Q1 2016 Earnings Call

Company Participants

- Albert A. Benchimol
- Joseph C. Henry
- Linda Ventresca

Other Participants

- Brian Robert Meredith
- Charles Joseph Sebaski
- Jay Cohen
- Kai Pan
- Meyer Shields
- Michael Nannizzi
- Ryan Byrnes
- Vinay Misquith

MANAGEMENT DISCUSSION SECTION

Operator

Hello and welcome to the Q1 2016 AXIS Capital Earnings Conference Call and Webcast. All participants will be in listen-only mode. I would now like to turn the conference over to Ms. Linda Ventresca, Executive Vice President. Please go ahead.

Linda Ventresca {BIO 5930519 <GO>}

Thank you, Keith, and good morning ladies and gentlemen. I'm happy to welcome you to our conference call to discuss the financial results for AXIS Capital for the first quarter ended March 31st, 2016. Our earnings press release and financial supplement were issued yesterday evening after the market closed. If you would like copies, please visit the Investor Information section of our website, www.axiscapital.com.

We set aside one hour for today's call, which is also available as an audio webcast through the Investor Information section of our website. A replay of the teleconference will be available by dialing 877-344-7529 in the United States and the international number 412-317-0088. The conference code for both replay dial-in numbers is 10083257.

With me on today's call are Albert Benchimol, our President and CEO; and Joe Henry, our CFO. Before I turn the call over to Albert, I will remind everyone that the statements made during this call, including the question-and-answer session which are not historical facts, maybe forward-looking statements within the meaning of the U.S. Federal Securities Laws.

Forward-looking statements contained in this presentation include, but are not limited to information regarding our estimate of losses related to catastrophes, policies and other loss events, general economic capital and credit market conditions, future growth prospects; financial results and capital management initiatives; evaluation of losses and loss reserves; investment strategies; investment portfolio and market performance; impact to the marketplace with respect to changes in pricing model; and our expectations regarding pricing and other market conditions.

These are important factors that could cause actual results, level of activity, performance or achievements to differ materially from the results. Level of activity, performance or achievements expressed or implied by the forward-looking statements as are further described in the risk factors set forth in AXIS' most recent report on Form 10-K and our other documents on file with the SEC. We undertake no obligation to update or revise publicly any forward-looking statements whether as a result of new information, future events or otherwise.

In addition, this presentation contains information regarding operating income, our consolidated underwriting income and adjusted group and segment results, which are non-GAAP financial measures within the meaning of the U.S. Federal Securities Laws. For a reconciliation of these items to the most directly comparable GAAP financial measures, please refer to our press release and financial supplement which can be found on our website.

With that, I'd like to turn the call over to Albert.

Albert A. Benchimol {BIO 2023727 <GO>}

Thank you, Linda, and good morning, ladies and gentlemen, and thank you for joining our call. We're pleased to report growth in diluted book value per share adjusted for dividends of 4% for the quarter and 10% for the last 12 months.

In the quarter, we were able to generate operating income of $101 million notwithstanding negative performance of our hedge fund portfolio. Importantly, our underwriting operations generated strong combined ratio of 91.9%. The strategic and tactical actions we have implemented are positively impacting our overall results, notwithstanding a competitive marketplace.

We continue to improve our overall portfolio, pursuing more attractive and lower volatility business while, at the same time, shutting business where we do not feel we're getting adequately compensated for risk or volatility. This was particularly evident in our reinsurance segment where we are reaping the benefits of our increased investments in customer-centric business initiatives.

Our brand continues to improve, and we are seeing more opportunities than we have in a long time. Not all business presented to us meets our requirements, but there are still reasonable deals to be had even in this market. Our growth primarily emanated from our accident and health and our reinsurance lines.

Multiyear premiums and timing differences in our reinsurance segment contributed significantly to increase in gross premiums. Excluding these, we still grew our reinsurance segment with discrete new business opportunities accretive to our portfolio which more than offset business we not renewed.

I'll discuss market conditions in more detail following Joe's remarks. Joe?

Joseph C. Henry {BIO 13390626 <GO>}

Thank you, Albert, and good morning, everyone. During the quarter, we generated good results which included operating income of $101 million and an annualized operating ROE of 7.7%. Our net income for the quarter was $38 million.

We also reported strong growth in diluted book value per common share which grew to $56.04, an increase of 4% compared to last quarter and an 8% increase over the last 12 months. Adjusting for common dividends declared, the increase in book value per share was 10% over the last 12 months.

Our results this quarter benefited from an increase in favorable prior year reserve development, a low level of catastrophe and weather-related losses, a decrease in our ex-cat and weather, current accident year loss ratio and lower general and administrative expenses. These positive factors were partially offset by a decrease in our net investment income which was impacted by significant volatility in the equity markets during the quarter which resulted in the poor performance of certain of our hedge fund investments in our other investments portfolio.

In addition, we also recorded a reduction in other insurance-related income which primarily reflects the results of our weather and commodities derivative business. The strong growth in our book value per share was driven by an increase in unrealized gains on our available for sale investment portfolio which reflected the downward shift in sovereign yield curves, the tightening of credit spreads, and the strengthening of certain foreign currencies against the U.S. dollar.

