S&P Global
Market Intelligence

Liberty Mutual Holding Company Inc.

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S&P Global Market Intelligence Estimates**

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

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Executive VP, President of US Retail Markets & Director

Timothy Michael Sweeney
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UNKNOWN SPEAKER

Unknown Speaker

Presentation

Operator

Thank you. Good morning, ladies and gentlemen, and welcome to the Liberty Mutual first half 2026 earnings conference call. While this call is available online at the URL included in the Liberty Mutual Insurance press release, analysts should participate by phone in order to ask a question. To ask a question, you may press star then 1 on your touchtone phone. If you are using a speakerphone, you must pick up your handset before pressing the keys. To withdraw your question, please press star then 2. Please note, this event is being recorded. To begin Liberty Mutual's presentation is Robert Peach, Executive Director, Investor Relations and Capital Markets. Mr. Peach?.

Question and Answer

Unknown Speaker

Good morning, and welcome to Liberty Mutual's first half 2026 earnings call. Our earnings release and financial statements are available on our Investor Relations website. Joining us today are Tim Sweeney, Chairman and Chief Executive Officer, Hamid Mirza, President, U.S. Retail Markets, Vlad Barbalat, Chief Investment Officer and President, Global Risk and Capital Solutions, and Julie Haas, Chief Financial Officer. Following prepared remarks, we'll open the line for Q&A, where we will be joined by Matthew Moore, President, Global Risk Solutions, and co-presidents of Liberty Mutual Investments, Adam Wynn and Patrizio Urcioli. Damon Hart, our Chief Legal Officer and Secretary, is also with us today. 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 content. 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.

Timothy Michael Sweeney
President, CEO & Chairman

I will now turn the call over to Tim for his opening remarks. Tim? Thanks, Rob, and good morning, everyone. I'm pleased to report that Liberty Mutual has delivered another strong start to the year with meaningful contributions from all three of our businesses. Net income attributable to LMHC was $4.7 billion. through the second quarter, and our consolidated combined ratio was 87.3%, a 4.6-point improvement from the prior year. Net written premium was $22.2 billion, an increase of 1.1% as we look to pursue disciplined growth where we feel well positioned to do so profitably. These results are a direct reflection of the work we've put in to refocus our underwriting, refine risk selection, and generate capital to support the needs of our policyholders. The first half extends the momentum we've built over the past two years and reinforces the deliberate choices we've made consistent with our mantra, integrity, profit, and then growth.

We have moved from restoring profitability to building a company that is well-positioned to deliver consistently through changing market conditions. We are encouraged by our recent results and will continue to focus on durable underwriting performance, disciplined capital management, and profitable growth over time. The most encouraging aspect of our performance is the breadth and consistency of execution. Across Liberty Mutual, our teams continue to focus on risk selection and pricing, managing expenses, and making more deliberate decisions about where we deploy capital. As you will hear from our business leaders in a few minutes, our diversified portfolio and shared operating discipline are producing stronger and more consistent. outcomes. Our progress is first and foremost a reflection of our people and our partners. We building capabilities that help them make better, faster decisions.

Artificial intelligence is an important part of that work, but not as a standalone initiative. We are We are embedding AI into our platforms and workflows to improve underwriting insights, accelerate claims and service processes, and support greater efficiency across functions. We are scaling deliberately with strong governance, model validation, data protections, and human accountability. The objective is to augment professional expertise and judgment, not replace it. The external environment remains dynamic. The personal and commercial markets are evolving differently. Conditions are not uniform, but our response is consistent across the enterprise. Maintain underwriting discipline, protect the quality of the portfolio, and pursue growth only where expected returns meet our thresholds.

