and two, reducing loss volatility, thereby helping us deliver on predictable earnings.

Our current reinsurance strategy centers around three components: first, protecting against the severity of a single event; two, protecting against the frequency of multiple events; and three, protecting against unexpected attritional or individual shock losses. Here, where we're concerned about our losses other than earthquake or hurricane.

For the first component, we employ a catastrophe per occurrence reinsurance program to protect our balance sheet against the effect of a large earthquake or hurricane. In designing our per occurrence program, we look to contain the impact of a single event

loss to less than one quarter of earnings and less than 5% of stockholders' equity. In addition, we secured sufficient reinsurance limit to conservatively cover cat losses in excess of our one in 250-year peak zone probable maximum losses.

For the second component, we utilized aggregate excess of loss treaty to protect underwriting results against a cumulative impact of multiple cat losses. And for the third component, we protect against attritional and individual shock losses to the quota share reinsurance we purchased at a business unit or program level. All of this to help mitigate the impact of outsized loss volatility from unexpected frequency and/or severity. We apply this quota share strategy to the vast majority of our direct written business with attritional loss exposure.

Before walking through the current reinsurance program in more detail, I want to provide an update on our experience during the recent June 1 renewal. As Mac indicated in his comments, this new renewal represented a hard reinsurance market. Reinsurers across the board sought to reduce sources of volatility within their own portfolios and pass along increases in cost of capital. Despite these headwinds, Palomar's efforts to realign its portfolio by reducing exposure to Continental U.S. hurricane and other associated secondary perils was well received by our reinsurance partners.

At renewal, we successfully secured $430 million of incremental earthquake limit as compared to our program that incepted June 1, 2021, and we successfully maintained our $12.5 million per occurrence retention. As part of this incremental limit, we issued $275 million of collateralized earthquake limit on a multiyear basis via 2022 Torrey Pines Re 144A Catastrophe Bond.

Additionally, we maintained prepaid reinstatements for all layers that reinstate, except for portions of our first layer of $17.5 million. In other words, our first layer may have additional reinsurance premium due depending on the source and size of loss. Specifically, the maximum amount of reinstatement premium would be $3.1 million for any non-earthquake loss greater than $30 million and $1.4 million for any earthquake loss greater than $30 million. The reason there is a difference is that our first layer is split between earthquake only and all other perils, excluding earthquake, with two limits for each.

With regards to reinsurance pricing, our June 1, 2022, cat programs composite price level increased around 9% on a risk-adjusted basis compared to our 2021 program. While this exceeded our expectations, we view this as a favorable outcome given other cedents' experience since renewal. There's also an endorsement from our reinsurance partners of Palomar's strategy to create a differentiated portfolio of risk. Regarding our 5/1 and 6/1 quota share renewals, these renewed within our expectations, including some at improved terms and with the addition of new participants.

This slide provides a visual representation of our current catastrophe reinsurance program. With the current program, our net retained loss is $12.5 million for any cat

event up to $2.08 billion for earthquake and up to $900 million for Hawaii Hurricane. These limits provide coverage above our projected one 250-year PMLs for 2022.

Our total earthquake limit is composed of three towers: one, a quota share treaty covering our California commercial earthquake exposure; second, $875 million of single shock limit consisting of both cat bonds and traditional reinsurance; and third, our core cat tower with approximately $1.06 billion of additional earthquake limit.

Both the quota share treaty and the EQ-only layers inure to the benefit of the core cat tower. The inuring relationship means that the quota share recoveries reduce the subject loss to the EQ-only layers. And reinsurance recoveries from both the quota share and the EQ-only layers reduce the subject loss to our core cat tower.

Should we experience a $2 billion earthquake loss in California, we would recover from all three top sources of earthquake limit with a net retained loss of $12.5 million. Any hurricane loss or non-earthquake loss would be covered by limit associated with our core cat tower. As I already noted, the first layer of our core cat tower is split between EQ-only and all other perils, excluding earthquake, and provides two limits for each.

Our cat ag treaty provides sideways protections of $25 million, excess of $30 million for an accumulation of losses within our $12.5 million occurrence retention. I'll walk through a multiple event loss scenario, including the net financial impact, in more detail in a couple of slides.

To evaluate and stress test the adequacy of our reinsurance program, on a monthly basis, we conduct a variety of portfolio analytics, utilizing multiple catastrophe models, deterministic loss scenarios and exposure profiling to quantify and assess our catastrophe risks. We believe our current reinsurance program provides a conservative level of protection against reasonably severe cat losses. This is highlighted by comparing our current reinsurance coverage levels to the model loss amounts associated with the recurrence of the most severe historically significant catastrophe events for our two largest sources of risk, U.S. earthquake and Hawaii Hurricane.

It's also worth noting that we have sufficient limit in place to absorb the effect of a recurrence of both the 1906 San Francisco and 1994 Northridge earthquakes should they occur in the same year. Our $12.5 million per occurrence retention represents only 15% of the midpoint of our 2022 estimated adjusted net income and 61% of an average quarter's estimated adjusted net income.

Palomar prides itself on the financial strength of its reinsurance panel. Our current panel consists of over 100 highly rated reinsurers or cat bond investors. Our two cat bond issuances make up a meaningful share of overall total limit, but in the background, our diverse group of investors providing collateralized reinsurance capacity on a multiyear basis. Our contracts provide protections against rating downgrades or significant drops in equity for rating carriers.

It's worth noting we have traded with the vast majority of our reinsurance partners since our founding, and these long-term relationships help us navigate hard markets as evidenced by their widespread support at our recent renewal. While the cat XOL tower provides protection against the severity of a single event loss, our aggregate treaty provides protection against the accumulation of multiple losses within our retention.

Now I'm going to walk through a recovery example to illustrate how the programs interact with one another. For this scenario, we'll look at the effect of four losses. The first loss is an earthquake with a gross loss of $100 million. The second event is a convective storm with a gross loss of $10 million. And the third event is a Hawaii Hurricane with a gross loss of $30 million. The fourth event is another hurricane event with a gross loss of $8 million.

For each of these event losses, any loss amount of greater than $12.5 million would be ceded to our per occurrence reinsurance program. Two of these events, events one and three, would result in recoveries from our occurrence program totaling $105 million. Under this scenario, if we did not purchase our aggregate treaty, Palomar's cumulative net retained cat loss would be $43 million, which exceeds the levels of earnings predictability that we are targeting to deliver.

Our cat ag treaty helps color the cumulative effect of multiple event losses within our retention. The ag treaty applies to qualifying losses up to $12.5 million per event once they have satisfied a $2 million franchise deductible. All four events in this scenario are qualifying events towards a recovery.

The cumulative subject loss to the cat ags treaty totals $43 million in this example, resulting in a $13 million recovery to Palomar. The combined recoveries from our occurrence and aggregate XOL programs would result in total net retained losses of $30 million, helping to establish a ROE floor of approximately 14%.

Next, I'll use the first three example losses here in sequence to dig further into the financial impact, including both the additional premium due post event and the impact on our projected ROE.

To reiterate, our maximum per occurrence retention is $12.5 million. However, as noted, we do have modest reinstatement premium due should a loss impact our first layer. Our first layer is split between earthquake-only and all other perils, excluding earthquake. And the amount of reinstatement premium depends on the type of event. In the case of an earthquake loss, our maximum reinstatement premium is $1.4 million. In this case, a $100 million gross earthquake loss, we would pay $1.4 million to reinstate the layer in addition to our $12.5 million retention.

As an aside, earthquake events that exceed our $12.5 million retention but are below our $30 million exhaustion of our first layer, our reinstatement premium would be less than $1.4 million. For example, with the gross losses halfway through the first layer, our reinstatement premium is half of the $1.4 million or $700,000. All that is to say, our

pretax net loss from this example would be $13.9 million, with the after-tax impact taking our projected ROE down to approximately 17% from 19% as an isolated example.

The second example is straightforward. A $10 million convective storm event that is fully retained with no reinstatement premium due. In isolation, it takes our projected ROE down to 18%. The third example is the Hawaii Hurricane with a gross loss of $30 million that exhausts the first two limits over layer one covering all of the perils excluding earthquake. The premium to fully reinstate the layer is $3.1 million, which is the maximum for any AOP event, $30 million or greater. In isolation, our pretax net loss from this example would be approximately $15.6 million, and the after-tax impact of this event takes our projected ROE down to 17%.

Any one of these three loss examples in isolation would be digestible within our targeted ROE range. However, if three were to happen in the same year, the cumulative impact would take us below our targeted 14% ROE floor in scenarios like this that we purchase our aggregate treating. Assuming all three losses occur in the same treaty year, we would have $35 million of net retained losses subject to our cat ag. Our cat ag treaty has a retention of $30 million. With $35 million of subject loss, we would recognize $5 million in recoveries, thereby coloring the cumulative impact of these multiple cat losses of $30 million and helping us to maintain a ROE floor of approximately 14%. We don’t have it listed, but the fourth event in our prior multi-event scenario with an $8 million gross loss would be entirely covered by the additional cat ag limit that’s remaining, resulting in the same ROE as indicated here.

With that, I’d like to turn our attention to the third key component of our reinsurance strategy, which is the quota share reinsurance. In addition to our cat reinsurance program, Palomar also utilizes quota share reinsurance to mitigate against outsized volatility from attritional losses as well as individual shock losses.

As I noted earlier, we applied this quota share strategy to the majority of our direct written business with attritional loss exposure. The cession percentages in terms of the various quota share treaties differ depending on the subject business. And setting the cession percentage, we seek to establish and not limit any one risk in alignment with our risk appetite.

The reinsurance strategy also provides a source of fee income via ceding commissions from reinsurers as compensation for sourcing and underwriting the subject business. The amount of fee income varies but ranges from 4% to 6% for property and 4% to 8% for casualty, each of these as a percent of subject premium and in excess of our cost of acquisition.

Now I’m going to shift from reinsurance to providing an overview of our analytics team and capabilities. Data-driven decision-making is central to Palomar’s DNA, and a major contributor to leveraging this capability across the company is our analytics team. The broader analytics team is responsible for two key areas: actuarial and exposure in catastrophe analytics.

Our actuarial team is led by Ethan Genteman with additional leadership provided by Ben Markowski. Both Ethan and Ben bring robust pricing and reserving experience to Palomar. They, in turn, are supported by a growing group of actuarial analysts.

