Investors' Chronicle | Alpha

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Alpha small company research

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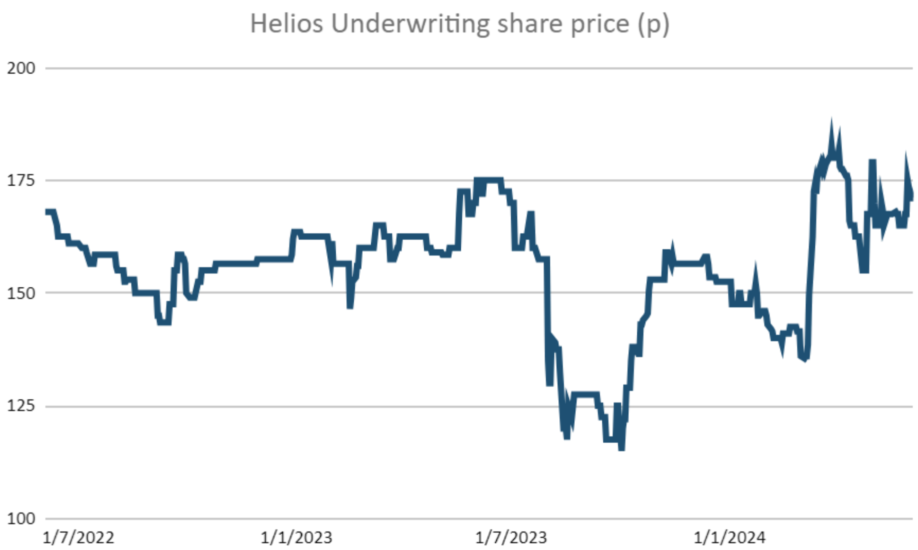
A unique way to profit from hardening insurance rates

The hardening of insurance rates is driving up profits at Lloyd's of London and the only publicly-traded investment company offering access to the rising underwriting profits from a diverse portfolio of the best syndicates is a major beneficiary.

Simon Thompson's view:

'Insurance rates have been surging and so have the profits of insurance underwriters. It's a favourable backdrop and one that investors can gain exposure to through **Helios Underwriting (HUW)**. The Aim-traded investment company's shares not only offer prospective dividend yields of 7.4 per cent (2024) and 10.6 per cent (2025), they are priced on modest PE ratios of 6.6 (2024) and 4.6 (2025) as well. The company is also boosting shareholder value as highlighted by the £18mn gain on the value of its portfolio capacity last year, a hefty sum in relation to Helios' market capitalisation of £129mn. With net asset value (NAV) per share forecast to jump by a third to 254p by the end of 2025, the shares are trading on an unwarranted 32 per cent discount.'



Source: LSEG

Bull points

1. Diversified exposure to some of Lloyd's best syndicates.
2. Hard market price environment.
3. Insurance offers uncorrelated returns to equities.
4. Peak-in-cycle returns expected over the next few years.
5. Strong growth in underwriting capacity.
6. Capital returns through dividends and buy-backs.
7. Material value creation through rising capacity value.
8. Directors have material shareholdings.

Bear points

1. Underwriting risk.
2. Liquidity.
3. Complexity of insurance market.

Helios Underwriting (HUW)	
Ticker	HUW
Current mid-price	172.5p
Bid-offer spread	170 - 175p
Target price	250p
52-week high	185p
52-week low	112p
Market cap	£129mn
Net asset value (NAV)	£140.1mn (31 December 2023)
Shares in issue	74.75mn
Financial year-end	31 December
Next event	interim results September 2024
Website	www.huwplc.com

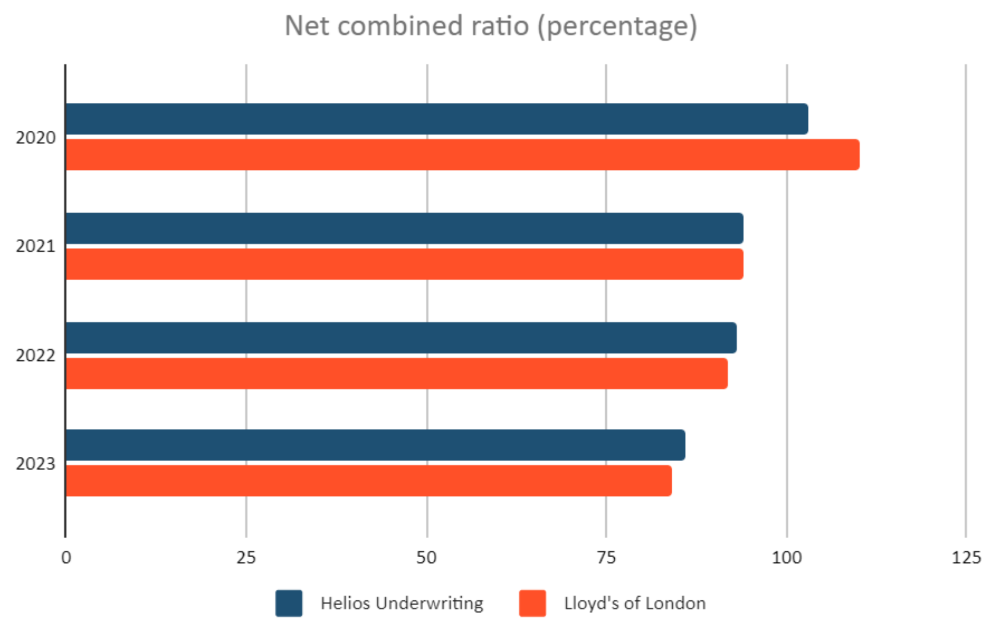
Source: London Stock Exchange and company filings

Lloyd's of London, the world's largest insurance market, is experiencing the most attractive underwriting conditions for a generation.

