Q3 2016 Earnings Call

Company Participants

- Constantine P. Iordanou, Chairman & Chief Executive Officer
- Marc Grandisson, President & Chief Operating Officer
- Mark Donald Lyons, Chief Financial Officer, Treasurer & Executive VP

Other Participants

- Brian Meredith, Analyst
- Charles Joseph Sebaski, Analyst
- Elyse B. Greenspan, Analyst
- Ian J. Gutterman, Analyst
- Jay Arman Cohen, Analyst
- Josh D. Shanker, Analyst
- Kai Pan, Analyst
- Michael Nannizzi, Analyst
- Quentin McMillan, Analyst
- Ryan Byrnes, Analyst
- Sarah E. DeWitt, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the Arch Capital Group Third Quarter 2016 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will be conducting a question-and-answer session, and instructions will follow at that time. As a reminder, this conference call is being recorded.

Before the company gets started with its update, management wants to first remind everyone that certain statements in today's press release and discussed on this call may constitute forward-looking statements under the Federal Securities laws. These statements are based upon management's current assessments and assumptions and are subject to a number of risks and uncertainties.

Consequently, actual results may differ materially from those expressed or implied. For more information on the risks and other factors that may affect future performance, investors should review the periodic reports that are filed by the company with SEC from time-to-time.

Additionally, certain statements contained in the call that are not based on historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The company intends the forward-looking statements in the call to be subject to the Safe Harbor created thereby.

Management also will make reference to some non-GAAP measures of financial performance. The reconciliation to GAAP and definition of operating income can be found in the company's current report on Form 8-K furnished to the SEC yesterday, which contains the company's earnings press release and is available on the company's website.

I would now like to introduce your hosts for today's conference, Mr. Dinos Iordanou, Mr. Marc Grandisson and Mr. Mark Lyons. Sirs, you may begin.

Constantine P. Iordanou {BIO 2397727 <GO>}

Thank you, Andrew. Good morning, everyone, and thank you for joining us today for our third quarter earnings call.

Before I comment on the quarter's results, I wanted to note two items. First, this October represents the 15th year anniversary and I would like to express my gratitude to our employees, whose dedication and commitment has build this successful company over the last 15 years.

Our employees are not just our most important asset; they are critical to producing the market-leading performance that we have seen these past 15 years. And I would like to say thank you to all of them.

Second item I want to comment on is about our pending acquisition of United Guaranty Corporation, as you know Arch has agreed to purchase United Guaranty for approximately $3.42 billion.

Early indications from the GSE's and regulators have been positive and we are hoping that the acquisition will close late in the fourth quarter of this year, which will minimize the disruption to our distribution partners in the mortgage lending space, as well as the employees of United Guaranty who will benefit from this timing as they transfer to Arch benefits and healthcare coverages as of January 1, so they don't have to deal with a split year deductibles and all the other complications that at different date might produce.

Now turning to these quarter results, we have a good quarter. Our reported combined ratio on a core basis, which Mark Lyons will define in a moment improved to 86.5% for the third quarter, as catastrophe losses were light at $10.7 million. Loss reserve development continues to remain at favorable in each of our segments, which in the aggregate reduce our combined ratio by 8.8 points in the quarter.

There were no significant changes that we see in the property, casualty, operating environment in the last quarter. In our insurance segment, we saw a slight deterioration in rates across some sectors, particularly in the high access and short-tail areas. But rates were generally stable in most of the lines, while the mortgage insurance environment remains both stable and healthy. Marc Grandisson will give you more details on what we see in each of the markets in a few minutes.

On an operating basis, we produce an annualized return on equity of 8.8% while on a net income basis, we earn an annualized return of equity of 15.3% for the quarter. As we have told you in previous quarters, net income movements can be more volatile on a quarterly basis as these earnings are influenced by changes in foreign exchange rates and realized gains and losses, our investment portfolio.

Net investment income per share for the quarter was $0.53 per share down $0.04 sequentially from the second quarter of 2016. Despite volatility in the investment and foreign exchange markets this year on a local currency basis, total return on our investment portfolio was a positive 88 basis points and 91 basis points if we include the effects of foreign exchange in the quarter.

Our operating cash flow was very strong at $421 million in the third quarter, as compared to $359 million in the third quarter of 2015. Our book value per common share at September 30, 2016 was $53.62 per share a 3% increase sequentially from the second quarter of 2016 and 12.5% increase from the third quarter over a year ago. While some segments of our business have become more competitive, we believe that group-wide on an expected basis, the present value ROE on the business written in the 2016 underwriting year should produce ROEs in the range of 10% to 12% on allocated capital.

Before I turn the call over to Marc Grandisson, I would like to discuss our PMLs, which are essentially unchanged from July 1. As usual, I would like to point out that our cat PML aggregates reflect business bound through October 1st, while the premium numbers indicated in our financial statements are through September 30th, and then the PMLs are reflected net off of reinsurance and retrocessional covers.

As of October 1, 2016 our largest 250 PML for a single event remains in the Northeast at $488 million, or 7.4% of common shareholder's equity. I think this is the lowest percentage ever for us. Our Gulf of Mexico PML was at $418 million and our Florida Tri-County PML increased slightly to $405 million.

I will now turn it over to Marc Grandisson to comment on the operating units and market conditions and after that I think Mark Lyons will share the financial returns in detail before we come back to take your questions. Marc?

Marc Grandisson {BIO 4369887 <GO>}

Thank you, Dinos. Good morning to all.

In the third quarter, we saw a continued softening of rates in positions and E&C (07:55) world. Particularly in the more commoditized lines and as Dinos mentioned, a stable MI marketplace. Our P&C units both insurance and reinsurance produced acceptable combined ratios as our underwriters focused on specialty lines, where knowledge and expertise differentiates this selection.

