

# **Liberty Mutual Holding Company Inc.**

## **FQ2 2024 Earnings Call Transcripts**

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**S&P Global Market Intelligence Estimates\*\***

Estimates data is not available for this transcript hence the table is not generated.

# Table of Contents

Call Participants	.....	3
Presentation	.....	4
Question and Answer	.....	9

# Call Participants

## EXECUTIVES

**Christopher Locke Peirce**  
*Executive VP & CFO*

**Hamid Talal Mirza**  
*Executive VP, President of US Retail  
Markets & Director*

**Neeti Bhalla Johnson**  
*Executive VP, President of Global Risk  
Solutions & Director*

**Robert Pietsch**

**Timothy Michael Sweeney**  
*President, CEO & Director*

**Vlad Yakov Barbalat**  
*Chief Investment Officer, Executive VP,  
President of Liberty Mutual Investments  
& Director*

## ANALYSTS

**Chad Stogel**  
*Spectrum Asset Management, Inc.*

# Presentation

## Operator

Good morning, ladies and gentlemen, and welcome to the Liberty Mutual Second Quarter 2024 Earnings Conference Call. [Operator Instructions] This event is being recorded.

To begin Liberty Mutual's presentation is Robert Pietsch, Executive Director of Investor Relations and Capital Markets. Mr. Pietsch?

## Robert Pietsch

Good morning. And welcome to Liberty Mutual's Second Quarter 2024 Earnings Call. Hopefully you have seen the earnings release and financial statements posted on our website.

Speaking on today's call will be Tim Sweeney, President and Chief Executive Officer; Hamid Mirza, President, U.S. Retail Markets; Neeti Bhalla Johnson, President, Global Risk Solutions; Vlad Barbalat, Chief Investment Officer; and Chris Peirce, Chief Financial Officer. They'll provide an overview of our results and discuss current market trends, followed by a question-and-answer session. Also participating on today's call is Damon Hart, Chief Legal Officer and Secretary.

As a reminder, today's discussions may contain forward-looking statements that represent the company's beliefs concerning future operations, strategies, financial results and other developments. Actual results may differ materially from those expressed or implied. Please refer to our website for a complete discussion of the risk factors related to this presentation and the company. The company does not intend and does not undertake any obligation to update these forward-looking statements which speak only as of today's date.

I will now turn the call over to Tim for his opening remarks.

## Timothy Michael Sweeney *President, CEO & Director*

Thanks, Rob, and good morning, everyone. Despite continued pressure from elevated catastrophe activity, we reported strong financial results for the second quarter and first half of 2024. For the second quarter, net income attributable to LMHC materially improved over prior year to \$717 million, reflecting our disciplined underwriting strategy, strong investment results and continued expense management actions. We remain on track to reach our 95% combined ratio target in 2025, which will position us well for the future.

Pretax operating income for the quarter was \$1.1 billion, driven by strong underwriting execution in Global Risk Solutions and the impact of significant earned rate increases and improving loss trends in U.S. Retail Markets. Higher fixed income returns and limited partnerships income also contributed to the result. Though not as high as in 2023, catastrophe losses of \$1.7 billion were driven by severe convective storm activity in the U.S. Midwest. While we are closely monitoring loss trends and casualty lines, reserve development in the quarter was immaterial.

Turning to investment results. Net investment income in the quarter was \$1.3 billion, an increase of \$529 million over the prior year. The increase primarily reflects favorable valuations due to positive momentum in private equity investments and higher reinvestment rates in fixed income as well as a higher asset base compared to prior year. Net realized losses for the quarter were \$162 million versus \$63 million in the second quarter of 2023. The net realized losses were primarily driven by targeted fixed maturity sales to capture the higher reinvestment yields.

Moving to top line. Net written premium for the quarter dipped slightly from prior year to \$11.4 billion, driven by strategic actions to reduce new business growth in segments not a target profitability, address persistent loss trends in U.S. Retail Markets and to derisk the portfolio in Global Risk Solutions.