In addition to performing our internal loss reserve analysis, our actuarial team is responsible for providing the analytical framework to assess, monitor and execute on new and existing underwriting and product development initiatives. The actuarial team works closely with our underwriting, claims and product teams in addition to senior management. The actuarial team's contributions and growth over the last couple of years is an expression of Palomar's commitment to analytical, data-driven, decision-making across all of its existing and new product initiatives.

Our exposure in catastrophe analytics team has been in place since Palomar's founding, and it plays a key role in continuously assessing and managing our catastrophe risks. To assist with these efforts, Palomar has created a proprietary exposure and risk management platform that integrates detailed exposure data and model loss output from licensed catastrophe models such as AAR and RMS and links this data to various geospatial and visual analytics applications.

Our approach to catastrophe risk management involves four key components. First, we have a rigorous standard for high-quality data. Here, we're really referring to the key attributes that describe our risk, the location, construction, Europe construction, occupancy, whether the home has a retrofit or not. Second, we apply a conservative view of risk. We lowered our losses for expectations around demand surge, loss adjustment expense, we project out the impact of potential inflation scenarios. Third, we use multiple models to protect against model bias. And fourth, we employ deterministic loss scenarios that reside outside the cat models, and these loss scenarios apply pre-set damage ratios to our exposed limit within specified radius to stress test the adequacy of our reinsurance program.

Some current program project initiatives include continued enhancement of insurance to value assessment and validation processes, integrating new lines of business into our exposure management platform and collaborating with other teams to improve the risk profile and enhance expected margins for our portfolio. As an example of this latter point, this next slide presents a case study of how our efforts to realign our wind exposure improve the expected profitability and reduce potential volatility from our Continental U.S. wind exposure.

With the exit of our admitted Commercial All Risk and Specialty Homeowners business outside of Texas, along with the recent conversion of our Texas homeowners to a fronted program, our 250-year Continental U.S. hurricane PML will be cut by more than 50% from a high of $545 million in Q3 2020 to a projected $223 million by Q3 2022. As a proxy indication for expected profitability, the risk metrics for the Continental U.S. hurricane exposure will be significantly improved. With a 250-year PML to premium

ratio of 2.75 projected at Q3 2022 versus a ratio of 5.83 at Q3 2020, which is a 53% improvement.

Historically, our cat loss volatility has resulted from hurricane and other wind-related events impacting our Continental U.S. exposure base. Our projected Q3 2022 portfolio indicates that Continental U.S. wind exposure will make up a materially reduced share of expected losses in excess of $12.5 million. This means that the likelihood of a large cat loss is much reduced compared to our portfolio in 2020, and it also highlights why reinsurers were favorably supportive of our program with the recent renewal.

And finally, it's worth noting that our 2023 Continental U.S. hurricane PML and AAL will be further reduced as the non-Texas homeowners exposure completes its runoff. And the PML for the remainder of our Continental U.S. hurricane exposure should remain relatively flat, which is consistent with how we are managing it here in 2022.

With that, I'll turn it over to Jon Christianson to talk through Palomar's operations and technology.

**Jon Christianson, President**

Thanks, Jon. As an entrepreneurial tech-enabled company that was built in the cloud, we've avoided the traps of costly infrastructure that have weighed down many traditional insurance companies in our space. And with that said, it is worth highlighting that we are an insurance company using technology, not a technology company trying to figure out insurance. We are led by a CTO and CSIO with strong experience in their respective disciplines that lead teams that build, maintain and manage our scalable technology platforms. Mark Brose, our CTO, is here today.

With respect to the systems that drive revenue, a focus is on ease-of-use, automation and analytical rigor while providing best-in-class system security for both internal and external constituents. The integrated technology systems form the backbone of our business as it enables us to offer better services to our policyholders and producers, communicate seamlessly with reinsurers and partner carriers, and run our business more efficiently and cost effectively.

Current initiatives involve the ongoing development of systems to support new product lines and various producer targeted ease-of-use enhancement to maintain our position as a preferred platform for our producers. We are also continuing to invest in behind-the-scenes infrastructure to improve our operational scale. Lastly, we have made considerable investment in cybersecurity and will continue to strengthen our posture position in that regard.

Speaking further about our distribution technology platform. Our systems allow producers and underwriters the ability to efficiently deliver products to the market. Palomar's internally developed Palomar Automated Submission System, or PASS as we call it, provides producers direct access to our retail and wholesale distributed products.

For this purpose, PASS acts as Palomar's agency portal, whereby producers sign into our secure site with login credentials and can submit, quote, bin and issue policies, all within a matter of a few minutes and then come back to the site to manage those policies, retrieve documents and make payments. Thousands of credentialed agents access Palomar's products in this manner.

PASS also serves as the administration system for select policy data and the access point for a business written through direct residential partnerships. And PASS enables the effective use of predefined underwriting, providing efficiency and optimization to Palomar's production partners and real-time transparency in underwriting and aggregate management.

Additionally, we've extended beyond our own systems with APIs that allow our partners to embed a Palomar product within their native system, furthering our distribution reach and meeting the objective of frictionless sales. Certain, more standard lines of insurance may lend themselves to off-the-shelf systems offered by vendors that specialize in policy administration and agency portal platforms. However, given the bespoke, specialty nature of Palomar's products, we've opted to design our own distribution systems around our specific products to create the best possible alignment between product and technology. In other words, we didn't try to force our products into a standard run-of-the-mill system design for traditional products, but rather invested in systems development that is uniquely Palomar.

Palomar's innovative analytics and technology have helped us develop products and advance our underwriting capabilities. While we employ these disciplines in various manners across the entire product suite, I've highlighted three examples in earthquake, flood and excess property.

Going back to Palomar's first year of operations, we introduced a highly analytical product that has been a game changer in the residential earthquake market. These products follow the development cycle that I highlighted earlier this morning. The product itself was informed by extensive data output and iterative catastrophe modelling. This trove of data not only informed rates, but also guidelines, coverages, risk transfer strategies and production composition targets. That product was then offered to producers being an online quote, bind, issue technology platform that focuses on three central characteristics: security, efficiency and reliability controls.

Agents often say that Residential Earthquake is a voluntary product that is sold, not bought. In order to best position our producer partners to sell this product as much unnecessary friction in the sales process needs to be removed. And that is an area where Palomar and our distribution partners have excelled over the years and continue to excel.

Since that first flagship product, we have continued to use technology to support product development and accelerate growth through efficient distribution platforms. Following the launch of Palomar Excess and Surplus Insurance Company, that company was able to

utilize even greater granularity in pricing and structuring of its policy offerings given the freedom of rate inform that is afforded by non-admitted products.

For example, pricing is not only considered on an independent risk level basis, which is found in our admitted products that have filed rates, but also on independent basis in our E&S company that considers the correlation of those risks around it. As the correlation factor increases, additional rate is commanded to more than offset the costs associated with portfolio allocated risk transfer.

Similarly, residential flood is a prime example of how we seek to blend analytics, underwriting and technology. In the first of its kind filing approved by the Department of Insurance, Palomar worked in conjunction with Verisk's AR worldwide modelling firm to develop a variable resolution grid framework of 23 million unique rating territories in the state of California alone. This effort was highly computational. And again, it was delivered to producers in an easy-to-use online platform that allows for a quote, bind and issue to occur in just a few short minutes, which far exceeds the experience of traditional alternatives in the flood insurance space.

Similar to the story of residential earthquake, we have now expanded our flood offerings to include E&S paper, and Palomar Excess and Surplus Insurance Company. Delivered in a similar online platform to the admitted products, the PESIC or the E&S company, we referred to it as PESIC, is able to rate at an even more precise level while contemplating correlation in the flexibility of rate. Most importantly, our inception-to-date actual losses from these programs are slightly better than the modelled expected loss ratios, further validating our analytical and technological approach to underwriting and product development.

Lastly, the excess property underwriting platform is leveraging similar technology integrations with third-party modelling vendors that were originally developed for critical cat analytics associated with earthquake and hurricane and have expanded into incorporate analytics for severe convective storm risk, including tornadoes and hail. While the excess property book is targeting off-peak risks, it is still afforded sophisticating pricing techniques to empower our seasoned team of underwriters.

Another uniquely Palomar approach of marrying advanced analytics, operations and technology is illustrated in our approach with handling real-time event reporting and claims response. Going back to the formation of the organization, we have invested in tools and expertise that have allowed us to proactively manage exposure through ongoing weather or seismic events. These event reports leverage portfolio management and catastrophe modelling capabilities, which allow us to layer geospatial data related to events such as earthquakes, floods, hurricanes across our subject exposure. Depending on the nature of the event, we can begin to assess loss potential, identify individual insureds that may be impacted and coordinate with our internal and external partners to swiftly respond. As a result, these real-time reports shape the posture of our response in the critical early moments in and around an event.

Since no two events are the same, these reports are bespoke and tailored to the event at hand but tend to follow a general template that has proven meaningful over time to internal stakeholders, PPAs, our rating agency and reinsurance providers. The reports often contain a scientific overview of the event, a geospatial representation of the event relative to Palomar subject exposure, sets of tabular exhibits containing detailed analysis around potentially affected risks, and depending on the nature of the event and the audience, may include model loss estimates.

The hurricane reporting generally initiates when the National Hurricane Center's code of uncertainty envelopes a geographic area that contain Palomar insurers, whereas the earthquake reporting initiate immediately following a material earthquake, with a detailed report typically available within 24 hours.

The image shown here on this page was taken from a page on one of our event reports produced following the Ridgecrest earthquake in the summer of 2019. Even though the earthquake occurred over the 4th of July holiday, our teams were supported by technology that enabled them to produce an event report within hours. As time passes around an event, additional reports were produced with increased detail and applicability as more data becomes available to us from the USGS, the National Hurricane Center and other data providers.

In certain cases, we may end up with five to ten vintages of a single event report with accumulating detail to support the needs of the event response. Then each report is properly tailored for its audience. As the use case for an agent received in one of these event reports will differ from the needs of our TPAs.

Palomar's claims operations are led by several senior leaders who have extensive experience in claims management. The team is led by Angela Grant, who you'll hear from later today, and she is supported by Teresa Urban and Jeff Lim. Teresa's primary responsibility is related to a third-party administrator, or TPA, oversight and management. Her role includes the management of loss reserves, pending reviews, catastrophe event preparation, negotiation and settlement.