As you are all aware, we continue to build out of our MI segment in the third quarter, our returns are attractive. Turning first to our primary P&C insurance operations, which represents about 60% of our total premiums. Rate changes in our U.S. operations were relatively stable in the third quarter at a negative of 110 basis points versus a negative of 120 basis points last quarter.

As in previous quarters, most of what we at Arch call, our controlling low volatility segments which includes travel, A&H, contract binding, construction and program business had rate changes that were in a slightly positive range 50 bps, while our cycle-managed segments, which includes property in marine, energy and casualty experienced single to double-digit rate decreases.

Unfortunately, rate decreases are becoming widespread across more business units than have been building over the last few quarters, increasingly our business mix is moving towards smaller specialty risks, which had historically performed better in submarkets given that they are less exposed to the competitive pressures of the broad commercial liability and short-tail markets.

Globally, P&C market remained also under pressure from a rate level perspective. In the UK, rate changes across all our product lines average negative 5% this quarter leading us to shift further towards portfolios of smaller risks with lower volatility. Areas of opportunity within the insurance sectors were limited with modest growth recorded in the third quarter in our construction and national accounts, travel and alternative markets line. Most of the growth came because we took advantage of this location in those areas, yet our executive assurance, property and marine businesses are areas where we level rate levels lead us to a continuing defensive strategy of reducing risks.

Market conditions in our reinsurance group, which is 30% of our premium volume remain competitive. Our teams have to be very selective given conditions in their operating environments, but Arch's history is that our underwriters have been able to find opportunities that still meet our target returns.

This quarter specialty areas such as agriculture and motor grew while short-tailed segments such as property, cat and marine experienced significant rate decreases and we accordingly decreased our writings in those segments. Our strategy at Arch has been to focus on niche areas of opportunities, where as I said earlier, we believe that knowledge and experience gives us an edge, for that reason and given the tough market conditions in any one quarter, our premium mix changes sometimes significantly.

Turning to our third leg, our MI segment, which is this quarter 9% of our premium, but a growing percentage of our premium earned. We estimate that our market share of primary NIW in the U.S. rose to about 10% or 11% in the third quarter from 9% market share in Q2. In addition, we continued our market leadership in underwriting new U.S. GSE risk sharing transactions, which stood at $2 billion of notional limits in force and we continue to see good volume from our Australian primary insurance relationship.

Notably this quarter, we elected to purchase a quota share on our Australian business to help manage the risk profile of our global MI exposure, while returns on this business remain attractive, we believe it is prudent to manage what potential adverse results and we assess this risk much like we do in our other lines of business in the P&C sector, where we typically purchase protection to limit our aggregate exposures.

Our U.S. MI operation increased its NIW 36% to $8.75 billion during the third quarter of 2016, of which approximately 79% came through the bank channel. It should be noted that there is seasonality in the level of mortgage origination. Historically, the second and third quarter have significant higher production than the first and fourth quarters. Our return expectation across our MI segment remains in excess of our long-term ROE targets and we expect that for the foreseeable future.

And with that, I'll hand this over to Mark to cover the detailed financial results. Mark?

Mark Donald Lyons {BIO 6494178 <GO>}

Great. Thank you, Marc and good morning, all.

As was true on previous calls, my comments to follow today are on a pure Arch basis, which excludes the other segment that being Watford Re unless otherwise noted. I've continued to use the term core as Dinos mentioned in his notes to denote results without Watford Re and the term consolidated, when discussing results, including Watford Re.

As Dinos commented, we announced UGC Acquisition in August for a consideration of approximately $3.4 billion subject to a potential dollar-for-dollar reduction from any pre-closing dividend by UGC to AIG and subject to potential fluctuations due to the caller structure around our common equivalent preferred component. Financing and integration activities are proceeding smoothly as we push for a year-end closing.

Before I review our financial results, let me update you on our recent financing activities during the third quarter. The first is the issuance of $18 million, 5.25% Series E non-cumulative preference shares in late September, which raised net proceeds of approximately $435 million, which will be used primarily towards funding the UGC acquisition.

Secondly, we negotiated a syndicated bridge loan facility in support of the UGC acquisition of $1.375 billion. The potential use of which has been commensurately reduced for the aforementioned preferred stock issuance.

Thirdly, we began efforts to renew our existing credit facility towards increasing the capacity to $850 million, which includes a $500 million unsecured revolving credit tranche and a $350 million secured letter of credit tranche. The new facility has been signed this week expires in five years and gives us access to additional capital for the UGC acquisition and for general corporate purposes. Please refer to our publicly available SEC filings for more detail.

Okay, with that said, the core combined ratio for this quarter was 86.5% with 1.3 points of current accident year cat-related events net of reinstatement premiums, compared to the 2015 third quarter combined ratio of 89.7%, which reflected 2.3 points of cat-related events.

Losses from 2016 cat events recorded in the third quarter, net of recoverables at reinstatement premiums totaled $10.7 million versus $18.8 million in the third quarter of 2015. These third quarter cat losses stem mostly from within our reinsurance operation and reflect a series of small events around the globe with no single event concentration.

The 2016 third quarter core combined ratio reflects 8.8 points of prior year net favorable developments compared to 7.1 points of prior period favorable development on the same basis in the 2015 third quarter. This results in a core accident quarter combined ratio excluding cat for the third quarter of 94% even as compared to 94.5% accident quarter combined ratio in the third quarter of 2015.

In the insurance segment, the 2016 accident quarter combined ratio excluding cats was 97.9% compared to an accident quarter combined ratio of 95.8% a year ago and 96.3% serially last quarter. This 210-basis point increase between the third quarter of 2016 versus 2015 was driven by a 130 basis points in the loss ratio and 80 basis points in the expense ratio. The loss ratio increase was primarily attributable to certain large attritional losses emanating from our U.S. operations. After adjusting for the incremental difference in large attritional losses, the accident quarter loss ratio this quarter is virtually flat with the prior year's quarter.