We are taking a measured approach to growth, particularly as we near target returns in more segments of the book and are selectively targeting new business growth. While we pulled back new business premium growth in some personal auto and small commercial lines to address persistent loss trends, we capitalize on growth opportunities where possible in mid and large commercial lines.

The combined ratio for the quarter was 99.6%, 9.8 points lower than prior year, reflecting the PTOI drivers I previously mentioned. The underlying combined ratio improved 9.5 points to 84%, benefiting from 7.1 points of underlying loss ratio improvement through pricing and underwriting actions and 2.4 points related to expense management initiatives. Our consolidated expense ratio is down to 26.4% for both the second quarter and the first half.

In summary, I'm very pleased with our results for the first half of the year as the deliberate actions we've taken over the last several quarters are positioning us well for sustained underwriting profitability. We remain focused on progressing toward our financial targets while remaining diligent in managing the risks inherent to our business.

Lastly, on July 25, Chris Peirce, our Chief Financial Officer, announced his intention to retire from Liberty Mutual at the end of 2024. Chris has been with Liberty for 29 years and has led our global corporate finance organization since 2018. As our CFO, Chris has stewarded the company's financial health and provided invaluable insights and counsel to me, the executive leadership team and our Board of Directors. Thanks to his leadership, our capital position is stronger than ever. On a personal note, I'd like to thank Chris for his many contributions to our company during his time here.

Also on July 25, we announced that Julie Haase, Executive Vice President, Executive Managing Director and Chief Operating Officer of Liberty Mutual Investments, has been appointed Executive Vice President and Chief Financial Officer of Liberty Mutual effective January 1, 2025, with a transition process that will begin over the next few months. Since joining Liberty in 2002, Julie has held various roles of increasing responsibility within the corporate and personal insurance finance organizations, including being named Chief Financial Officer for Personal Insurance in 2014 and Chief Financial Officer for Global Retail Markets in 2018.

I've been working with Julie for many years. I appreciate her broad experience, technical expertise, exceptional leadership and unique ability to build trust while also being a catalyst for positive change. On behalf of the executive leadership team, we look forward to partnering with Julie to drive continued success for Liberty Mutual.

Please join me in congratulating Julie in her new role and wishing Chris well in his retirement. And with that, I'll turn the call over to Hamid for a discussion of U.S. Retail Markets results.

**Hamid Talal Mirza**

*Executive VP, President of US Retail Markets & Director*

Thank you, Tim. After a challenging 2023, I'm pleased to announce that our second quarter results have shown substantial improvement. We have clear line of sight to target profitability and are thoughtfully pivoting to sustained profitable growth.

Starting off with profitability, USRM had pretax operating income in the quarter of \$126 million, marking a substantial increase of \$1.1 billion over the same period in 2023. The total combined ratio in the quarter was 102.2%, down a notable 12.6 points from the prior year quarter. The underlying combined ratio was 80.9%, which represents an 11.1 point improvement. These improvements were driven by rate and profit actions exceeding loss trends and a 2-point expense ratio improvement as a result of our continuous focus on expense management and disciplined staffing decisions.

Looking at our lines of business. Auto loss trends have moderated overall, but there are a few moving pieces. Used car prices continue to decrease with total loss claims severity trends improving, but repairable claim severities continue to increase driven by auto repair ranges.

Collision and property damage severity trends were in the low single digits, and collision frequency decreased significantly in Q2, driven in part by our underwriting actions. Bodily injury severity remained elevated in Q2 with annual trends in the low double digits. Elevated attorney involvement in claims and continued legal system appeals are still placing pressure on trends.

From a personal property perspective, results in the quarter were favorable, driven by lower frequency. While loss trends have moderated overall, we continue to experience upward pressure on labor costs and severity remains volatile with high single-digit trends. For U.S. Small Commercial, severity trends on liability lines remain elevated due to continued pressures from legal system abuse, partially offsetting favorable frequency trends.

In auto physical damage and property, no frequency across all coverages and perils have driven favorable quarter-to-date results. On workers' compensation, continued low frequency below pre-pandemic levels offset increased severity pressure from medical trends and wage growth.