Inflation has begun to moderate, but repair, medical, and wage-related severity remains elevated in selected areas. While the volatility continues and legal system abuse remains a meaningful headwind for the industry, particularly in liability lines. Interest rates, asset values, affordability, and business activity can also influence customer behavior and loss trends. Improved industry profitability should not be mistaken for a lower cost of risk, and we will remain vigilant on pricing adequacy, reserving, execution and risk concentration management. Our balance sheet remains a significant source of strength, with total equity of $44 billion at quarter end, financial strength that is foundational to how we protect our policyholders. Our capital exists first and foremost to support the promises we make, absorb volatility, and and ensure we can be there for customers when they need us most. It also gives us the flexibility to invest in our businesses and manage through the insurance cycle from a position of strength.

As we work to become the preeminent insurance and capital solutions partner, we will continue to protect our balance sheet, maintain ample liquidity, invest behind attractive risk-adjusted opportunities, and prudently manage our capital. That ambition is reflected in the leadership structure we announced in April with the appointment of Vlad Barbalat as President of Global Risk and Capital Solutions. GLAAD now has strategic oversight and accountability for our goals across global risk solutions and liberty mutual investments and what we see as a convergence of opportunities. The two businesses will retain clear operating accountability and are not being integrated. Instead, we are deliberately aligning capabilities that share a common foundation, underwriting risk and deploying capital into uncertainty. By connecting our risk, capital, investment, and technology capabilities more closely, we believe we can move faster for customers and partners and pursue a broader set of attractive risk-adjusted opportunities while maintaining disciplined capital allocation and the financial strength that protects our policyholders. At the midpoint of 2026, I couldn't be more pleased with our results. are building on a much stronger foundation than we had three years ago and have set a clear and compelling direction for our company.

The next phase will require us to compete for attractive growth as personal lines margins normalize, navigate a softening commercial market without compromising underwriting standards, and continue improving claims, expense management, technology, and capital efficiency across the enterprise. We remain confident in our ability to perform through the cycle, protect our policyholders, and build Liberty Mutual into the preeminent insurance and capital solutions partner. With that, I'll turn the call over to Hamid for a discussion of U.S. retail markets. Hamid Rastafari Thank you, Tim.

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

USRM continues to deliver consistently strong profitability with a 2026 year to date combined ratio of 82% and eight point improvement over 2025. Pre-tax operating income reached 3 billion up about a billion dollars year over year. These results reflect continued tailwinds from disciplined underwriting and bookmix, favorable non-catastrophe trends, prior year development, and lower catastrophe losses. Our net written premium decreased 1% in the first half of 2026, driven by underwriting actions we took to build the right portfolio by line, transformation of our exclusive agency channel into an independent agency called Comparion and purposeful action to reduce our average written premium. We achieved sequential quarterly policies and forced growth in both Ottawa and dwelling, our lead lines during the first half of 2026. Excluding California, our lead lines also achieved year-over-year PIF growth. This is driven by a substantial increase in new business year-over-year, as well as a six-point increase in retention.

I'll speak to our performance in each of our four segments starting with dwelling, which represents roughly 90% of our personal property business. half 2026 dwelling results were very strong with a 69.5% combined ratio through June. Dwelling profitability was aided by low cat activity as well as non-catastrophe weather frequencies, which continue to emerge at levels below historical norms. In addition, severity trends were also relatively flat. To date, Geopolitical impacts have not emerged as material drivers of property loss trends, although some macroeconomic indicators have risen recently. From a growth perspective, dwelling PIF excluding California grew almost one point over Q1 2026 and two points compared to Q2 2025. Our personal auto segment also delivered strong first half results, ending June with an 88.2 combined ratio. Physical damage frequency trends have moderated with trends in line with longer term historical decreases.

Physical damage severity trends increased slightly driven by increasing part prices while auto liability loss trends remained in the high single digits. also saw continued favorable prior accident year development within liability lines. From a growth perspective, auto PIF excluding California grew one point over Q1 2026 and nearly two points over Q2 2025. Our US small commercial segment has continued 2025's profitability, concluding June with a 94.7 percent combined ratio. Severity trends on liability lines remained elevated due to continued pressure from legal system abuse though, with some early signs of moderation in recent accident years as attorney representation and litigation rates stabilize. On property, continued negative frequency trends across all barrels continues to drive favorability, with the most substantial benefit from crime barrels. Workers' compensation frequency trends remain stable and are partially offset by severity pressure from large losses. And finally, our independent agency Comparion continues to deliver market-level margins with additional gains above prior year profit.

