
Letter to Shareholders



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By Kevin O'Donnell
President and Chief Executive Officer

Dear Shareholders,

In 2022, we remained true to our strategy and culture, supported our customers when they needed us most and remained financially resilient despite large natural catastrophes and a historically unfavorable investment market. We demonstrated our unwavering commitment to our vision to be the best underwriter and our mission to match desirable risk with efficient capital. These polestars guided our actions and kept us on a path we are uniquely positioned to chart – underwriting property and casualty reinsurance risk.

I. Our Performance in 2022

FINANCIAL PERFORMANCE

Last year, I ended my letter with, “Going forward, we are poised to benefit from higher interest rates and improved pricing for our products.” In hindsight, while this statement was correct, I do not think anyone truly anticipated what 2022 held in store for the world and its implications for our company and industry. It was a transitional year for reinsurance, the final straw that forced the shift to more sustainable market conditions for the supply and demand for risk capital that we believe will ultimately benefit all stakeholders.

To begin with, it was the sixth consecutive tumultuous year for catastrophes. Across the world, people and communities were impacted by a war in Europe and extreme weather events, culminating in Hurricane Ian, the second-largest natural catastrophe in history.

Even more influential, however, was the historically unprecedented increase in interest rates driven by the resurgence of economic inflation. This resulted in widespread mark-to-market losses that impacted reinsurers and cedents alike, contributing to a reduction in estimated reinsurance capital of over \$60 billion from 2021 to 2022. This constraint in supply was mirrored by an increased need for reinsurance as a result of significant inflation, which increased loss costs.

Against this backdrop, we reported a net loss attributable to our common shareholders of \$1.1 billion and operating income available to common shareholders of \$316 million. Our return on average common equity was (22)% and our operating return on average common equity was 6%. Our change in book value per common share was (21)% and our change in tangible book value per common share plus change in accumulated dividends was (21)%.

CAPITAL MANAGEMENT

The strength of our balance sheet entering 2022 helped us absorb financial market volatility and positioned us for success in 2023. Our first preference is to deploy capital into profitable business. We had ample opportunity to do so at the January 1, 2023 renewal, despite material mark-to-market losses on our investment portfolio during the year. In part, this was due to beginning 2022 with excess capital; in part, it was due to judicious management of that capital over the course of the year.

Earlier in the year, we had returned more than \$163 million of capital to shareholders through share repurchases. At mid-year, we proactively decided to pause these repurchases in anticipation of market opportunities at January 1. This decision proved correct and the opportunities we found were beyond even what we expected.

We also paid common dividends of \$65 million in 2022, and recently increased our quarterly dividend for the 28th consecutive year.

THREE DRIVERS OF PROFIT

Consistent with prior years, I would like to discuss our three drivers of profit, which are underwriting income, fee income and investment income.

Underwriting Income

Our first driver of profit is the income we earn from our core underwriting business. In 2022, this was a gain of \$150 million, comprised of a gain of \$166 million in our Casualty and Specialty segment and a loss of \$16 million in our Property segment.

This represents an improvement from 2021, when we reported an underwriting loss of \$109 million, driven by a \$186 million loss in our Property segment. Overall industry losses in 2022 were of a similar magnitude to 2021 (at \$132 billion vs \$146 billion). So, despite similar levels of overall activity, and the costliest Florida hurricane in history, our underwriting business performed materially better in 2022. The key drivers of this improved performance were the growing profitability of our Casualty and Specialty business, with underwriting income more than doubling year-over-year, as well as increased rate and better terms and conditions in our Property business.

In last year's Letter to Shareholders, I highlighted multiple dynamics that were driving increases in property reinsurance rates. These were:

- The poor performance of the industry, especially in third-party capital,
- The impact of social inflation,

- The market's increasing reluctance to accept volatility,
- Significantly reduced retro capacity, especially for higher frequency risk, and
- Increased cost of volatility.

Each of these property market dynamics is still in play, if not exacerbated. To this list we now need to add:

- The resurgence of economic inflation,
- Increased cost of capital, and
- A material supply/demand imbalance.

The confluence of these factors resulted in a step change in the property reinsurance market at January 1, 2023. Heading into the renewal, I publicly outlined several underwriting changes we would require to provide our investors with an increased margin of safety. They were:

- Substantial rate increases,
- Increased retentions on property programs,
- Tighter terms and conditions and narrowing coverage,
- Offering non-concurrent capacity and private placements,
- Broad participation at improved economics across cedents' reinsurance programs (including casualty and specialty), and
- Reducing participation on any program where conditions were not met.

We achieved these conditions at January 1, and believe they will persist well into the future.

