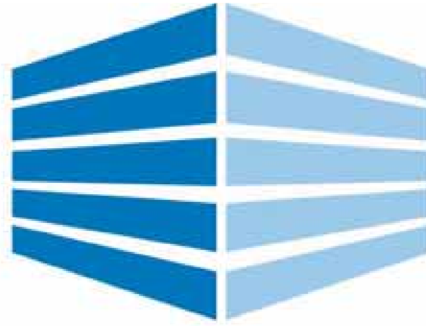

# TALISMAN UNDERWRITING PLC

# Report – July 2023

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## CONTENTS


| SECTION I | | PAGE |
|---|---|---|
| 1. | Introduction | 3 |
| 2. | Underwriting Performance | 4 |
| 3. | Dividend Payments | 5 |
| 4. | Result for the 2020 Year of Account | 5 |
| 5. | Forecast for the 2021 Year of Account | 5 |
| 6. | Forecast for the 2022 Year of Account | 6 |
| 7. | Portfolio Planning | 6 |
| 8. | Market Trends and Renewals | 7 |
| 9. | Conclusion | 10 |
| **SECTION II** | | |
| 10. | Syndicate Participations | 12 |
| 11. | Syndicate Pre-emptions | 13 |
| 12. | Syndicate Capacity Transactions | 13 |
| 13. | Corporate Members Purchased | 13 |
| 14. | Syndicate Ratings | 14 |
| 15. | Risk Ratings | 14 |
| 16. | Business Split Analysis | 15 |
| 17. | Realistic Disaster Scenarios (RDS) | 15 |
| **SECTION III** | | |
| 18. | Ruffer Annual Performance Report | 20 |

# Talisman Underwriting Plc
# Report – July 2023

## 1. Introduction

Insurance has always been a cyclical business and since the hurricanes of 2017 there has been a continuous improvement in rates, together with terms and conditions, for almost every class of business and that continues today. Coupled with this there has been a keen focus on underwriting discipline and risk selection.

During the intervening period the underwriting environment has had its challenges including the impact of inflation and the cost of living crisis. Some have arisen from the shockwaves emanating from Russia's invasion of Ukraine, the impact on food and energy prices and slow economic growth. Alongside there is the focus on the cost of natural catastrophes and the move to net zero. Indeed Media reports are dominated by warnings concerning Global warming and the increase in the scale, frequency and cost of natural and man-made catastrophes. It is therefore reassuring and encouraging to be able to report on the ability of the Lloyd's Market and Talisman to achieve the profits described in this report.

Lloyd's produced an excellent set of underwriting results for the calendar year ending 31 December 2022, particularly given the cost of natural and manmade catastrophe losses, widespread inflation and geopolitical uncertainty during the year. Gross written premiums increased by over 19% to more than £46Bn. The increase reflects a combination of the growth of the strong dollar (8%) direct price increases (8%) and organic growth (3%).

The performance improved to deliver an underwriting profit of £2.6Bn and a combined ratio of 91.9%, an increase of 1.6% over 2021, despite major claims contributing 12.7 percentage points of this figure. Major losses in the year included those arising from the war in Ukraine and Hurricane Ian. Syndicates have posted net reserves of £1.4Bn and an estimated £2Bn respectively for these two events. Lloyd's stated that this is a top quartile result when compared with its global competitors and industry peers and the strongest result since 2015.

The attritional loss ratio (the cost of small and medium losses as a percentage of premium) improved by 0.5% to 48.4%. Lloyd's sees this as an important measure of the market's ability to deliver a sustainable profit. The expense ratio also improved to 34.4% from 35.5%.

Mark-to-market accounting rules on fixed income investments led to an overall loss for Lloyd's of £0.8bn which is equivalent to a negative return on investment income of 3.5%. The 2022 year was exceptionally turbulent for assets driven by rising interest rates and political uncertainty. The vast majority of syndicate investments are typically held in short duration (circa 2 years) government and high quality corporate bonds. The mark-to-market losses are unrealised as the investments are usually held to redemption and then reinvested. The current higher interest environment should create an opportunity in 2023 that should see a reversal of part of this investment loss.

On the same basis the financial statements for Talisman show a technical profit of £1.15m on a gross premium of £39.1m (2.9%) which includes an investment loss of £1.1m (2.8%). This result represents the third year of the 2020 underwriting year of account, the second year of 2021 and the first year of 2022.

The 2020 underwriting year of account closed with a pure profit of 2.39% on capacity before expenses, which compares well with the market average of 0.79%.

The 2021 Underwriting account, using figures at 31 March 2023, is forecast to produce a pure profit of 5.6% on capacity in comparison to a market average of 6.2%. We would expect the final profit to be in excess of 7% but much will depend on investment performance and releases of redundant reserves.

The forecast for the 2022 underwriting year of account is currently a profit of 6.8% on capacity in comparison to a market average of 7.5%. We would anticipate a profit of around 10% at closure.

The 2023 year of account has got off to a good start. The rating momentum has generally continued and almost all syndicates are reporting that rate levels are ahead of business planning assumptions. The reinsurance market hardened notably at the year-end renewals. Losses to date include flooding in New Zealand, an earthquake in Turkey, tornadoes in the Midwest USA and numerous convective storms. None are likely to be that costly individually, although the total is meaningful, reminding us that catastrophe losses are more than just windstorms and earthquakes and that we participate in a truly international business.

Managing the capital and cash flow of Talisman is a key function of the Board to ensure Lloyd's solvency requirements are satisfied throughout the cycle. The Funds at Lloyd's (FAL) comprise cash, bank guarantees and securities supplied by investors, together with Talisman's own holding in the Ruffer Total Return Fund. The report of the managers is given in Section III.

## 2. Underwriting Performance

Results for all closed years, recorded as a percentage of capacity, including movements in prior years, underwriting expenses and the members' agent's fee are detailed below. Estimates for 2021 and 2022 are from figures published as at 31 March 2023.

| Reporting Date | Year of Account | Talisman Result % | Lloyd's Average Result % |
|---:|---:|---:|---:|
| 31/12/2000 | 1998 | ( 5.95) | (10.47) |
| 31/12/2001 | 1999 | (12.43) | (19.78) |
| 31/12/2002 | 2000 | (17.04) | (23.86) |
| 31/12/2003 | 2001 | (15.81) | (21.11) |
| 31/12/2004 | 2002 | 11.91 | 9.01 |
| 31/12/2005 | 2003 | 20.46 | 17.11 |
| 31/12/2006 | 2004 | 11.81 | 10.94 |
| 31/12/2007 | 2005 | 4.23 | 3.00 |
| 31/12/2008 | 2006 | 25.26 | 27.57 |
| 31/12/2009 | 2007 | 18.00 | 17.56 |
| 31/12/2010 | 2008 | 8.44 | 11.00 |
| 31/12/2011 | 2009 | 17.28 | 16.65 |
| 31/12/2012 | 2010 | 3.11 | 2.29 |
| 31/12/2013 | 2011 | 6.13 | 4.02 |
| 31/12/2014 | 2012 | 10.75 | 11.92 |
| 31/12/2015 | 2013 | 12.17 | 9.24 |
| 31/12/2016 | 2014 | 12.91 | 10.86 |
| 31/12/2017 | 2015 | 9.19 | 6.30 |
| 31/12/2018 | 2016 | 2.68 | (2.86) |
| 31/12/2019 | 2017 | (5.24) | (7.97) |
| 31/12/2020 | 2018 | (1.27) | (5.88) |
| 31/12/2021 | 2019 | 0.39 | (3.00) |
| 31/12/2022 | 2020 | 1.64 | 0.79 |
| Estimated 31/03/2023 | 2021 | 5.6 | 6.2 |
| Estimated 31/03/2023 | 2022 | 6.8 | 7.5 |