The reinsurance segment, 2016 accident quarter combined ratio exclusive of cats was 96.5% compared to 94.6% in the third quarter of last year and versus 98.4% serially last quarter.

The combined ratio reflected the impact of several excess property facultative losses that occurred during the quarter. The mortgage segment 2016, accident quarter combined ratio was 60.7% compared to 82.5% for the third quarter of last year. This decrease is predominantly driven by favorable trends related to claim rates and claim sizes and the continued expense ratio improvement in our U.S. primary MI book due mostly to growth along with beneficial mix changes towards GSE credit risk sharing transactions.

There was however one transaction this quarter in the mortgage segment, which distorts the quarter-over-quarter comparison. Retrocessional coverage was purchased on certain Australian LMI business with loan to values greater than 90% that extended back to the inception of the underlying agreement, which was May of 2015.

As a result, ceded premiums this quarter contained an additional $34 million of catch-up successions, which served to commensurately understate net written premiums for the quarter. Regarding prior period development, the insurance segment accounted for roughly 18% of the total net favorable development in the quarter and this was primarily driven by longer and medium-tailed lines from the 2007 through 2012 accident years partially offset by some accident year 2015 property loss development from our UK operations.

The reinsurance segment accounted for approximately 79% of the total favorable development in the quarter with roughly 45% of that due to net favorable development on short-tailed lines concentrated in 2012 through 2015 underwriting years, and the balance due to net favorable development on longer-tailed lines emanating across most underwriting years prior to 2013.

The mortgage segment contributed out 3% of the total net favorable development, which translates to a 3.2 point beneficial impact to the mortgage segment loss ratio, again resulting from continued lower than expected claim rates. The overall core expense ratio for the quarter was 33.4% compared to the prior year's comparative quarter of 34.2%. This 80-basis point improvement is driven mostly from improved acquisition expense in the reinsurance and mortgage segments with the latter benefit largely being aided by a higher proportion of GSE business receiving insurance accounting treatment, which has lower acquisition expense.

Additionally, corporate expenses included approximately $6.8 million or about $5.5 a share of nonrecurring cost associated with the UGC transaction. These costs reflect investment banker fees, bridge loan facility fees along with related legal accounting rating and SEC fees.

Core cash flow from operations was approximately $421 million in the quarter versus approximately $359 million in the third quarter of 2015, this was primarily due to a lower level of net paid losses this quarter versus last year's quarter.

Core pre-tax investment income in the 2016 as Dinos mentioned was $66.3 million or $0.53 per share versus $67 million or $0.54 per share quarter-over-quarter and sequentially versus $70.4 million or $0.57 per share. The decrease on the sequential basis was primarily due to the effective low interest rates on fixed income securities available in the market and unfavorable inflation adjustments on U.S. TIP securities.

As always, we evaluate investment performance on a total return basis and not nearly by the geography of net investment income as exemplified by the $96 million of core realized gains in the quarter.

That being said, total return was a positive 88 basis points this quarter, which reflects the impact of foreign exchange and a positive 91 basis points on a local currency basis. This return was led by strong equity, non-investment grade fixed income and alternative investment results. Our effective tax rate on pre-tax operating income available to our shareholders for this quarter was an expense of 6.5% compared to an expense of 5.7% in the corresponding quarter 2015, driven by an increased proportion of U.S. based income.

This quarter, 6.5% effective tax rate includes 50 basis points or roughly $800,000 relating to a true-up of the prior two quarters' tax provision to the estimated annual effective tax rate reflected here.

As always, fluctuations in the effective tax rate can resolve from variability in the relative mix of income or loss reported by jurisdiction. Our total capital was $8.24 billion at the end of 2016 third quarter, up 8.5% relative to last quarter, and up 2.6%, when excluding the recent $450 million preferred stock issuance discussed earlier.

Our debt-to-capital ratio this quarter remains low at 10.8% and debt plus hybrids represents 20.2% of our total capital, which continues to give us significant financial flexibility. We continue to estimate having capital in excess of our targeted position. We did not purchase any shares this quarter under our authorized share buyback program, which has remaining authorization of $446 million at quarter's end. Dinos mentioned book value, so I will not.

And with these introductory comments, we are now pleased to take your questions.

Q&A

Operator

Our first question comes from the line of Elyse Greenspan from Wells Fargo. Your line is open.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Hi, good morning. You have just any kind of initial insight into what your potential fourth quarter losses would be from Hurricane Matthew?

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Yeah. Early estimates and is quite early – is that it would be within our cat mode and let me remind everybody our cat mode is about $40 million a quarter. So, what we see on a model base is, we get a number close to the cat or when we see the actual claim reporting activity is much lower, so it's too early for us to narrow that number, but it looks to us like it's within the cat mode.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. And then would that be more of a split insurance versus reinsurance or is that too early to say?

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Right now, it looks it's a 50-50 allocation between the two, by excess and then reshaping the portfolio, we still have an average that somewhat in more stable with the PML could change dramatically. So, the shape of our curve last change as we have gotten away from the high-risk excess area, specifically on the cat reinsurance.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. And then one question, in terms of the UGC finances that you guys disposed with the deal on the accretion double-digits in the first-year and then 35% about or so in 2017, are you guys planning on taking in the intangible amortizations through earnings, so are those accretion figures excluding intangibles?