Moving into the details of our income statement. Our total first quarter gross premiums written increased 17% or 20% after adjusting for foreign exchange movements, with growth reported by both of our reporting segments. For the first quarter of 2016, our reinsurance segment top line was up $230 million or 21% compared to the same period in 2015. Treaties written on a multi-year basis had a significant impact on our written premiums with close to $90 million of the increase related to the quarter-over-quarter variance in premiums related to future underwriting years.

We reported a net increase in new business of approximately $80 million which was primarily driven by certain large quota share treaties and reflects our focus on building long-term relationships with our customers. The new business primarily impacted our marine liability and motor lines of business. This customer-centric approach also resulted in growth in renewal premiums of approximately $65 million which included taking larger shares of certain treaties that we believe will provide more attractive returns primarily in our motor line business.

Timing differences of approximately $45 million also had a favorable impact on our premium growth this quarter primarily in the liability and professional lines.

These increases were partially offset by the impact of foreign exchange movements of approximately $50 million as the strength of the U.S. dollar drove comparative premium decreases in treaties denominated in foreign currencies.

Our insurance segment reported an increase in gross premiums written of $51 million or 8% in Q1 2016 compared to the same period of - in 2015. Increased premiums written were reported in our accident and health and property lines, which reported strong new business growth, and aviation lines, which were primarily impacted by timing differences. 1/1 is the predominant renewal period for A&H reinsurance quota share business.

These increases were partially offset by a decrease in the marine lines driven by lower rates and timing differences. In addition, certain strategic actions we took during the third quarter of 2015, which were aimed at exiting certain lines of business, resulted in a comparative reduction in premiums written primarily relating to our Australian professional lines business.

Our group net premiums written were up 16%, 20% adjusted for FX, in the quarter compared to Q1 2015 and primarily reflect the growth in the level of gross premiums written, which was slightly offset by an increase in our ceded premium ratio driven by the reinsurance segments, increased sessions in the property and catastrophe lines.

Our net premiums earned were flat in Q1 2015 or up 3% on a constant currency basis compared to the same period last year. An increase in the reinsurance segment driven by increased business in the marine and other liability lines in recent periods were partially offset by increased reinsurance retrocessions in the property and catastrophe lines.

Our insurance segment reported a decrease in net earned premiums, primarily driven by a reduction in the professional lines due to an increase in ceded premiums and the marine lines which were largely offset by an increase in business written in the accident health lines in recent periods.

Our first quarter consolidated current accident year loss ratio increased slightly by two-tenths of a point to 63.1% compared to the same period of last year. During the quarter, we reported $14 million in losses related to weather events which compared to $8 million of such losses reported in the same period of last year. Our ex-cat and weather current year loss ratio decreased by 0.5 points to 61.5% with a decrease in the Insurance segment partially offset by an increase in the reinsurance segment.

The insurance segment current accident year loss ratio ex-cat and weather was lower by 2.8 points at 60.7% compared to the same period in 2015 due to a decrease in midsized loss experienced in the marine and property lines, which was partially offset by the impact of rate decreases and loss trends.

Our reinsurance segment current accident year loss ratio ex-cat and weather increased by 1.7 points to 62.1% compared to Q1 2015 primarily due to changes in the business mix, reflecting a shift in our book towards longer tail lines and the impact of rate and loss trends.

Turning to loss reserves established in prior years, our results continue to benefit from net favorable loss development which aggregated $70 million during the first quarter. Short tail lines in both segments contributed $48 million of this balance, primarily reflecting better-than-expected loss emergence.

Favorable prior year loss development of $16 million was also reported in our motor reinsurance lines where we continue to see lower-than-expected loss development across most prior years. In addition, we continue to give weight to actuarial methods that reflect our favorable experience for liability and professional reinsurance business which contributed a further $8 million to favorable loss development during quarter.

During the first quarter of 2016, our acquisition cost ratio increased by 1% compared to the same period of 2015, driven by increases in the reinsurance segment. Our reinsurance segment acquisition cost ratio was 25.7%. However, after adjusting for the impact of commissions paid due to favorable prior-year loss development reported in the quarter, the ratio would be 23%.

It is important to understand trends in our results when it comes to the treatment of prior-year business that includes adjustable sliding scale commissions based upon loss experience. In the periods that this loss experience is favorable, our results will show an increase in favorable prior-year development, and this will also have an impact on increasing the current-year acquisition cost ratio. This primarily relates to our European credit and bond and motor business.

The insurance segment acquisition ratio decreased this quarter by 0.4% compared to prior year's first quarter, driven by higher ceding commissions received following the expansion of our reinsurance protection programs which was partially offset by the higher commission costs in certain lines of business.

Our expense ratio in Q1 2016 was 16.6% versus 18% a year ago. The key drivers of the decrease included lower personnel expenses due to a reduced head count, as well as certain non-recurring cost we incurred in Q1 2015, including PartnerRe merger-related expenses, as well as certain lease cancellation costs.

Overall, the company reported underwriting income of $99 million and a combined ratio of 91.9% for the first quarter. Net investment income was $49 million for the quarter, a decrease of $30 million from the previous quarter and a decrease of $43 million from the first quarter of 2015. The variances were probably due – were primarily due to the lower contribution to net investment income from our hedge funds with the poor performance of two hedge funds in particular accounting for the majority of the decrease.