## 3. Dividend Payments

The dividend policy of Talisman is to distribute the underwriting profit for each Year of Account, net of expenses and corporation tax, to those investors supporting that Year of Account. The dividend paid on a "B" share is equivalent to 1,000 "A" shares, except that the "B" share (supported by unpaid loan stock as part of a "Unit") does not benefit from the investment earnings of the company.

| Dividend Number | Year of Account | Date Paid | Net Dividend per "A" Share | Net Dividend per "B" Share |
|---|---|---|---|---|
| 1 | 2002 | 14/12/2005 | 9.2p | £84.00 |
| 2 | 2003 | 28/07/2006 | 5.0p | £50.00 |
| 3 | 2003 | 29/01/2007 | 6.0p | £56.50 |
| 4 | 2004 | 24/08/2007 | 3.0p | £30.00 |
| 5 | 2004 | 19/12/2007 | 2.7p | £24.00 |
| 6 | 2005 | 28/11/2008 | 2.0p | £14.00 |
| 7 | 2006 | 31/03/2009 | 4.0p | £40.00 |
| 8 | 2006 | 17/12/2009 | 8.0p | £72.00 |
| 9 | 2007 | 31/03/2010 | 3.0p | £30.00 |
| 10 | 2007 | 31/12/2010 | 6.0p | £40.00 |
| 11 | 2008 | 22/07/2011 | 2.0p | £20.00 |
| 12 | 2008 | 20/12/2011 | 3.5p | £18.20 |
| 13 | 2009 | 31/07/2012 | 3.6p | £36.00 |
| 14 | 2009 | 23/04/2013 | 4.1p | £36.00 |
| 15 | 2010 | 17/12/2013 | 2.1p | £17.00 |
| 16 | 2011 | 31/07/2014 | 1.6p | £16.00 |
| 17 | 2011 | 19/12/2014 | 2.0p | £17.00 |
| 18 | 2012 | 10/07/2015 | 3.3p | £33.00 |
| 19 | 2012 | 18/12/2015 | 3.5p | £33.30 |
| 20 | 2013 | 29/07/2016 | 3.5p | £35.00 |
| 21 | 2013 | 21/12/2016 | 3.7p | £35.00 |
| 22 | 2014 | 28/07/2017 | 3.5p | £35.00 |
| 23 | 2014 | 11/07/ 2018 | 4.0p | £39.00 |
| 24 | 2015 | 18/12/2018 | 2.7p | £27.00 |
| 25 | 2015 | 06/08/2019 | 2.8p | £27.00 |
| 26 | 2016 | 23/12/2020 | 1.3p | £12.30 |

It is intended that the dividend payable following the close of the 2020 year be paid late summer 2023.

## 4. Result for the 2020 Year of Account

The 2020 underwriting year of account closed at 31 December 2022 with a pure profit (before members' agent's fees and commissions) of 2.39% on capacity. This compares well with the market average of 0.79%. This was despite an investment loss of 2.2% which masked the true underwriting performance resulting from trading improvements and a tough approach to risk selection. As may be appreciated, had it not been for the investment loss, a profit in excess of 5% would have been achieved.

Of the 16 syndicates supported 9 made a profit collectively of £1.03m and 7 collectively a loss of £0.34m. The significant contributors to the profit were Hiscox 33, TMK 510 and Atrium 609. The historically top performer QBE syndicate 386, which writes a long tail liability account, reported a loss of 9.3% due to investment losses on its large fund and the need to strengthen reserves.

The year suffered from a record number of 30 storms, including the category 4 Hurricane Laura, together with numerous wild fires and hail storms. About 25% of the losses relating to Covid-19 fell to this year of account.

## 5. Forecast for the 2021 Year of Account

The forecast for the 2021 underwriting year of account as at 30 March 2023 is between a profit of 0.5% and 10.7% on capacity with a mid-point of 5.6%. It would be disappointing if the profit at closure was below 7%.

The underlying trends have been improving with the incurred loss ratio being better at this stage than at any time for 15 years. Although the year has exposure to natural catastrophes such as Hurricane Ida, Winter Storm Uri and severe flooding in Europe, the improvement in rating levels has reduced attritional loss ratios materially. Attritional losses are the smaller everyday losses such as fires, theft, ship collisions and cargo losses. Lower attritional losses indicate more sustainable results due to higher rating levels, with greater capability to absorb claims from large catastrophe losses. Nonetheless, the cost of claims in the year was above average with more than half of the cost coming from secondary perils many of which were weather related.

Some challenges remain as the year contains the majority of the exposure to the war in Ukraine. Included within this are potential exposures to the loss of a large number of aircraft, owned by western leasing companies and leased to Russian operators. This is a very complicated set of circumstances and it is entirely possible that one or more syndicates will need to leave the year of account open at the end of 2023 pending resolution of the claims. It is important to emphasise that the syndicates are already reserving for these claims in the forecasts above although the words of Atrium syndicate 609, which represents 13.5% of Talisman's portfolio and is a leader in the aviation war class should be noted, *"the potential for variation to the booked reserves is considerably greater than the normal reserve sensitivity to downside risk and the actual outcome of the loss could be in a particularly wide range with greater than usual variability".* Should any syndicate be unable to close its 2021 account at 30 December 2023 then, depending on the materiality, the board may have to defer a part of the dividend due until the final outcome is known.

Investment markets which undermined the final result of the 2020 account continue to be volatile. While yields on the type of assets held by syndicates are much higher now than 12 months ago the risk remains that further increases in interest rates may cause falls in the value of bond portfolios. We are encouraged that managing agents appear to have been cautious in the treatment of investment returns in the forecasts above.

## 6. Forecast for the 2022 Year of Account

The forecast for the 2022 year of account, at 30 March 2023, is a profit of between 1.9% and 11.7% of capacity with a mid-point of 6.8%.

The rating environment continued to improve in 2022. This is reflected in a further improvement in the incurred loss ratio which is better than the 2021 account at the same time. Around a third of the exposure to the war in Ukraine and the associated events falls to the 2022 account. The year was impacted by Hurricane Ian which is the third most costly hurricane ever for the industry but in what was otherwise a rather benign hurricane season.

The global cost of insured catastrophe losses was similar to 2021, once again in excess of $100 Bn. This is a level that would have been considered extreme five years ago and underlines the strain under which elevated catastrophe experience has placed the reinsurance market. Whilst profitable, 2022 will be another year when the reinsurance market fails to deliver its required return on capital.