For our Casualty and Specialty segment, 2022 was a solid year where we were able to deliver consistent profitability despite several large events, including the Russian invasion of Ukraine. Against this backdrop, we increased Casualty and Specialty net premiums written by 42% and delivered a combined ratio of 95%.

Our Casualty and Specialty book features an enviable combination of accelerated growth in strong underwriting years (2020 to 2022) coupled with downside protection against the softer underwriting years (2014 to 2019) through adverse development covers protecting the Tokio Millennium Re business we acquired and Lloyd's 2009 to 2017 Casualty business.

Looking forward, we continue to find opportunities in this segment. In particular, many specialty lines were nearly as dislocated as property catastrophe at the January 1, 2023 renewal, including cyber, terror, aviation, and marine & energy. In our financial lines business, over the course of 2022, we capitalized on several opportunities to grow our mortgage business on attractive terms. Our outlook for 2023 includes the possibility for an economic recession, so going forward we are focused on optimizing the profitability of our

financial lines business rather than growing it. Finally, in traditional casualty, rate increases are starting to slow and, in some lines such as D&O, even reduce. Reductions in ceding commissions are helping offset this slowdown. In 2023, we will continue to optimize the portfolio, focusing on profitability.

Fee Income

Our second driver of profit is the fee income we earn from our Capital Partners business. For the year, management and performance fees totaled \$119 million. Given the elevated catastrophe activity, performance fees were diminished in the second half of the year.

It was another challenging market to raise new funds, and our success in this environment was due to the hard work of our Capital Partners team and its differentiated value proposition. Increasingly, third-party investors are valuing strong underwriting and risk management capabilities, which supported us in raising over \$1.4 billion in third-party capital across DaVinci, Medici, Fontana, Vermeer and Upsilon in 2022, plus an additional \$400 million for the January 1, 2023, renewal.

In 2022, we advanced our leadership position in the third-party capital management market with an innovative joint venture – Fontana. Fontana is the first fund targeting institutional third-party capital investors that is 100% dedicated to writing casualty and specialty risks, including long-tail lines. The formation of Fontana enables us to employ the same strategy in our Casualty and Specialty business that we have successfully deployed for over 20 years in our Property business. It sets us apart from our peers, as we are the only reinsurer that has both owned and managed, rated and fronted “at-scale” vehicles for every class of risk that we write.

Fontana delivers significant benefits to our key stakeholders:

- For our Customers – it helps us to be a broader, deeper partner by providing long-term capital that allows us further flexibility to grow our Casualty and Specialty segment and bring additional capacity to dislocated markets;
- For our Capital Partners – it offers investors direct access to market leading underwriting and claims management through a whole account quota share of our Casualty and Specialty book of business; and
- For our Shareholders – it reduces expected volatility and furthers our strategic aim of monetizing our competitive advantage in underwriting by trading underwriting risk for fee income.

I believe our strategic choices over the last decade and proven track record of disciplined execution make us uniquely capable of bringing a solution such as Fontana to market. For example, we built the underwriting infrastructure necessary to source attractive casualty and specialty risk and underwrite it profitably. We now have over 40 underwriters in this segment – many with decades of experience – as well as strong relationships with the largest and most prominent insurance companies in the world. Equally important, we have built a robust Casualty and Specialty claims infrastructure, which is vital to managing the lifecycle of this business profitably.

Our underwriting focus also distinguishes Fontana from other, investment-centered vehicles, as we expect its return to primarily derive from underwriting profit, not investment return. None of the competitive advantages we bring to Fontana can be quickly or cheaply replicated by third-party capital. This should provide investors with the confidence they need to invest in long-tail lines and the liquidity they will ultimately desire to efficiently exit, creating a deep and sustainable moat around this business.

As of January 1, 2023, we managed over \$10 billion of third-party capital, inclusive of Top Layer Re capacity. Our capital partners are overwhelmingly long-term oriented investors that have remained aligned to our strategy of matching risk to capital through significant periods of industry volatility. Looking ahead, we expect the size and scale of our Capital Partners platform to contribute meaningfully and sustainably to fee income as a key driver of profit.

Investment Income

Our third driver of profit is investment income. Our vision to be the best underwriter centers our value creation formula on net underwriting profitability, rather than on investment returns on the assets we hold. This means we do not accept risk for less than the expected cost of holding it, or target asset accumulation as an objective of our underwriting strategy. Rather, we construct our investment portfolio to support our underwriting strategy, and as a result our investment portfolio continues to be, by necessity, highly liquid, well-rated and relatively low duration.