Given the claims frequency profile of our business, we contract with multiple TPAs in order to benefit from each TPA's unique expertise in the lines of business that they've been assigned as well as reduce Palomar's reliance on any single TPA. Both the external claims handling and the internal claims management will continue to evolve and mature as our business grows.

The managerial requirements for TPAs included the first notice of loss, or FNOL, reserve and payment approvals to correspond with insurers, regular reporting on all large losses and other administrative duties. While the administration is primarily handled by the TPAs, our internal team is closely overseeing the process. In fact, certain processes like the receipt of FNOLs is mirrored between the teams for tighter integration. This area of the organization works in close collaboration with analytics when managing through catastrophe events. On a regular and recurring schedule, this team leads catastrophe

response simulations with our TPAs to prepare and train for catastrophic events. We believe this preparedness will help mitigate against avoidable negative outcomes following catastrophe events.

And with that, we'll move to Q&A.

**Q&A**

**Mac Armstrong:** Michelle, please come join us again. There probably aren't any questions. That was not a lot of material that we just went through.

**Pablo Singzon:** Hi. Pablo Singzon from JPMorgan. You had referenced a 9% rate increase on the reinsurance side. I was wondering if you could give a perspective of what's happening on the primary side and if you think of this year, you'll be able to make up for that. Thanks.

**Mac Armstrong**: Yes. Sure, Pablo. The expectation is indeed that we should be able to recover the loss cost, so to speak, of the reinsurance program across a range of lines. Having the E&S company affords us the opportunity to do it in a much more expedient fashion than you can on the admitted side. But I would expect us – and we saw it in the first quarter where rate increases were actually accelerating in Commercial Earthquake again much like they were in the E&S All Risk business that we had. But the expectation is we will be passing that along and not just limited to Commercial Risk but also Residential and particularly in segments like high-value Residential Earthquake where – like Jon Christianson just alluded to, he has now started to use that rather effectively. But anything else you guys would add?

**Jon Christianson:** Yes. The other comment that I'd make on that is the reinsurance at 6/1, those prices have been locked in now for the next year and with the cap bond for a longer duration. Whereas on the primary side, we were able to start pushing through those rate increases. As Mac mentioned, I talked about Q1, but we're able to kind of bring those in, in advance of next year's renewal and start to recoup that immediately.

**Mac Armstrong:** Robert, anything you'd add?

**Robert Beyerle:** I would add valuations are improving across the industry. Terms and conditions are improving. Deductibles are increasing in different segments., so there's a lot of tailwinds.

**Tracy Benguigui:** One thing that surprised me when I looked at your reinsurance panel is not a large European reinsurer name. That's what you typically see. So, I'm just wondering, was there a difference of opinion by some of those reinsurers? And basically, how scalable are these relationships with maybe some of the smaller reinsurers?

**Mac Armstrong:** The Europeans are large reinsurers. Swiss Re is one of our largest reinsurers. They're probably just as prominent in our quota shares as they are in the excess of loss. What that was laid out was the excess of loss support, but Munich is also in the excess of loss program, but they're also a major quota shares support or two. They're a big channel. We're not overly reliant on them, which is important. We actually also participate some more cap bonds, too, so we listed Torrey Pines Re 1 and 2, embedded in them – each of one of those issuances is 20 different collateralized reinsurers, and sometimes that would include the cap bond arms of those entities.

**Tracy Benguigui:** Okay. And then also on Slide 56, I don't know if you want to go there, but what would be the significance of showing the ceded AAL with respect to your own exposure management? Can you provide a sense of your AAL and what that composition will look like?

**Jon Knutzen:** Yes. The reason we showed the ceded AAL excess of $12.5 million is we're trying to convey to you the reduction in the source of potential large losses to the portfolio. That's why we're looking at the AAL excess of $12.5 million. The composition of the AAL in totality will – pretty close with kind of in percentage terms what the ceded AAL is with a little bit higher allocation towards Continental U.S. wind where the source of the losses are just smaller.

**Mac Armstrong:** I think what I would add, Tracy, though, as Jon made the good point that over the course of 2022 and the first half of 2023, we expect that AAL to come down on the segments that are bearing a higher load. Continental hurricane will be reduced as we fully run off the residential homeowners business, and that does have the highest cost allocated to it, frankly, the highest charge brought forth by reinsurers.

**Mark Hughes:** Curious to get Robert's view on the cycle. You had touched on pricing was good. Kind of what's going on? How long is this going to last? What are you seeing here in real time?

**Robert Beyerle:** Just regards to the property pricing – Builders Risk pricing? Yes. The carriers are reducing line size, and that's creating opportunity for us. It doesn't seem like that's going to end anytime soon. We're – we think that there's a potential to continue pushing rate in certain segments, but it doesn't feel like it's going to go away in the next few quarters.

**Mark Hughes:** How is it now versus 3 months ago, just those pressure points a little tougher, a little easier? How would you describe it?

**Robert Beyerle:** Yes. It depends on the line of business. If it's Inland Marine, you're starting to see pricing level off. After the last 24 months, you did see significant increases in certain segments, wood frame construction being one of them. Property seems to be steady. So steady increases over time.

**Mark Hughes:** A question in the excess property. What's the tail on that? How quickly do you see the losses emerge? Is excess property something that you might see?

**Robert Beyerle:** Good question. Our approach is to be conservative in the space and to think about – and we go back to the basics. And one, we have an underwriting leader in Joel Usry been in the business for 30 years, great distribution, great track record of underwriting profitability. We're looking at the construction. We're looking at the occupancy, the protection and the exposure. Our critical secret sauce, I guess, is the attachment point. So, we want to be well above any potential wind event, whether it's an SCS event or a coastal wind that's actually staying out of those areas.

From a fire perspective, staying as far away from wildfires as you possibly can imagine. So that's risk we don't want to consider. And then risks that are more subject to attritional fire, just a normal fire and an HOA, attaching above the building that would be most susceptible to fire. You can imagine 10 HOA apartment buildings, all kind of lined up in a row. And the fourth location is the one that's most susceptible to a fire event. We want to be attaching at the fifth location. So, a conservative approach.

**Mark Hughes:** If you're higher up in the tower, how long will it take before you get notified that something has happened?

**Robert Beyerle:** Notified of a claim? You'll know pretty quickly. So the excess companies are put on notice relatively quick if there's a feeling that the claim could pierce a primary layer.

**Mark Hughes:** And then if it – how long does it usually take to emerge if it ends up being a higher loss than expected?

**Robert Beyerle:** All depends. It could be 30 days, 90 days. You'll know quick. It's not – from a tail perspective, it's not going to appear 12 months later, 24 months later. You're going to know within that first year.

**Mac Armstrong:** And generally speaking, the primary peril Robert, correct me if I'm wrong, is going to be fire. You will know with the fire versus, let's call it, a windstorm where there's loss rate due to inflation or a plaintiff attorney. This is going to be a bit more, again, to use the term binary in its nature.

**Robert Beyerle**: Yes. There was one example of the large water damage loss that hit San Francisco in the last couple of weeks, and I don't want to speculate, but it was a $50 million or $60 million event, hit the media that day. So the companies that were on the primary knew and the companies that are on the excess as well. But it's not like a casualty line of business that the tail is going to surface within 12 months or 24 months.

**Mark Hughes:** I'll ask one more. Jon Knutzen, with the program administrators or MGAs you work with, can you talk about the process for your visibility into their

adherence to your box? How long it would take you to figure out that something is going wrong here? Something on that would be helpful.

**Jon Knutzen**: I actually think Jason Sears might be best fit to address that. He's managing most of those programs.

**Jason Sears:** Good morning. I'm Jason Sears. I'm EVP and Head of Programs at Palomar. I've been with Palomar since August of 2020. I joined Palomar due to the management and also the existing infrastructure and the possibility then and now to grow. To your question as far as looking at our MGAs, we look at our MGAs on a monthly basis. In terms of bordereau's, we review the bordereau for applicability to our underwriting guidelines. In addition, we audit all of the MGAs and our funding partners in four areas at least once a year: underwriting, financial, claims and sox. And then we also produce, on at least a semiannual basis, a meeting with the MGAs and any existing reinsurers around that treaty.

Additionally, on the fronting contracts, as just mentioned before, we do contractually have a view into our fronting partners their reinsurance purchases. So, we have a clear view into what reinsurance they purchase as well, and we have a clear view into those reinsurers. Even on a fronting relationship, if they're using our paper to write risk, we do have access to their reinsurers to level set what they're writing and making sure those exposures match what we thought at the beginning of the program.

**Jon Christianson:** Yes. And I'd also add to that – that was a great response, Jason. The other thing I'd add is that we use program administrators as a complement to our own internal underwriting. So, we'll have an underwriter assigned to work in close collaboration with the program administrator. So if there's questions on guidelines, exceptions on guidelines that need to be made, it's a very collaborative process. While we are reviewing the bordereau's and have interactions on a recurring monthly basis like Jason outlined, a lot of times intra-month, there is regular interaction between our underwriters or senior staff and the underwriters or senior staff at the program administrators.

**Jason Sears**: Yes. All the special acceptances roll up to Robert.

**Robert Beyerle**: I would also add the underwriting audits that are performed are done internal with underwriting expertise internally. We have a Builders Risk program administrator on a separate line of business. I'm actively involved in that process, been in this space for a long time. It's good to have expertise working in concert with the program administrators.

**Angela Grant:** I'm Angela Grant. You'll hear from me shortly. But I also think it's important to point out with our program administrators and MGAs are really just an extension of us. So as our Chief Legal Officer, I'm always thinking about our paper is out there, whether we're on the risk or not, it's still less. From a regulatory perspective, we're looking at everything from when we engage with the new program on the back end when

we're ready to renew that contract. So, from a contractual perspective, regulatory perspective, it's just like they're a part of our internal framework. We look at them very closely to make sure that it's an alignment with what we want to do going forward. And if there's a change, so let's say they're not underwriting properly or we're seeing that there's some regulatory concerns, we have the ability to get off of those risks through our contractual relationships or they may be changing something on their panel. Jason does a great job of keeping up with who's involved on all of these quota share arrangements to make sure it's in alignment with our overall strategy. I just think it's important to point that out. Thank you.