As previously discussed, Comparion has emerged as one of the largest personal lines agencies in the U.S. and we are truly excited by this transformation as we believe in the independent agency model and the lasting value it provides, making insurance easier, offering meaningful choice, and delivering trusted advice to our policyholders. We've built an adaptable and resilient business that is well positioned to succeed in a dynamic and challenging environment. Focused execution against our strategy will help us continue to deliver strong results. and we will continue in our unwavering commitment to our policyholders, agents, and to our people. As we look to the second half of 2026, we remain confident in our ability to manage through an increasingly softening market. Now I'll turn it over to Vlad to share the results of GRS and LMI. Thank you, Hamid, and good morning, everyone.

Vlad Yakov Barbalat
Executive VP, Chief Investment Officer, President of Global Risk & Capital Solutions and Director

I'll start today with global risk solutions and then turn to LMI. The market is soft and getting softer, driven by abundant capital in both traditional and alternative forms, and a light run of recent catastrophe losses. The pressure is uneven across all our product lines, and our diversification lets us grow well-priced risk even as broad competition intensifies. We make two choices deliberately, where we grow and where we pull back, and how much risk we retain in our balance sheet. overall premium growth is an outcome of these choices. Our objective is to be there for our customers and our business partners through the cycle, and to do so while deploying our capital efficiently to earn an appropriate underwriting return. I'll cover the market, our results, and how we are managing the book. In terms of trends, property and property reinsurance are decelerating fastest, and financial lines are soft as well.

U.S. casualty is the exception where rate continues to rise, but not, in our view, to adequate levels. Legal system abuse keeps loss-cost trend elevated, and where rate increases fail to keep pace, we have been willing to shed significant risk exposure. Through June, our total combined ratio was 94.2% up 2.2 points year over year, and our underlying combined ratio was 90.9% up 3.3 points. As a reminder, our combined ratio reflects a book diversified across product and geography, including Asia retail businesses that carry structurally higher combined ratios than our commercial lines. Three things drove the higher underlying ratio. Current year loss activity was higher as pricing ran below loss cost trend. In non-catastrophe property, losses were elevated.

Employee costs rose alongside continued investment in technology to accelerate our modernization. and commissions were higher on the business mix. Higher earned premium partly offset these. Catastrophe losses improved 1.2 points to 3.5 points of the ratio, as last year's California wildfires did not recur. Prior year development was modestly favorable, broadly in line with last year. Segment pre-tax operating income was $1.3 billion, down 9%, and underlying pre-tax operating income was $1.5 billion. Net written premium grew to $9.4 billion, up $398 million, or 4%. Growth was led by credit, casualty, financial lines, and sharing economy, together with fair and fair trade. favorable foreign exchange, partly offset by lower property rate and last year's sale of our Thailand operations.

Renewal rate change was negative 2.7% and overall pricing was down 1.1%. Attention held at 88.3%. New business rose $211 million over the prior year, led by North America and LII. As I said earlier, our posture remains consistent, and our broad suite of products provides the diversification required for us to continue to grow our business where pricing remains adequate. We are growing credit, non-US casualty, and mid-market and small account cyber. US casualty, we are pushing rate with strong increases in auto, excess and commercial package liability in response to legal system abuse. Risk retention is a deliberate choice for us. We use assumed and seeded reinsurance to set how much risk we hold on our balance sheet to protect earnings and to manage our capital as the market moves.

We review our reserves regularly and recognize emerging loss trends promptly, adjusting as those reviews indicate. In short, JRS is performing well and with the required discipline as the market softens. We are growing where price covers risk, managing how much we retain on our balance sheet, and recognize loss trends promptly. Now shifting to Liberty Mutual Investments. The results have been exceptional to start 2026, building on the momentum from the second half of 2025. Year to date, we generated $3.5 billion of pre-tax investment results, up more than 40% over the first half of 2025. These results reflect elevated all-in yields, idiosyncratic gains on our private portfolio, and continued discipline in how we manage the book.