Underpinned by a combination of disciplined underwriting and a hardening price environment, Lloyd's delivered a third consecutive year of double-digit growth in 2023. The market's gross written premium (GWP) increased 11 per cent to £52.1bn, buoyed by 4 per cent volume growth and price increases of 7 per cent that offset inflationary trends. The Lloyd's market has now seen 24 consecutive quarters of positive price improvement. Its annual underwriting profit of £5.9bn represented a £3.3bn increase on the previous year and contributed to a 7.9 percentage point improvement in the combined ratio to 84 per cent – the strongest result since 2007.

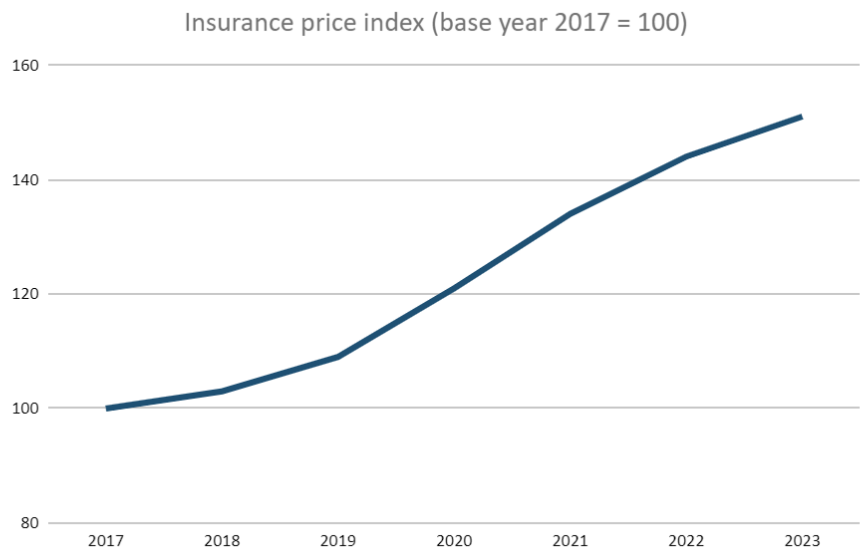
The combined ratio is a key measure of underwriting profitability that compares an insurer's total claims and operating expenses to the level of premium income. A figure below 100 per cent indicates underwriting profitability. Underwriting across the market benefited from lower costs from large risks and natural catastrophe claims, with the underlying combined ratio (combined ratio excluding major claims) around 80.5 per cent.

Lloyd's overall profit before tax of £10.7bn reversed a prior year loss of £0.8bn, helped by bumper investment returns of £5.3bn, a reflection of higher risk-free interest rates around the world and the unwinding of the previously booked mark-to-market loss. Importantly, the Lloyd's insurance market is well capitalised with total capital, reserves and subordinated loan notes of £45.3bn, a 12 per cent increase on the previous year.



Source: Helios Underwriting

The improvement in the Lloyd's market has been assisted by remediation and a market-wide pricing correction since 2018 that has led to seven consecutive years of hardening rates. In fact, the Lloyd's insurance market price index has increased 51 per cent since 2017. The combination of hardening insurance rates and premium growth means that £60bn of business could be written across the Lloyd's market this year.



Source: Helios Underwriting, Lloyd's of London

The recent correction in terms and conditions and the actions of Lloyd's to force syndicates to remediate underperforming areas of their books have played key parts in the dramatic improvement seen. That's because the biggest single risk faced by insurers arises from the possibility of mispricing insurance on a large scale, something that syndicate managers were previously guilty of especially when underwriting catastrophe insurance classes.

The result of the remediation work by Lloyd's is clearly being seen in the bumper results being reported across the market.

It's a favourable backdrop and one that investors can gain exposure to through a below-the-radar investment company, **Helios Underwriting (HUW)**. Listed on London's junior market, Helios is the only publicly traded investment company offering investors access to the underwriting profits from a diverse portfolio of some of the best Lloyd's of London syndicates.

In a nutshell, the insurance written at Lloyd's is brought to the market by brokers and coverholders to specialist underwriters who price and underwrite the risk. Syndicates are managed by 'managing agents' who employ the underwriters to 'bind' the contracts of insurance and reinsurance on behalf of the members of Lloyd's. Managing agents also carry out all the other activities of insurance business at Lloyd's on behalf of the members. The syndicates are formed by members joining together to underwrite insurance, each for their own share. Members provide the capital to back the underwriting.

To date, Helios has acquired over 75 companies which are high quality Limited Liability Vehicles. They replaced the famous Lloyd's Names at the start of this century and are now coming up for sale as their owners age or decide to exit.

Helios Underwriting financial forecasts

Year end 31 Dec	Revenue	Adjusted pre-tax profit	Earnings per share	Dividend per share	Price/ earnings ratio	Dividend yield
2022	£148.3mn	-£5.2mn	-3.1p	3.0p	na	1.7%
2023	£212.9mn	£22.1mn	21.6p	6.0p	8.0	3.5%
2024 E	£332.1mn	£25.8mn	26.2p	12.8p	6.6	7.4%
2025 E	£441.9mn	£37.0mn	37.6p	18.4p	4.6	10.7%

Source: Company data, Edison Investment Research estimates (30 May 2024). Mid-price of 172.5p used for dividend yield and PE ratios calculations.