**Matt Carletti:** Thanks, Mac. Matt Carletti with JMP. I wanted to ask a question back to the number of slides you had on the earthquake modeling and reinsurance program building. And specifically, just a question around kind of confidence in those models, right? In windstorm, they miss often enough, and they have pretty frequent feedback loops of storms every year, major storms every few years. Arguably, the last major event we had in the U.S. was almost 30 years ago now. So, kind of just what's your confidence level in say, the off-the-shelf models? And then how does that play into – as you develop your view, how much are you relying on those versus internally developed models? And you did mention also some non-modeled kind of stress test. If you could go in a little deeper there, I'd appreciate it.

**Jon Knutzen:** I think it all starts with – this is true throughout the industry with our partner reinsurers, right? We all have to start with the same kind of reference point with respect to that risk, and that starts with the catastrophe models, RMS, AAR, cat, et cetera. That also forms the basis for which we base our decisions on as well. It does reflect the state-of-the-art research. We try to stay in front of new research that we expect to be coming out, and that's done in full consultation with the vendors themselves as well as other experts out in the industry that we're out in front of. The nice thing about trading with the number of reinsurance partners that we work with, we also get to talk about their view of quick risk relative to the cat models. To the extent that we learn something from them, we would incorporate that into our overall assessment and risk selection.

As far as kind of a data point stepping outside of the model, the key is just looking at what is your exposure accumulated within, say, a certain radius or whatever. And running base loss ratios up through that, you use that to stress test, do we have enough limit to satisfy those scenarios. Using both the cat model plus that scenario gives us some confidence that we have enough limit in place.

**Mac Armstrong**: I think the other thing that I'd add before Jon speaks is, we have biases that inform what we like. So, we want to write a really habitational homogenously informed book. And even the commercial segment that we write tends to be more habitational in nature. It's the HOAs that Robert is referring to, it might be some lesser risk. So, think strip malls and things of that sort. We want to avoid complicated exposures where there's heavy business interruption or contingent business interruption exposure, heavy content exposure. The residential side, again, it tends to be homogenous. It's informed by performance from prior events. Large or small, that Ridgecrest event, it held

up better than what would have been expected from a 7.1 magnitude that helps inform the underwriting.

I think the ability for us to pivot when we have an experience like we did in 2020 with certain windstorms being more severe than expected, that's another way we utilize the models because sometimes the models don't hit the nail straight on the head. They're a little bit off. A storm like Hurricane Sally was really informative because it was a little more powerful than what we would have expected because it stopped. And it just as rain and wind for 24 hours without moving. And so that then is incorporated into the traditional underwriting and the actions we've taken. In that circumstance, it was pulling out of coastal homeowners or condo business or not writing primary limit at all on the all-risk side.

**Jon Christianson:** Yes. And last – and Jon mentioned this during his prepared remarks, but just to reinforce it because it kind of does go to the point that you made, Matt, about the view of risk and using analytics is that we do avoid a single view of risk. We use RMS, AAR, multiple models, different approaches, whether it be deterministic, probabilistic, all to really help our broader view of risk and to protect against any biases that may start to form as a result of using one model versus the other. And this is something we've done going back years to the beginning of the company. And it really was with that intention is because these models are evolving science. They're very good, but we want to have multiple views of risk because the scientists at RMS may have a slightly different view than the scientists of AAR.

**Meyer Shields:** These are kind of all over the place. First of all, when you're fronting on behalf of an MGA, it seems like there's like a whole bunch of layers of the risk getting to the capital. Does that cost anything? Is there any way of streamlining that?

**Mac Armstrong:** Ultimately, that's going to end up being a negotiation between the reinsurance panel and the MGA themselves because we have our defined economics. We need 5% to 7% at a minimum to cover our costs, potentially the tail exposure and the like. So yes, there might be some friction between the MGA and their reinsurance panel, and I think how that market is evolving. It's the MGA going to the reinsurers with the front standing in the middle because so much of that talent that has moved to the MGAs from the insurance companies have long-standing reinsurance trading relationship. They don't have other issuing carrier relationships. That's where we can come in. But our economics and our risk position are firm, they're kind of uncompromised

**Meyer Shields:** And the contracts are annual?

**Mac Armstrong:** Yes, they are. Or evergreen in some cases. But generally speaking, they're annual because it's tied to the reinsurance availability. We're coming off if there's no reinsurance availability. So, if the reinsurance is an annual contract, we're going incept at terms and will come off terms as well.

**Meyer Shields:** Okay, got it. One thing I think I missed is, is there a timeframe for when it makes sense to have Palomar employee, claims handlers on the non-binary lines

**Mac Armstrong:** It's line specific and I'd let Angela, and then even Ty Robben talk about his views for his casualty lines, but I think the goal objectively for earthquake is no. But I think for other lines we will likely have it in-house, but Angela, your thoughts would be great.

**Angela Grant:** Great question. To Mac's point, when you're dealing with catastrophes sorts of events, you really don't want to have in-house staff unless you have a lot of them. And if there's no catastrophe, they don't really have anything to do. We have low frequency with those in high severity. It's important that we have partners that can deploy staff as soon as something happens, or if there's a potential.

When you get to more specialized lines like casualty, when the book is big enough, and it makes sense where your frequency is high enough for someone to have some work to do, then you start to consider bringing things in house. But in the meantime, we partner with TPAs and law firms, if we're talking D&O who are specialty providers of claim services, and we partner with them to make sure that we get the right level of service and care for our customers, but there also is not a need to bring in-house until you have enough volume.

And I don't know if Ty has anything.

**Ty Robben:** Yeah, you pretty much nailed it. This is low frequency, low severity event risks in the early days of the casualty business. We don't see an immediate need for it. If we scale, we definitely see the advantage of having in-house expertise to adjust the large number of claims, but in these early days, we're pretty comfortable with the TPAs that are in place. We've got strict controls in place for when we need to be notified of a claim and we're meeting with them at least on a quarterly basis just to monitor any open claims.

**Chris Uchida**: I guess one thing I'd add just to Angela and Ty's comments is, when you think about the TPA relationships that we do have, we do have multiple relationships, but when it does come time to catastrophe the fact that we are feeding these relationships consistently throughout the year, we also get better responses from them during a time of a catastrophe, so we have a lot of relationships to leverage. If there is an increase in caseload for those catastrophes. It's a great way to keep them happy during non-cat times, but also make sure that they're available to us when the cats do occur.

**Meyer Shields:** Okay. thanks. Moving on a distribution question. As you expand into other lines of business, does that threaten or challenge any of the partnerships that you've got? I'm thinking specifically of Liberty Mutual, but you don't need to comment individual companies. They have a broad book and I have to imagine that some of your products now compete with them.

**Mac Armstrong:** The only segment where we have really been firm on not going into, to avoid the carrier partner channel disruption is California homeowners. And that's fine by me based on the current regulatory environment and the wildfire exposure. But so that's really the only one, more of the commercial business that we're going to write is going to be wholesale distributed on the E&S paper. The residential business in flood, I think we can solve that through just direct retail and partnering with a Liberty or others who want us to be a product specialist. I don't worry about that with the exception of California homeowners, because then we would have something that's a direct conflict with our distribution source.

**Meyer Shields:** Okay, perfect. And then final question, if I can. Are there any provisions for reinstatability for the collateralized reinsurance in the tower?

**Jon Knutzen:** I think you're referring to the cap bonds in particular. No, those are single shock capacity.

**Mac Armstrong:** But remember, that inures the benefit of the tower. So if those were hit, the other layers would potentially backflow.

**Dave Motemaden:** Hi, Dave Motemaden from Evercore ISI. Can you just talk about, there's obviously a lot of focus on reducing volatility in the results specifically from net cat. Could you talk about how you intend to grow the excess property line? How that might impact volatility and potential reinsurance implications on that?

**Mac Armstrong:** Sure. Robert, you want to speak to that? But before he does, I will say, but again, the excess property, this is going to be really non-cat exposed. The primary peril is going to be general fire, not wildfire, but general fire.

**Robert Beyerle**: Yeah. Mac just summed up, took the words out of my mouth. I guess I would add, in addition to that, our plan is we're using facultative reinsurance now to support the business with the plan to expand to a quarter shared treaty in the third quarter of this year. But in addition to that partnering with some third-party capacity as well to get a more meaningful line in the marketplace. But the plan is to kind of going back to that example visualizing 10 buildings attaching over the fifth location, staying out of the fire.

But then as we grow, as we scale as Joel's business gets larger even getting into, so we can be in the buffer layer, excess property will outside of the fire concern, but then even getting into high capacity of placements as well too. But the plan is to stay out of the cat, conservative from an SES event.

**Mac Armstrong:** Yeah. And I think it's just like Ty had a long-standing profitable book that was sizable Joel similarly. But he also – he would write if I'm not mistaken, he had $20 million of capacity or ability to put a $20 million line. His net was one or two. So that's the model we're aspiring to. So, a nice combination of fee and underwriting income, but also that shock loss dynamic is not crippling.

**Dave Motemaden:** Okay. That's helpful. And then I guess just looking at this slide, that's up on the screen here, Slide 56, just some of these KPIs – the Wind AAL to premium and some of those other metrics. Are those where you want them to be here by 3Q 2022. And is that – are those at a level where you think you might want to start to grow units in the all risk book starting in 2023? Or how are you sort of viewing the way the book is priced right now?

**Mac Armstrong:** Those metrics will continue to improve, certainly the AAL to premium. And I think it has, when you look at that E&S book in the most recent months of production on the heels of would take 17%, 18% average rate increase that all being said, you could argue that there is now the requisite risk adjusted return. I think we're very comfortable with the amount of PML we have aggregated to that line of business and letting the growth come purely from rate.

And our reinsurance and our limits are locked in to factor in growth and that management of that exposure at least for the next 12 months. So, there's not going to be any directional change and again, I really feel comfortable with that amount of exposure.

**Pablo Singzon:** So just on the topic of volatility, I'd be curious to hear your thoughts on inflations and far as volatility, right. Just given the current environment we're in. And maybe if you could comment on sort of how you're thinking about loss fix in the current environment, and then just more broadly talk about what tools you have to combat inflation. And I guess there's just an entire spectrum, I'm not sure if you have any real time tools, but pricing for example, that's once a year thing. But if you could sort of talk about what you can do real time and maybe things that are more lag, right?