As I have said before, we are not in the business of predicting the future. We are in the business of being prepared for every eventuality. was on full display to start the year. Geopolitical shocks, tariff and trade policy developments, shifting cyclical conditions, and corresponding changes in the Fed's stance all challenged the expectations we came into the year with. Across public markets, spreads widened meaningfully early in the year and we into that volatility with high conviction trading and risk selection. As spreads tightened through the second quarter and valuations richened, we took a more measured stance, reducing overall risk while continuing to add exposure selectively in high quality sectors and individual credit opportunities. Portfolio yield in public fixed income was 4.7% percent at quarter end, up from 4.5 percent at the end of 2025, supported by a 4.8 percent average purchase yield. The rise in interest rates moved the public fixed income portfolio from a $45 million unrealized loss at the start of the year to a $642 million unrealized loss.

Turning to private markets, the portfolio was led by our private equity and energy and infrastructure equity strategies, which together generated $1.4 billion of pre-tax income, reflecting strength in venture and digital infrastructure and several portfolio companies completing IPOs. These gains were idiosyncratic, but they were not accidental. We positioned for them through sourcing and underwriting decisions made quarters earlier, and the timing of the payoff was the only part we did not choose. The same public listings now carry the near-term volatility that comes with holding public equity. Private credit contributed $535 million as our core origination in direct lending franchises generated a healthy run rate income across asset-backed and corporate credit, while credit allowances remained immaterial. Through shifting policy expectations and geopolitical and trade uncertainty, our diversified private platform continues to generate attractive long-term returns supported by strong sourcing, favorable capital pacing, and disciplined underwriting. We do not expect the back half of the year to be any less eventful than the first, as new risks emerge while others fade.

Our focus remains on positioning the portfolio to perform across a range of outcomes, balancing return objectives against the risk, liquidity, and duration constraints we must manage to. That approach generates durable income, preserves capital, and meets our commitments through changing markets. It is how we contribute our share of Liberty's ambition to become a preeminent insurance and capital solutions business. And now I'll turn it over to Julie to share enterprise level results. Thanks, Vlad, and good morning, everyone.

Unknown Speaker

Our results for the first half of 2026 demonstrate the strength of Liberty Mutual's diversified earnings profile and the progress we've made over the past several years. Net income attributable to LMHC was $4.7 billion, up $1.8 billion, or 63% from the prior year period. The increase was driven by significantly lower catastrophe losses and stronger investment results, partially offset by increased expenses. Pre-tax operating income before limited partnerships was $4.6 billion year-to-date, compared with $3.2 billion in the prior year period. Pre-tax catastrophe losses declined $1.6 billion to $1.0 billion, reflecting lower event activity in the absence of the 2025 California wildfires. We also recognized $384 million of favorable prior year development, down slightly year over year as a result of some incremental reserve strengthening in the corporate segment, offset by releases in USRM from continued favorable development in personal auto. Excluding catastrophes in prior year development, underlying tax operating income before limited partnerships was $5.2 billion compared with $5.4 billion in the prior period.

Improved non-catastrophe loss experience in USRM and higher recurring investment income were more than offset by increased advertising in USRM to support targeted growth, as well as higher current year loss activity in underwriting expenses in GRS. These dynamics are also reflected in our underwriting ratios. The total combined ratio improved 4.6 points to 87.3% as the catastrophe ratio declined 7.3 points. The underlying combined ratio was 84.3%, 2.3 points higher than the prior year, as a 2.9-point increase in the underwriting expense ratio more than offset a 0.6-point improvement in the claims and claims adjustment expense ratio. Advertising expense added 1.9 points to our underwriting expense ratio year over year. Net written premium totaled $22.2 billion year-to-date, up $243 million or 1.1%, marking a return to growth at the enterprise level. Growth was led by GRS, reflecting selective expansion in credit, sharing economy, casualty, and financial lines, together with favorable foreign exchange, while personal property also increased.