In aggregate, the total return on our cash and investment portfolio for the quarter was 1.3% including and excluding the impact of foreign exchange. The total return in the current quarter was favorably impacted by the improvement in pricing of our fixed maturities primarily as a result of the decline in sovereign yields.

As previously discussed with you, during August 2015 we entered into an Accelerated Share Repurchase agreement, an ASR, to repurchase an aggregate of $300 million of ordinary shares. We initially repurchased $4.1 million of our shares under this agreement. This ASR agreement was formally terminated on January 15, 2016, with $1.4 million of additional common shares delivered to the company, which are now fully reflected in our earnings per share calculation.

Following the expiry of the ASR agreement, we have reinitiated our share repurchase program and repurchased an additional $136 million worth of common shares comprised of $125 million purchased pursuant to our board authorized share repurchase program and $11 million related to shares purchased in connection with the vesting of restricted stock awards.

We expect to maintain our goal of returning at least 100% of our annual operating earnings to our shareholders in the form of common dividends and share repurchases, provided the market and financial conditions remain the same and we do not identify any attractive investment or growth opportunities. At April 26, 2016, the remaining board authorization under the repurchase program approved by our board of directors was $625 million.

We continue to make strong progress on the strategic goals and expansion opportunities we have discussed with you in prior quarters. The strategic actions initiated during the third quarter of 2015 which included the runoff of our Australian branch are already making a contribution to our results. However, as a reminder, we do not expect the full benefits of these initiatives to be reflected in our results until later in 2016 and into 2017.

Our Lloyd's unit continues to make good progress in the London market. And during the quarter, we started the operations of our underwriting division in China which will focus on treaty reinsurance business on the Lloyd's China platform. During the quarter, we have also continued the expansion of the capabilities of AXIS Ventures, our third-party capital vehicle.

And with that, I'll turn the call back over to Albert.

Albert A. Benchimol {BIO 2023727 <GO>}

Thank you, Joe. Before opening up the call to questions, I'll provide an update on market pricing and reinsurance renewals. As with the rest of the market, we experienced continued pricing pressures in most markets. The overall rate change for our insurance book was minus 3%, which was unchanged from both the fourth quarter last year and the first quarter of the prior year. Consistent with prior quarters, the greatest pressure is in the catastrophe exposed property and London-based global specialty lines. Large accounts remain more competitive than smaller risks.

In our U.S. division, the overall average rate of decline was 2%, continuing the moderation of rate declines experienced in the fourth quarter of last year. And certainly much better than the minus 4% experienced in the first three quarters of 2015. The improvement continues to be driven by rate increases in U.S. casualty which averaged 3%. Within that, excess casualty was up 5% in the quarter as corrective actions with respect to low-attaching policies are driving sometimes meaningful rate increases.

U.S. property was down 7% overall due to an abundance of capacity and a lack of catastrophe events. In response to these challenging market conditions, we continue to shift our property business mix towards smaller accounts in order to achieve a better, more stable attritional experience with lower severity.

In our international insurance division, overall rate change was minus 5% for the quarter, better than the minus 7% last quarter and generally in line with the same quarter last year. The most challenging conditions remain in global property and onshore energy with double-digit reductions.

Offshore renewable energy and marine liability lines are coming under more pressure. International professional lines are a bit of a mixed bag with primary financial institution business under the greatest pressure and UK professional indemnity, on the other hand, experiencing rate increases following industry loss experience.

We took a number of actions in 2015 in an effort to address challenges in the international marketplace including winding down our retail insurance operations in Australia, reducing our business volume and increasing our writings of smaller, less-volatile risks. Our Lloyd's platform is serving as a key enabler to access new business opportunities in this market, and we continue to focus on expanding strategic distribution partnerships.

In our professional lines division, overall rate was flat in the quarter, consistent with the first quarter of last year and up from the minus 1% last quarter.

There was a fairly widespread of conditions. Aggregate E&O rate change was positive 2% for the quarter with higher rate increases, again, driven largely by cyber coverages. D&O lines were down 2.5% with primary layers down 1% while excess and Side A experienced greater declines.

We continue to focus on further diversifying our book into ancillary professional lines and the middle market and small account spaces and also introducing new coverages and products including cyber, as well as our newly announced healthcare pandemic product.

Importantly, we believe we are diligently managing our insurance underwriting portfolio to preserve and enhance profitability. We continue to voluntarily reduce business where our profitability requirements are no longer met, and we are actively pursuing more attractive business.

Moving on to reinsurance, we are in the process of completing April 1 renewals. Premiums renewing on or around April 1 represent approximately 9% of annual total renewable premiums with the main renewing market being the U.S. and the Asia markets, mostly Japan. There, the market remains competitive but there was resistance to irrational rate reductions. Reinsurance demand has increased with a number of cedents buying more cover.

Our strategy of strong relationship management and a coordinated product offering resulted in increases in existing and new sidelines across various products. At the end of the day, Japanese XOL rates came off 5% to 10% and commissions on proportional treaties increased by 2% to 3%. Despite this, technical margin for earthquake business remained healthy.

Elsewhere, pricing pressure moderated a bit as the reinsurance market pushed back on demands for more generous commissions, terms and conditions. The greatest pressure was experienced on excessive loss business outside the U.S., typically catastrophe-exposed business. We saw opportunities and new business coming to the market. We estimate our reinsurance premiums written at April 1 will grow between 25% and 30% over a small base of about $150 million.