A - Mark Donald Lyons {BIO 6494178 <GO>}

That reflects, yeah, that reflected an estimate of the mix between goodwill and intangibles at the time, as we work through towards closing and getting much more clarity on what goodwill versus amortizable intangibles that will modify it. In fact, I think, you can see some of that in the prospectus supplement that we had for the preferred offering, you know, some accounting rules around it, but there was more refinance on the intangibles and whenever we go to the markets next and that will have a close up you might see an adjustment there, what matters is what is in the closing and we're working with our auditors to fine tune that.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. Great. And then one last question, we're a couple of weeks away from the Presidential Election, Dino I was just hoping if you could just give some high-level views on potential impact of the election overall just on the insurance industry. Thank you very much.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

I don't know, I guess, it depends on what happens with – who the President is going to be Congress and are they friendly to the business environment or unfriendly you know without knowing that it's – the big issue for the insurance business is going to be on appointment of judges, how the Supreme Court – it will be and it's a slow process, but if we continue in the path over the last eight years, I can tell you that the future is going to be more challenging for the business and we've got to adjust to it, because at the end of the day that's what our words get determined, you know not only in the cases that they get litigated, but also in the cases that they get settled, because the settlement values go up based on the attitude of the courts. So, not knowing what's going to happen hard to predict.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. Thank you very much and good luck with the getting the UGC deal closed.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Kai Pan from Morgan Stanley. Your line is open.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you and good morning.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Good morning, Kai Pan.

Q - Kai Pan {BIO 18669701 <GO>}

First question – good morning. First question on UGC. Now you have like (27:03) two minds after deal announcements, speak with sort of external clients and the banks. And is there any indication term out (27:09) of a potential market share loss, because the concentration issue. How that compare with your initial thought? And any other – any offsetting factor internally on the expense saving side, you can offset some of those?

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Well, let me answer the first one. I'll get Marc Grandisson to get on the second part of your question. But on the first one, first and foremost, you've got to understand that we're running independent of each other. We're still two independent companies, we want to come together after closing. So, our discussions with the market and the clients is separate from the UGC discussions with the market and the client.

No indications yet, that there is any discomfort, you know about what they do with us or they do with that. Once we close and we become one company will revisit that issue, but nothing so far that indicates any significant overlap that it might be problematic.

A - Marc Grandisson {BIO 4369887 <GO>}

Actually, yeah this is Marc now. Actually, part of the due diligence sort of highlight to us that, there's not as much overlap as we might think. But again, the proof is going to be in the pudding after we close the books and we go represent to some of those that are – that have that we may have overlap on, it's too early to tell right now.

In terms of the expense savings or working through the operations, we have teams that are dedicating – working very, very diligently to try to assess and first and foremost try to understand what both sides have in terms of system and operations and structure, to see how we can make something that would be unique and cohesive as we go forward after the closing. We're making good progress in that direction.

At that point in time, we're not so focused on to address your questions specifically on the expense savings or whatnot, if they are there, we are as we said in August, not doing that transaction for that reason. First and foremost, we think there will be some we don't know how much it's going to be. Our team are also going through that process. And the savings might come not necessarily on a linear basis and then we'll have to integrate and get things together. So, it's very hard for us to tell you anything more than this at this point in time.

A - Mark Donald Lyons {BIO 6494178 <GO>}

And Kai, it's Mark Lyons. Let me just add that when we are doing our economic analysis of this deal and when and we communicated on our call in August, about this transaction. We actually anticipate some fall off of the market share. So, to the extent that there is some marginal fall off, it wouldn't surprise us and the facts when contemplated.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Mark any estimates, sort of like additional interest expenses for the fourth quarter?

A - Mark Donald Lyons {BIO 6494178 <GO>}

Well, I think you can, what you call interest expense on that, you can take your 5% in the quarter times the $450 million and add that in. As far as we're really not in the position yet to discuss the timing or extent of any additional offering. But we are striving towards closing at year-end. So, there's two months to accomplish quite a bit.

Q - Kai Pan {BIO 18669701 <GO>}

That's good. And then my second question is really on the core loss ratio, the deterioration year-over-year. You know, expanding that with some higher level of attrition losses in both insurance and reinsurance segments. I just wonder, did you consider this year's large attrition losses sort of normal and or just higher than like sort of exceptionally, sort of good results from last year?

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Well, no. On the insurance growth, it was surety loans that we have accounted for it to its full extent. Surety it's a line of business by nature. Occasionally, it will give you that volatility. One quarter you have a big loss then two, three quarters no losses. So, I don't, you know we look at the book and the composition of the book and the long-term performance in making you know judgments as to how healthy or unhealthy that book is. So, one quarter event doesn't really give you a trend so to speak.

On similar case with the reinsurance. This is you know, excessive loss of property backed (31:45) – transactions and you know occasionally that's where you're in business. You will – you take in the volatility from your clients, so when it happens you know it comes to your books. But that particular unit has been a big, big money maker for us and it continues to be, so I don't attribute that as a trend.

A - Marc Grandisson {BIO 4369887 <GO>}

In fact, we've looked at the last – the trailing 12 months' accident combined ratio adjusted for all these large losses and it's actually very, very stable, which is what we care for like – to Dinos's point one quarter does not make a trend and where we are right now, we're very comfortable and very happy with the stability actually of the accident year combined ratio.

A - Mark Donald Lyons {BIO 6494178 <GO>}

Kai, just one more thing to add as to Dinos has noted about the reinsurance side that facultative group has been enormously profitable by its nature short tailed excess position, it's going to be volatile any given quarter could be volatile. And our view there was roughly 2.5 a little more of long-term loss ratio points that may have been excess of what you normally would see which translates, if you go back and do the arithmetic, it pushes you to about a 60 basis points or a 59.9 basis points on the adjustment for the loss ratio for the reinsurance group in totality, versus 59 the prior year, so that's 90 basis point movement.

Q - Kai Pan {BIO 18669701 <GO>}

Great. Well, thank you so much for the answers.

A - Mark Donald Lyons {BIO 6494178 <GO>}

Welcome.

Operator

Thank you. Our next question comes from the line of Quentin McMillan from KBW. Your line is open.