These gains more than offset lower premium in personal auto and small commercial. the USRM premium remained below the prior year, largely because of lower average written premium from rate reductions and policy mix, even as new business and retention improved. We remain focused on generating durable, profitable growth while maintaining disciplined return thresholds across the portfolio. Returning to investments, total net investment income was $3.6 billion year-to-date, up $900 million from $2.7 billion in the prior period. Limited partnership income increased $690 million to $1.5 billion, driven by favorable valuations in private equity and equity-based alternative investments, along with higher income from alternative credit investments. Excluding limited partnerships, net investment income increased $210 million, benefiting from growth in the invested asset base, favorable reinvestment rates, and higher alternative credit in other investment income, partially offset by higher investment expenses. Net realized investment losses improved to 56 million from 193 million in the prior year. reflecting stronger equity results, including gains on sales, partially offset by losses on fixed maturity sales and derivatives. Cash flow provided by operating activities was $2.7 billion, an increase of $539 million from 2025, reflecting favorable claim payments offset by higher expenses. turning to capital management.

In April, we issued 750 million of 5.25% senior notes due 2036, our first US dollar benchmark transaction since 2024. Returning to our home market amidst strong investor demand led to exceptional execution, further supporting our capital and balanced debt maturity profile. We ended the second quarter with financial leverage of 17.8% within our 15-25% target range. Gap equity as of June 30 was $44.1 billion, compared with $39.9 billion at year-end 2025. statutory surplus was $43.2 billion compared with $38.9 billion at year-end, primarily driven by $4.7 billion of statutory net income. On July 21st, S&P recognized our improved financial strength in credit quality by upgrading Liberty Mutual's financial strength rating to A+. We believe this action is a reflection of our disciplined capital management, sustained operating performance, and overall financial strength. Taken together, our year-to-date results demonstrate the earnings power of the franchise and the progress we have made across underwriting, investments, and capital.

We will continue to pursue profitable growth and invest in the business while maintaining discipline in how we deploy capital.

Operator

With that, we're happy to take your questions. We will now begin the question and answer session. To ask a question, you may press star then 1 on your telephone keypad. If you are using a speakerphone, you must pick up your handset before pressing the keys. To withdraw your question, please press star, then 2. At this time, we will pause momentarily to assemble our roster. Our first question today comes from Jeffrey Bernstein with Stonebridge.

Please go ahead. Thank you.

Unknown Speaker

Good morning. First of all, a belated congrats on achieving your objectives. But now with capital building up and a softening market, as you just described, what are your plans to deploy the capital, leverage, and also that you have a security that's callable next month, if you could share your plans with that as well. Thank you.

Timothy Michael Sweeney
President, CEO & Chairman

Sure. Thanks for the question. This is Tim. Let me give you a high-level answer, and then I'll pop it over to Julie to talk about the specific question. We feel that the no burning need to deploy capital as we build it. We will over time deploy that capital. And, We have set a 2030 strategy. Our capital will be deployed against that strategy. We went from three years ago a little bit light on our rating agency capital with a negative outlook. now an upgrade to A-plus from S&P with capital strength.

You don't make that turnaround in such a quick amount of time and then just start to immediately spend capital. But we will deploy capital, as we've said in our remarks, in a very disciplined manner. We will look for an organization. organic opportunities that help to fill gaps as we pursue our 2030 strategy, but our plans primary goal with the capital is organic growth, first and foremost. The next thing I would say is, we want to build new capabilities. everyone's talking about gen AI and the impacts it's going to have on every industry. We're quite focused on that and we will deploy capital to make sure that we're harnessing that technology, um, to win and to create competitive advantage so that we can better serve our customers. And so I would say overall, um, no immediate plans to deploy any excess capital. We will continue to get growth going where it makes sense.

We will not chase the market down in the soft market, and we will be prudent in all of our insurance businesses, and we see plenty of opportunities to deploy capital on the asset side of the balance sheet in LMI. I'll let Julie talk more about the leverage in the particular security.