There remains a significant amount of premiums renewal during the quarter. And our volume there will depend on the attractiveness of the terms available to us. We grew our portfolio with quarter shares and liability professional and motor lines at terms we consider reasonable for the risk and volatility we are assuming.

While we're always happy in the right volatile lines and excess of loss treaties, it appears to us that, for the moment at least, this is a market which is under pricing volatility in most lines. And we did not expand our book meaningfully in business introducing volatility to our portfolio. There was, however, good opportunity to work closely with cedents to bring frequency exposed liability and professional lines business to the market and to write business which enhances our existing portfolio.

We also grew in the motor line where Solvency II constraints increased the opportunity set. We are already recognized as a leader in European motor serving cedents seeking knowledgeable technical partners. There were a number of occasions where we declined offer terms and proposed instead what we consider to be more reasonable alternatives.

Encouragingly, a number of programs could not be completed and deals could then be concluded at better terms to us. Our position as a long-term stable, credible and relevant market in our lines of business served us well.

Looking forward to the June 1 Florida renewals, activity is a few weeks ahead of schedule as cedents attempt to avoid the minor capacity shortage observed last June 1. Early indications are positive and there are signs the market is bottoming out in Florida, as reinsurers draw line in the sand following four straight renewals of price cuts.

So, while overall it is still a challenging market, given what we see both in insurance and reinsurance markets, we are optimistic that in 2016 we may approach a floor in pricing for many lines of markets with some disruptions creating opportunities for better position carriers. We will be ready to respond and make the most of the opportunities ahead of us.

And with that, I'd like to open the call for questions. Operator?

Q&A

Operator

Yes. Thank you. We will now begin the question-and-answer session. And the first question comes from Michael Nannizzi with Goldman Sachs.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thanks so much. Can you maybe talk a little bit about the A&H business? I mean, obviously that grew a lot. What sort of combined ratio, what sort of profitability or ROE however it is that you feel comfortable discussing that? How was that running right now?

A - Albert A. Benchimol {BIO 2023727 <GO>}

So, our A&H business has done very well this quarter, 38% growth. A lot of that is driven by the reinsurance business, which obviously tends to be focused in the first quarter. We continue to have very attractive technical ratios in the mid-80s, in our A&H book which is always what we intended to have. The issue with our A&H business is that we've been investing in a platform to generate that business.

And so, for the moment, while we are very satisfied with our technical ratio, our operating expense ratio is still more than we want it to be. Ideally, we would like a G&A ratio that's 10% low double-digits and we're not there yet. And so, right now, it's essentially breakeven business for us as we continue to grow and enhance the returns. But, I see this is a business that will provide mid-90s combined ratio with very little volatilities, very little capital requirements as it continues to grow currently from a base of close to $400 million to a level that's closer to $500 million.

A - Joseph C. Henry {BIO 13390626 <GO>}

And Mike it's Joe, I'll just add to that, that you know we opened an office in the Middle East, in Dubai and we've had very good reception to that. We've written five new treaties right off the bat. So, it's been a good start.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. Okay. And so, maybe focusing on insurance again, a little bit. I mean, clearly, reinsurance conditions are challenging. The insurance business, just relative to my own estimates, has continued to sort of run below expectations. Just I would expect that over time that, that business is going to have to gather the lion's share of your profitability for you to feel comfortable that you're generating sustainable margins. Where – when did should that start to really come in or is that right or do you expect to continue to rely on reinsurance for disproportionally to generate results?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Actually, Michael, the data that I have would indicate that for many companies in our peer group, the insurance operations are performing in the mid to high-90s. So, when I look at the performance of our insurance operation, given what we've done in terms of shifting the book of business towards more long-tail lines, looking at what we've done in terms of improving the composition of the individual portfolios, seeing the reductions in the loss ratios

ratios. I'm actually quite pleased with the progress that we are achieving. If you look at a number of companies in our peer group, I believe that what you will find is that for the moment at least, the majority of their profits are actually coming from the reinsurance operation, and our insurance operations are performing very well compared to that peer group.

That doesn't mean that we're stopping where we are. We continue to be committed to the improvements that we started to put in place in our insurance operation. And I think the result that we've seen this quarter to be able to demonstrate reductions in loss ratios even as we naturally embed automatic increases to the loss ratios coming from rate and trend speak very well to the progress and really want to shout out to our insurance people, I'm really pleased with the work they're doing.

With regard to the reinsurance area, there is no doubt that the reinsurance margins are declining. I mean, we've been in the last three or four years seeing significant price declines. And there, the issue for us is making sure that we continue to serve our core clients all the while making sure that our risk-adjusted returns remain as strong as they can be in the market. And that's why you've seen a change in the shift of business for us to make sure that increasingly we are taking on business that has less volatility so that while we are admittedly writing business at a higher technical ratio given both the shift in the mix of business, as well as the market conditions, the return on risk is holding up much better.

Overall, we believe that we will continue to make progress in terms of the client service, in terms of the client-centric approach to marketing our product and services to our clients, in terms of improving the portfolio construction subject and that I think will continue in both insurance and reinsurance to provide improvements, subject, of course, to the fact that we are facing pricing headwinds in the reinsurance market.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. I guess I would thank you for that. I mean, I guess, well, my – just sort of looking, just the underwriting income looks like in the first quarter. And this is just on a GAAP basis. 80% of your underwriting income coming from reinsurance in the first quarter. And your improvements noted as far as the underlying in insurance. But, you're still tilted particularly heavily towards development in reinsurance and reinsurance specifically.