Q - Quentin McMillan {BIO 19411547 <GO>}

Hi. Good morning, guys. Thanks very much. I just wanted to touch on the UGC acquisition, you have a footnote in here that it's dependent on closing the execution of an excess of loss agreement between AIG and UGC. I just wanted to ask if you guys have any clarity at this point on that reinsurance transaction, sort of maybe what it will be protecting you guys against in the future, this is not the Bellemeade Re I or Bellemeade Re II, I'm talking about the third excess of loss agreement what it's going to protect in the future and maybe if you've gotten that in place at this point?

A - Mark Donald Lyons {BIO 6494178 <GO>}

A couple of layers there. First layer of answer is that between AIG and Arch, we have agreed on terms and conditions of it, it is not yet signed because we need approval of the GSE's that's a requirement and that's part of our discussion with them now. So, that's the first point. So, I would say significant progress on that aspect.

Secondly, it's an aggregate excess of loss that there's a couple of layers involved, but it's effectively 2009 through year end of 2016 coverages, that's an out of the money cover that in the aggregate provides quite a bit of capital relief from the viewpoint of S&P.

Q - Quentin McMillan {BIO 19411547 <GO>}

And who is going to bear the original cost for that, is that going to be paid for by Arch, by AIG or a combination?

A - Mark Donald Lyons {BIO 6494178 <GO>}

It's effectively paid by UGC at closing, so it's an applied book value reduction for the ceded premium.

Q - Quentin McMillan {BIO 19411547 <GO>}

Okay, great. And then can you help us in terms of the investment yield of the portfolio when UGC is added in maybe what is sort of the current yield and or duration of the UGC portfolio and how much uplift might that have on the overall Arch portfolio and will you be using the extended duration of the UGC premiums to extend your own duration or change anything in the overall investment portfolio going forward maybe starting in Q1 2017?

A - Mark Donald Lyons {BIO 6494178 <GO>}

Let me start and ask Dinos to say a few words too. First off, once the closing occurs the management of that will transfer of course to AIM which is our internal Arch Investment Management. The coupons on that book is higher it's about 3.3%, I think maybe 3.5% is the average coupon, it's a lot of credit book in there, which could be reshaped. So, I think some of that is timing, I would expect it to conform more towards Arch's approach of total return and not just getting lost on the sauce of coupon income, so that will morph over time probably throughout the course of 2017.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Yeah, it will probably take at least two or three quarters for our investment professionals to make whatever changes we feel that are appropriate, but at the end of the day, it's going to be - it's going to look more like the Arch duration and credit quality than what exist today.

Q - Quentin McMillan {BIO 19411547 <GO>}

Okay. And just a quick follow-up, the coupon in the UGC book it said it's about 3.3% average, what is the Arch current kind of average coupon?

A - Mark Donald Lyons {BIO 6494178 <GO>}

Closer to 2%.

Q - Quentin McMillan {BIO 19411547 <GO>}

Okay. Thank you so much guys.

Operator

Thank you. Our next question comes from the line of Michael Nannizzi from Goldman Sachs. Your line is open.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thanks so much. Just a couple of quick ones, Mark maybe on the investment portfolio just the yield or the investment income sort of ticked down sequentially, looks like there was some seasonality last year sort of consistent with that, is there anything that we should think about that's not sort of run rate from third quarter maybe some mortgage-backed security payouts or something on along those lines that would cause it not to be consistent.

A - Mark Donald Lyons {BIO 6494178 <GO>}

Every quarter, there is - it's always a new story. So I wouldn't look at in a trend sense. Back to my total return comments, I mean clearly our investment group harvested some gains hence the approximate of $100 million of realized gains, I noted, so again based upon our total return approach, so you get those gains and you put some of that back in to the extent to which it's put back into fixed income, you've got to deal with new money rates there.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. Okay. So, you've got some harvesting there. Okay, that helps. Thanks. And then, how should we be thinking about the tax rate, it looks like, so guessing the MI impact has caused to lift here over the last few quarters, how should we be thinking about that longer-term once you integrate UGC?

A - Mark Donald Lyons {BIO 6494178 <GO>}

Okay. Good question. First, a slight correction to what you said, mortgage was contributory to that, but remember our mortgage segment is very broad and some of that is that is out of Bermuda and other jurisdictions.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay I get that (38:34).

A - Mark Donald Lyons {BIO 6494178 <GO>}

And the U.S. MI operation clearly was contributing positive underwriting gain at this point, so they were contributory, but let's not overlook, the facultative unit we talked about on the property side, the insurance group and the onshore reinsurance group all were profitable and contributing income. So, it's really the composite of those, Michael, that actually inched up the effective tax rate.

The second part of your question with UGC, we talked about it on our call about UGC, we plan on having a subject to approval course with GSEs, a core share facility in place, so only - roughly half of those exposures and gains will be resident in the U.S. jurisdictions, so it's going to have an uplift, but probably not the slope of uplift that you might be contemplating.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. How would tell what I was contemplating you - did you look inside my -

A - Mark Donald Lyons {BIO 6494178 <GO>}

I reverse engineered the first part of your question.

Q - Michael Nannizzi {BIO 15198493 <GO>}

I thought that, that felt invasive.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

It was the tone of your voice.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Ah, yes. Thanks. Thanks, and then last really a quick one the Australia quota share, can you talk about, sort of just how you're thinking about like that on the forward, is that sort of notionally the right amount, that we should be covering in, I'd just love to get a little bit more color on the thought process there, is that possible?

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Yeah. The thought process is more important than the actual specific transactions when - with everything we do we have an overlay of the risk management. We look at our capital, we need - how much risk is prudent for us to carry. And at the end of the day, we look for ways to manage that and reinsurance is one way to do it. So, we'll look at it from a global perspective, how much MI business we have, how much we will retain - net to our books and then the rest of it we reinsure out. And that's the attitude with everything that we do, it's not only on the MI side, it's also on the P&C side both reinsurance and insurance.