Unknown Speaker

Yes, thanks for the question, Steph. First on leverage, we've stated that our target range is in the 15 to 25% range. We're at 17.8% right now, so we feel good about where we are with that. As we think about that range, it's really about striking the right balance across having the right financial resilience, liquidity, policyholder protection, and just the flexibility to be able to fund growth and invest in the business. So you've seen that ratio come down over time as our profit has improved and our organic equity generation has increased, but we feel good about that range, and I think you'll be continue to see us operate within it. In terms of the hybrid that you referenced, I can't comment specifically on our call intentions there, but what I can say more generally is that when a security becomes callable, we're going to evaluate a range of factors, including things like the economic implications, broader market conditions, and we'll make those decisions in the context of our broader capital management framework. Thank you very much.

Operator

The next question is from Andrew Sciapa with MFS Investments. Please go ahead.

Unknown Speaker

Hey, thank you guys and congrats on a nice first half of the year. A couple of questions, if I could start with U.S. retail. Personal auto, I know PIF growth was a bit positive, but competition in this space is obviously picking up, and I think you highlighted or mentioned kind of targeted avenues of advertising and growth. Could you kind of shed a little bit more light on kind of where you're targeting in the market? Because at the same time, I think you said kind of going, reducing the amount the average written premium across the book as well. And it kind of helped me understand where you guys are looking to compete in the market and how you're winning currently.

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

This is Hamid. Thank you for your question. I think on auto, We have basically been executing against a pretty clear strategy over the last few years. Our desire has been to build the right portfolio, to be able to manage the cycles really well. So really, from a geographic perspective, we're looking to grow everywhere outside of California at this moment. And so our PIF growth, ex-California, as I highlighted earlier, is starting to get into the, you know, it's two points quarter over quarter. I think beyond that, what we've also done is we have defined our go-forward channels very clearly, and they are direct, which includes partnerships and independent agency. And as a part of that, we have transformed our exclusive agency channel into an independent agency.

That has a dampening effect on our growth in the market. moment, but really we've built a distribution business that delivers really great margins for us overall. So we've created a bit of growth in order to build a resilient channel and really clarified our go-forward channels as the direct channel and the independent agency channel. And then really what you'll see is we are deploying marketing spend in the right economic way. We have industry-leading media and creative capabilities that we've in-housed. So we feel very good about our spend. And we are really looking to build one of the most recognized. and trustable brands in the US, and that's what it's going to be our consistent strategy, 2026, 2027 and beyond. So really looking to, you know, be disciplined through the soft market, clarified our channels and clarified our geographic footprint.

And I think we've taken a lot of the actions to build the right portfolio and be in a position of strength going into the soft market and also take advantage as the market hardens in a bit of time.

Unknown Speaker

All right, I appreciate that. And then kind of shifting over to commercial auto, I think a big decline in net written premium in 2Q, is that a timing function? I know obviously it's not a focus market and you guys were going to reduce that, but is it a timing in terms of like when policies renew that you're able to take actions that drove that, or is that a more broad-based approach to reducing that exposure?.

Unknown Speaker

Hi there, this is Matthew Moore answering your question. Thank you for it. an element of both but it does absolutely signal a view around our commercial auto strategy we're very clear in terms of having dissected the book in terms of geographical spread and and segments and seeing that against the background of continued legal system abuse this is something of a portfolio management tool. So these aren't huge numbers. in the aggregate, but yes, it does reflect a very intentional portfolio management strategy.

Unknown Speaker

Okay, and then if I, I'll ask one more and then get back in the queue. Shifting over to GRS, can you shed a little light on casualty? I've seen net written premium up. Obviously, your commentaries that the US market is weak, ex-US is strong. Can you give a sense of what the mix of that portfolio that you have is? How much of your casualty book is US? How much is ex-US? Just to ballpark it as to what's on the book.

