

Eden No More

In the opening chapter of John Steinbeck's *East of Eden*, the author sets the stage for his epic novel through his beautiful description of the history and landscape of the Salinas Valley. In the author's eyes the area is arcadian, but one that endures natural boom and bust cycles. During the wet seasons, the land "shouts with grass" only to become barren in the dry years with "grasses headed out miserably only a few inches high," exposing "great bare scabby places." Even paradise experiences natural cycles. What struck me in the book's setting scene was Steinbeck's observation about the mercurial human response to living in this environment: during the dry years, "families would sell out for nearly nothing and move away. And it never failed that during the dry years the people forgot about the rich years, and during the wet years they lost all memory of the dry years. It was always that way."

Historically, this would be an excellent description of the basis of value investing. But we no longer live in the world of John Steinbeck. Certain, repeatable cycles are increasingly challenged as new technologies and energy sources change our economic systems faster than in the past. All the while, our physical environment, which used to have a durable range of outcomes, is changing. A common misconception about climate change is that the planet will warm gradually and evenly across the globe. The reality is that while mean temperatures move up, the change happens unevenly across the planet and, more importantly, the extreme "tail events" become increasingly probable. The distribution curve is moving to the right, while the tails are widening out. This means events like extreme heat waves and massive rainfall, once seen as highly improbable, are now becoming more common, and events that were nearly impossible to envision are now not only possible, but upon us. The widespread heat wave that Europe experienced last summer was recently determined to have been "virtually impossible" in the 1976 climate.¹

So where does that leave investors today? Human nature remains durable, and so the injurious desire to buy during "abundance" and sell during "droughts" remains intact. Those who remember the dry years during the wet ones, and price risk on where the distribution is heading, rather than where it has been, should continue to be rewarded. That discipline matters in the insurance industry, whose entire business model has been to price memory. However, that model is no longer sufficient; the industry now also needs to forecast a different future.

For decades, insurers set rates largely by looking backward at their own loss histories. That approach works until history stops being a reliable guide. Hurricane Andrew in 1992, which pushed over ten major insurance companies to the brink of insolvency, was the industry's wake-up call. A catastrophe model had estimated losses of that scale before the storm, and the estimate, met with skepticism at the time, was later validated by insurance claims and renewed interest in catastrophe modeling for estimating extreme-event risk almost overnight. **The firm behind that model, AIR Worldwide, is today the catastrophe modeling business of Verisk Analytics, a position we initiated during the quarter.**

Verisk sits at the center of how the property and casualty industry understands risk. The company traces its history to 1971, when the Insurance Services Office was formed to gather data from insurers and help them meet regulatory requirements. It acts as a licensed "statistical agent" for insurance regulators in all 50 U.S. states. Its catastrophe models simulate events that have not yet happened rather than relying on those that have, which is exactly the tool needed when the distribution tails are

¹ <https://www.reuters.com/sustainability/cop/europes-heatwave-virtually-impossible-without-climate-change-scientists-say-2026-06-26/>

widening. Verisk's latest annual report illustrates the point. It estimates global insured catastrophe losses now average \$171 billion annually, up 13% from the prior year and from \$59 billion in 2012.²

Verisk's models are built not for a historical natural cycle, but for a changing future. Rather than relying on long historical averages, Verisk calibrates its catastrophe models to the climate as it is today, updating them frequently to provide a robust view of risk for the current and near-term future climate (5-10 years). The company's rebuilt U.S. hurricane model, released in June, takes this approach, adopting a near-present view of hurricane risk, drawing on recent tropical cyclone behavior rather than decades-old data. For longer horizons, Verisk offers climate change projections that provide a probabilistic view of future risk in 2030, 2050, 2075 and 2100 across four Shared Socioeconomic Pathway (SSP) and Representative Concentration Pathway (RCP) scenarios, allowing insurers to see how warming may shift not only average annual losses (AALs) but key return period metrics that inform underwriting and risk transfer strategies. As the tails of the distribution widen, insurers can no longer focus on what an average year costs but what a bad one does, and Verisk gives the industry a way to price the tail risk years before they arrive. The same capability is extending beyond insurance through a collaboration with S&P Global. Verisk's catastrophe data is being used to advance the ability to assess insured versus uninsured climate-related losses, a need that will only grow as banks, asset managers, and regulators confront physical risk on their own balance sheets.