So, I guess my question is, at some point, do you expect that balance to tilt back towards insurance? Because you're going to earn more insurance? Or because you're going to earn less in reinsurance? Or do you just not look at it that way?

A - Albert A. Benchimol {BIO 2023727 <GO>}

No. No. No. I – we obviously look at that. And I think, Michael, the short answer is, we are continuing to invest in improving our underwriting results and insurance. That's the short answer and as we continue to grow in insurance, the marginal return on growth and insurance is very high. And so, we will continue to improve the quality of our portfolio. We will continue to grow the insurance business and we expect our underwriting profits from insurance to increase subject, of course, to reasonable both market conditions and reasonable loss experience.

Over time, given what's happening in terms of the trend on insurance and the pricing pressures that we faced in reinsurance, I expect that the percentage of profits coming from insurance will increase. But we're not giving up under any markets our ability or our intents to improve the profitability of both insurance and reinsurance.

A - Joseph C. Henry {BIO 13390626 <GO>}

And Mike, it's Joe. Just going to add one more data point for you.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Sure.

A - Joseph C. Henry {BIO 13390626 <GO>}

So we talked about new initiatives in the past in terms of the fact that they dragged, if you will, on our results.

I'm very happy to say that in this quarter, we have grown premium in new initiatives 30% from a year ago, and we've had a 1.1% drag on our result. That's actually a profit from those new initiatives this quarter of $2.3 million. So, when I say a drag, it's not a drag being a loss. It's just that the combined ratio for that business is slightly higher than the combined ratio for our insurance and reinsurance operation. So the point I'm trying to get across is that we're seeing gradual improvement from a number of the new initiatives we put in place several years ago.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. Thanks. And then just if I could, maybe, Joe, you mentioned the buyback and buying back in excess of earnings. So, if earnings is not the governor for your buyback, what is, and is there something that we can look at as far as a bank of capital that you feel like you can kind of burn down in tandem with earnings over the next period of time, a year or two years, whatever? Just to give some idea order of magnitude that we're talking about in terms of your capacity. And thanks for all the answers.

A - Joseph C. Henry {BIO 13390626 <GO>}

Yes. Mike, we're not going to predict what we're going to buy back in shares. We're sticking with the guidelines that we've given you before. We've said at least operating earnings. You can see this quarter, we bought back stock and dividends significantly in excess of operating earnings.

So, we take this a quarter at a time. We look at the opportunities ahead of us. You've seen some growth coming out of both of our operations this quarter. I really do still want to get into a run rate expectation because I'd rather not disappoint people.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Yes. Just to be clear, I wasn't asking for that. I was saying just what other aspects of your capitalization are relevant when thinking about the buyback. I certainly wasn't asking for guidance on what you're going to buy back each quarter. But that's okay. Thank you.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Okay.

Operator

Thank you. And the next question comes from Kai Pan with Morgan Stanley.

Q - Kai Pan {BIO 18669701 <GO>}

Good morning, and thank you. First question, do you have any early read into the second quarter events from the earthquake as well access (33:44) events?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Kai, it's very early days really on all three: Japan, Ecuador and the Texas hail and floods. We – at this point, we don't expect it to have a material impact on us. But we do think at this point is contained within our normal cat load for the second quarter.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. That's great. And then the second question is on the reinsurance growth. This growth is very strong despite the pricing pressure in the overall market. I guess, you find optimistic opportunities there. I just wonder, does this growth in the reinsurance in specific lines – are they accretive to your overall portfolio loss ratio or combined ratio, I should say?

A - Albert A. Benchimol {BIO 2023727 <GO>}

The answer is that it's highly accretive to our risk-adjusted returns. So, obviously, the terms of market pricing as we indicated to you in January 1 renewals is that we believe that the technical pricing that we're getting in 2016 and certainly held through the first quarter is about a point – is a little over a point of technical ratio deterioration versus the business that we had last year. So, clearly, the portfolio in the market today is being written in (35:06) the technical ratio that's a little bit higher than the prior year. Obviously, the price declines and trends are higher than that, but we try and offset that with portfolio construction.

So, we're not seeing anything different in the book of business including the new business that we wrote in the first quarter which is inconsistent with that. However, what we are seeing is that the additional business that we've put on is highly accretive to the stability and diversification of the portfolio such that the risk adjusted return on the portfolio has been advanced materially through the addition of those.

So, what we are saying is that for a technical ratio, which is equivalent to what we had before writing this new business, we are getting, a) positive dollar contribution to the bottom line; and b) lower volatility to the overall results. So, we think that this new business is accretive to our overall risk adjusted returns.

Q - Kai Pan {BIO 18669701 <GO>}

But the internal report sort of core loss ratio accident year, loss ratio ex-cat – will that still shifting higher given the mix?

A - Albert A. Benchimol {BIO 2023727 <GO>}

But it's consistent with the overall book that we wrote. So, as I mentioned to you, in January 1, we told you that the January 1 renewals were a little bit more than a point worse, and when – than the expiring business -- and when we compare that, at the end of the quarter to the entire portfolio written at the end of the quarter, we continue to have exactly the same trend.