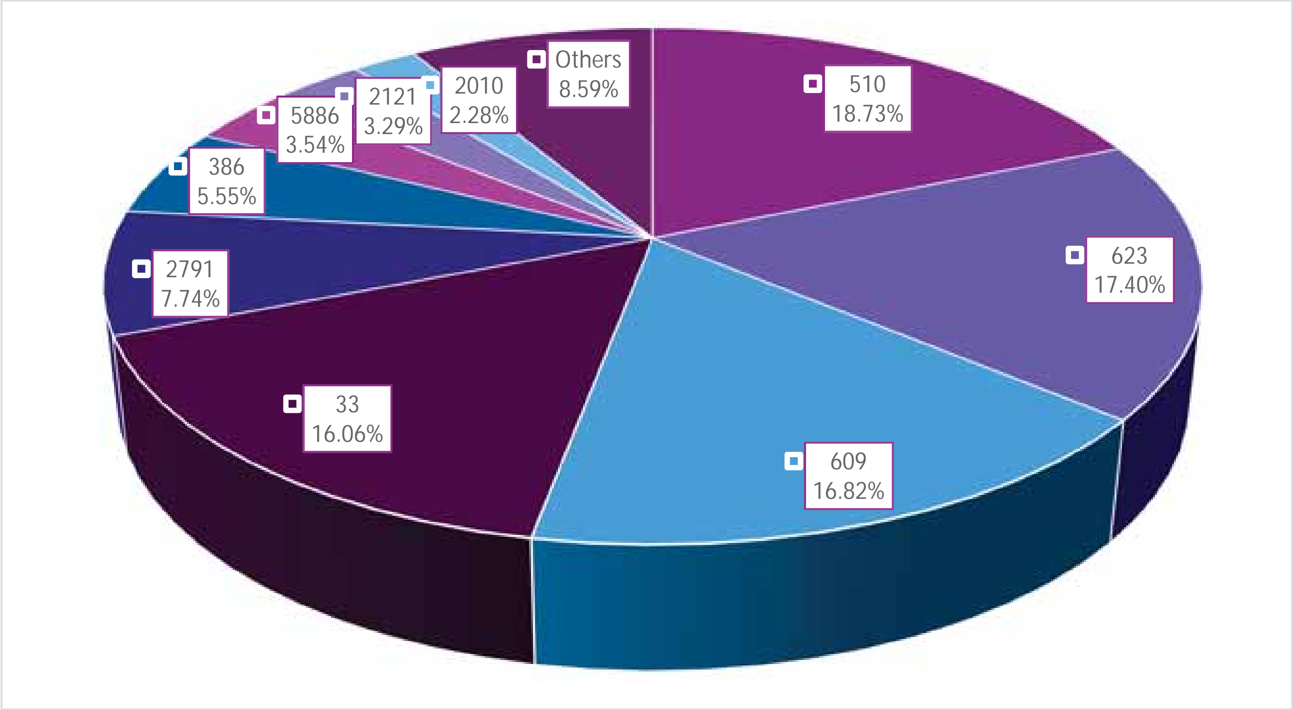
While we believe the forecast above is conservative it should be noted that much business remains on risk, notably that written under binding authority that can be exposed to natural catastrophes for the rest of the year. A final profit of around 10% on capacity is a distinct possibility.

## 7. Portfolio Planning

## Syndicate Split 2023

With market conditions continuing to improve and coupled with a stronger dollar, it was no surprise that most syndicates increased their capacity for 2023 through the pre-emption process. During 2022 Talisman also acquired three corporate vehicles which brought further good capacity and capital into the company. The net result was that Talisman was able to increase its capacity for 2023 to £39.5m from £33.8m and improve the balance of the portfolio between the top four syndicates supported by capacity.

The amount of capacity supporting non-marine property reinsurance remains less than the market average as does the risk rating of the total syndicate portfolio as modelled by Argenta. In contrast, the syndicate quality ratings provided by Argenta show the portfolio to be better than the market average.




Further detail is given in Section II.

## 8. Market Trends and Renewals

### Overview

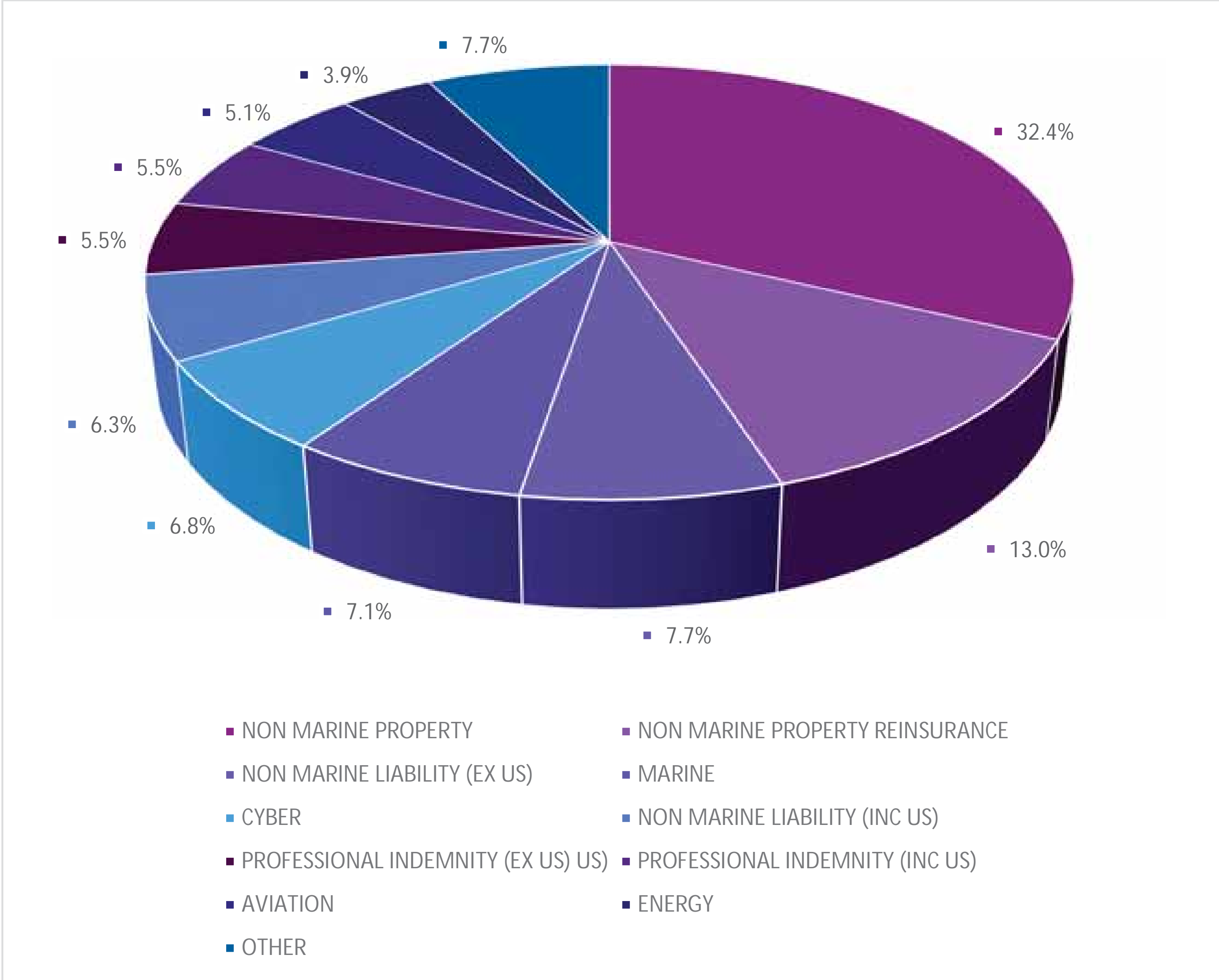
Property catastrophe reinsurance was the last class to respond to the hardening market that began in the aftermath of Hurricanes Harvey, Irma and Maria in 2017. Historically, reinsurance has been the first market to respond to catastrophic events, increasing premiums and tightening terms which, in turn, leads to the underlying market, direct insurers, following suit. While reinsurance premiums rose in the aftermath of the events of 2017, there was still plenty of reinsurance capital prepared to underwrite business at what was clearly inadequate rates given the losses that had been experienced.