A diversified portfolio

Helios has been increasing the scale of its operations in the past two years, doubling the size of its capacity portfolio to more than £500mn across 40 syndicates at Lloyd's. Around 77 per cent of underwriting capacity is retained for the company's shareholders and 23 per cent is allocated to third party capital providers whereby Helios generates fees and commissions.

Helios' top ten holdings by managing agent (May 2024)

Syndicate	Managing agent	Capacity (£mn)	Percentage of portfolio (%)
623	Beazley	32.7	6.53
5886	Blenheim	30.8	6.15
510	TMK	30.3	6.05
5623	Beazley	27.0	5.39
1969	Apollo	25.5	5.09
1729	Dale	25.1	5.01
1971	Apollo-Ibott	25.0	4.99
1985	Flux	20.0	3.99
2358	Nephila	20.0	3.99
1955	Arch	20.0	3.99
Subtotal		**256.4**	**50.6**
Other		**250.6**	**49.4**

Source: Helios Underwriting

Having grown portfolio capacity by 27 per cent to £311mn in 2023, Helios is increasing capacity 63 per cent to £507mn for the current year. This has been achieved by adding eight new syndicates (£100.8mn of new capacity) to diversify the portfolio both in terms of asset classes and geography, growth in existing syndicates through preemptions (£41.8mn of capacity additions), portfolio management (£55.8mn) and acquisitions (£8.1mn).

Of these syndicates, 63 per cent are established (more than three years underwriting results), 22 per cent have less than three years of operating experience and 15 per cent are new syndicates which commenced operations in 2024.

Helios Underwriting curation of portfolio

	Freehold capacity	Tenancy capacity	Total capacity
2023 year of account capacity	**147.3**	**155.5**	**310.8**
Acquisitions	7.4	0.7	8.1
Pre-emptions	14.7	27.1	41.8
New syndicates	-	100.8	100.8
Auction - buy	6.5	-	6.5
Portfolio management	-	55.8	55.8
Discarded capacity	-	-8.6	-8.6
2024 year of account capacity	**175.9**	**331.2**	**507.1**
Percentage increase	19%	113%	63%

Source: Helios Underwriting 2023 annual accounts (30 May 2024)

In terms of asset exposure, property insurance is one the largest insurance classes, accounting for 22 per cent of Helios' portfolio capacity on a primary or facultative reinsurance basis. A further 9 per cent of capacity is property insured on a treaty basis, whereby the issuer of the insurance passes on all the risks of a specific class of policies to a reinsurer.

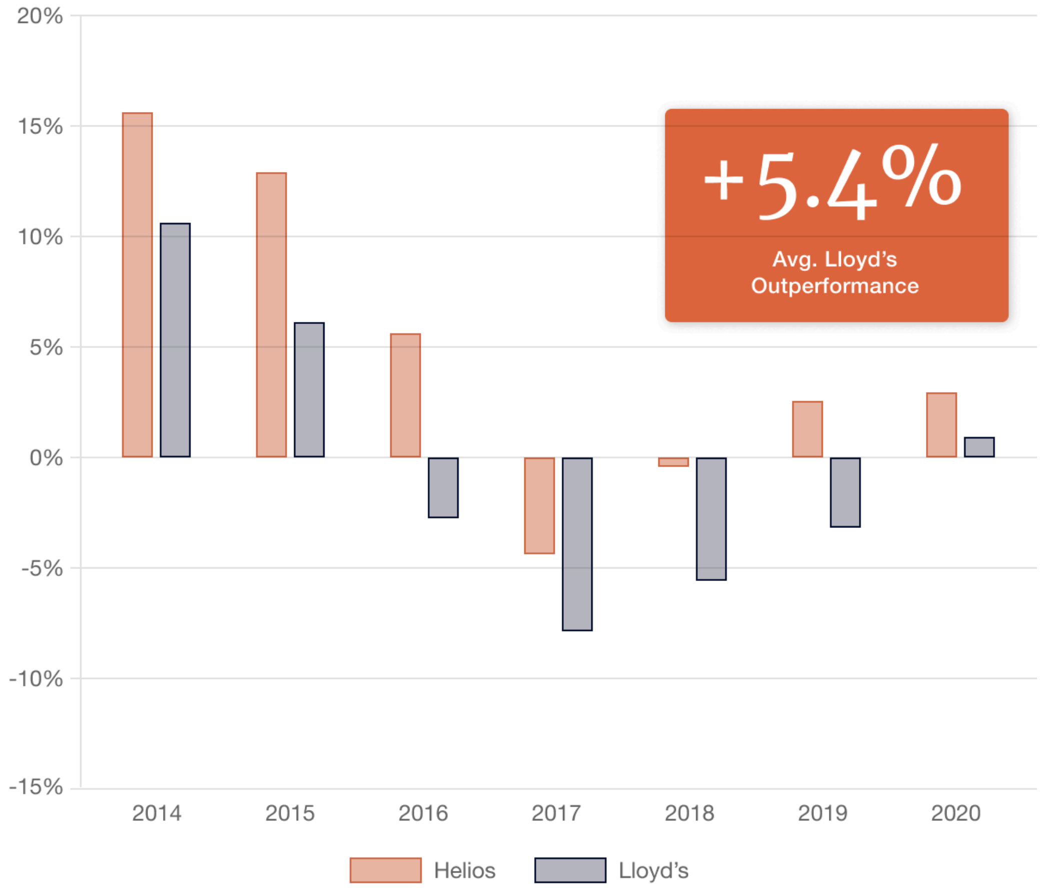
Casualty business lines account for 37 per cent of Helios' £507mn capacity and includes financial and professional liability insurance. Marine and aviation account for 9 per cent and 5 per cent, respectively, of the total capacity exposure. Importantly, the spread of business is diversified to mitigate risk with the largest capacity on any one syndicate accounting for less than 7 per cent of the total capacity.