That said, we manage over \$22 billion in investments on which our stakeholders expect us to obtain a reasonable return. Heading into 2022, we anticipated higher interest rates and mark-to-market impacts. Most asset classes performed poorly in 2022, with the S&P 500 down 18%, and many classes of fixed income performing similarly if not worse.

This should be a case of short-term pain for long-term gain. Interest rates appear to have reset at a new, higher equilibrium. We are beginning to realize the benefits in the form of increased coupon rates on new bonds in our portfolio as well as accretion to par on existing bonds as they approach maturity.

Given the lengthening duration of our liabilities due to the growth in our Casualty and Specialty business, we also took the opportunity in 2022 to grow our alternative investments portfolio, increasing allocations to both private credit and private equity.

As a result of all these changes, our investment portfolio should contribute significantly more profit to our bottom line in 2023 and forward.

II. Consistent Strategy and Enduring Relevance in the Value Chain

In past letters, I have discussed how RenaissanceRe has grown and changed as a company during my tenure as CEO. This process was necessary and healthy as it reflected the evolving needs of our customers and the markets we serve.

As much as RenaissanceRe has changed, however, we remain remarkably similar to the company that revolutionized the reinsurance market in the aftermath of 1992's Hurricane Andrew. While many of the innovations that we introduced to reinsurance have since become standard practices, our deep understanding and management of risk continues to provide us with the confidence to occupy a unique and profitable position in the insurance value chain. Sometimes this has been a contrarian path, but we fully believe we are best equipped to navigate it successfully.

From the beginning, our strategy has included a focus on reinsurance. We have built considerable bench strength and expertise in this area, and we have always been a leading provider of property catastrophe protection. This strategic consistency provides us conviction in our view of risk and enables us to outperform across market cycles. It also allowed us to take a leadership role in the current market.

We welcome volatility because we know how to price and manage it. We are able to identify and shift to the most profitable opportunities, and employ our Gross-to-Net strategy to optimize our net position. In the past, we purchased significant retrocessional protection to control our net risk; now we are increasingly focused on using rate and terms and conditions to shape our portfolio.

Equally important, over the last decade, we have diversified our business to include more casualty and specialty risks. This portfolio has transformed RenaissanceRe into a diversified reinsurer with broad access to risk and considerable investment, operating and premium leverage. As our Casualty and Specialty business has matured, it has become an increasingly larger and more consistent contributor to our bottom line.

And finally, we have grown our Capital Partners business alongside the strategic evolution of our top line premium. This allows us to provide multiple forms of capacity – owned and managed, rated and fronted – for every class of risk that we write, and also provides our business with significant earnings diversification, and a complement to volatility, in the form of stable fee income.

THE END OF THE EASY MONEY ERA

Our continuing commitment to property catastrophe reinsurance helped distinguish us in 2022, a time when many companies in the property and casualty industry retreated from this business. The primary driver of this pullback was poor financial performance driven by climate change, inflation, and losses from secondary perils such as Russia's invasion of Ukraine and COVID-19.

At a more essential level, however, I believe there has been a fundamental mismatch between risk and capital in the property catastrophe business. Debt capital naively wrote equity risk. This mismatch was driven by a period of low interest rates, during which investors were compelled to stretch for yield. This was particularly apparent in the third-party capital market, where investments are frequently structured like debt instruments, and have debt-like returns attributed to them. But I believe the mismatch afflicted most of the property and casualty industry, amplifying its deleterious effect on rates.

It is a fact that property catastrophe business, regardless of the form it takes, is inherently risky. For this reason, property catastrophe reinsurance needs to be the most profitable business line in property and casualty, commensurate with the level of volatility it absorbs.

It is likewise a fact that property catastrophe events are randomly distributed. As a result, there are sometimes extended periods where property catastrophe volatility appears low. While this seemingly low volatility is a temporary statistical anomaly, it can drive extended soft market cycles. Reversion to the mean, however, is inevitable.

Mean reversion is the part of the cycle where we now find ourselves. Many investors assumed more risk than they were prepared to bear, and now that volatility has resumed, this capital has become fatigued. I am surprised that capital persisted as long as it did – which I attribute more to central bankers' commitment to easy money than debt capitals' suitability for taking property catastrophe risk. With higher interest rates, investors no longer need to stretch for yield, which will reduce "tourist capital" and reinsurance supply. Many years from now, 2022 will likely mark the end of an era of easy money stretching back to at least 2008.

SHIFTING PARETO FRONTIER

The rapid retrenchment of interest rates in 2022 coupled with heightened volatility has forced the step change in reinsurance pricing I discussed earlier. This step change is most evident in property catastrophe, but we believe it will ultimately affect all lines as the increased cost of capital reverberates.