Lloyd’s syndicates were remediating their books, including reinsurance, and cutting back under the Decile 10 process. However, non-Lloyd’s competition continued from the burgeoning Insurance Linked Securities (ILS) sector. ILS funds that had enjoyed good profits (in loss free years), liked reinsurance because it offered non-correlating returns. However, with low interest rates at the time, it was clear that these funds were still prepared to accept returns not appreciably more than the risk free rate. This was quite remarkable given that they were operating in one of the highest risk sectors of the insurance market. Hurricane Ian was the final straw and has seen the withdrawal of both ILS and traditional reinsurance capital. With interest rates now higher, and despite the significant increases in reinsurance premiums, there has been no rush of ILS capital chasing the business.

It is widely accepted that the reinsurance market is now ‘hard’, i.e. where there are shortages of capacity, notably in the retrocessional (the reinsurance of a reinsurer) sector. Reinsurance pricing is somewhat of a mixed blessing for Lloyd’s syndicates which are both buyers and sellers of reinsurance. The inability to buy plentiful (and cheap) reinsurance cover helps maintain underwriting discipline as it can no longer be used as a prop to support marginal business.

Even after five years of increasing premiums most classes are continuing to see improvements in rates, terms and conditions after factoring in inflation, although the pace of these increases has slowed down.

The chart below shows Talisman's spread of business across the major classes for the 2023 underwriting year of account with further comments following.




## Direct Property

This is the largest class of business written by Talisman and includes a wide range of risks written worldwide. The majority of risks are written in the open market and are US orientated; smaller and more commoditised risks tend to be written by way of delegated authority. It continues to be a profitable class with the greatest pressure coming from catastrophes such as Hurricane Ian in 2022. Risks need to be under close scrutiny by underwriters. Account remediation has included reducing catastrophe exposures and the cost of attritional claims which is critical for the performance of this class.

The reserves for losses arising from the Covid-19 pandemic are holding up well and going forward almost all property policies exclude business interruption coverage for pandemic-related claims.

With the cost of reinsurance increasing, a continued upward movement in rates is essential. Underwriters need to be firm on risk selection and address their risk appetite to match the challenges and opportunities that exist in the world today. This is well summed up by Adrian Cox, underwriter of Syndicate 623, who was reported recently as having said, the property insurance market is "*making a real shift to align the fact that property insurance, particularly business that has catastrophe exposure, is more complicated and changeable than it had previously been given credit for*".

## Property Reinsurance

This key class of business has struggled to make a profit over the last few years due to the number and magnitude of weather related claims around the globe. Hurricane Ian and the inflationary environment only served to exacerbate the position. As previously stated the rating environment of the reinsurance sector had lagged, for some time, behind other classes.

That changed as January 2023 presented one of the hardest and most dislocated reinsurance markets in years as capital withdrew. While the opportunity for those remaining was clear to see, as pricing accelerated and cover became more restricted, the balance with reinsurers own protections became a challenge due to cost and the availability of retrocessional capacity. This trend has continued through the year to date.

The London property direct and facultative (D&F) market was reported as booming at the 1 April renewals creating conditions which were reported in the press as *“the best ever seen”* with the average risk-adjusted rate increase of catastrophe accounts renewing at around 20%. This significant reacceleration of rates since the end of 2022 means this is the sixth year in a row of compound rate rises, a trend which many in the market describe as unprecedented.

## Casualty

This class has remained profitable despite the inflationary environment which can be more damaging to those writing long tail risks. Rates together with terms and conditions have continued to improve in particular for those with loss affected accounts.

Maintaining pricing parity with inflation is essential as is risk selection and wordings while economic uncertainties continue. There has been a softening of rates in Directors’ and Officers’ insurance but only after some significant past increases.

Cyber is a part of this class and, after massive rate increases over the past couple of years, has seen small reductions in pricing. Rates are still at unprecedented levels with underwriters focusing on performance and carefully reviewing all risks at renewal.

## Marine

The marine class, while profitable, has been negatively affected by the war in Ukraine with composite reinsurance covers often including political violence, riots and civil commotion. Marine war writers are holding reserves for potential losses that may arise as a result of ships trapped in the Black Sea.

In comparison cargo has delivered good results demonstrating the value of the remediation exercise promoted by Lloyd’s since 2017.

## Energy

The energy sector includes both onshore and offshore risks and also an increasing amount of those relating to renewable energy.

2022 was a difficult year for the sector consequent to the invasion of Ukraine by Russia and the sanctions that followed. Rates continue upwards with more restrictive conditions being applied. However the war led to increased production in different areas of the world together with an increase in insured values. Fortunately the year remained profitable despite a number of gas and refinery losses in the second half of the year.

## Aviation

Not surprisingly rates have increased dramatically for war risks but underwriters have to carefully consider the price and availability of reinsurance and manage their exposure accordingly.

## 9. Conclusion

The performance of Lloyd's for the 2022 calendar year is clear vindication of the remedial work over the last five years. Its performance compares well with its peers and, without doubt, the top quartile syndicates are some of the best performers in the world.

Lloyd's is forging ahead with its digital transformation that will lead to a better, faster and cheaper market. This work is in conjunction with the whole London market to produce standardised data.

Lloyd's is also showing leadership and taking a prominent role and driving action on the issues that matter to society such as climate change and is seeking to build resilience and solutions across a range of systemic risks. In doing this it has a keen focus on attracting and developing the very brightest minds from around the world. With a prime focus on sustained underwriting excellence this can only be of benefit to customers and investors alike.

The experience of the last five years and the cost of claims shows that a forward thinking approach is required for all perils and that pricing models must be more sophisticated to encompass secondary perils such as flood and wildfires. We have confidence in the managing agents and underwriters that Talisman supports but the cost of claims cannot be ignored and a "normal" year is clearly going to be considerably more expensive than that of the past. Rates had to increase and must continue to remain ahead of inflation, to maintain both profitability and to continue to provide the value that customers require through the insurance they buy.

We are now in the sixth year of overall rate increases and many underwriters consider that rates have never been more attractive. The trend in results has been upwards since 2017 and the results for 2021, 2022 and 2023 could well be the best for many years.

2024 should be another year of strong and profitable growth for the Lloyd's market. That was the message given to the market by Patrick Tiernan, Lloyd's Chief of Markets, last month ahead of the business planning meetings with underwriters and managing agents.

He warned of the extremely complex risk environment for underwriters as they seek to lean into the prevailing opportunity. Business planning will still require focus, with Lloyd's oversight on underwriting remaining focused on those areas where risk can be managed and mitigating against those that cannot.