What this means is that Helios offers investors a balanced mix of syndicates that can exploit favourable market conditions and are capable of withstanding market losses. They also provide consistent superior performance – Helios' return on capacity has outperformed the Lloyd's market by 5.4 per cent over the past seven closed years of account, so the company has an enviable track record.

Bearing in mind the ability of Helios to outperform the wider Lloyd's insurance market, the focus and curation from the 2022 to 2023 portfolio is of keen interest. Specifically, it has had an emphasis on the following areas:

- Managing exposure to natural catastrophe;
- Growth into specialty lines;
- Targeting risks, classes and geographies that diversify the portfolio;
- Building relationships with syndicates that attract non-correlating exposure; and
- Identifying new relationship capacity with excellent growth prospects.

Helios Underwriting return on capacity results



Source: Helios Underwriting. Helios return on capacity is on average 5.4 per cent higher than the Lloyd's market over the above period using year of accounts results.

A key strategic area is to actively support leading management teams that want to take advantage of the Lloyd's licences and infrastructure to start new syndicates. They either have a unique proposition or will be underwriting existing portfolios with a profitable track record. It is essential for the new opportunities to be strategically aligned with Helios' capacity portfolio, increase diversification and meet the company's risk appetite requirements.

For instance, Helios has made a strategic investment by providing capital to MCI Syndicate 1966, an innovative venture that was launched in April 2024. Syndicate 1966 is unique in that it introduces a revolutionary new product that offers insurance for clinical trial funding, specifically designed for the rapidly growing biotechnology industry.

This product is not just an insurance policy, it is a tool that has the potential to greatly impact the future of medical research and development. The syndicate leverages advanced technology, employing an Artificial Intelligence (AI) model, to predict the success rate of clinical trials. This predictive model is a key aspect of their business strategy, as it allows for more accurate and efficient allocation of resources. In doing so, Syndicate 1966 not only mitigates risks but actively promotes medical innovation.

Another good example of how the company is diversifying its capacity portfolio is through the investment in Wildfire Defense Syndicate 1996. This new syndicate focuses on loss prevention and is committed to reducing wildfire losses across the insurance industry.

The initial area of focus is California-exposed commercial property risks in the excess and surplus (E&S) market. Response actions on properties threatened by wildfires not only prevents structures from being lost, it reduces carbon emissions from structure combustion and reconstruction. Having access to the property protection services of Wildfire Defense Systems, whose emergency response operations have answered more than 1,200 wildfire incidents across 22 US states and saved the insurance industry billions of dollars, is a key differentiator in the market.

Managing third party capacity

Underwriting capital provided by third parties is forming an increasing part of the capital stack of the Helios capacity portfolio. Helios has used quota share reinsurance for several years to provide access to the Lloyd's underwriting exposures for reinsurers. Third party capital improves risk management by reducing the exposure of Helios shareholders, and it assists in the financing of the underwriting capital.

Helios has almost doubled the third party capacity support for the 2024 portfolio from £66mn to £115mn, representing 23 per cent of its total. It is also expected that the support from third party capital will further increase for the 2025 year of account.

Helios Underwriting total capacity

	2023	2024
Quota share reinsurance (£mn)	£66.3mn	£63.5mn
Third party capital	-	£51.7mn
Total third party capital	**£66.3mn**	**£115.2mn**
Helios Capacity Fund - total capacity	£310.8mn	£507.1mn
Helios' share of capacity fund	**79%**	**77%**

Source: Helios Underwriting

Interestingly, Helios offered a new structure of participation to existing private capital participants for the 2024 year of account. In conjunction with Argenta Private Capital, clients were offered the opportunity to participate on the Helios capacity portfolio Members' Agent Pooling Arrangements (MAPAs), including participation on freehold syndicates without having to fund the upfront cost of the freehold capacity rights. Effectively, Helios is renting the freehold capacity rights to these capital providers.

The move reflects a shift in the quality of Helios' earnings away from pure underwriting returns and into a hybrid model where the company earns repeatable fee income generated by allowing access to its portfolio. The 'rental capacity' initiative with private capital is ground-breaking as it allows investors a fast and efficient way to participate at the heart of some of the best syndicates trading at Lloyd's and removes the requirement to buy and own freehold capacity to access a Lloyd's portfolio. Around £55mn of Helios £507mn has been earmarked to be used for this new initiative.

Improving portfolio underwriting results

Helios' annual results for the 2023 financial year revealed the portfolio delivered a 21-fold increase in its underwriting result from £2.1mn to £42.7mn. Helios' share of this was £31.6mn. It is important to understand that there is a three-year delay in the realisation of underwriting profits in the company's accounts, so the 2023 accounts are based on the contribution from the 2021, 2022 and 2023 years of account.