So, we were not writing additional business at terms that were worse than we indicated to you in January 1. We wrote the business on terms that are consistent with what we told you in January 1, but with better stability and the diversification in our portfolio.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. That's great. Then my last question, shifting to the – on the investment side, the hedge fund return for the quarter, like a loss of $27 million. If there's no loss there, I think you already probably approaching the double digits. So, I just wonder, from your perspective, looking at this portfolio which is less than 6% overall investment portfolio, but it has introduced sort of high level of volatilities. It's more like three points cats (37:29) for the quarter. So, I just wonder, how do you think about that? And you have managed on volatility on the underwriting side. I'm wondering if you thinking about applying the same sort of approach on the investment side as well.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Thank you, Kai, for raising that and you're absolutely correct. And let me put this in perspective, if I may.

When we came on board, Joe and I, substantially all of the risk assets of this company were in hedge funds. And the rationale at the time were that they had behaved well during the financial crisis and provided returns that were acceptable for risk assets. We took a different view. And frankly, we had determined that we wanted more diversification in our risk assets including more illiquid assets, private debt, mortgages, private equity and so on. And in fact, since 2013, we have been diligently reducing our exposures to hedge funds. In fact, Joe, what were the numbers?

A - Joseph C. Henry {BIO 13390626 <GO>}

Yes. So, Kai, in 2013, our hedge funds were $895 million; at the end of 2014, $781 million; 2015, $600 million; end of Q1, $470 million and we expect it to be about $430 million at the end of Q2. So, we basically have halved the hedge fund portfolio in the last three years.

A - Albert A. Benchimol {BIO 2023727 <GO>}

And so, we are continuing to – thank you, Joe. And so, we're continuing to shift the portfolio away from hedge funds. But as you know, Kai, a lot of these new developments – new investments classes that we're in, require a fair amount of time to ramp up. And so, we've been ramping up these new risk assets and funding those risk assets through liquidations of our hedge funds.

So, we agree with your observation around hedge funds which is why we've been reducing our exposure to hedge funds. Obviously, it would have been better to have less in this quarter, but we are continuing to reposition our portfolio to one which I believe is better suited for our liability mix and for the conditions that we expect in capital markets going forward.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. To be clear, you are not reducing overall allocation to other investment? Just shifting allocation within the bucket from hedge fund to sort of like longer-term investments?

A - Joseph C. Henry {BIO 13390626 <GO>}

That is correct. And, actually, the performance of the – I'll call it the new other alternatives has actually performed very well.

Q - Kai Pan {BIO 18669701 <GO>}

That's great. Well, thank you so much for all the answers.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Welcome.

Operator

Thank you. And the next question comes from Charles Sebaski with BMO Capital Markets.

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

Good morning. Thank you. Like to just go back for a second, and I know you've been speaking a lot, Albert, on the reinsurance change in the portfolio mix. I guess, I'm just trying to understand something. You said in your comments that pricing for volatility is not adequate, but I see that the PMLs for you guys have gone up in the quarter. I guess, how do we square the growth and the increase in PMLs relative to the idea the volatility is not getting priced appropriately?

A - Albert A. Benchimol {BIO 2023727 <GO>}

That's a fair question. I think what we are doing here is we are responding to our clients' needs. As you know, a number of people do to either Solvency II or changes in business models are buying more at the top end. And, in fact, I believe that if you look at it, there's a reduction in the one in 50-year losses, so we continue to be reducing there and trying to help our clients with more of the – with the upper end. But where we are right now is also very consistent with what we told you in the first quarter, which is that we are in the midst of renewing and reworking our Cat program. There was one cover that expired at 12/31, which is what caused the increase in the first quarter versus the one-one level versus the prior level. And as we indicated to you then, it is our intention to renew and modify our Cat program to realign the protection that we've had before.

So, where are right now, if you would, is in between the expiry of one reinsurance treaty and the replacement of that treaty. As we replace and restructure our Cat program in the second quarter, I believe that you'll find that the PMLs will come back in line with where they were during 2015.

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

Okay. I guess on an overall basis, on the reinsurance book, if I look back a year ago, 1Q 2015, there was a substantial contraction in the book and fourth quarter 2014, first quarter 2015 and now that we get to the end of last year in this quarter, we have seen a reversal and then pretty significant one. I guess, it's hard to know, I'm from the outside and all of the things that go into the portfolio mix beside the lines of business.

But, I mean, is there a general difference for you guys viewpoint on how you're operating in 1Q 2016 than what you were doing in 1Q 2015? I guess, like, the expectation from the market side is that the pricing dynamic is the same, that a year ago, we would've been looking at the same, kind of, headwinds, challenges in the market. And as you said, the pricing is down this quarter, maybe a one point deterioration. I guess, if you are a year ago versus this year, what's the difference and what you guys are thinking on how you're running that book?

A - Albert A. Benchimol {BIO 2023727 <GO>}

That's a very good question, and thank you for asking it. I think that there are two issues. One is the first point that I made earlier which is we look at the availabilities in front of us. We compare it to our portfolio. We do marginal analyses of risk and return. And the question is does this new piece of business, at the current price, improve the overall portfolio or not. And I think that those opportunities are in fact coming.