And finally, turning to our top line performance. USRM's net written premium for this quarter was \$7.4 billion, a decrease of \$389 million or 5% compared to the prior year. This decrease is a direct result of the profit actions taken across both personal and small commercial lines reflected in our improved underlying results. This has positioned us to ignite growth in our most profitable segments, lines and states. We have begun unwinding underwriting restrictions to turn our focus on growth in these areas.

Overall, the second quarter has strengthened our momentum towards achieving target returns. The improvements in frequency loss trends, focused expense management and disciplined underwriting decisions have all contributed to our enhanced profitability and

strong financial performance. With a solid foundation in place, we can continue to strategically adjust our underwriting approach to foster top line growth while maintaining our financial performance.

As we move forward, we are confident in USRM's ability to sustain and expand upon these improvements, and are optimistic about the opportunities that lie ahead.

With that, I'll turn it over to Neeti to share GRS results.

**Neeti Bhalla Johnson**

*Executive VP, President of Global Risk Solutions & Director*

Thank you, Hamid. As we approach 3 years since the start of our transformation, we are seeing increasing evidence of our progress. Our transformation is rooted in underwriting excellence and risk expertise. Our balance sheet is strong. We have a diversified portfolio of strong businesses across products, channels and geographies. Our combined ratio results, which have improved over 7 points during this time, reflect our disciplined execution supported by rate tailwinds.

As previously announced, we brought together all our international insurance businesses across commercial, specialty and personal lines in a single business segment, Liberty International Insurance. This enables us to leverage our global capabilities while maintaining close alignment to our local markets as well as deliver a clear, unified market approach in the fast-growing Asia Pacific region.

Today, I'll focus on 2 topics. Firstly, market trends and how we're responding. Secondly, performance in the second quarter as we continue to progress towards our targets.

Beginning with market trends. Loss cost pressures in the aggregate remain high with a large cone of uncertainty around trends across different lines. While inflationary pressures are moderating, tight construction labor market concerns persist as do shifting supply chains. Climate change, legal system abuse, and geopolitical risks continue to make our operating environment incredibly complex and unpredictable.

For the first half of the year, our loss cost trend was mid-single digits, with North America trends being more elevated than those internationally. While the pricing cycle isn't one-size-fits-all across lines and geographies, the industry is seeing positive but decelerating price increases, which stands in contrast to sticky, high and more uncertain loss cost trends.

In the aggregate, pricing change, excluding sharing economy, was 4.9% in the quarter and 5.4% year-to-date. Positive rate trends for casualty, especially in the U.S., have continued with pricing change increases slightly lower than loss cost trends. While property rates have decreased this year, pricing change increases continue to exceed loss cost trend. Specialty line rates continue to decrease due to some financial lines achieving pricing below trend. Excluding financial lines pricing, which includes renewal rate change and exposure trend, is generally in line with loss cost trend.

Underwriting actions we've taken over the last 3 years have enabled us to deliver profitable results more consistently. The underlying combined ratio for the quarter was 89.4%, decreasing 3.6 points from the prior year period. Including the impact of cats and prior year incurred, the total combined ratio for the quarter decreased 1.4 points to 95%, reflecting lower cat losses, partially offset by favorable prior year releases in 2023 that did not recur.

Underlying pretax operating income was \$818 million in the quarter, an increase of \$314 million over the same period in 2023. The results in the quarter reflect profit margin on higher earned premium, lower commissions in part due to the impact of changing reinsurance arrangements and higher net investment income.

Shifting now to top line results. Net written premium for the quarter was \$4.1 billion, generally in line with the prior period. This reflects lower premium due to the impact of higher sessions from additional reinsurance coverage purchased and derisking in less profitable pockets of our portfolio, primarily U.S. casualty, offset by higher loss portfolio transfer premium in the period, renewal rate increases across most lines of business and increased surety volume across all products.

As I said earlier, we will lead with underwriting expertise, first and foremost. We will continue to prioritize profitable growth opportunities, but do not feel any pressure to change growth if we're not being adequately compensated for the risk.