**Mac Armstrong**: Let me, let Jon speak to that. He did a great job in our cap on roadshow and got that done.

Jon Christianson: Yeah, sure, inflation's something that we've been keenly focused on. Really going back to the beginning of the company and for many years there inflation was not really an industry issue. However, we were able to – in many of the property lines of business that we write, we were able to push through a factor that was above historical inflation for many years. And so when we kind of came into 2021 and certainly going into 2022, where we've seen, everybody's seen elevated inflation, that's affected portfolios of risk.

We started out to be in a pretty good position going into that dynamic. Further, we've increased those inflation guards that we have that show up at renewal to further better position ourselves in this current inflationary environment. And then also with regard to kind of the real time risk, I think you were referring to some of the vendors that provide like Verisk and CoreLogic that provide feedback on real-time costs of supplies. Those are vendors that we engage with. So, on new business, not just the renewal book, but on new business, we're able to in real-time appropriately value the risks so that we're not caught

flat footed a year or two from now in an increasing inflationary environment. We employ all those tools we go through and batch check all of our risks on a monthly basis with CoreLogic. We have point of sale valuation metrics. And then going back to that renewal book that we have. We have those inflation guards in place.

**Mac Armstrong:** I think it's really three with respect to the property. It's really a three prong approach. One, it starts with looking at the insurance to value like Jon saying and he uses those third-party tools, CoreLogic most notably. But also, Robert's book on the builder's risk side, it has auditable policies. So, we look at once a project is completed, the actual cost of construction in a given region is factored or for a given risk in a given region is factored in and that also further informs us.

So that's the inflation excuse me – insurance to value concept to making sure the cost to rebuild or construct is accurate. Secondly, it's those inflation guards that Jon's referring to. And then thirdly, which we've increased from 5% to 7% to 8% depend on the product. And then thirdly it's rate and having the ability to increase rate in a hard property market, certainly whether it's builders risk or it's E&S risk or earthquake. We feel like we have a very good sense of inflation. I think on the casualty side, Ty you might want to offer your views or Robert chime in. But it's a bit different and it is informing loss picks. But we're also not weighed down by the burden of legacy business and claims and the impact of potential social inflation going against us. It's just informing us.

**Robert Beyerle:** Just in builder's risk, it's one of our fastest lines of business growing. One of our most profitable attrition lines, and you're getting those real-time labor and material charges for the project. So you're getting the adequate rate for exposure. And then being a builders' risk carrier, we get a keen insight and look into valuations, and we can use that across our business. So you can take what you're learning on a wood frame project in Newport beach what that might cost from a finished residential home that needs residential earthquake too, so you can compare those valuations to make sure they're in lockstep. But Ty, please take the casualty.

**Ty Robbins:** Yeah. Top of mind for us is social inflation, and we've been dealing with that since 2019. So that's a bigger factor on the casualty side, though, we do have to account for on a property damage liability claim. It could cost a little more for the repairs, so we'll account for that. But the bigger concern is just managing the limit that we're putting out to avoid the social inflation losses that than heartache in the industry.

**Mac Armstrong:** But I think as it pertains to loss picks, we view we're conservative, we view certainly what we're targeting out of the gates in year one, the combination of a conservative loss pick that Ethan works in concert with the underwriting team to establish and benchmark is an excess of historical performance of the underwriters that we've brought on. But that's okay.

And especially when you marry that with a heavy use of quota share, you're just not going to have big swings caused by these products in certainly the initial years, but you just got to want to make sure is that the loss pick that you establish is conservative

enough, that when the book does get to scale, there's not unfavorable development and that's what Ethan and his team. And maybe Ethan, if you want to just offer your 2 cents on your approach to reserving for just new lines, generally speaking.

**Ethan Genteman:** Hey, everyone Ethan Genteman, Head of Actuarial joined Palomar in 2019. I won't say anything really new here, but the actuarial team is really focused on sort of partnering with our core underwriting experts specifically on the casualty side of things. Working with Ty, understanding the risks he's writing, understanding the limits that he's putting out really sort of informs the data collection and ultimately that informs call it our reserving methodology. And then quantifying really that excess sort of risk adjusted loss pick that we're letting run through the model so.

**Tracy Benguigui:** Just real quick on inflation, on Slide 46, where you talked about your modeled historical events, did you adjust those event sets for inflation?

**Jon Knutzen:** Those reflect our current values that are going through the model. Jon hit on this. One of the things that we do every month is our in force book is run through CoreLogic and should we feel like there's a need to take values up, we will make those adjustments. So, to that extent at that point in time, that reflected accurate values.

**Tracy Benguigui:** Okay. Yeah. Because I saw that footnote. I was just wondering if you kind of scaled it to the industry loss – was the industry loss adjusted from…

**Jon Knutzen:** These are Palomar losses here on this.

**Mac Armstrong:** These are Palomar's loss from that, if Northridge were to happen today, in current economic terms with demand surge on this is what the loss would be. It adequately should reflect the cost of reconstruction plus put an inflation surge on it for scarcity of labor or raw goods.

Any other questions? Terrific. Well then I will scroll forward and I believe it is now time for Angela who you have heard from to take the stage. We have a quick break.

**Angela Grant, Chief Legal Officer**

Good morning, everyone. You've heard from me already. You can tell, I probably have a lot to say about insurance. I really like it a lot. I'm Angela Grant, Palomar's Chief Legal Officer and I'm excited to talk to you. No, seriously. I did start an insurance when I was in college and never really planned to stay in insurance. I thought it was boring. I always knew wanted to be a lawyer, but I thought I would do pharmaceutical sales or something else. But once I got involved with insurance, I really realized it was layered and interesting. So here I am, 30 something years later. I've worked for both large and small insurance companies. And most of the companies I've worked for have either focused on just growing their business or just maintaining their profitability. Very few can do both, which is one of the reasons I came on to the Palomar team back in the end of 2020. This team is – I have to say, people ask all the time, well, what about Palomar?

Palomar is a smaller company punching above its weight, publicly traded and it really is my favorite corporate gig that I've had. Probably the last one, because I am 53. I have to confess that. I really joined because of our culture, so we have a collaborative, smart, precise and entrepreneurial team. We have a spirit of getting things done. And when things don't work out, making the turn when it's time. And I'm just really proud to be a part of this executive leadership team.

In regard to our commitment to ESG, our mission for environmental, social and governance is really slow and steady wins the race. And there's lots going on in the market. ESG information comes through. It feels like sometimes we get stuff weekly, on what's going on with the trends in ESG, so we try to align ourselves with what fits best with our business model, but also being good corporate citizens. ESG is so important to us that we formed an ESG Committee in the fall of 2020. And that committee is a part of our corporate governance strategy that our Board oversees. The ESG Committee plus our Board are very involved in all matters related to ESG. We're values-driven workplace, as you can see that integrates ESG considerations into our strategy, our operations, capital allocation and investment decisions.

In addition, we continue to take steps to reduce our overall carbon footprint, which I'll talk about in a following slide. And if you want to learn more, you could access our ESG portal and our 2022 sustainability and citizenship report on our website. Environmental priorities are what we'll touch on first, starting with the climate strategy. We have pledged to conduct our first third-party assessment of our company's carbon footprint this year. Once we have that information, we'll start to make decisions about what to do next. We're working with our Board as well as our ESG committee to decide what our best next step should be in that regard.

We also continue to assess climate change-related risks, opportunities and potential impacts to our business, which is pretty obvious as we do in catastrophe insurance, climate change ties to that. So, we're monitoring all the time. Regarding disaster preparedness and response, really, it's tied to two things for us. One is our sustainable solutions help to enable resilient communities by providing products that protect our customers' residential and commercial assets.

And we also just did a recent partnership with Team Rubicon and that gives us the ability to support communities after a disaster has occurred. We want to be a part of the entire process, not just selling the insurance but also providing some support even for communities we may not have any insurance in after a disaster occurs as all of it matters. Because of the products that we sell, earthquake, flood and hurricane, we know firsthand how that impacts our communities in America.

Our social priorities include offering fair competitive compensation and benefits to support our team members in their overall well-being. Ensuring diversity and inclusion are part of our corporate culture, and we also disclose our stats around that, which I think Michelle shared some of that earlier and also in our proxy statement on our new hires,

total workforce and our leadership. We also maintain a hybrid-work environment, which you heard, and I was really happy when I joined to see that there were actually people in the office, a very small number of us during COVID that did take a new job during COVID. You can ask me why later. And when I got to the office, there were probably five or six people working in the office, but it was clear to me that – we were monitoring what was going on with COVID, making sure that our employees felt like they were heard and considered and also actively recruiting for people all over the country because we still have a business to run, and that was impressive to me.

We have protocols in place that we ensure operational reliability and employee safety. That translates to if there is a COVID-outbreak, we get an e-mail. They come in, they clean the office, and we start over. We're constantly monitoring to make sure that everything is working as it should, around the hybrid work environment. I think we have some system, I forgot what is called, where people can make appointments to use desks. So, it's pretty cool seeing the hybrid work environment in action. I'm happy to share that we even infuse the spirit of diversity and inclusion in the recruitment of new Board members.

Last spring, we actively sought out female candidates with strong marketing backgrounds. Our newest Board member, Daina Middleton, is our third female Director, who also adds diversity of thought with her extensive marketing expertise. Board diversity and independence are important to us. 86% of our directors are independent. And as Michelle shared, 71% are women or members of underrepresented communities. And as a woman and as a member of an underrepresented community, I'm really, really proud of those Board stats.

My favorite topic is governance. Governance priorities for us include making adjustments to our policies and procedures as we continue to grow and learn about ESG. We recently received approval from our shareholders to declassify our Board and remove the supermajority requirement via five-year sunset provisions. Those updates will be effective in 2027. Last fall, we had an enterprise risk management subcommittee as part of our Board governance. The two Jons here support that subcommittee around risk and evaluating what’s happening in our business, including ESG-related risks. And they report to our Audit Committee and they're responsible for establishing and managing our risk management policies and practices.

As I previously shared, we also have an ESG committee as part of our Board governance and it all sort of just nicely works together. When we have our Board meetings on a quarterly basis, we have committee meetings the day before. The ESG Committee reports to the Board, any updates or changes that have come through that committee. The ERM subcommittee meets with the Audit Committee, who includes that ERM information in their audit committee updates to the Board as well. We're also allocating 1% of our investment portfolio to green bonds. And we provide quarterly reports regarding this goal to both our ESG Committee as well as our Board.