Unknown Speaker

and what you're writing going forward? Sure, ballpark would be 75% US, 25% international. going forward on a risk-adjusted basis, we'd be looking to increase our international casualty portfolio somewhat, yet we still recognise that we still have ample opportunities where the risk and the pricing make sense in the United States. So that won't change hugely significantly within the very long term. very short term, but yes, our ambitions are that we will, in absolute and relative terms, grow our international casualty portfolio. Great, appreciate the disclosure. I'll get back in queue.

Operator

The next question is from Chad Stogle with Spectrum Asset Management. Please go ahead.

Unknown Speaker

Hey, good morning. Thank you for the call and great quarter and great progress all along. So I'm going to shift the questions over to the investment side. Obviously a great performance by the LPs. One thing that stands out to me is the unfunded commitments and how quickly that's growing. in the private space. Just wanted to get some commentary from you on how you manage that. Obviously, you have a lot of cash flow that comes in for premium, but it it is a big commitment and growing. So any color there would be great.

Unknown Speaker

Thanks, Chad. This is Adam Wynn answering the question. This is an area we spend a tremendous amount of time thinking about in terms of building ample liquidity for the business. I think what you've seen in our actions over the last several years is, as Vlad mentioned, we're not trying to predict the future, but be prepared for all eventualities. So you've seen a tremendous amount of diversification get built across both our equity businesses, our credit businesses, which will continue. So we really think that we have built in – a set of businesses that will kick off cash flow to support future needs.

Unknown Speaker

Okay. Just thinking through that then, I would imagine if I think through all the detail that's out there in the market about how this all works, you have capital call lines that fund these investments by funds and then you would be the credit risk to them, right?

So you're a high quality player. you're on the hook, right? It is a liability to you, right? And then just secondarily, you've built up RBC a lot. What kind of capital consumption do these types of investments have for you? I mean, I've looked at the table that you provide disclosure around the allocation of private investments, but part of that's investment grade. Is it clear that anything in the other categories like corporate credit would be a mix of investment grade and non-investment grade, or do you classify those as below investment grade, which would therefore consume materially more capital than investment grade?.

Unknown Speaker

So thanks, Chad. I think there are. This is both done at the LMI portfolio level and and above that. The capital call lines you're referring to, to the extent we have general partners who are using those lines, we don't factor those into as a source of our own liquidity. We assume that we are going to fund all those obligations. We do extensive stress testing around worst of type situations that occur across the entire investment book, where we build redundancy to be able to fund across all those items. And then further, we have an extremely integrated system liquidity management practice across our book where we have a substantial portion of our assets are liquid securities. we build our book in a way where we don't want to disrupt the investment strategy of those liquid securities, meaning that there's even redundancy built into our modeling. And I think your last question was just in terms of capital charges.

The preponderance of what we own is investment grade. But because of the diversity of our book, we do own assets out to venture capital where we're having very high capital charges, But it's hard to generalize, although we look through the underlying credit exposure and asset exposure. And, you know, capital charges aren't drive what we're doing. What we're doing is more of a where do we think we can generate attractive risk-adjusted returns within a well-bounded risk framework that I think is well understood. Okay, that's great. I'll jump back in the queue.

Operator

The next question is from Dell Anderson with PIMCO. Please go ahead.

Unknown Speaker

Thank you. Some of my questions have been addressed. Congrats on the capital build. It really has been impressive over the last several years. I'm interested to see what you do with it. Following up on Chad's questions on the private investments, you had mentioned there had been some IPOs Maybe just get a little bit into the sectors here, or these like SpaceX or some other, technology, how active is Liberty Mutual in data centers and AI type equity investments. just so we can get a sense for what's driving the much stronger alternative performance for you guys versus some of the life goals that are reported the last couple of days.

Unknown Speaker

Adam Blythek, CFO Alphabet and Google yes, thanks, Del. This is Adam again. So, you know, I think I'll go back to, you know, we've really been building a lot of diversity across our equity book. So what you're seeing now, if I had to overly generalize, is strong performance coming from our private equity book, namely in the venture space, and there's several names there. And then correspondingly, our digital infrastructure book, which is part of our energy and infrastructure business, has also had some exits which have been positive. Again, our underlying strategy, and this ties back into the prior question, is that we want to have businesses that do well through the cycle. and have or kicking off liquidity and having exits at different points in time. It happens to be at this moment we've had a number of exits, but these are really five and ten years in the making. And so we may, you know, we look through and try to invest for a longer time period.