The second issue, I think, is that the first quarter of 2016, we saw a number of new programs come to market from core clients, people who we've been doing business with for a very long time and very profitably. And I have to say, I look at this growth that we've had in the first quarter as an affirmation of the works that we've been doing in terms of relationship management and our customer-centric approach and let me take a step back, if I could.

We've been telling you for quite some time that we are observing in the market that clients are, in fact, reducing the size of their panels. They're concentrating their business with a small number of very highly rated core reinsurers who can provide support across a number of lines and across the globe. And what I can tell you is that not every new treaty that came to market was offered to us. And not every treaty that was offered to us was acceptable to us. But we feel very pleased that for some of our core clients, as they are exploring new treaties to the market, they are offering it to a limited number of reinsurers. And I think the fact that we were on those treaties – and by the way, we have very reasonable market shares of those treaties. So, this is not something that AXIS alone is writing. It is something that a small number of quality reinsurers are participating in. And so, what it shows to us is that our customer-centric approach is working with our clients that as our clients are concentrating their books of business with a smaller number of core reinsurers, they are including AXIS reinsurance in that panel.

So, I feel good about what this means with regard to the position of AXIS Re, in terms of where the reinsurance industry is going. And certainly based on the analysis of the underwriting and of the marginal impact on the portfolio, I am absolutely confident of the business we're putting on is accretive to the risk-adjusted returns of our portfolio.

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

Okay. And just one follow-up. I know it's a small business for you, guys, aviation and the primary insurance sector. But a doubling of that book, all the things I understand is that's a fairly challenged from pricing perspective line of business. Any color on that? I appreciate it. Thanks.

A - Joseph C. Henry {BIO 13390626 <GO>}

Charles, it's, Joe. Basically, it's some changes and some line slip percentages from prior years, don't read into it that it's a significant increase in our business. We're also participating in a facility or two, so there's a little growth in that line of business but not substantial.

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

Got it.

A - Albert A. Benchimol {BIO 2023727 <GO>}

I think you should take comfort also that we have a very well-structured reinsurance program that, again, makes us comfortable on the risk-adjusted returns of that book of business under market conditions.

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

Excellent. Thank you very much for the answers, guys.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Thank you.

A - Joseph C. Henry {BIO 13390626 <GO>}

Yes.

Operator

Thank you. And the next question comes from Vinay Misquith with Sterne Agee CRT.

Q - Vinay Misquith {BIO 6989856 <GO>}

Hi. Good morning. So, I just wanted to follow up on the growth in the reinsurance segment. AXIS' reis growth seems to be higher than some peers and wondering what opportunities that you're seeing or what specifically are your underwriters doing that is helping you to gain those opportunities. And what risk do you think are attached to growing right now?

A - Albert A. Benchimol {BIO 2023727 <GO>}

I'll go back and expand on the question – on the answer that I just gave. I think that our customer-centric approach is working very well. One of the side products of our activities last year is we spent a lot of time with our customers. Understanding what they want, what they need, demonstrating to them what it is that we can do for them, continuing to hone our service to work with them, we spent a huge amount of time on the road understanding our clients and engaging them on things that they could do to improve their books of business. We're sharing with them increasingly data and analytics that we're providing on our own books that can be – that can provide them with insights.

All of those things are increasing the number of opportunities that we see. Not every reinsurer sees every deal that comes to market. That's a simple fact. And as I mentioned earlier, not every deal that we've seen did we write. And, I will also add that whereas – with regard to reported premiums, it's certainly higher growth than we've seen in some of the reported amounts for this quarter. I can assure you that we are not alone on these treaties and that our share on these treaties is an absolutely reasonable share in line with our capital, our market share of the overall business and so on.

So, I view this as – again, I view this as an affirmation that the work that we are doing with our clients is bearing fruit. I view this as an affirmation that clients are reducing the size of their panels and showing business to a small number of select reinsurers and I take this as a complement that AXIS Re is included in that smaller group.

Is there a risk to that? There is risk in every business that we write. But the analyses that we have on those portfolios indicates to us that these are low volatility portfolios that they add diversification to our overall portfolio and on a risk-adjusted basis. We are significantly enhancing the risk-adjusted returns or the returns on volatility of the lines that we are writing and the overall reinsurance portfolio that we are writing.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay. Thank you. And on the reported profitability within reinsurance, the accident year loss ratio ex-cat was about 63.1% on that segment. Looking at the full year number for last year that was 63.3%, so it seems to be flat this quarter versus full year last year, and my sense was that price profitability had actually gone down – it was up a point. So, just wondering why reported numbers are flat this quarter versus full year and whether we should use this quarter's number for the rest of this year?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Again, I think that one of the things that we do Vinay, again, is we all try to reposition in our portfolio in every year to try and optimize the portfolio based on the opportunities available to us and market conditions available to us. I think with regard to the portfolio of this quarter, frankly we had very low cat losses, so certainly that was helpful. There will always be some volatility in the reinsurance results since that's what we do, we provide capital and absorb volatility on behalf of our clients. But I don't see anything unusual in this quarterly result that would say is a one-off that you need to adjust up or down. However, I will say that as we earn more of the business that we wrote in January 1, which we indicated to you, had a technical ratio that was a little bit more than a point higher than the expiring business, I would expect that as that premium comes to the income statement, absence any other impact, you would expect a modest increase in the technical ratio of the Reinsurance business.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay. That's fair. And then one last one, if I may. Just wanted to follow-up on the capital management. I mean, I wanted to follow up on Mike's question. If AXIS is sitting on an excess capital position, given that not all of the breakup fee was used to repurchase stock for last year and can we sort of look at that pot of cash as a potential for share repurchases for the future?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Again, I think, the profits that we have and the breakup fee, all contribute, if you would, to the capital of the organization. Now, we are growing some and we are looking for opportunities. So, we would of course want to use some of that capital to fund growth that is accretive to our returns and that is accretive to our portfolio. If we do not need that capital, then we are happy to give it back to you. And again, I think that our performance to date would indicate that we've done that.