And as you may know, we recently received a majority against vote on our executive compensation/say on pay. We value the feedback we've received, and we will continue to proactively engage with our shareholders as we review and evaluate our compensation strategy and prepare for our 2023 proxy statement. We also continue to proactively manage ESG risk to provide the financial security and support that our customers expect when a natural disaster occurs.

Palomar Protects is a new strategic initiative we launched in 2021. It's part of our recent partnership with Team Rubicon, which I mentioned earlier. This is a relatively new engagement, and we're super excited about the opportunity to support communities after a natural disaster. Team Rubicon is a veteran-led nonprofit organization devoted to international disaster response. They deploy teams in the immediate aftermath of an event, sometimes even before the government in their aid reaches these affected communities. I even saw over a weekend, Team Rubicon being interviewed on CNN, and it was the day of or the day after a disaster. So that's really impressive.

Our team members will volunteer for frontline duty as part of Team Rubicon's grayshirt initiative, and that's something we're in the midst of coordinating and preparing to train on. As natural disasters grow in intensity and frequency, Palomar Protects will help strengthen the resilience of the communities that are affected and our partnership with Team Rubicon is an important part of that strategy.

In closing, this is my last slide. Palomar became a participant of the United Nations Global Compact last May. Our CEO, Mac Armstrong, formally endorsed and supports the compact 10 principles, which include important topics related to human rights, labor, the environment and anticorruption. We are developing Palomar's KPIs around ESG based on these principles as well as the Taskforce Climate-related Financial Disclosures and the Sustainability Accounting Standards Board or TCFD and SASB. Hopefully, this discussion illustrates how our commitment to ESG supports us in our mission to have a reputation as a partner of choice for industry leaders.

Thank you very much for your time today. I'm sure we'll talk more at lunch. And now I'll turn it over to my colleague, who is virtual, Chris Uchida, our CFO.

**Chris Uchida, Chief Financial Officer**

Thank you, Angela. Hello, everyone. Hopefully, everyone can hear me. As apparently, the senile member of the group, technology is hard for me to navigate. But we try not to leave the numbers to Mac either, but I think you guys would like the numbers if Mac was in-charge of them anyway. I was curious why we have to book losses and show them the financials. So well, again, Chris Uchida, I'm the CFO of Palomar. I've been with Palomar since 2015. I'm with Palomar because I wanted to work with an organization where the team of people you work with on a day-to-day basis and the decisions made impact the organization directly and tangibly. The path to Palomar 2x, you heard a lot of great things about Palomar today, I want to wrap up some of which you've heard into our financials. Thus, I have a few objectives as we walk through some of our financial information,

primarily how we think about the contribution of our different lines to our overall results. First, we will review an illustration of our premium and how it contributes to the bottom line. We will then discuss what exactly is Palomar 2x. And how we think about it and use it in conjunction with our objective towards predictable earnings, from growth, profitability and reduced volatility. We will review an illustration using our current products and what Palomar 2x could look like. We will review the capital requirements to facilitate the growth needed for Palomar 2x. And lastly, we will review guidance. We would like to make sure everyone walks away with a better understanding of what Palomar 2x is and how we can achieve it organically and conservatively with contributions from our binary business, fee business and underwriting business.

Lastly, we have more than adequate capital to facilitate the organic growth. Definitions, first, we put the definitions here for everyone for all the readers to review as they go through the next few slides, but I'm not going to review all of these now.

On the next slide, remember, this is for illustrative and discussion purposes only. When Mac and I talked to you, we spend a lot of time talking about the three main attributes of our business and how they contribute to our overall results. We want to share an illustration of what we mean and the overall contributions from our binary fee and underwriting business. You can refer back to the more detailed definitions, but I want to point out a few things.

We started with some familiar points of reference for anyone that reviews our financials on a regular basis. The rows on the left side of the chart highlighted in light blue represent the same line as you would see in our consolidated financials with the corresponding amounts reflected in the dark blue total column. We then expanded the rows to give you more detail into the components, especially the ceded acquisition expense that generates the fee income. Then we started with the 2021 premium at full scale. Said another way, if this was all the premium written and earned in basically a very static book of business, we started here as this is a good point of reference for the outside world and it is a good representation of our book of business and where we started the year from. Then we split our premium into three different buckets: binary business, fee income business derived from fronting and underwriting and then underwriting income business.

Underwriting is really split between the portion that generates the fee income and the portion we retain underwriting risk on. But aside from the premium of $535 million, the top left, you cannot go back and tie these numbers – these amounts to our financials, as this assumes written and earned premium are identical. And again, this is just an illustration.

We have also included the typical combined ratio metrics utilizing net premium as a denominator, but we've included the ratios at the very bottom using gross premium. Internally, gross premium ratios are how we build up P&L and how we – and we also share these metrics with the Street when we release earnings. What we really want you to understand on this slide is what we mean when we say binary income, fee income and

underwriting income. In this illustration, the binary business column includes our residential earthquake, commercial earthquake and Hawaii hurricane products. Our binary business is high margin, low frequency, but high severity. We believe that when a material event impacts these exposures, it is safe to assume we will have a full retention loss or as currently architected through our conservative reinsurance program, a retained loss of $12.5 million. Binary business represents 56% of the premium and contributes $100 million of underwriting income before overhead. While this is our most volatile exposure, it has no attritional losses.

Fee income is made up of two components: fronting fees and underwriting fees from quota shares. The fee represents a net ceding commission benefit or fronting fee we received from reinsurers in a given transaction, converting risk-taking business into consistent fee income. We obviously do this as part of our fronting business, but also the majority of our products where we take underwriting risk, especially on newer lines of business such as casualty. Fee income represents 22% of our premium and contributes $5 million of underwriting income before overhead. While the margin of this are lower, this is our most stable source of income as the risk has been transferred to the reinsurers.

The final column represents our retained underwriting business or the premium where we retain the risk and potential for attritional losses. Our underwriting business includes retained portions of inland marine casualty, flood and other lines. Underwriting business represents 22% of the premium that contributes $6 million of underwriting income before overhead. If this was a stand-alone business, conservatively, it would result in an attritional loss ratio of 57% or 45% on a gross basis. But on a consolidated basis, it results in a loss ratio of 19%, illustrating what Mac and I mean where we indicate that the loss ratio is anchored by the binary lines of business.

In total, we would expect 2021 premium of $535 million to generate about $110 million of underwriting income before overhead. The path to Palomar 2x starts with this $110 million of underwriting income before overhead, and our focus to double it. What do we need to do to get $220 million of underwriting income before overhead? As a management team, that is what we're focused on, continuing to use entrepreneurial talent, underwriting, analytics and risk transfer to deliver growth, profitability, minimal volatility and ultimately, predictable earnings.

To be clear, on the next slide, when we talk about Palomar 2x, we mean doubling underwriting income. From our view, if we can double underwriting income before overhead as long as we can scale our overhead or other underwriting expenses, we can double underwriting income. Thus, that is a starting point. But this is not a one-time endeavor. This is something we think about continuously. At the beginning of the year, we sat down and looked at our book of business that generated $535 million of premium equating to $110 million of underwriting income before overhead. Can this book generate $220 million of underwriting income before overhead? We believe the answer to that question is, yes. We believe that using conservative underwriting that still generates growth and with conservative risk transfer that the products we already have in place and with the teams we already have up and running, we will deliver Palomar 2x.

We are not saying that we will not add other lines of business or make any other changes as Palomar 2x is continuous, but we believe we can conservatively double our underwriting income with the book of business that we finished 2021 with. Remember, we believe we can do this organically, maintaining conservative risk transfer. In the illustration to the right, we have provided an example of what these lines of business may look like contributing to Palomar 2x.

Binary business would represent 43% of the premium and would generate $180 million of underwriting income before overhead, still with no attritional losses. Fee income, including fronting, which generated 43% of the premium and $26 million of underwriting income before overhead with no attritional losses or exposure to catastrophes.

Lastly, underwriting income represents 14% of the premium and generates $14 million of underwriting income before overhead, including an attritional loss ratio at 57% or 47% on a gross basis. As we continue to diversify and grow these lines of business, individual products, product results do not have a dramatic impact on the overall results. Even if our attritional losses were almost 20% worse than expected, our underwriting income would break even, but we would still retain the fee component of the income.

We believe we can double the current books underwriting income from products currently up and running while continuing to use risk transfer to generate fee income. It doesn't mean it will happen and look just like this or in a certain timeframe. Some lines may grow faster or slower. That doesn't mean we will not add new products or look at other opportunities. Obviously, we need to do this again next year and so on. But we are always trying to determine if we have what we need and if not, what do we need to do to keep doubling underwriting income. A piece that is more exciting, as you look at the right side of the chart, the margin or returns are nothing to write home about compared to binary business.

I would call these broker-like margins on a premium basis, but we have the opportunity to improve these premium margins, something that brokers do not have. We have levers to increase the underwriting income with the same premium base and no additional expenses. We can increase our participation or retention on the binary lines and lower the cost of the catastrophe tower. We can participate on our fronting business. We could increase the participation on our underwriting business. Once we have grown these books and have additional conviction around the results, we could increase our participation. Obviously, this changes the ratios, but more importantly, increases the bottom line.

For example, in this illustration, if we eliminate the use of quota share reinsurance, we would generate more than $60 million of additional underwriting income without additional expenses. Remember, all of this also assumes other underwriting expenses do not scale based on our history, a very conservative position. At the end of the day, we have the ability to be agile, something we have demonstrated in the past.
We get asked a lot about our capital adequacy to facilitate our growth objectives at a lot. You can even look at the previous slides and wonder, at some point in time they plan on

increasing premium from $535 million to $1.2 billion. Do they have the capital to facilitate that? The simple answer is yes. If we continue to employ the considerable risk transfer methodology, we will only need about $408 million of capital to write net premium of $452 million, using a 1:1 ratio on our binary business and a 1.5:1 ratio for our non-binary business. We should be able to meet that in the relatively near future, even with opportunistic repurchases of our stock. Remember, we are only doing buybacks opportunistically based on share price. If we want to start pulling levers previously mentioned, we will need to watch the capital. But as long as we continue to deliver positive results, we should be able to continue to increase our capital base and pull more levers as appropriate. Lastly, based on this conservative approach, we can achieve an adjusted ROE north of 20% on the path to Palomar 2x.