I know casualty reserve adequacy is on everyone's mind. I touched on this at great length in the last earnings call. But a quick reminder, we believe our casualty reserves are adequate. Nevertheless, due to continued legal system abuse and other unfavorable industry trends, we are monitoring this very closely and reacting quickly to the increased severity and lengthening of the claim

settlement process seen in the more recent accident years. We continue to execute on our disciplined approach to reserve adequacy, responding to bad news quickly and good news more slowly.

In conclusion, our transformation journey to deliver an integrated business rooted in underwriting excellence and risk expertise does not end here, but we are pleased by the progress we've made and the results we're seeing. We have a diversified portfolio of businesses, giving us options to achieve sustainable risk-adjusted returns while maintaining underwriting and expense discipline. I have full confidence in our people's ability to navigate this dynamic operating environment.

Now I'll turn it over to Vlad to share LMI results.

**Vlad Yakov Barbalat**

*Chief Investment Officer, Executive VP, President of Liberty Mutual Investments & Director*

Thank you, Neeti. Investment results reflected a resilient economy with the portfolio generating \$1.326 billion of net investment income in the second quarter, an increase of \$529 million from the same period in 2023. This increase was primarily due to improved private asset valuations, combined with elevated investment yields on fixed income. Limited partnerships accounted for nearly 70% of the increase with \$468 million of income in Q2 of 2024 compared to \$106 million in Q2 of 2023.

Economic growth and inflation continue to cool toward more normal levels from the above-average pace of the past 2 years. After increasing in Q1, inflation slowed meaningfully in Q2 and the labor market now appears to be fully balanced to softening slightly. Policy easing was expected to be gradual as the U.S. economy remained resilient and recession risks average.

The upcoming election introduces additional uncertainty around the macroeconomic outlook and greater financial market volatility is possible over the coming months. Fixed income volatility continued from Q1 but was managed prudently as we continue to trade tactically by selling assets with lower book yields while actively managing tail risk.

Elevated treasury rates continue to underpin attractive all-in investment yields across asset classes, especially in high-quality assets and sectors lagging the broader rally in spreads. Capital deployment focused on improving overall book yield, while also repositioning to increase the portfolio's resilience. Portfolio yield was 4.3% during the quarter compared to 4.2% as of Q1, driven by a 5.7% average purchase yield.

While rates moved up during the quarter, they settled in line with Q1, leaving unrealized losses on the fixed income portfolio relatively unchanged at \$4.1 billion. Unrealized losses remained rate driven and were partially offset by tightening credit spreads. Realized losses were driven by selective trading activity. Losses from credit impairments and allowances were immaterial. Due to our active management approach, portfolio duration remains at our liability aware target.

Turning to private markets. We saw improved valuations compared to the same period in 2023, driven by strong returns in private equity and private credit. As mentioned in our Q4 call, while it has shown signs of recovery, private equity returns continue to lack public equity markets as the performance of the 7 [indiscernible] technology stocks drove the S&P 500 and NASDAQ to record highs in the first half of 2024.

In our private real estate portfolio, the downward pressure seen on equity valuations in 2023 continued to weigh on the portfolio, but has been more than offset by the income generated from real estate credit. Our exposure to commercial real estate is now primarily through highly rated investment-grade fixed income as equity-backed private real estate represents approximately 15% of our sector exposure and 2.5% of total invested assets.

Exposure to the most at-risk sectors is low, with less than 1% of our invested assets exposed to office and retail. These results represent the power of diversification, an increasingly important part of our portfolio mandate across strategies, sectors and the capital stack. As a reminder, limited partnerships are reported on a one-quarter lag.

In closing, I want to acknowledge that while the macro climate is stabilizing, risk happens fast. While economic resilience has surprise to the upside, other variables are less stable relative to the past 2 decades. Capital markets has been trained to look through short-term risk, a double-edged sword and episodic volatility is increasingly sharp. We are prepared for this environment.

We increased our allocation to attractive assets, but we remain well within our risk tolerances. We continue to maintain the flexibility to act and exploit dislocations and manage risk. We remain confident in our strategy, and we look forward to continuing to build and deploy our capabilities in the furtherance of Liberty's broader objectives.