This step change was overdue, and necessary for the long-term interests of all of our stakeholders. The cost of capital, and especially risk capital, has increased. This has caused the Pareto efficient frontier to shift upward materially, with each unit of risk needing to deliver significantly higher expected profit. We have the best tools in the industry to approach this efficient frontier, and view this adjustment as an opportunity to substantially improve our profitability. Obviously, this is a very good outcome for our shareholders and investors in our Capital Partners business.

Not as obvious is the fact that it is also good for our customers by ensuring continuing reinsurance availability. This shift better aligns the interests of our customers and investors, and appropriately incentivizes investors to continue providing their capital. This is especially true now, as the impacts of climate change and inflation have amplified risk globally, while rising interest rates have created numerous attractive deployment opportunities in other, better understood asset classes.

ENDURING RELEVANCE IN THE INSURANCE VALUE CHAIN

Some have questioned the continuing relevance of the reinsurance industry in light of the realignment in interests that took place at January 1, 2023. I find this question dubious for two reasons.

First – after six consecutive years of elevated catastrophe losses, I assert that the value proposition of reinsurance has never been clearer to our customers and our purpose to protect communities and enable prosperity has never been more important. Our customers rely on the long-term health of the reinsurance industry to continue to provide protection to their customers.

Second – reinsurance is a critical link in the insurance value chain for which there is no perfect substitute. Said another way, reinsurance can profitably bear risk in ways that other forms of risk capital, such as debt or equity, cannot. Reinsurance has always played an important role in the insurance value chain, and in its absence, a profit-seeking insurance company would choose to shift its strategy to occupy this important niche.

I have discussed the role of reinsurers in previous letters to shareholders, but in summary, no other form of capital will ever be as consistently efficient in buffering volatility. Our customers need reinsurance capacity, and they need it now more than at any other time in my career; in part because the world is a riskier place; in part because other forms of risk capital have fatigued. Our willingness and ability to be a long-term partner by providing consistent capacity continues to differentiate us when it matters the most.

GOVERNANCE

In May 2023, Anthony (Tony) Santomero will be retiring from the Board at the end of his term. On behalf of the management team, I would like to thank Tony for his 15 years of distinguished service to RenaissanceRe, in particular in his role as the Chair of the Investment and Risk Management Committee. Tony brought deep financial acumen to the Board, with a broad academic, macroeconomic and banking perspective.

This year we are pleased to nominate Torsten Jeworrek to stand for election as an independent director at our Annual General Meeting of Shareholders in May 2023. As a former Member of the Board of Management and the CEO Reinsurance of Munich Reinsurance AG, Torsten brings a global perspective, and wealth of risk understanding and reinsurance experience to the Board.

IN CLOSING, AND LOOKING FORWARD TO OUR FOURTH DECADE

RenaissanceRe will celebrate our 30th anniversary in 2023. I have been here for most of these years and played a role in many of our biggest changes. It is what has stayed the same, however, that has kept RenaissanceRe special. I have discussed the consistency of our strategy, but this consistency is equally applicable to our unique culture. We work hard to maintain the same ethos that has infused our success since we began, such as working as an Integrated System, with a flat hierarchical structure, shared outcomes, a principles-based approach and an unrelenting focus on strong underwriting. I believe our success here is reflected in our deep bench strength and the long tenures of our employees, without whom we could not have achieved all that we have over the prior three decades. I look forward to coming to work every day because I get to be the captain of the best team in the industry.

I believe that we are better positioned to deliver long-term stakeholder value in 2023 than we have been in decades. We are in the midst of one of the hardest markets we have experienced, characterized by substantially more demand

for our products than the market can supply. In addition, higher interest rates and the benefits of asset leverage from our operating scale creates a strong tailwind for investment income. Finally, our Capital Partners business continues to grow and provide a source of stable, diversifying fees.

In closing, we enter 2023 with an enduring value proposition and each of our three drivers of profit poised to deliver outperformance over the course of the year. I could not be more excited about the current environment or our positioning in it, and look forward to capitalizing on the tremendous opportunities ahead to create material value for our shareholders.

Sincerely,



Kevin J. O'Donnell
President and Chief Executive Officer

Cautionary Statement Regarding Forward-Looking Statements

Any forward-looking statements made in this Letter to Shareholders and Annual Report, including any statements regarding any future results of operations and financial positions, business strategy, plan and any objectives for future operations, reflect RenaissanceRe's current views with respect to future events and financial performance and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are subject to numerous factors that could cause actual results to differ materially from those set forth in or implied by such forward-looking statements, including the factors affecting future results disclosed in RenaissanceRe's filings with the SEC, including its Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q.