The key areas which could influence plans include the continuing war in Ukraine, geopolitical tensions among global economic powerhouses, economic uncertainty in the largest economies, high inflation and the consequences of climate change.

Much to consider and perhaps to fear, but this is insurance and risk is our business. The importance of understanding and pricing risk has never been greater. For Talisman this means syndicate selection and, by using the information and guidance provided by Argenta, choosing wisely and not being greedy. This method has served you well and the directors will be keeping to that well-trodden path. We look forward to the future but never forget the past and all it has taught us.

# SECTION II

## 10. Syndicate Participations

Detailed below are the syndicate participations for the 2020 account onwards as at 1 January for each year of account for all of Talisman's corporate members trading at Lloyd's. The numbers are not adjusted for any subsequent acquisitions in that year.

| Syndicate | Underwriter | Managing Agent | Allocated Premium Limit | | | |
|---|---|---|---|---|---|---|
| | | | 2020 £ | 2021 £ | 2022 £ | 2023 |
| 33 | P Lawrence | Hiscox | 5,772,859 | 5,772,859 | 5,985,359 | 6,346,825 |
| 318 | N Chalk | Cincinnati | 730,497 | 730,497 | 780,183 | 700,000 |
| 386 | C Fresneau | QBE | 1,739,343 | 1,827,133 | 2,092,347 | 2,190,945 |
| 510 | M Mortlock | Tokio Marine Kiln | 5,511,435 | 6,334,674 | 6,622,174 | 7,400,00 |
| 609 | P Laidlaw | Atrium | 3,405,533 | 4,049,258 | 4,510,653 | 6,644,295 |
| 623 | A Cox | Beazley | 3,058,412 | 3,716,846 | 4,507,283 | 6,874,512 |
| 727 | J Meacock & M Bartlett | Meacock | 51,500 | 0 | 0 | 0 |
| 1969 | N Jones | Apollo | 593,333 | 700,133 | 1,069,000 | 850,000 |
| 2010 | M Narbett | Cathedral | 1,251,706 | 900,000 | 1,008,627 | 900,000 |
| 2121 | I Burford | Argenta | 1,610,745 | 1,275,000 | 1,506,327 | 1,300,000 |
| 2791 | C Smelt | MAP | 2,137,668 | 2137668 | 2,417,668 | 3,056,215 |
| 4444 | A Rouffiac | Canopius | 1,061,118 | 700,000 | 755,746 | 650,000 |
| 5623 | W Roscoe | Beazley | 296,699 | 398,465 | 820,417 | 850,000 |
| 5886* | N Destro | Blenheim | 1,392,631 | 1,247,101 | 1,464,480 | 1,400,000 |
| 6103** | R Trubshaw | MAP | 192,114 | 253,589 | 301,100 | 346,565 |
| 6104*** | A Dolphin | Hiscox | 198,588 | 0 | 0 | 0 |
| **Total** | | | **29,004,181** | **30,043,223** | **33,840,364** | **39,509,357** |
| | | **No. of Syndicates** | **16** | **14** | **14** | **14** |

* Allocation for 2020 includes £606,400 of limited tenancy capacity.
** Syndicate 6103 provides a specific catastrophe account quota share reinsurance of MAP Syndicate 2791.
*** Syndicate 6104 provides a specific catastrophe account quota share reinsurance of Hiscox Syndicate 33.

Participation on syndicate 5623, 6103 and 6104 is on a limited tenancy basis and they are not traded through the auction process.

The 2020 year of account of syndicate 6104 remains open at 31 December 2022 as it was considered that it would not be equitable to close due to the level of reserves held for possible claims relating to Covid-19 that may become redundant. The result reported is a small profit. Talisman withdrew its support at the end of 2020, as did many, and supports the decision made.

The 2019 account of syndicate 2121 closed at 31 December 2022 with a slight improvement in the final result compared with 31 December 2021.

## 11. Syndicate Pre-emptions

The syndicates pre-empting that benefit Talisman for 2023 are detailed below.

| Syndicate | Underwriter | Managing Agent | Pre-Emption % |
|---|---|---|---|
| 318 | N Chalk | Cincinnati | 29.38 |
| 386 | C Fresneau | QBE | 2.37 |
| 510 | M Mortlock | T M K | 9.82 |
| 609 | P Laidlaw | Atrium | 34.24 |
| 623 | A Cox | Beazley | 29.74 |
| 1969 | N Jones | Apollo | 17.59 |
| 2010 | J Barnes | Cathedral | 15.94 |
| 2121 | I Burford | Argenta | 21.19 |
| 2791 | C Smelt | M A P | 18.54 |
| 4444 | A Rouffiac | Canopius | 5.88 |
| 5886 | N Destro | Blenheim | 15.00 |

## 12. Syndicate Capacity Transactions

The syndicate capacity sold by Talisman at the 2022 auctions is detailed below.

| Syndicate | Managing Agent | Capacity | Value £ |
|---|---|---|---|
| 510 | T M K | 219,873 | 72,787 |
| 727 | Meacock | 28,052 | 27,721 |
| 1969 | Apollo | 407,867 | 59,328 |
| 2010 | Lancashire | 323,721 | 41,060 |
| 2121 | Argenta | 583,554 | 361 |
| 4444 | Canopius | 166,486 | 13,739 |
| 5886 | Blenheim | 422,329 | 17,057 |

## 13. Syndicate Capacity Acquired by Vehicle Purchases

During 2022 Talisman purchased three corporate vehicles the total capacity of which is detailed below.

| Syndicate | Managing Agent | Capacity |
|---|---|---|
| 33 | Hiscox | 361,466 |
| 318 | Cincinnati | 6,020 |
| 386 | QBE | 47,768 |
| 510 | Tokio Marine Kiln | 313,449 |
| 609 | Atrium | 437,763 |
| 623 | Beazley | 358,592 |
| 727 | Meacock | 22,993 |
| 2010 | Cathedral | 46,833 |
| 2121 | Argenta | 47,605 |
| 2791 | MAP | 160,277 |
| 4444 | Canopius | 15,380 |
| 5623 | Beazley | 12,000 |
| 5886 | Blenheim | 120,154 |

## 14. Syndicate Ratings

Syndicate ratings are calculated using various indicators that Argenta has used in determining support for individual syndicates. These include quantitative issues such as past performance, the prudence of reserves, potential volatility in returns, the security behind the reinsurance programme and the level of delegated authority given by a syndicate to third parties. In addition, qualitative issues, such as the managing agent's operational and governance structure, its strategy and its alignment of interest with capital providers are also taken into account. These are combined to produce an overall rating for each syndicate that ranges from "A+" to "D". The table below shows the bias toward better rated syndicates and provides a comparison with the previous 2 years.

| Rating | Talisman % | | | Market % | | |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2021 | 2023 | 2022 | 2021 |
| A+ | 24.6 | 20.5 | N/A | 21.2 | 19.8 | N/A |
| A | 33.5 | 13.3 | 33.0 | 28.1 | 15.2 | 33.7 |
| B+ | 27.3 | 44.3 | 47.2 | 25.2 | 36.1 | 38.0 |
| B | 5.6 | 9.9 | 4.2 | 10.0 | 11.6 | 6.0 |
| C+ | 3.8 | 2.2 | 4.3 | 3.5 | 0.4 | 5.6 |
| C | 5.3 | 9.8 | 11.2 | 8.4 | 12.6 | 12.2 |
| D | 0.0 | 0 | 0.0 | 3.6 | 4.3 | 4.5 |

## 15. Risk Ratings

The Risk Rating has been compiled as an indicator of the level of each syndicate's trading and management risk as perceived by Argenta. "Risk" may be defined, in this context, as the likelihood of the syndicate suffering a large, above average, loss as assessed by reference to a number of quantitative and qualitative criteria as follows:

- The Syndicate Capital Requirements produced by Lloyd's (reflecting the volatility of the business written;
- The volatility of past syndicate results;
- The exposure to catastrophic loss (as determined by syndicates' Realistic Disaster Scenarios);
- The exposure to reinsurance failure;
- The quality of the managing agent.