Unknown Speaker

And you're not able to disclose individual investments, some of the names that we might Yes, sorry. None at this time.

Operator

The next question is from Chris Santos with Morgan Stanley. Please go ahead.

Unknown Speaker

Thank you for doing this call and congrats on the S&P upgrade. Just wondering if you have any longer-term ratings target to see, or are you pretty content with the A-plus from S&P? And as a follow-up, can you just talk about your funding needs for the next 12 months? Thank you.

Unknown Speaker

Hey Chris, this is Julie. So thanks for the question. So we are pleased with the S&P upgrade to A plus and the recognition of our improved underwriting performance and in capital management. That said, I'd say the upgrade doesn't change our long-term strategy or the way we're managing capital. We still continue to focus on protecting our policyholders across stress scenarios, preserving financial flexibility, and growing tangible book value over time with an appropriate level of volatility. So we view the strong ratings as an outcome of all of this, of the disciplined underwriting, our balance sheets, strength in prudent capital management as opposed to managing to a particular rating. In terms of funding, we have robust sources of liquidity. Our cash from operations remains strong, and so we feel good about our ability to continue to operate with the right level of liquidity and making the right investments.

Operator

The next question is a follow-up from Andrew Sciapa with MFS Investments. Please go ahead.

Unknown Speaker

Hey, thanks for letting me get another one in. You disclosed a pretty big subsequent event with the $1.5 billion out of Venezuela. I know it's relatively new, but can you maybe just kind of go through what some of the next steps are that you'll be able to potentially pursue collection there? I know you won't have specifics or any kind of specific timing, but just kind of help us understand what the next steps are, because that's a pretty sizable number there.

Unknown Speaker

Yes, thanks, Andrew. I can't give you a ton more detail than what we've disclosed. This is, you know, just came out last week, actually. So overall, what I can say, though, is that we're pleased with the tribunal's decision because it has been a multi-year process. As we disclose, the matter will take time to fully develop, and so there are a number of procedural and legal steps that we need to go through. And then, of course, we'll align those with the accounting considerations to be able to recognize it. appropriately. At this stage, I think it's premature to be able to comment on anything that might be recognizable or not. So stay tuned. Like I said, we think it is a positive development.

There's several more steps to go, and we will continue to disclose if there's anything material. And what was the arbitration around? So this goes back to the origin of it. Yes, sure. This goes back to we historically had a Venezuelan operation that was an operating insurance company and given the hyperinflationary environment and the over-inflation, overall environment, we essentially had to write it off. And so there was value there that was essentially written off in a way that we disagreed with. So I'll leave it at that.

Operator

Got it. I recall that. Thank you. Again, if you have a question, please press star then 1. Next question is a follow-up from Chad Stogle with Spectrum Asset Management. Please go ahead. Mr. Stogall, your line is open on our end. Perhaps it's metered on yours.

Unknown Speaker

Thank you for that. Sorry about that. Thanks for taking the next question. Just looking at some of the growth in credit credit lines growing. I'm just wondering, there was some press around another mutual insurer wrapping, you know, credit private credit vehicles to get them higher ratings was wondering if that's something that you've looked at and how you how you frame that risk Hey, this is Adam Wynn again.

Unknown Speaker

So I think we're aware of some of that activity in the market. This is speaking from an investment perspective. That is not something that we've been actively pursuing in any size that I'm aware of.

Operator

Okay, now that's a good clarification. Thanks for that. Mr. Peach, 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.

Unknown Speaker

Great. Thank you, Gary, and thank you to everyone for joining us today. We greatly appreciate your engagement. If there are any additional follow-up questions, please feel free to reach out to Investor Relations directly. Our contact information can be found on the Investor Relations portion of our website. Have a great day.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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[Call has ended.]