And now I'll turn it over to Chris to discuss the year-to-date results.

**Christopher Locke Peirce***Executive VP & CFO*

Thanks, Vlad, and good morning, everyone. We reported net income attributable to LMHC of \$2.3 billion for the first half of the year compared to a net loss of \$660 million in the prior year. This was driven by material improvement in underwriting results in both of our business units, higher net investment income and \$673 million after tax from discontinued operations, principally related to the gain on the sale of our former GRM West business.

Total combined ratio for the first half of the year was 97.7%, down 8.8 points from the prior year. On an underlying basis, the combined ratio for the year was 86.2%, a 7.8 point improvement from 2023. This was driven by rate actions earning in and material underlying loss ratio improvement in U.S. Retail Markets due to improved severity and frequency trends as well as a decrease in the expense ratio due to reduced advertising spend, employee-related costs, variable expenses in U.S. Retail Markets, and lower commissions in Global Risk Solutions.

Turning to top line. We intentionally managed growth as we focused on improving underwriting profitability in the first half of the year. Net written premium was \$22.4 billion, a decrease of \$581 million or 2.5% over the same period in 2023. This was driven by strategic actions in both U.S. personal and small commercial lines to address persistent loss trends, partially offset by modest growth in GRS.

Pretax operating income before limited partnerships for the first half of the year was \$1.8 billion, up from a pretax operating loss of \$698 million in 2023. Pretax catastrophe losses were lower compared to prior year at \$2.6 billion, driven by improved severity of events compared to the same period in 2023. Prior year development was marginally unfavorable driven by reserve strengthening in U.S. Retail Markets compared to reserve releases in 2023. We remain comfortable with these levels and continue to prudently manage our reserves.

Excluding the impact of catastrophes and prior year development, our underlying PTOI increased \$2.2 billion from prior year to \$4.4 billion, primarily due to improved personalized frequency, rate execution and favorable expenses compared to prior year in our U.S. Retail Markets business.

Total net investment income was \$2.3 billion in the first half of the year, up 66.3% from \$1.4 billion in the prior year, driven by an increase in limited partnership income from \$24 million in the first half of 2023 to \$628 million this year. This was due to more favorable valuations driven by private capital investments.

As Vlad mentioned earlier, limited partnerships are reported on a quarter lag. Net investment income, excluding limited partnerships, was \$1.7 billion year-to-date, up 23% from \$1.4 billion in the prior year, driven by higher fixed income yields. Net realized losses year-to-date were \$254 million, up from \$112 million for the same period in 2023, mainly driven by net losses on fixed maturities as we tactically turn the portfolio over into higher-yielding assets.

Cash flow provided by continuing operations for the first half of the year was \$2.3 billion, up \$1.9 billion from the same period in 2023, reflecting favorable paid loss activity and premium collections. We ended the second quarter with financial leverage of 22.4%. This level is well within the requirements for our ratings. GAAP equity as of June 30 was \$27.2 billion, an increase of \$2.1 billion over the prior year-end driven by \$2.3 billion of net income, partially offset by \$111 million in unrealized losses on fixed maturities and unfavorable FX of \$74 million.

Statutory surplus was \$30.7 billion at the end of June, up from \$27.7 billion at year-end, primarily driven by \$3.1 billion of statutory net income. On August 2, AM Best affirmed our financial strength rating at A with a stable outlook.

With that, this concludes our prepared remarks, and we're happy to take your questions.



# Question and Answer

## Operator

[Operator Instructions] We have a question from Chad Stogel from Spectrum Asset Management.

## Chad Stogel

*Spectrum Asset Management, Inc.*

I had a question. You brought up casualty reserving and you feel good about your position and you talked a bit about trends. Can you speak at all about accident years specifically? Are you able to get into specifics on which accident years are emerging favorably versus unfavorably? And have you been strengthening recent [indiscernible] recent accident years? Or are you just holding the line waiting for news to evolve?