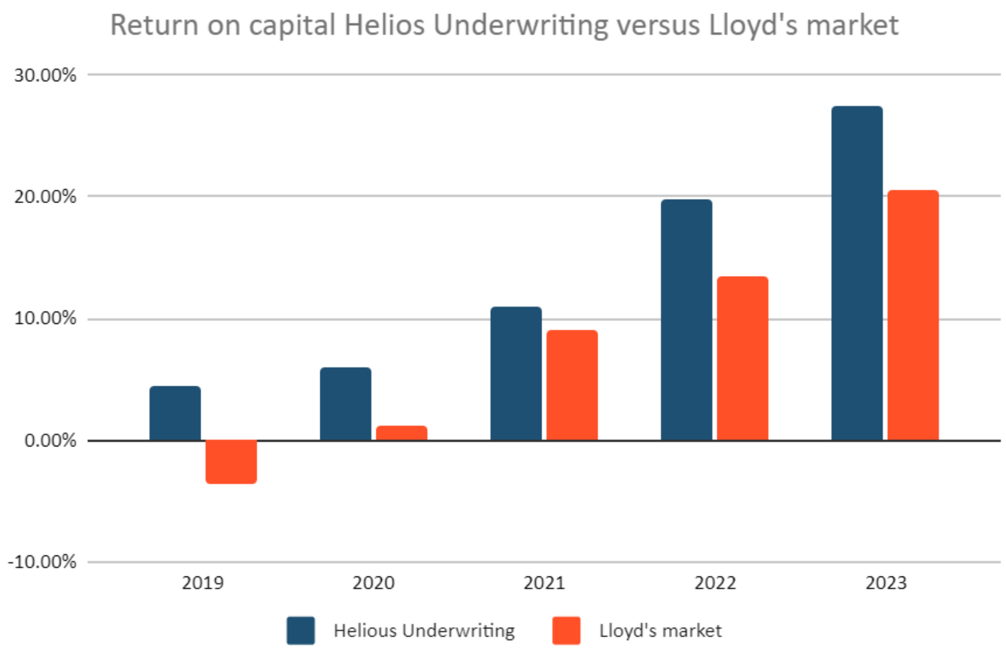
Helios Underwriting portfolio underwriting result

	2021	2022	**2023**	**2023 total**	2022 total
Portfolio capacity by underwriting year	£157.3mn	£245.2mn	**£310.8mn**		
Gross underwriting result	£4.6mn	£21.6mn	**£5.9mn**	**£32.1mn**	£5.6mn
Investment income	£5.2mn	£3.6mn	**£1.8mn**	**£10.6mn**	-£3.5mn
Portfolio result by underwriting year	£9.8mn	£25.2mn	**£7.7mn**	**£42.7mn**	£2.1mn
Gross result as percentage of capacity	5.9%	10.4%	**2.5%**		
Retained capacity	£105.8mn	£184.5mn	**£244.5mn**		
Helios retained percentage	67%	75%	**79%**		
Helios share of the portfolio result	£6.8mn	£19.0mn	**£5.8mn**	**£31.6mn**	£0.1mn

Source: Helios Underwriting 2023 annual accounts

The key drivers were the growth in capacity, improved pricing and lower incidence of catastrophe losses incurred by the supported syndicates. Interestingly, the directors note that the mid-point estimate for the 2022 year of account is expected to improve from a profit of 8.1 per cent as a percentage of capacity. That's a point worth noting given that the remaining profits from that year of account will be earned in 2024.

Furthermore, the mid-point estimate for 2023 – a profit of 12 per cent on capacity – is highly encouraging, in part a reflection that the year was not materially impacted by catastrophe events. As a result the board expect GAAP earnings in 2024 from both the 2023 and 2022 underwriting years to make "a significant contribution to Helios' earnings, both from the profitability in the underlying portfolios and with the benefit of further positive investment returns continuing to be recognised". The directors point to another year of outperformance against the Lloyd's market, as has been the case for the past five years.



Source: Helios Underwriting 2023 annual report. Return on capital is defined as return on Funds at Lloyds.

It's also worth pointing out that although Helios' net combined ratio of 85.8 per cent in 2023 was slightly higher than the Lloyd's market, the portfolio's combined ratio is impacted by the early earning development of new syndicates and their inherently cautious loss ratios. However, excluding the new syndicates, the established ones within the portfolio align with the market. Over time, as these new syndicates mature and their earnings grow, it would be reasonable to expect the associated combined ratios to improve.

The investment returns on assets managed by the supported syndicates are included in the overall portfolio underwriting result in our table above, but in addition to underwriting profit, Helios also earned £4.1mn of additional income. This was mainly fees from reinsurers and investment income on a portfolio of short duration UK government bonds, as highlighted in the table below which reconciles the underwriting profit to net profit.

Another important point to note is the substantial £18mn gain reported on the value of syndicate capacity.

Continued below

Helios Underwriting reconciliation of underwriting profit to comprehensive income

12 months to 31 December	**2023**	2022
	£'000	£'000
Underwriting profit	**31,560**	116
Other income:		
- fees from reinsurers	1,408	562
- corporate reinsurance policies	-	33
- goodwill on bargain purchase	-	-
Amortisation of Goodwill	619	1,216
- investment income	2,103	647
Total other income	**4,130**	2,458
Costs:		
- pre-acquisition	-494	-46
- stop loss costs	-4,138	-1,261
- operating costs	-8,353	-5,220
Total costs	-12,985	-6,527
Operating profit before impairments of goodwill and capacity	**22,704**	-3,953
Tax	-6,334	1,852
Revaluation of syndicate capacity	17,987	2,670
Income tax relating to the components of other comprehensive income	-4,497	-668
Comprehensive income/loss	**29,861**	-99

Source: Helios Underwriting 2023 annual report

Understanding syndicate capacity valuation

The value of the syndicate capacity portfolio remains Helios' major asset and an important factor in delivering overall returns to shareholders.

In particular, the freehold capacity on well-established syndicates at Lloyd's continues to form the cornerstone of the capacity portfolio. When these syndicates wish to grow their businesses, the existing owners of the capacity have pre-emptive rights to receive additional capacity pro rata to the scale of increase in the underlying business. The additional capacity is free of acquisition cost and the value of this additional capacity increases Helios' asset valuation, albeit requiring additional capital to meet Funds at Lloyd's. The level of Funds at Lloyd's determines the amount of insurance business a member can underwrite. The amount of funds required from members will vary, depending on the perceived level of risk in the business which they underwrite. This is known as Economic Capital Assessment (ECA).