The market's current view of Verisk reflects what John Steinbeck called the "wet years" or good times mindset. Most of Verisk's revenue is subscription-based, but a meaningful portion is tied to how many claims insurers process. When a storm damages homes, adjusters and contractors write repair estimates in Verisk's property estimating software, and Verisk earns fees on the volume of claims assigned through its system, along with overage charges when clients exceed the volumes in their contracts. Fewer storms create fewer claims, fewer estimates, and fewer overages. That is exactly what happened over the past year. In the third quarter of 2025, management cited an exceptionally low level of severe weather events, which reduced claims assignments and drove transactional revenue down 8.8%, resulting in an impact of about 1% on overall Verisk OCC revenue growth in the quarter.

This quiet has persisted as U.S. property claim volume fell 8.9% year-over-year in the first quarter of 2026 and ran 13.13% below the five-year average. 2026 global catastrophe losses are currently tracking below the \$100 billion mark for the first time since 2020 and the carryover effect of fewer weather-related events has weighed on the company's growth. Some of this recent decline can be attributed to the natural El Niño cycle, a warming of the subsurface temperatures in the Pacific. While the 2026 El Niño is expected to produce a new record-warm year, it can lower hurricane risk by increasing wind shear that can reduce a hurricane's strength. The 2026 El Niño and its hurricane-dampening impact is expected to end at the start of 2027.

This good times mindset has been exacerbated by investor concern that AI will commoditize the company's core data assets. However, Redwood Grove views the AI risk differently. Verisk's data is contributed directly by insurers and embedded in regulatory filings. Redwood Grove believes AI makes proprietary, auditable data more valuable, not less. While concerns persist, fundamentals are already improving. In the second quarter, Verisk grew revenue 5.8% on an organic, constant-currency basis, with 8.0% underlying subscription growth, while free cash flow rose 57.9%. As in Steinbeck's valley, a quiet year has led many to forget the dry ones or, in this case, the stormy ones. Climate scientists tell us that while we will still experience cyclical troughs, the upward secular trend of a warming world will increase catastrophic damage. Insurance claims are unlikely to just return to a

² <https://www.verisk.com/blog/global-modeled-losses-a-clear-benchmark-in-a-shifting-risk-transfer-market/>

historical average; they will likely grind higher over time. We would rather own the company that remembers this for its customers, at a valuation that reflects the market's forgetfulness.

Closing Thoughts

On July 4th this year, the nation's 250th anniversary, I had the honor of opening the Theodore Roosevelt Presidential Library. Conservation and sustainability were core components of the library's namesake, so it was paramount that the building itself reflected those tenets. Designed by Norwegian-American architecture firm Snohetta, the Library is one of the most sustainable buildings in the world, meeting the Living Building Challenge with zero waste, zero water, zero emissions, and zero carbon. It is the only carbon-neutral presidential library in the country. The area around the library was planted with 400,000 native plant plugs, returning native grasses and reducing fire risk. The interior walls are made from rammed earth, a building technique of stomping local sediment down to eliminate air pockets, dating back five to ten thousand years. The architect, Craig Dykers, told me that these walls would outlast any other part of the building. The 93,000-square-foot facility has only one steel beam in its entire structure.

Sourcing building materials locally is a key requirement of the Living Building Challenge, and the Library's location in western North Dakota did not make this easy. The concrete was produced by regional manufacturers, that were tasked with engineering a new low carbon mix which reduced carbon content by 65%. Both rammed earth and low-carbon construction capacity were new to the area and developed specifically for the Library. Its resulting success has led local manufacturers to see a spike in demand for these sustainable building practices.

The Library is in a deeply red state whose economy has been significantly bolstered by the fracking boom. Yet it is already North Dakota's biggest tourist attraction, one that already attracts hundreds of thousands of visitors a year, and is a beacon of sustainability. My experience at the opening made clear that the message of sustainability embedded in the walls resonated with visitors, reminding me that climate-change and sustainability messaging needs to reach new parts of the country in innovative ways. Very few of the Library's visitors read the Intergovernmental Panel on Climate Change's reports or, as much as I'd like, Redwood Grove's letters, so finding new ways like the Library to reach them is critical.

Thank you for your continued trust in our team and our process. As always, please reach out with any questions or thoughts.

With gratitude,



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