The Risk Rating is not therefore a measure of potential profitability. Nor does the fact that a syndicate has a lower rating mean that it will not suffer a large loss. Rather, a lower rating would suggest that, based on a number of objective tests, followed by a subjective assessment, the syndicate is thought less likely to suffer an abnormally large loss. Insurance is inherently a high risk business and therefore the emphasis of this analysis is on relative risk. The table below demonstrates the bias away from higher risk syndicates in comparison to the market.

| Rating | Talisman % | | | Market % | | |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2021 | 2023 | 2022 | 2021 |
| Very High | 0.9 | 0.9 | 0.8 | 2.6 | 4.3 | 4.5 |
| Higher | 5.3 | 6.6 | 6.6 | 11.8 | 10.9 | 10.5 |
| Medium to Higher | 21.5 | 24.1 | 22.2 | 26.3 | 25.2 | 25.3 |
| Medium | 72.3 | 68.4 | 70.4 | 59.3 | 59.5 | 59.7 |

## 16. Business Split Analysis

The table below shows the estimated business split of Talisman for the 2023 year of account. As a comparison, we show the market average for all capacity available to third party capital providers and the figures for 2022 and 2021. The categories used are based on the estimated split of account supplied by syndicates in their 2023 business forecasts and adjusted to take account of the level of premium income forecast to be written. The initial risk codes supplied by syndicates are numerous, accordingly Argenta combines these initial codes into the broader categories shown.

| Risk Category | Talisman % | | | Market Average % | | |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2021 | 2023 | 2022 | 2021 |
| Non Marine Property | 32.4 | 33.6 | 36.1 | 31.0 | 32.1 | 33.9 |
| Non Marine Property Reinsurance | 13.0 | 13.2 | 13.4 | 14.6 | 15.2 | 16.2 |
| Non Marine Liability (Ex US) | 7.7 | 9.0 | 8.8 | 6.9 | 8.2 | 7.5 |
| Marine | 7.1 | 7.2 | 7.1 | 6.1 | 6.2 | 6.0 |
| Cyber | 6.8 | 4.2 | 3.5 | 7.0 | 4.4 | 3.8 |
| Non Marine Liability (Inc. US) | 6.3 | 6.0 | 6.2 | 6.3 | 6.2 | 6.0 |
| Professional Indemnity (Inc. US) | 5.5 | 5.8 | 5.4 | 5.8 | 6.1 | 5.8 |
| Aviation | 5.1 | 3.6 | 3.3 | 4.5 | 3.2 | 2.9 |
| Professional Indemnity (Ex US) | 5.5 | 4.9 | 4.0 | 5.8 | 4.7 | 3.6 |
| Energy | 3.9 | 4.1 | 4.3 | 3.9 | 3.9 | 4.1 |
| Pecuniary Loss/Political Risk | 2.4 | 2.9 | 2.8 | 2.2 | 2.5 | 2.3 |
| Accident & Health | 2.3 | 2.1 | 2.4 | 2.2 | 2.0 | 2.3 |
| Marine Reinsurance | 1.3 | 1.1 | 1.0 | 1.4 | 1.2 | 1.0 |
| Space & Satellite | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Aviation Reinsurance | 0.6 | 0.6 | 0.6 | 0.7 | 0.6 | 0.7 |
| Non Marine Liability Reinsurance | 0.4 | 0.5 | 0.5 | 0.6 | 0.6 | 0.8 |
| UK Motor | 0.1 | 0.1 | 0.1 | 1.7 | 2.3 | 2.7 |

## 17. Realistic Disaster Scenarios (RDS)

The table below illustrates the potential net impact of the top eight “Realistic Disaster Scenarios” (RDS) on Talisman’s portfolio. RDS are standardised catastrophic loss scenarios which Lloyd’s requires all syndicates to calculate each year to estimate their potential gross loss (before reinsurance recoveries) and net loss (after reinsurance recoveries) in their Business Forecasts.

As RDS are estimates, they are based on assumptions by the managing agency on their likely levels of income, business written and reinsurance purchased for the year. Therefore they are very much subject to change. In all cases Argenta has taken Managing Agents’ projected exposure contained in their 2023 Business Forecasts.

Changes to the underwriting policy, reinsurance programme and rating levels will all change the actual exposure. It is also important to note that a single loss can impact a number of different underwriting years, depending upon the inception date of the affected policies. Managing Agents are expected to report on the aggregate exposure to all underwriting years i.e. if they report an exposure of 10%, this might be made up of 7% to the 2023 year of account, 2% to the 2022 account and 1% to 2021 and not as 10% to 2023.

The percentages shown represent a guide to the potential net cost to Talisman in the event of the occurrence of one of these loss scenarios, and not the final result of the year of account. Other non-aggregating sections of the account could, depending on their profitability, produce profits to mitigate such catastrophe losses. They could also, of course, produce further losses. The figures should be treated as indicative, as actual losses are likely to be different, particularly in the event of a series of major losses occurring in the same period.

| Catastrophe Scenario | Talisman % | | | Market Average % | | |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2021 | 2023 | 2022 | 2021 |
| Whole World Natural Catastrophe AEP 1 in 30 | 17.1 | 15.8 | 19.4 | 19.2 | 18.5 | 22.9 |
| US Windstorm AEP 30 Year Return Period | 12.4 | 11.2 | 13.9 | 14.0 | 13.2 | 16.5 |
| Terrorism – Rockefeller Centre | 9.7 | 10.7 | 10.5 | 10.3 | 12.1 | 12.4 |
| Cyber – Ransomware Contagion | 8.1 | 9.8 | N/A | 8.2 | 9.6 | N/A |
| Cyber – Major Data Security Breach | 6.9 | 9.1 | 10.2 | 6.5 | 8.6 | 10.1 |
| US Earthquake AEP 30 Year Return Period | 6.8 | 6.3 | 7.5 | 7.4 | 7.1 | 8.9 |
| Cyber – Blackout II | 6.6 | 7.0 | N/A | 6.2 | 7.0 | N/A |
| Cyber – Cloud Cascade | 6.3 | 8.2 | N/A | 6.6 | 8.4 | N/A |
| Aviation Collision | 6.2 | 5.8 | 6.2 | 6.2 | 5.6 | 5.9 |
| Loss of Major Complex | 5.9 | 6.7 | 7.3 | 9.2 | 9.9 | 10.4 |
| Marine Event | 4.9 | 5.4 | 4.7 | 5.3 | 4.6 | 5.3 |

## RDS Descriptions

### Whole World Natural Catastrophe AEP 1 in 30

### US Windstorm AEP 30 Year Return Period

### US Earthquake AEP 30 Year Return Period

These scenarios denote each syndicate's exposure to a catastrophic event, the impact of which is what might be expected to occur only once in every thirty years. To calculate these exposures, syndicates use a sophisticated model that runs multiple simulations of events to determine the impact of these 1 in 30 year losses:

| | |
|---|---|
| Whole World Natural Catastrophe AEP 1 in 30 | A natural catastrophe, be it an earthquake, windstorm, flood anywhere in the world. |
| US Windstorm AEP 30 Year Return Period | A Windstorm in the USA |
| US Earthquake AEP 30 Year Return Period | An Earthquake in the USA |

To put these exposures into context, these RDS events might be expected to occur once every 30 years. Members' capital requirements envisage losses at a level that might occur once every 200 years.