During 2023, the value of the freehold capacity fund increased due to the free capacity offered from pre-emptions, from capacity acquired with the acquisition of Limited Liability Vehicles, and from an increase in the average prices traded at the Lloyd's auctions in 2023. The breakdown is in the table below.

Helios Underwriting capacity value

	Freehold capacity £m	Value of capacity £m	Value per £ of capacity
Capacity value at 31 Dec 2022	**147.3**	**60**	**41p**
Capacity acquired with Limited Liability Vehicles in 2023	7.4	3.5	
Value of pre-emption capacity	14.7	7	
Acquisition of capacity in the capacity auction	6.5	0.4	
Increase in portfolio value	-	11.5	
Capacity value as at 31 Dec 2023	**175.9**	**82.4**	**47p**

Source: Helios Underwriting 2023 annual accounts

The 37 per cent increase in capacity value to £82.4mn (110p) was a key driver behind the 21 per cent rise in Helios' net asset value (NAV) to £140.1mn (189p). The uplift on the capacity revaluation equates to a sixth of the company's market capitalisation of £129mn (172.5p), a significant sum. The growth in NAV (the value of the £55.7mn net tangible assets of the company, together with the current value of the portfolio capacity) is a key management metric in determining growth in value to shareholders.

So, it's worth noting that analysts at Edison Investment Research believe that revaluation of the portfolio capacity will add £7.1mn (9.5p) and £8.8mn (11.8p) post tax to Helios' NAV for the 2024 and 2025 financial years, respectively. Analysts at the equity research firm also expect earnings per share (EPS) to rise 21 per cent to 26.2p in 2024 and by a further 44 per cent to 37.6p in 2025, a reflection of bumper underwriting results, improving investment income on financial assets, and ongoing growth in capacity.

The implication is that Helios could deliver an average annual return on NAV of almost 20 per cent across the two-year forecast period after factoring in the anticipated portfolio capacity revaluations. It also means that after allowing for capital returns to shareholders (see section below), NAV per share could be around 217p (2024) and 254p (2025), implying the shares are rated on 20 per cent (2024) and 32 per cent (2025) discounts to prospective book value. That level of discount is unwarranted for a company that has materially outperformed the Lloyd's market over the past five years in terms of its return on Funds at Lloyd's.

Admittedly, the average prices derived from the annual capacity auctions managed by the corporation of Lloyd's could be subject to material change if the level of demand for syndicate capacity falls or if the supply of capacity for sale increases. A sensitivity analysis of the potential change to the NAV per share from changes to the value of the capacity portfolio is set out below.

Helios Underwriting capacity valuation sensitivity

	Capacity valuation £mn	Revised net tangible asset per share (p)
Current value	82.4	1.89
Decrease of 10%	74.2	1.81
Increase of 10%	90.6	1.97

Source: Helios Underwriting 2023 annual accounts

For instance, each 10 per cent reduction in the capacity values at the 2024 auctions will reduce the company's NAV by 8p per share, albeit the increase in Helios' capital base lowers the impact on NAV per share from changes in capacity value. Moreover, any reduction in the capacity value will be mitigated by any pre-emption capacity received by Helios on syndicates that have a value at auction. Edison's forecasts look sensible and achievable.

Capital position

The underwriting capital required by Lloyd's for the Helios portfolio comprises the funds to support the economic capital requirement of the portfolio and the solvency II adjustments.

Helios' capital ratio has benefited from the growth of the portfolio in recent years. In addition, the increase in the solvency credits (from £0.7mn to £47mn in 2023) reflects the recognised but undistributed syndicate profits as at the end of the year that are being used as Funds at Lloyd's to support underwriting requirements. However, if solvency credits are utilised to support current underwriting capital requirements, any solvency deficits arising from losses in the current year would have to be funded by Helios.

It is therefore imperative that individual syndicate net exposures are closely monitored, and reinsurance protections purchased at syndicate level, to mitigate the risk of incurring large underwriting losses that would adversely impact the capital position.

So, as part of the risk management process, the company carries out aggregate exceedance probability (AEP) scenario testing to assess the potential impact on the balance sheet across the portfolio from either single or multiple large losses with a probability of occurring greater than once in a 30-year period.

In addition, Helios purchases stop loss reinsurance with an indemnity of £35mn share of the portfolio and an indemnity of 10 per cent of its share of the capacity. A claim can be made if the loss for the year of account at 36 months exceeds 7.5 per cent of capacity.

Helios Underwriting capital position

Underwriting capital on underwriting year	**2024**	2023
	£mn	£mn
Third party capital	**31.3**	27.8
Excess of loss Funds at Lloyd's	**25.8**	41.2
Helios' own funds	**69.9**	60.4
Solvency credits	**47**	0.7
Total	**173.7**	129.1
Capacity as at	**507.1**	310.8
Economic capital assessment (ECA)	**172**	127.8
Capital ratio	**35%**	41%

Source: Helios Underwriting 2023 annual accounts

It's reassuring that Helios' return on capacity remains positive for each year in the past five-year period, ranging from 3 per cent in 2019 to 12 per cent in 2023, demonstrating the strength and resilience of the portfolio to withstand market losses.

That said, liquidity risk for an insurance capital provider like Helios can arise from numerous factors. For instance, large claim pay-outs following a significant loss event, which require further funding of funds at Lloyd's to cover expected syndicate losses, can strain cash reserves and might necessitate asset liquidation, potentially leading to losses in unfavourable market conditions. Also, large losses could cause breaches of loan covenants, triggering further liquidity pressure.