For guidance, we are maintaining our adjusted net income guidance between $80 million to $85 million. This guidance reflects the reinsurance placement recently completed for June 1st, and it reflects the recent changes to our Texas Specialty Homeowners book moving to the fronting fee income model, ultimately, reducing potential catastrophe loss volatility and attritional loss exposure as we continue to focus on predictable earnings. One caveat we are adding to the guidance range is that it excludes the results from unrealized gains and losses from mark-to-market fluctuations. While we do believe that this range is still very achievable including mark-to-market, we feel it prudent to exclude it from the guidance as the markets continue to be choppy. Our guidance still excludes any potential losses from a major catastrophe.

In conclusion for my section, today, we have met some of our talented entrepreneurial underwriting operations and analytics and risk transfer team members, hopefully, giving you confidence in what we are doing. It gives me the confidence that we will continue to deliver growth, profitability, minimal volatility and ultimately, predictable earnings on the path to Palomar 2x.

With that, I will turn it back over to Mac for some closing remarks.

**Q&A**

**Mac Armstrong:** Thanks, Chris. And yes, we will be accepting questions on Chris' slides because I have a hunch there might be one or two.

But I think it's important though before we go into that, just to reiterate our confidence in our ability to execute the plan that is Palomar 2x. There is a considerable organic growth trajectory in front of us. We have made considerable investments in product, in talent and systems, and we'll continue to do so. But we think that all of the investments that have been made put us in a unique and enviable position to double the underwriting income of the business. Hopefully, you've walked away with a keen sense of the model that we employ when we roll out new products and manage our products is a proven one, it's a flexible one, and it's a formulaic one that we continually assess and challenge ourselves on.

We want to be continuously innovative, but we also want to be continuous in self-effacing to help us recognize where there might be challenges in the market, where there are changes needed to products, where there are changes needed to systems and talent. That self-effacing and continuously innovative approach fosters agility, and it creates a circumstance where we will be able to continuously put ourselves in a position to double the business from an underwriting income before overhead, which, again, should allow us to scale more elegantly because that doesn't factor in investment income, it doesn't factor in scale in the overhead of the business.

Hopefully, you did get a sense that we're very good at reinsurance, we're conservative in our approach equally so in how we use the analytics and actuarial science. That is a differentiator and look no further to what we were able to accomplish and what some might consider the hardest property reinsurance market in decades. We have a best-in-class, not just approach to talent, in retaining that talent, but we just have best-in-class talent. Today was about as much as anything for you getting the chance to hear from all the people that I am remarkably fortunate to surround myself with. And there is a lot more back in California or in the twin cities or in Charlotte or spread out across the country, but we do have a terrific team. And that team is central to making us what is a partner of choice for distribution sources, for reinsurers, for other insurance carriers and ultimately, a partner that our policyholders rely upon.

We greatly appreciate you taking the time to hear us out. We have a great story, and we have a lot of great opportunity ahead of us. I think we're only getting started. We're eight years old, and we've only been public for three years. There's a lot we want to accomplish. We can get a lot done in the next several years, and we look forward to updating you and your trust and belief in the quarters and years to come.

With that, we'll go back to Q&A. But again, thank you very much.

**Q&A**

**Steve Roseberry:** Yes. Thanks, Mac. I'm just curious, if we could try to frame the overhead expenses because you're obviously, you're going to grow at a fast rate. Just trying to – should we think about the overhead expenses like for – relative to the 110, could you give us a sense to sort of frame that because which everyone is going to try to figure out the 110.

**Mac Armstrong:** Sure. I think Chris should chime in here. But just remember, we did see scale in the other underwriting expense and really the overhead expense from Q4 to Q1. And a lot of the people that we would be adding to execute on this plan will have revenue attached to them. There'll be underwriters or they will be driving process automation. I think there's a fair amount scalability in those numbers. But Chris, you should chime in.

**Chris Uchida:** Yeah. No, I think the best way to think about that, Steve, is when you think about what we did for 2021 and you look at the combined ratio, and you look at the

other underwriting expenses on a combined ratio basis or on a gross basis, I think that would be the base starting point, right? You take those dollars or percentages and start applying that to the out years. But I think that's where I think about the right base, and that is, call it, the minimum or conservative that we would probably start with. And then if you want to assume any type of scale on that, you can assume that the percentages get better at the rate of that premium. So, when you look at the new premium, the $1.2 billion and you apply those type of ratios to it, you would still be able to double underwriting income.

But if you apply any type of scale to that, right, for the full year of 2021, other underwriting expenses on a gross basis were about 10%. And Q4, it was like 9.2%. And then in Q1 of this year, it's 9%. You can either assume those are based or you can assume they continue to improve to 8.5% or 8% but that's kind of the baseline of where the operating expenses would start. But I think 2021 numbers is a good starting point. It's the – call it, the expenses that generated that $535 million of premium, so I think that's how I would start it when I think about growing expenses and then also the premium base.

**Paul Newsome:** I just want to expand on Steve's question a little bit into what – maybe we could talk a little bit more about what's excluded from the Palomar 2x. Obviously, sort of pure operating income, investment income is excluded. Most companies have a certain level of debt. I don't know if that's in the future, should we continue to assume taxes kind of stay the same?

And then in stock cost, there's a bunch of other stuff in the P&L that we as analysts have to think about it. And just for the record, to Chris, you're a young man, and I just want to say on behalf of the older people in the office that we will not – we won't hold your inexperience against you.

**Mac Armstrong:** Yes, it's not going to get in like a little bit of that much more disclosure, Paul; I don't know what you're going for. He's not going to guide.

**Chris Uchida:** So, part of the reason all jokes aside, what Mac talked about it. Obviously, Palomar 2x and the premium numbers we put on the slide for what 2x may look like, right? We did want to call it put too many numbers on there that give targets, right? If we put a growth rate on operating expenses, I know the analysts are smart. You're going to start trying to figure out that's at a growth rate of X that equals this many years.

So, I didn't do that on purpose. But to be clear, Palomar 2x is doubling underwriting income. And so that does include other underwriting expenses. I would say that includes other underwriting expenses on an adjusted basis, but you can do it with those expenses in or out, and it still equate to the same thing. It's kind of just what targets you want to start with. If you want to start with adjusted underwriting income or non-adjusted underwriting income, you could do either or I think when I look at some of the other components of the P&L, taxes, I'm not going to predict taxes. I would think in our model, we're going to keep it at the 21%, 22% for the immediate future until the government

changes that. But one of the reasons we want to take it out, I didn't want to say double taxes change at the end of this year, and then we have to go tweak all the models, which is more straightforward to keep out.

Debt, obviously, we do have the ability to use debt. We had about $15 million of debt outstanding. And I don't expect to have any type of material debt outstanding. So, I wouldn't expect a significant interest charge of any sort on our P&L. And then the last piece, I would say, is investment income.

Obviously, in the guidance, we kind of guided away from using mark-to-market. I think, obviously, we're an insurance company. We do invest conservatively, but I think more importantly, the team you met today and all the folks in that room are focused on doubling underwriting income. Mac and I and some others are obviously focused on the investment portfolio, but we invest conservatively. We feel we are stronger at underwriting. And so, we wanted you to focus on the team that's in the room doing the underwriting and what they can do to double the book of business.

Behind the scenes, yes, we are trying to improve our investments. What the government does today is probably going to improve those investments as well. So, we think about that. But we think we can double underwriting income faster than we can double investment income, right? We've got right now a four-year duration on our investments. If you go out a little longer, it's going to take a little bit of time to churn those investments or to double that investment income, even with deployment of the cash flow that we generate from the business, it's going to take time to double that where we feel we can double underwriting income faster.

We didn't also want to have that drag from what investment income could do to that. So that's kind of the main reasons we stop, let's call it, above the line on some of those things. But to be clear, underwriting income includes operating expenses. So when you do it, you should include it there, we just wanted to kind of take out some of the noise and you got to keep it conservative. Do you want to keep it conservative or you can get more aggressive if you want to put more scale into the other underwriting expenses?

**Mac Armstrong:** The only thing that I would add, Paul, its two things to that. One is this the roll-forward example that Chris gave kind of holds our ceded premium and our retention kind of steady state. So right now, on the underwriting businesses hold aside the quake and Hawaiian Hurricane, we, on average, are ceding around 60% out, 65% out. That's held static. The other thing is we are – there's product level assumptions in there. One is that the E&S all-risk book, we kind of hold that steady state; therefore, there's not a material change to the AAL on the continental hurricane. So, we're not loading in cat losses there. But the exposure is not changing, if not, if well, it's changing slightly to – from an improved perspective as it relates to continental hurricane AAL. So that should come down. But again, there's no continental hurricane load in those numbers. So that's one of the things that I would point out.

**Mark Hughes**: The binary business is growing pretty nicely in this scenario. The fronting fees also look pretty good. I would think a large portion of your volatility in attritional losses comes from the underwriting piece, which is a nice contributor, but it's not overwhelming. I wonder if on a risk-adjusted basis, if you just left that out, whether you would have still a high growth more predictable business model.

**Mac Armstrong:** Well, I guess, the counter to that, though, is the point that Chris made that those underwriting businesses are not that material in this scenario because we're still retaining, ceding off 60% to 65%, in some cases, 85% of the business. We have the ability to pull a lever that could increase the income by $60 million. You sacrifice a little bit of fee, but what you retain on your books is an incremental $60 million. So, I think I like to have that optionality because like Chris said, there's a lot of roads to Mecca, as they say, the only thing that's absolutely 100% right about that slide is we probably won't hit those numbers, right? They're going to look a little bit different.

So having those levers to pull and a lot of those levers are going to come from those attritional loss lines, gives us flexibility that while there's terrific tailwinds at our back in residential quake, things could change in the next several years. So having that optionality gives us more conviction on our ability to achieve it.

**Chris Uchida:** And the one thing I'd add to that, sorry Mark is that, that model is also very capital light, right, or light requirements. We're not adding capital. We still have plenty of capital to grow and to focus the capital on the binary business, if we ever were capital constrained. The capital call it the two right columns, that model does not require significant capital to generate that fee income. It's less than a $100 million required to generate that. So, we feel very good about the model and the optionality it gives us and then also the growth vectors for those lines that Mac talked about.