And as we said in prior calls going forward as per the acquisition is completed with United Guaranty, we'll be looking at the MI book including the U.S. book and buying the appropriate aggregate protection to make sure that we have from a risk management point of view, the profit parameters.

We always think about PML, we think about PMLs also not on the PMC side only, but also on the mortgage side and that will drive a lot of our decisions doing a Bellemeade III, doing an aggregate excess of loss for different years.

As Mark told you the transaction we have with AIG will have in 2016 and prior 2009 to 2016. So, all those years are taken care of, so to speak. And then for us is what we do for 2017, 2018, 2019 as we go forward. But that's the philosophy and is no different than what - how we run the group for the last 15 years. Measure approach to pricing properly and then also making sure we don't take too much of the meal independent how profitable that meal is.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Right before lunchtime comment, I think that's totally fair.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

As you can tell from my voice I'm a little bit under the weather. So, the meal for today is Avgolemono, which in Greek means egg-lemon soup. That's the only thing that cures common cold.

Q - Michael Nannizzi {BIO 15198493 <GO>}

I won't try to pronounce that. Thank you so much.

Operator

Thank you. Our next question comes from the line of Sarah DeWitt from JPMorgan. Your line is open.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Hi, good morning.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Hi, Sarah.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Wanted to get your latest outlook for mortgage insurance market conditions. One area of concern I hear sometimes that were late in the credit and economic cycles. So, how much longer do you think mortgage insurance returns will be good for?

A - Constantine P. Iordanou {BIO 2397727 <GO>}

We don't see anything that clouds the horizon. I think it's pretty clear, all the indications is that it's a stable market, pricing has been stable, the environment is good. We're projecting housing prices to be going up somewhere between 3% and 5% next year.

Yes, there is certain states especially the energy states that there might be some issues but that's what risk is all about. We look at an adjusting pricing on the basis of what the risk components are. But long-term, we view the market to be very healthy and there's no indication for us that it's going to change in the next few years.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Okay great. And then additionally, do you expect any FHA rate cut before the election and what would be the implications of that for you?

A - Constantine P. Iordanou {BIO 2397727 <GO>}

I have no idea what the FHA will do. And I don't like to guess. At the end of the day, a lot will depend on the actuarial work that is going to be done to see what their capital requirements, if they're meeting the minimum standard. That report usually comes out in mid-November and so for so on. But we don't anticipate it before the election, but you never know after the election.

Once they take an action then we can gauge what that might mean. But without them doing something is very hard to predict.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Okay, great. Thank you.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

You're welcome.

Operator

Thank you. Our next question comes from the line of Charles Sebaski from BMO Capital Markets. Your line is open.

Q - Charles Joseph Sebaski {BIO 17349221 <GO>}

Hello. Thank you. First is on, there's a report recently regarding the GSE and some of the risk sharing and regarding some bondholders that are raising issue regarding credit quality from the reinsurance and the GSEs offloading that. If any thoughts or you had any conversations with the GSE, is there any real legitimacy to the amount of risk transfer change going on, appreciate your thoughts.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

We don't basically the GSEs – they're interested in having two avenues, the cash market and also the reinsurance market. Their allocation has been pretty constant so to speak about 25% to 35% depending on the quarter to the reinsurance market. And then the rest of it 65% to 75% in the cash market and they're being consistent with that approach.

Now, I don't believe they have any concerns about the creditworthiness of the reinsurers. Because at the end of the day, they make the selection as to whom they're going to allocate these transactions to. So, as a matter of fact for the GSEs is terrific by looking at the credit quality of the reinsurance and allocate what portion of the deal they want to allocate to any particular individual.

Q - Charles Joseph Sebaski {BIO 17349221 <GO>}

All right. Then, I guess on the insurance business on the low vol, you guys had pretty nice growth and some of the travel and accident and some of the other products and it seems to be marketplaces that there's lots of interest in the low vol business today. Just curious if you've seen any additional increase in competition and whether or not your growth is coming from some new programs coming out or just kind of grind in and out, doing good work with the existing business and any color on it?

A - Constantine P. Iordanou {BIO 2397727 <GO>}

These are product lines and don't forget, when we build Arch we got into product lines that nobody wanted to do back in 2002, 2003, 2004, because some of them – they can be slow growth unless you make a major purchase. These things – it requires patience and perseverance to make them meaningful over time.

Yes, depending on the cycle, there is more competition or less competition, but more importantly with these kind of products, you have to have a long-term view and a long-term commitment, and it will take time to build volume. It doesn't fit with the thesis of instant creditification, you know you don't get that with these kinds of product. So, we're being very patient and we have grown some businesses from nothing to a reasonable size, I mean our lenders business grew over the years from some $20 million to over $100 million in premium. And we try to find these little nuggets that we work all the time to give us more control of our portfolio.

And as Marc Grandisson said, and I'll turn it over to you for his comments. That low volatility business is what we like to build most of our insurance group, not abandoning the other segments, because the other segments – even though they are volatile in certain market conditions, you can make a lot of money. If the market is very hot, we'll write a lot of the coverage that we're not willing to do today, it's not bad business, it's just bad prices business. When the price improves, it's a good business.

A - Marc Grandisson {BIO 4369887 <GO>}

On travel side, I think I would echo what Dinos just said obviously, but in addition we have a couple of new transactions that we've entered into programs and have been very, very nice now going so far. But we also are investing and it's also a very intense technology play and we are always on the look to build that aspect to the book of business, because to your point it's low volatility, it's also – it derives sticky, a lot stickier than other business could be. So, we are definitely focusing evermore and this I think is the reflection of the premium and our efforts – this is sort of the reflection of our efforts in this space and I think you should expect more in the future.