So, to mitigate liquidity strains, Helios arranged short-term financing of £35mn for 2024 as part of the stop loss reinsurance for its 69 per cent share of the portfolio. It can be drawn down if the solvency loss for the 2024 year of account exceeds 7.5 per cent of capacity at any quarter end. In addition, Helios has a committed bank facility of £10mn to assist in any short-term financing requirements.

In addition, the company issued $75mn (£58mn) of unsecured loan notes (which were given a rating of A- by KBRA) at the end of 2023. The loan has a fixed coupon of 9.5 per cent and is repayable after seven years in December 2030. The debt was raised to replace an existing £15mn bank facility that was used to assist in the financing of Funds at Lloyd's, to fund future underwriting capital requirements and provide general liquidity in the business. It also assists

Helios in matching the company's asset base to the underlying insurance exposures which are mainly in US dollars. The additional finance is expected to be lodged as Funds at Lloyd's to support underwriting in the future.

Substantial capital returns for shareholders

The board is committed to returning capital to its shareholders and does so by way of dividends and share buy-backs. In 2023, a total of £5.5mn was returned to shareholders comprising a base dividend of 3p per share (£2.3mn) for the 2022 financial year, and the £3.2mn cost of buying back 2.24mn shares at an average price of 142p that was accretive to NAV per share.

In 2024, the board plans to further enhance capital returns to shareholders. A base dividend of 6p per share (£4.5mn) is being paid relating to the 2023 financial year along with a further £3.7mn buy back of shares. This, alongside the £0.8mn share-buyback that has already completed, will result in a £9mn total capital return to shareholders in 2024.

The aggregate capital returned to shareholders in 2023 and 2024 is expected to be £14.5mn – 19p per share. Please note that the pay-out of 6p per share goes ex-dividend on Thursday, 6 June 2024, so there should be some market price adjustment as this report is published.

This return of capital reflects the directors' confidence in future cash flow and the prospects for profitable underwriting. The board will consider declaring special dividends to supplement the basic dividend as and when appropriate.

Following the release of the 2023 annual results, analysts at Edison maintained their dividend estimates for the next two financial years, pencilling in pay-outs of 12.8p (2024) and 18.4p (2025), both of which have dividend cover of two times based on Edison's EPS estimates. On this basis, the shares offer bumper prospective dividend yields of 7.4 per cent (2024) and 10.6 per cent (2025).

Major shareholders

Helios has a concentrated shareholder base with the largest eight shareholders holding 75 per cent of the 74.75mn shares in issue.

The management team has material stakes. Deputy chairman Nigel Hanbury, non-executive director Tom Libassi (through his interest in Resolute Global Partners) and finance director Arthur Manners hold 32.1 per cent of the shares between them. In addition, chief executive Martin Reith, chairman Michael Wade and non-executive director Andrew Christie hold a further 0.4mn shares in total, or 0.5 per cent of the shares in issue.

Continued below

Director shareholdings

Director	Shareholding	Percentage of issued share capital
Tom Libassi (non-executive director)	13.41mn*	17.9%
N J Hanbury (Deputy chairman)	9.39mn**	12.6%
Arthur Manners (Finance director)	1.19mn***	1.6%
Martin Reith (chief executive)	0.25mn	0.3%
Michael Wade (non-executive chairman)	0.11mn	0.2%
Andrew Christie (non-executive director)	0.03mn	0.1%

* Tom Libassi does not hold ordinary shares in Helios Underwriting personally but is the co-founder and Managing Partner of Resolute Global Partners , funds it manages or is associated with, hold 13.4mn shares.

** 622,500 of Nigel Hanbury's shares are jointly owned in accordance with the company's Joint Share Ownership Plan.

*** 477,500 of Arthur Manners' shares are jointly owned in accordance with the Company's Joint Share Ownership Plan.

Source: Helios Underwriting 2023 annual report. Holdings correct as at 15 May 2024

One negative is that shareholder Hudson Structured Capital Management has been a forced seller, a likely result after the failure of one of its key investments, Florida-based Southern Fidelity Insurance Company. Hudson has reduced its holding in Helios from 12.5mn to 8.4mn since the second half of 2023 and still holds 11.2 per cent of the shares.

That said, Helios' ongoing NAV per share accretive buy-back programme will provide liquidity for the repurchase of £3.7mn of shares this year, so there is a purchaser in the market to mitigate any potential selling pressure from Hudson. In any case, even if Hudson still needs to raise more cash, it creates the opportunity for new investors to pick up Helios' lowly rated shares at an unwarranted deep discount to prospective NAV and on bargain basement forward price/earnings (PE) ratios of 6.6 (2024) and 4.6 (2025).

The shares trade on a bid-offer spread of 5p and are liquid enough for individual bargains as large as 47,000 shares to have passed through the market in the past few weeks.

Continued below

Major shareholders

Shareholder	Shareholding	Percentage of issued share capital
Resolute Global Partners	13.41mn*	17.9%
Polar Capital Funds	10.87mn	14.6%
N J Hanbury (Deputy chairman)	9.38mn**	12.6%
Hudson Structured Capital Management	8.42mn	11.2%
Will Roseff	5.55mn	7.5%
Arbuthnot Latham (Nominees)	4.29mn	5.7%
Ardnave Capital	2.97mn	3.9%
Arthur Manners (Finance director)	1.19mn***	1.6%

* Tom Libassi does not hold ordinary shares in Helios Underwriting personally but is the co-founder and Managing Partner of Resolute Global Partners , funds it manages or is associated with, hold 13.4mn shares.