In syndicates' 2023 business plans, exposures are based on the modelling output typically used for reinsurance purchase which better explains how frequently a given loss might be expected to occur over a prolonged (many hundreds of years) period. These models are also extensively used in determining the level of capital required for a syndicate to be resilient to the size of loss that can be expected to recur once every 200 years. The parameter that Lloyd's uses is called the Aggregate Exceedance Probability (or AEP) and it calculates the total loss that the syndicate would expect to experience once every thirty years arising out of the particular peril.

Therefore, a "1 in 30 year US Wind AEP" describes the anticipated loss from all US wind events in a single year that would be expected to recur once in thirty years. Note the word "aggregate" in AEP means that this exposure could be consequent upon a single large event, or a combination of smaller events.

## Aviation Collision

Assumes a collision between two aircraft over a major city, anywhere in the world, using the syndicate's two highest airline exposures. Assumes a total liability loss of up to US$4 billion, comprising of up to US$2 billion per airline and any balance up to US$1 billion from an air traffic control liability policy(ies) and/or a major product manufacturer's product liability policy(ies), where applicable. Consideration should also be given to other exposures on the ground.

## Cyber – Major Data security Breach

A series of simultaneous cyber-attacks are launched on large multinational organisations across one industrial sector with the intention of causing major disruption and financial loss to organisations. During the attacks, customer data (e.g. internet protocol address, credit card details and other information) is lost.

The attacks target vulnerabilities in the operating systems, web applications and/or software used by these organisations. For the purposes of this exercise it is assumed that multiple systems and/or multiple organisations using the same systems/software are affected. The hacking attacks may take the form of a virus, or an alternative vector of attack. As a result of the breach, customer management and trading systems, networks and supply chains are disrupted at these organisations for a duration of 24 hours.

Assumes the ten largest clients worldwide are targeted, in the sector with the greatest exposure and that all client data at these organisations is lost, that class actions are pursued and there will be organisations that face third party liability claims.

## Cyber - Business Blackout

Power is taken down across 36 US States on a weekday in June. It is gradually restored, but only 50% of homes and businesses are reconnected in 72 hours and full restoration takes 3 weeks. The event is attributed to a cyber-attack aimed at electrical substations and power transformers. Although suspicion falls on several threat actor groups linked to nation states, no group claims responsibility and none is attributed with definitive responsibility. The event is therefore not deemed a war event. The return period of this scenario is estimated to be between one in 150 and 200 years.

## Cyber - Cloud Cascade

A major cloud service provider suffers total downtime in multiple data centres in the USA. The outage lasts 24 hours and impacts all hosted services. Businesses worldwide suffer business interruption and loss of data. Investigation shows that the outage was caused by misconfigured cluster management software and exacerbated by malicious code. The return period of this scenario is estimated to be between 1 in 100 and 125 years.

## Cyber - Ransomware Contagion

A ransomware payload is triggered. It has exploited a vulnerability in an operating system to infect the IT system of a major global corporation. Ransomware encrypts files and presents users with ransom demands. The operating system has a dominant market share and the ransomware is spread throughout the world within 3 days. On average, victims experience 7 days of downtime.

The operating system provider issues patches to protect the vulnerability, but the ransomware is already infecting companies throughout the world. Organisations in every sector are unable to access critical files and many victims simply pay the ransom. However, even having paid, most victims are still unable to restore systems. Victims suffer business interruption and other costs relating to data restoration and hardware replacement. The return period of this scenario is estimated to be between 1 in 75 and 100 years.

## Loss of Major Complex

Assumes a total loss to all platforms and bridge links of a major complex. Includes property damage, removal of wreckage, liabilities, loss of production income and capping of the well.

## Marine Collision

A cruise vessel carrying 2,000 passengers and 800 staff and crew is involved in a high-energy collision with a fully laden tanker of greater than 50,000 DWT with 20 crew. The incident involves the tanker sinking and spilling its cargo; there are injuries and loss of lives aboard both vessels.

Assumes an apportionment of negligence of 30% to the tanker owner and 70% to the cruise vessel and that the collision occurs in US waters.

Assumes that the cost of pollution clean-up and compensation fund amounts to US$2 billion. This would result in claims against the International Group of P&I Associations' General Excess of Loss Reinsurance Programme, and any other covers that might be in force.

Assumes an additional compensation to all passengers and crew for death, injury or other costs of US$1.15 billion and removal of wreck for the Tanker of US$100m. The cruise ship is severely damaged but is towed back to a safe harbour (repair estimate US$50m and US$10m for salvage operations).

## Terrorism

Rockefeller Centre Event - The Midtown Manhattan area, New York, at 11:00am on 1st January suffers a 2-tonne bomb blast attack causing collapse and fire following within a radius of 200m, massive debris damage to surrounding properties up to a radius of 400m and light debris damage to surrounding properties up to a radius of 500m. 1,000 blue/white collar worker deaths and 2,500 injuries in total.

Overland/underground transport systems are partially damaged, leading to significant business interruption exposure for a period of three months.

All possible affected business classes should be included in the calculations, such as Contingent Business Interruption and Specie/Fine Art.

# SECTION III

# Ruffer Annual Performance Report

# Talisman Underwriting Plc

Period under review 30 June 2022 – 30 June 2023

Share class: Ruffer SICAV Total Return Intl C GBP Cap

Performance % (net of fees) to 30 June 2023

| 3 months | 12 months | 3 years | 5 years |
|---|---|---|---|
| -6.0 | -3.6 | +14.7 | +23.3 |


## Summary

Our objective at Ruffer is to build portfolios that preserve capital irrespective of whether markets are doing well or badly. Disappointingly, the portfolio has failed on this objective over the past 12 months as we have been cautious into what we believe is a looming liquidity and recessionary crisis.


The first three quarters of 2022 saw equities and bonds sell off in unison. The twin shocks of surging inflation and interest rates saw all major asset classes fall sharply. We made a positive return in 2022, largely thanks to our derivative-based protections which profited from falling and volatile markets.