## Timothy Michael Sweeney

*President, CEO & Director*

Chris, why don't you take that?

## Christopher Locke Peirce

*Executive VP & CFO*

Chad, Chris -- yes, I can jump in on that. Thanks, Tim. We really haven't made any meaningful changes to any of the accident years in calendar year 2024. We feel good about the reserve levels we have. We'll continue to watch them very closely and watch the trends. But I always want to remind you that we did take very decisive actions back in like 2019 through 2021 on casualty reserves. And so we do feel good about the levels, but we'll continue to watch them very closely.

## Chad Stogel

*Spectrum Asset Management, Inc.*

So as a follow-up to that, [indiscernible] years for 2015 to '19 or '16 to '19, but others have been coming out with some higher fixed to recent years. Are you seeing the trends persist? I mean, I know you've been very woeful about legal system abuse, kind of the [indiscernible] thing. And can you comment at all about the elongation of the claims tail and how that's affecting your ability to sort of do traditional and [indiscernible] analysis on those [reserve]?

## Neeti Bhalla Johnson

*Executive VP, President of Global Risk Solutions & Director*

Chad, it's Neeti. Yes, absolutely. So let me just take each of those in turn. I think this was carrying the last earnings call we did. I talked a little bit about even in the best of times, casualty rarely surprises to the upside. And I think we would all argue that this is clearly not the best of times.

You've heard us talk a lot about legal system abuse, amplifying downside risks and increasing complexity in some very unprecedented ways. I will be honest with you. I have been actually a little bit curious and surprised that we're not seeing more of the industry raise its forward loss cost trend assumptions just given what we're seeing on the legal system abuse side.

So to give you just a few factors as you brought up clearly, aggressive attorney advertising trial tactics, third-party litigation funding. All of these things have resulted in a material increase in nuclear verdicts that are driving up settlement values.

What we're also seeing, for example, to your point about the extended loss patterns on the claim settlement side, as an example, what we're finding is if an attorney is involved, for example, in an auto BI claim, those tend to be open 2x longer with severity being 3x to 5x higher than a comparable direct deal claim. If a claim is litigated, for example, that auto BI claim is open about 3x as long with severity being 8x to 10x higher. So just one example in the context of both the lengthening as well as the severity trend.

Our expectation is that we don't anticipate these challenges abating in the foreseeable future. So the approach we've taken on the reserving side, as I mentioned in the pre-comments here, is very much to be prudent in our ultimate loss selections to continue to do deep dives. We look at litigated versus non-litigated claims very differently. And we recognize bad news quickly, and we're slow and prudent in recognizing good news in some of the other parts of our portfolio.

I would say on the pricing side, it's absolutely critical in our view that casualty pricing keeps pace with loss cost trends. Right now, our casualty year-to-date rate ex shared economy is roughly about 10%. But I would tell you, if you really do look at what's happening on the underlying trends in our view, that's not necessarily keeping pace with loss cost trends at this point in time.

So I would say while it's encouraging to see rate change accelerate in places like commercial auto and our portfolio has very limited exposure to things like trucking, I would say that in the aggregate, we feel that it is really, really important that we continue to see rate changes keep pace with loss cost trends, but also we're not relying on that alone and really focused on risk selection.

Like I said, we don't feel any pressure to grow if we're not getting paid for the risk. And we're very focused on actually looking at opportunities where we see them in some parts of the primary casualty market, but we're also seeing a lot of naive capacity make its way into the excess casualty side. And so we remain weary, I think, is a fair way to summarize the response to your question.

**Operator**

Mr. Pietsch, it appears there are no further questions at this time. I'd like to turn the conference back over to you for any additional or closing comments.

**Robert Pietsch**

Great. Thank you, Jason, and thank you to everyone for joining us today. As always, if there are subsequent questions, please feel free to reach out to us directly. Our contact information can be found on the Investor Relations portion of our website at [libertymutualgroup.com](http://libertymutualgroup.com). Have a great day.

**Operator**

Thank you. And this concludes the Liberty Mutual Second Quarter 2024 Earnings Conference Call. Thank you for participating.

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