Q - Charles Joseph Sebaski {BIO 17349221 <GO>}

Okay. Thanks a lot for your answer guys.

A - Marc Grandisson {BIO 4369887 <GO>}

Sure.

Operator

Thank you. The next question comes from the line of Ryan Byrnes from Janney. Your line is open.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Great, thanks for taking the question. Just to add one question, I guess post-UGC deal, does your PML tolerance change at all essentially are you still willing to risk 25% of the total capital or is that just of the property capital. Sorry, property, casualty, capital going forward -

A - Constantine P. Iordanou {BIO 2397727 <GO>}

No, no its total capital, it hasn't changed.

A - Mark Donald Lyons {BIO 6494178 <GO>}

No change. There's no change, really.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Yes.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Great, that's all I had, thanks.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Thank you.

A - Mark Donald Lyons {BIO 6494178 <GO>}

Thanks.

Operator

Thank you. Our next question comes from the line of Brian Meredith from UBS. Your line is open.

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah, thanks. A couple of quick questions here for you. First one, I'm just curious there was a big transaction that was announced another MI company, what do you think the possibilities are kind of market share shifts as a result of that, so could that be a positive for you all?

A - Constantine P. Iordanou {BIO 2397727 <GO>}

I don't know the – you're talking about a transaction with a Chinese ownership. So, I think that's an appropriate question to us to the distributors of the product. I mean this is for banks to determine if they want to continue to do business or not, but not for us so I would know, I have no, I have the faintest idea if their reaction will be positive or negative.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay. Great. And then this is my second question, in the news there has been a couple of articles that you guys hired some pretty high profile people in the legacy business, you guys talked to me about your views on the legacy business and opportunities?

A - Marc Grandisson {BIO 4369887 <GO>}

I think that we have a certainly one individual that joined us and that was obviously publicly discussed. We are exploring at this point we're really looking around and try to see whether there's something to be done there, whether it's Arch or not I mean we have all the things on the table. We're exploring what is out there, but certainly we did an LPT last quarter as you remember. We do think that space has that lends itself to a level of heightened interest at this point in time.

I think we're certainly in the place where rates have been going down in certain sectors and some clients may have, may be running out of patience and tolerance for some books of business and certainly we are always, Dinos and I always looking forward to provide services and products to the marketplace that would help the industry and that's certainly one area. But we're still working through it and when we have something we'll obviously let you know.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

We'll announce the details - but listen the theme here is every time you come out of a soft market I know surely we'll come out of a soft market there is repair work that needs to be done and we want to participate in the repair.

Q - Brian Meredith {BIO 3108204 <GO>}

Makes sense. And then just lastly I know you talked a fair amount about the retro you bought on the Australian book. I know you guys have great analytics stuff was there anything behind it that you looked at the housing prices in Australia and there's a lot of talk about people think they're kind of really peaking out here. Any concerns there?

A - Constantine P. Iordanou {BIO 2397727 <GO>}

No concern whatsoever. This is more from an aggregation point of view how much you want to have from an overall MI book of business because there are the reinsurance that they participate on the deal they've got pretty good return characteristics, we're going to make some good money on it. At the end of the day either you'll add a lot of capital to new balance sheet and you may have maybe a little over commitment to one line of business versus others or you try to keep the balance and this was more balancing from our perspective.

Q - Brian Meredith {BIO 3108204 <GO>}

Great, thanks Dinos, feel better.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

I'm going to try.

Operator

Thank you. Our next question comes from the line of Josh Shanker from Deutsche. Your line is open.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Yup it's almost not the morning anymore so I'll try and be quick.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

All right, Josh.

Q - Josh D. Shanker {BIO 5292022 <GO>}

You mentioned that UK pricing down 5%. I assume those (54:41) those, UK lot of specialty markets is that experience leading the market down or is that lagging the market? And do we need to be worried about another sort of step downward in pricing for the market in general, most of your competitors have not been so grim about pricing conditions?

A - Marc Grandisson {BIO 4369887 <GO>}

The UK market is extremely competitive and has been for a long time especially the traditional Lloyds placement and international business and open brokerage. So that's going on, that's been going on for a little while so it's not new Josh, but in terms of leading where it's going to go unfortunately we, I'm afraid that we'll have to experience further rate decreases going forward. I think there's a lot of competition ahead in the London market and the UK market more broadly. So, but again things may change and some of that happen, it may change things overnight. But there's certainly is a lot of competition out there, we don't see anything ebbing at this point of time.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

If you don't measure correctly, you can't make good pricing judgments going forward and we rather say what we see and you guys make the judgments if others are not willing to talk about it.

A - Mark Donald Lyons {BIO 6494178 <GO>}

Josh, I would add and it's probably valuable information. By their own accounts Lloyds has about a 3% on the current underwriting here about a 3% to 4% return expectation return on capacity, so that tells you something about the absolute rate level.

Q - Josh D. Shanker {BIO 5292022 <GO>}

If we put on our (56:18) hat, how hard is it to keep the team together on the soft market and how do you keep everybody content when you can't make money in the business?

A - Marc Grandisson {BIO 4369887 <GO>}

I think the shifting in our book of business I mean people are working extremely hard to transform or to just gradually over the cycle as we try to do, as we've been working on for the last 10 years to shift towards low volume - controllable business, it takes a lot of work and lot of effort. So, I would just say that it's just a shifting and realigning our expertise and assets for our people towards different lines of business. Things are transportable across lines of business not like an excess D&O, you can only do excess D&O and there's a lot of stuff that that person can - enhance the culture and the understanding as to how we recycle management. So, we try and very hard to keep those people, and keep them busy doing other things.

A - Mark Donald Lyons {BIO 6494178 <GO>}

It's only reinsurance and on the reinsurance, across the P&C units.