** 622,500 of Nigel Hanbury's shares are jointly owned in accordance with the company's Joint Share Ownership Plan.

*** 477,500 of Arthur Manners' shares are jointly owned in accordance with the Company's Joint Share Ownership Plan.

Source: Helios Underwriting 2023 annual report. Holdings correct as at 15 May 2024

Management

Non-executive chairman **Michael Wade** has had an extensive career at Lloyd's working across broking, underwriting, capital markets and insurance linked securities. Wade formed one of the first Lloyd's corporate capital vehicles in 1993, CLM Insurance Fund, and later acted for UK pension funds investing in listed Lloyd's firms. He has served on the Council and Committee of Lloyd's and was formerly a senior adviser to the Cabinet Office.

Executive deputy chairman **Nigel Hanbury** was appointed in April 2023 after stepping down as chief executive, a position which he had held since October 2012. He joined Lloyd's in 1979 as an external member and became a Lloyd's broker in 1982. Hanbury later moved to the members' Agency side, latterly becoming chief executive and then chairman of Hampden Agencies Limited. Hanbury and his direct family underwrite at Lloyd's through two Limited Liability Vehicles.

Chief executive **Martin Reith** was appointed to his current role in April 2023, having served on the board as a non-executive director since April 2021. Reith has over 30 years' experience across underwriting, management and leadership. Previously, he held board positions at Neon

Underwriting Limited (2015 to 2020) and was the founder and chief executive of Ascot Underwriting Limited in 2001. Backed by insurance giant AIG, Ascot became one of the largest and top-performing businesses in Lloyd's under Reith's leadership.

Finance director Arthur Manners has more than 20 years' experience in the insurance industry. He has been a consultant to Helios since June 2015 and joined the board in April 2016. His role as finance director at Helios is part time. Previously, he was finance director at global specialist risk insurance and reinsurance company **Beazley Group (BEZ)** from 1993 to 2009.

Non-executive director **Andrew Christie** is a Senior Advisor of corporate finance advisory firm Smith Square Partners LLP and has nearly 30 years' experience in corporate finance. Prior to joining Smith Square Partners, he was a managing director in the investment banking division of Credit Suisse Europe and head of investment banking in Asia Pacific for Credit Suisse First Boston and Barclays de Zoete Wedd.

Non-executive director **Tom Libassi** is the co-founder and managing partner of Resolute Global Partners, an investment firm specialising in insurance-linked securities, of which funds under management participated in a Helios fundraising. Prior to founding Resolute, Libassi was a managing director at Strategic Value Partners. From 2000 to 2007, Libassi was a senior managing director at GSC Group where he founded the corporate lending group and served as a senior investment professional.

In total, the board were paid remuneration of £1.94mn for the 2023 financial year, a sum that equates to less than half the £4.5mn cash cost of the 6p a share dividend that will be paid to shareholders next month, and less than 10 per cent of the £22mn annual operating profit reported.

Risk assessment

Risk management. The majority of the risk to future cash flows arise from each subsidiary's participation in the results of Lloyd's syndicates. Helios' role in managing these risks, in conjunction with its subsidiaries and members' agents, is limited to a selection of syndicate participations, monitoring the performance of the syndicates and the purchase of appropriate member level reinsurance.

Insurance risks faced by a syndicate include the occurrence of catastrophic events, downward pressure on pricing of risks, reductions in business volumes and the risk of inadequate reserving. The syndicate is also exposed to regulatory and operational risks including its ability to continue to trade. However, supervision by Lloyd's and the Prudential Regulation Authority (PRA) provides additional controls over the syndicate's management of risks.

Reinsurance risk. This is the risk that a reinsurer fails to meet its share of a claim. Helios has reinsurance programmes on the 2021, 2022 and 2023 years of account. It has strategic collateralised quota share arrangements in place in respect of its underwriting business with XL Re, Bermudan reinsurer Everest Reinsurance Bermuda (part of global NYSE-quoted insurer Everest Re Group), Guernsey reinsurer Polygon Insurance Company and other private shareholders through HIPCC Limited.

Investment, credit, liquidity and currency risks. The other significant risks faced by Helios relate to the investment of funds within its own custody. The elements of these risks are investment risk, liquidity risk, credit risk, interest rate risk and currency risk.

To minimise investment risk, credit risk and liquidity risk, the surplus funds are invested in readily realisable short-term deposits with highly rated banks and fund managers. The maximum exposure to credit risk is £116.5mn, being the aggregate of Helios' insurance receivables, prepayments and accrued income, financial assets at fair value, and cash and cash equivalents, excluding any amounts held in the syndicates.

Target price

Helios has flown below the radar partly due to the complex nature of insurance underwriting, but also due to its scale. However, the company is clearly punching above its weight, as highlighted by the ongoing outperformance of the Lloyd's market and the high return on NAV being delivered.

The management team is well incentivised to maintain the outperformance as well as the progressive dividend policy. They own almost a third of the shares in issue, thus aligning their interests with those of outside shareholders.

The bottom line is that there is a real chance that Helios could increase NAV per share by a third to 254p by the end of 2025, as analysts at Edison predict, and deliver cumulative EPS of at least 64p over the two-year forecast period. On this basis, market expectations of the company declaring dividends of 31.2p in relation to the 2024 and 2025 financial years seem sensible, an amount equating to 18 per cent of the current share price.

The positive earnings momentum and high cash returns not only mitigate risk, but warrant a re-rating to my 250p target price, in line with 2025 year-end book value estimates. Buy.

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