In September, the new British government popped its head above the parapet with a 'mini budget' requiring extra borrowing at a time of rapidly rising rates, high inflation and a large current account deficit. A market storm ensued: sterling touched an all-time low whilst UK bond yields surged, triggering a doom-loop of disorderly selling by Liability Driven Investing (LDI) pension strategies scrambling for cash to meet derivative margin calls. Real (inflation-adjusted) yields on the longest-dated UK index-linked bonds (held in the fund) rocketed to nearly 2%. This gave us the opportunity to add to these key assets at extraordinarily distressed prices, before the Bank of England was forced to step in to restore order. At one point down over 85% year to date, the 2073 index-linked gilts rallied nearly 250% from their trough to the month end, adding significantly to performance (although they have since given back some of their gains). Similarly, adjustments to the portfolio meant it was positively correlated to equities in November, as markets staged a recovery. November saw strong gains in both equities and bonds. This late burst of optimism was founded on the hope that inflation was finally peaking,

Nevertheless, we remained defensively positioned as the year ended because we believed that slowing but 'sticky' inflation would force central banks to keep interest rates higher than their economies could bear. More hikes plus so-called quantitative tightening – the hoovering-up of huge quantities of printed cash in the system – would mean less money around to support both asset prices and economic activity. This meant more pain to come. This was – and, crucially, remains – highly likely. But it hasn't happened yet.

Since then, equities have rallied due to improving sentiment and the reluctance of investors to price in an impending recession, whilst bond investors are pricing in a recession and subsequent interest rate cuts. More recently, equity indices have experienced a remarkably narrow rally, with investors buying Big Tech and anything AI related. We believe these unsustainable asset price moves are nearing an end, and a trend reversal would wreak havoc in financial markets.

With our focus on protection, we would expect to find progress difficult in a period when market gains have been driven by a very narrow group of stocks. Our growth assets, which we would normally look to offset the costs of protection, have not delivered. We focused on commodities, as the most obvious way we might be wrong in our cautious stance was if global growth surprised on the upside, predicated on continued recovery from China. So far, this has not been the case, commodities have created a further headwind rather than acting as an offset at intended.

While losing money for clients is always difficult, we have been here before. For more than a quarter of a century now, Ruffer has protected clients from every major market crisis. In order to achieve this, however, we have at times delivered dull or disappointing short-term performance. Losing money in 1999 in the tech bubble, flatlining in the easy markets of 2006-2007 and struggling in the run up to the covid crisis.

Strikingly, each of our disappointing periods has come before a sharp decline in stock markets, as we focused portfolios more on protection than growth, albeit often seemingly too early. We have been willing to sit on the sidelines as we wait for the problems we have identified to manifest themselves, even if that means suffering the costs of holding protection with progressively less on the growth side of the ledger as an offset. Taking a cautious view so far this year has been painful, but we think the evidence suggests caution may win out.

### Factors that helped performance

**Active equity selection** Within a low equity weight, bottom-up stock selection added positive performance with notable contributions such as BP and Ryanair.

**US Floating Rate Notes** Benefitted from higher base rates in the US.

### Factors that hurt performance

**Non-sterling currency exposure** Sterling strength weighed on performance. We think this is likely to revert in the event of a fall in risk assets.

**Protective strategies** A growing assumption of a 'soft landing' for the economy, combined with the resumption of volatility selling dynamics last seen pre-covid, hurt the fund's protective strategies over the 12 month period and has unwound the 2022 gains previously seen in this part of the portfolio.

### Summary performance attribution

| Five largest positive contributions | % | Five largest negative contributions | % |
|---|---|---|---|
| BP | +0.6 | Ruffer Illiquid Multi Strategies Fund | -1.6 |
| USA (Govt Of) FRN 31/01/2023 | +0.6 | UK (Govt Of) 0.125% I/L 22/03/2068 | -0.5 |
| UK (Govt Of) 0.375% I/L 22/03/2062 | +0.5 | UK (Govt Of) 0.125% I/L 22/03/2073 | -0.5 |
| USA (Govt Of) 0.125% TIPS 15/02/2051 | +0.4 | UK (Govt Of) 0.125% I/L 22/11/2065 | -0.3 |
| Ryanair | +0.3 | WisdomTree Brent Crude Oil ETC | -0.3 |

Markets are increasingly trying to consign 2022 to history. Supported by plentiful liquidity, stability has dominated. We have been more worried about the potential for instability – wrongly, it would seem, so far this year.

Currently markets are increasingly certain that policy makers will succeed in bringing inflation back to target and will do so without creating any financial instability. The much-fabled soft landing will play out. Meanwhile, with interest rates moving higher than expected, and likely to stay high for longer, the impact of tighter monetary policy is starting to be felt. This is already having consequences and will inevitably slow the economy and impact on corporate profitability.

The portfolio is where it is for a reason. The macroeconomic outlook points firmly to specific troubles ahead – troubles against which we have particularly guarded. Today, with returns of over 5% available risk-free in US money market funds, cash has only been such an attractive alternative to equities twice this century: in 2000, during the tech bubble and in 2007, just before the financial crisis. Neither period ended well for investors, and we fear a similar outcome could be lying in wait for markets now. Even more worrying is what happened after these crises. In both 2000 and 2008 markets were immediately 'medicated' by dramatic interest rate cuts. Today a similar rescue may be difficult. With inflation more persistent than promised, central bankers would have to choose between monetary stability (fighting inflation) or financial stability (supporting markets).

The protections in the portfolio are three-fold. Structural protection against a new regime which is likely to be characterised by rising and more volatile levels of inflation; shorter-term (and powerful) protection against the potential financial instability caused by tighter liquidity and higher interest rates; and protection against the likely recession that will follow. For the moment, investors seem to be growing in confidence that policy makers will be able to successfully navigate the narrow tightrope of stability. We are less convinced. Taking a cautious view can be frustrating, but history tells us that not long after these periods, the risks emerge, leading to significant drawdowns in markets.

## Asset allocation

| | % |
|---|---|
| Short-dated bonds | 26.9 |
| Non-UK index-linked | 14.4 |
| Cash | 10.2 |
| Index-linked gilts | 9.2 |
| Long-dated index-linked gilts | 8.7 |
| Gold exposure and gold equities | 5.4 |
| Illiquid strategies and options | 2.0 |

| | % |
|---|---|
| Commodity exposure | 8.3 |
| UK/Europe equities | 7.6 |
| North America equities | 3.5 |
| Asia ex-Japan equities | 2.3 |
| Japan equities | 0.9 |
| Other equities | 0.5 |

# THE COMPANY

| | |
|---|---|
| **Chairman** | Peter Steel |
| **Directors** | David Monksfield<br>Paul Sandilands |
| **Company Secretary** | Graham Hodgson |
| **Registered Office** | 70 Gracechurch Street<br>London<br>EC3V 0XL<br>Tel: 020 7825 7139<br>Email:<br>david.monksfield@talismanunderwritingplc.com<br>www.talismanunderwritingplc.com |
| **Company Registration Number** | 03370297 |

**ADVISORS**

| | |
|---|---|
| **Auditors** | **PKF Littlejohn LLP**<br>Statutory Auditor<br>1 Westferry Circus<br>Canary Wharf<br>London<br>E14 4HD |
| **Bankers** | **Coutts & Co**<br>440 The Strand<br>London<br>WC2R 0QS |
| **Fund Manager** | **Ruffer LLP**<br>80 Victoria Street<br>London<br>SW1E 5JL |
| **Members' Agent** | **Argenta Private Capital Limited**<br>70 Gracechurch Street<br>London<br>EC3V 0XL |
| **Solicitors** | **Mills & Reeve LLP**<br>Botanic House<br>100 Hills Road<br>Cambridge<br>CB2 1PH |

TALISMAN
UNDERWRITING PLC