Q - Josh D. Shanker {BIO 5292022 <GO>}

And there's still a lot of deferred comp they have to earn that they would lose if they left, I would imagine.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Yeah, there is a big component of that. But that's – only that. At the end of the day they know over their career with us. They're going to have good years and they're going to have some not so good years. But overall, if they produce for our shareholders, they're going to make very good money. And for those who have been and we have a pretty stable management, they have done extremely well.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Good luck in hard times.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Thank you.

A - Mark Donald Lyons {BIO 6494178 <GO>}

Thank you.

Operator

Thank you. Our next question comes from line of Jay Cohen from BankAmerica Merrill Lynch. Your line I open.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Let's be quick, my questions are answered, thanks for the call.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Thanks, Jay.

A - Mark Donald Lyons {BIO 6494178 <GO>}

Okay.

A - Marc Grandisson {BIO 4369887 <GO>}

Thank you.

Operator

Thank you. Our next question comes from the line of Ian Gutterman from Balyasny. Your line is open.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

The menu is avgolemono, Ian.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

I heard my question was taken, I had to think something else to ask you. Does it usually help with colds, or no?

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Yeah, I mean it's Greek penicillin, you do egg-lemon soup with Greek toast in it.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Yeah. So I actually wanted to follow-up on Ryan's question about the PML limits and obviously, you're so far away, it's not really an issue, but if the market did get better, I guess I am surprised you would say 25% of the whole balance sheet, because that essentially would suggest you're using 25% of PML's capital to write cat, if you ever got to that point.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

You're talking about our PMLs in the MI business, or the PMLs on the property cat business?

Q - Ian J. Gutterman {BIO 18249218 <GO>}

On the property cat...

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Well of course.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

On the property cat when you answered, Ryan.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Well on property cat – oh, property cat is it?

Q - Ian J. Gutterman {BIO 18249218 <GO>}

That the limit is still 25% for everything.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Well, no. The 25%, is what our board allows us to risk, assuming we like the pricing and the risk reward relationships, right. The fact that we're at 7.4% today is an underwriting judgment the management team is making, it's not a restriction by book. But if -

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Sure.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

But if rates quadruple tomorrow, I can go to 50% of capital exposure on PML without going back to my board and saying, hey that 25 is too low and you've got to change it, and if we change it, we're going to come and tell you, because I think shareholders need to know what kind of exposure you take.

You know, don't forget, and I don't know what other MI companies do, but we do PML calculations on the MI business also. You know, and it's a requirement, by our risk committee of the board, you know that every quarter we'll talk about you know how much is our PML you know, on our MI business, and that's the reason we had all these discussions about, you know how much reinsurance both you know quota share or aggregate excess of loss or transactions like Bellemeade I, Bellemeade II, or similar type of transactions we might do in the future.

You know so all of that is around understanding that we have one simple principle that drives our risk management philosophy, that independent of what event happens. We have to not injure the balance sheet to the point that we not in a very strong competitive position the day after.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Exactly, that's what I was trying to get at. Because I guess when I heard 25% of everything as a limit I guess I thought that that's essentially the P&C capital will be - whatever that would be 35% or 40% or something like that. So, see what I was getting at?

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Not quite.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Okay.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

I mean it's - 25%

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Go ahead - I can.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

If 25% of equity capital is a limit, it's a pretty safe limit. You know for adverse conditions. You're talking about in one in a 250 type of events. So, the PML calculations that we do for our MI business, it's somewhat even worse than the recent financial crisis we have passed. We have gone back all the way to the depression era. And factor in a lot of available - and skimpy available statistical information to come up with some reasonable assumptions as to what how things might look like if we have events of that nature and we still want this company not only to survive but to be in a strong competitive position the day after.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Fair enough. So, the other thing I was going to ask you I think you mentioned some surety losses are party attritional, can you just remind me sort of how you approach that business is it sort of a vanilla construction bonds or is it tend to be some commercial surety or?

A - Constantine P. Iordanou {BIO 2397727 <GO>}

It was a construction bond, it was a construction - it's a surety. One of our contractors messed up and we have to step in and you saw a lot of prices, some steady and level (01:03:02) in Connecticut, you know.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Got it, got it and is it residential or commercial?

A - Constantine P. Iordanou {BIO 2397727 <GO>}

It's commercial, commercial surety.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Okay so.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

It's building of the baseball stadium.

A - Mark Donald Lyons {BIO 6494178 <GO>}

It's contract surety but a commercial surety.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Commercial is good.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Okay. Where I was going with this, how do you think about clash with MI, I know there's not direct clash, but -

A - Constantine P. Iordanou {BIO 2397727 <GO>}

No, it was -

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Something there that'll...

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Surety and MI, there's no clash there, because these are all...

Q - Ian J. Gutterman {BIO 18249218 <GO>}

What about a bad credit cycle right?

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Yeah.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

If you had a bad credit cycle construction.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

I think it works between the investment portfolio and that.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Fair.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

And that's why -

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Fair. Okay.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

We don't do – our MBSs will clash with what -?

A - Marc Grandisson {BIO 4369887 <GO>}

MI.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Okay, yeah. And we consider that, in part of our mix how we manage the company.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Got it, got it. All right, I think that's all I had. Thanks.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Thank you.

A - Mark Donald Lyons {BIO 6494178 <GO>}

Thank you.

Operator

Thank you. Ladies and gentlemen, this now concludes our question-and-answer session. I'd like to turn the call back over to management for closing remarks.

A - Constantine P. Iordanou {BIO 2397727 <GO>}

Well, thank you for listening to us and we're looking forward to talking to you next quarter. Have a wonderful afternoon.

Operator

Ladies and gentlemen, thank you again for your participation in today's conference call. This now concludes the program and you may all now disconnect at this time. Everyone have a great day.