**Mark Hughes:** And then you talked about the intermediate term. Any way you could frame that up a little bit more?

**Chris Uchida:** Yes, yes. More than zero, less than 100. Does that help?

**Mac Armstrong:** Yes. More than three less than five. That's 4.2, 3.79, 4.4 somewhere along those lines. Yes. Meyer?

**Meyer Shields:** Thanks. Two questions on the 2x illustrative example. And I'm going to pose this as a quantitative question, but I don't expect an answer that way. What does Palomar look like in a soft market for cat exposed property and in hard earthquake reinsurance market?

**Mac Armstrong**: Well, we're in a hard earthquake reinsurance market, candidly. Right now, because we aren't in a truly – I guess, you could argue truly hard earthquake reinsurance market is going to be post event. And that is actually not a bad thing for us because if it's inside of $2.1 billion of loss, $12.5 million, $10.6 million factoring reinstatement after tax. And the demand has skyrocketed. So that affords us the ability to

get a pretty rapid payback. So Chris' example that illustrative if it's $500 million on there, it's probably a higher number.

But what you're probably seeing too is us using more quota share because what you'll have is a dynamic where reinsurers might be charging us a bit more, but they're also going to want to take advantage of the market condition because this would be the same rate they get payback that we can, they can as well, but they're going to want to leverage someone that has the systems, the distribution, the filing, so you can do more quota share in that regard.

So maybe it's not a $135 million and 20% commercial cede. It's a 40% residential cede that's capped at $600 million or something along those lines. So, I think a truly hard earthquake reinsurance market, it's a rapid payback and it's inside of a quarter. Soft reinsurance market, the one beauty of the residential quake on the quake side that we have is we are writing both on an admitted and E&S basis.

This is when the admitted side is fairly effective because the residential business that has 90-plus percent retention and now it's going to have a 7% to 8% inflation guard, depending on the state. In a soft reinsurance market, your pricing should be coming down, right? And you're going to be able to have scale. That may not be the case in the commercial side where you're going to probably index the rate decrease because that's what the market is doing. The residential side, you will not; you're going to get operating leverage. So, we're pretty hedged to think in that regard.

**Meyer Shields:** Okay. Is there a long-term philosophy about how much quota share you want to buy on the non-binary lines?

**Mac Armstrong:** It's product specific. And I guess I give you an analog would be flood. The flood product when we first developed it and went into market, we took 10% and ceded off 90% to Swiss and a couple of other quota share reinsurers. We now just renewed at 6/1, we're 50%. So we've got four years of underwriting history. The losses have performed very well. It's a sub-25% loss ratio plus or minus. We're in our own cooking there. Robert Beyerle, year three, we increased at his renewal of 5/1, we bumped up our participation by 5% that's a good example, too.

So as book cease in, the willingness to take on more is something that we've done. The thing we want to balance it is just what is our gross and net line as well. Even if something is performing really, really well, but all of a sudden, we're taking a $10 million net line, that's a little bit different than if it's going up from 2.5 to 3.5 or 2.5 to 3. So that's a long-winded way of saying it, Meyer, but I think we have examples in history where we have increased it, but we have to balance how the net line with the session percentage as well. Dave?

**David Motemaden:** Thanks. David Motemaden from Evercore ISI. Just a question. I just wanted to confirm, you said the Wind AAL in that illustrative example is not going to change materially from current levels?

**Mac Armstrong:** Yes, it should not because that's A, we're winding down a good portion of it; and B, we like what we have, getting back to what we talked about earlier. We think we can drive scale in that line through rate, not through exposure.

**David Motemaden:** Got it. Okay. And then I look at just the loss ratio in the 2x illustrative example at 17% that would be down from 19% I guess, that would be in 2021. Should I take that to mean – obviously, there's been a communicated increase in the loss ratio for this year that we've talked about. So I guess, I should take that to mean that after this increase this year, the mix shift should start to trend that loss ratio down as we sort of go forward in 2023 and beyond?

**Mac Armstrong:** Yes. And Chris, you might want to speak to that. I'll offer my $0.02, but you should go first.

**Chris Uchida:** Yes. No. I think Dave, that's the right way to think about it. I think obviously, we have made some changes in the portfolio. We still continue to make those changes. I think I would expect 19% for this year on an annualized basis. I think I've said that. I also still wouldn't be surprised it's still ticked up a little just because looking at the lines that are growing and where that's going to come where I expect it to come through first. I wouldn't be surprised if, call it, 21%, 22% for 2023, but at full scale when all lines get to the maturity that's shown on that 2x model, I would expect it to start dipping down.

And that's really going to be with some of the newer lines that get traction should be coming on at slightly better loss ratios. And so that will help drive it down. And then also getting out of all of the homeowners, right? We obviously converted some of it to fronting and that happened at June 1. We still have the non-Texas specialty homeowners that's going to be, let's call it, be continuing to convert over the next 12 months.

So all those things are kind of factoring into that, let's call it, one to two year time frame where it may hover still around the 20%-ish type range. But as these lines mature as our risk participation stays as modeled based on really current terms, then yes, that should start trickling down to the 17%. And we feel comfortable with that.

**Mac Armstrong:** Yes. And even if you just look at the first quarter, if you were to take out the Texas homeowners that it's 1.5 points or so that would have come out of that loss ratio.

**David Motemaden:** Got it. Okay. That's helpful. And then I guess just lastly, pretty impressive expectation for the fronting business going to $260 million. Obviously, lot of different things can go into that. I guess in terms of the pipeline of potential new relationships, could you just talk a little bit about how much obviously, you don't have right now, but like line of sight into getting those partnerships to get to that $260 million of fronting premium?

**Mac Armstrong:** Yes. I mean I think we have very good line of sight on that. Jason and his team are doing an excellent job. We said $80 million to $100 million this year. You can get chunky deals, we're probably turning away more than we're chasing, but we still have – we have a very good line od sight on that number. Pablo?

**Pablo Singzon:** Yeah, I just wanted to press a little more on this question on the timeline for Palomar 2x, right? And I guess the context is if you look at your growth of the past couple of years, you're growing 40%, 50% a year, right? So that tells me if you maintain that growth, you'll probably hit it before year four. And just sort of any other context you provide like – and I guess it's – I don't want to have answer more about managing expectations, right? Because only if you believe the story you'll get there, but sort of how you get there and when, right? But anything you can add on that? Thanks.

**Mac Armstrong:** Yes. I mean, again, I think the three-to-five-year window is what we we're going to shoot for and hopefully, it's on that shorter end. 65% growth in the first quarter was very strong. That would be a bit aspirational processing that's sustainable, but we have a lot of growth vectors. But we also are going to not just chase premium. So, we have to be mindful of where we can get the right risk-adjusted return and what segments present the opportunity to do that. I'm not going to continue to pick on it, but we could not write $50 million of E&S all-risk business, we could probably write a $150 million of that.

But then that AAL is probably triple from what we're talking about. And the cost of reinsurance on that is probably not triple, it is probably 3.4 times, so there's negative scale because of the allocations and – because it starts to influence the cost of our earthquake on Hawaii-only layer.

Pablo, I'd love to give you a very specific target on both the top line growth rate as well as the time frame in which we can deliver it. Just rest assured that it's an intermediate-term goal in that kind of three-to-five-year range that to do that it's going to be driven by very strong top line growth relative to the industry, an industry-leading ROE and margins that are pretty close to industry leading too.

**Chris Uchida:** And I guess one thing I'd also add, and we talked about this as of today, when you're looking at it off of 2021 being an intermediate goal. Remember, the philosophy we drive in Palomar 2x is this is continual, right? We are doing this. When we look at our book of business at the end of this year, we're doing the same thing. This is not a – for us, this is not a point-in-time exercise. This is making sure that we have the tools in the tool chest to make sure we keep doubling, right?

And so that mean we might have to add another line or look at different things as we continue to grow to make sure that we do have all the tools necessary. This is not something that we view as static, so we don't want it to feel that way to the group. We want to make sure that the group understands that this is something we are continually trying to deliver on and continually trying to grow the organization and the underwriting

income from where it was at a point in time, but we are doing that tomorrow and then the next day as well.

**Meyer Shields:** I'm just curious, given the moving parts that you've got in the illustrative examples, would you consider reporting in that format so that we can track the progress by these individual components?

**Chris Uchida:** Yeah, I don't know, if you caught the fact that this is an illustration. There is a lot of care put into that timing and into that word. And we give you some of the pieces, right? And the reason we started with premium is because you can take those premiums and you can put them in these buckets. But no, I think initially, the goal is to kind of keep it the same format we're doing now, but we started with premium to kind of give you guys a feel or if you want to try and track it a little bit in that format, if you can, you can see how much comes from fronting, how much comes from underwriting fee and how much binary, right? You can see those pieces directly and so you can do it in that format.

But I know it's it is difficult from a GAAP standpoint, I would say, to kind of split the – especially the right two columns into this format. That's why it's easier to do as an illustrative standpoint. It's much tougher when you start trying to break all this down into quarters, earned premium, different quota shares and potentially even splitting losses into different historic quota shares and things of that nature. So, this becomes a very difficult exercise. It's a very – it's more straightforward on a model standpoint; it's difficult on a reporting standpoint to get it in this type of format. I don't think that is something we would look to do in the future. But the premium is there for you guys to play with and model it any way you'd like.

**Mac Armstrong:** And I think we'll also in our remarks, give color on how we're trending on Palomar 2x and what are the components that are contributing to it. We might refer to what aggregates into the premium certainly breaking out the fronting premium and then give you a sense of what the overrides are and the embedded override margin that we have that might be fee generative since. Obviously, it's not in fee income. It's a contra expense to the acquisition cost, so I think there'll be some qualitative commentary that we will be consistent and uniform in how we position it to just help people get a sense of how we're trending.

All right. Well, again, thank you all for your time, your great questions and importantly, your coverage and support of Palomar. This was a great exercise for us as a company. I want to thank all of our team for the exceptional job, the exemplary job that you did. This was a lot of contents. Hopefully, I know it's appreciated by the investment community, but great job for all for pulling this off. This is terrific. Thank you so much. See you guys soon.