So, just to give you a sense. Over the last five years, even including the breakup fee, we have returned to our shareholders in dividends and share repurchase in excess of 110% of the operating income plus the break-up fee.

So, whereas while we may not have given back the breakup fee between to August of last year and March of this year, certainly, over any extended period of time, we have demonstrated a strong willingness to return to the shareholders capital that we don't use. And again, in the first quarter, as Joe mentioned earlier, we have returned to our shareholders well in excess of the operating income.

So we continue to return as much capital as we think is reasonable and prudent to our shareholders, but we are not prepared to say that we have X dollars of excess capital that we will run through over the next 12 months.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay. Thank you.

Operator

Thank you. And the next question comes from Brian Meredith of UBS.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Hey. Good morning. I have a couple of questions here for you, Albert. Just quickly on the reinsurance, is any of the growth associated with maybe getting some lines back that may have gone away with the PartnerRe situation?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Not really. As I mentioned, most of the growth that we had actually came from new treaties that came to market where we were invited to participate. The good news, of course, is that we actually did not lose a lot. We lost a very small amount of business during the period when we were exploring a merger with PartnerRe. The amount of business lost was de minimis then. So, that really was not a factor.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Great. And my next question, Albert. I've asked this before and just kind of ask it again: increasing kind of multi-year reinsurance deals. What is the risk here that you're actually entering to these deals with, call them, middling returns that could potentially be better a couple years from now? Do the agreements have clauses where you can actually get out of them if pricing terms and conditions actually improve?

A - Albert A. Benchimol {BIO 2023727 <GO>}

That's a very fair question. So, let me give you a couple of examples. We're very focused on making sure that we provide multi-year deals to clients who've got the right motivations for those multi-year deals, and who have historically been strong relationship account of ours and that we believe will continue to be strong relationship accounts. One of the interesting things that has come about to prove that, if you would, is that a number of the multi-year deals that we did in 2014 and 2015 actually were helpful to us because the renewals that came out in 2015 were lower price than the renewals in 2014. The renewals that came in 2016 were lower priced than the renewals of 2015, and yet we actually had the benefit of those better terms, coming out of the multi-year treaties.

So I know that people focus on the opportunity lost with regards to a multi-year treaties. But in our case, we can actually demonstrate that the multi-year treaties that we wrote in 2014 and 2015 were an opportunity gained.

Now, with regards to some of the deals that we are doing, we look to do these multi-year deals mostly – when we talk multi-year, we talk two years, right? So, it's not like we're giving up optionality. And number two, we do these in many cases where we have opportunities for greater stability. So a very large deal that we did in the first quarter has a sliding scale to it.

And therefore, the stability of the result in that treaty is very strong because if the loss ratio happens to increase the commission we would pay would decline. So, there are embedded protections in many of these treaties such that they increase the attractiveness of those multiyear treaties to us. And, again, we will only do a multiyear treaty if we believe that it is helpful to both our clients and to ourselves.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Great. And then, last question, more on the primary side, Albert. Give me your commentary on pricing and what's going on. It doesn't appear that some of the dislocation we're seeing with a couple large carriers having much an impact in the market, but is it creating any opportunities for you either on the primary or the reinsurance side?

A - Albert A. Benchimol {BIO 2023727 <GO>}

I think that dislocations – without getting too specific -- I think dislocations in the market are a very good thing for AXIS because it continues to highlight to our clients and to our distribution partners the stability of our balance sheet, the stability of our marketing approach and of our client-centric approach, and that's working well. We are, in fact, seeing opportunities. Now, not all opportunities that are coming to market are attractive to us, but I would expect that as we continue in the year, we will see more benefit coming out of those opportunities.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Great. Thank you.

Operator

Thank you. And the next question comes from Jay Cohen with Bank of America Merrill Lynch.

Q - Jay Cohen {BIO 1498813 <GO>}

Yes. Thank you. Question on the timing differences in the reinsurance premiums. Will that make for a more difficult comparison a year from now?

A - Joseph C. Henry {BIO 13390626 <GO>}

Yes. Jay, it will. We did about 10 more deals on a multiyear basis this year than we did last year. And if those are multiyear, you'll have a drop in premium next year, so it does make the comparison a little bit more difficult. But if you look back over the last couple of years, it hasn't had a huge impact, if you will, on the trajectory of the growth in the reinsurance segment.

Q - Jay Cohen {BIO 1498813 <GO>}

In addition to the multiyear deals, I thought you mentioned some timing issues, which made a difference?

A - Joseph C. Henry {BIO 13390626 <GO>}

Yes. I'm sorry, Jay. Yes. So, a couple of these deals – without getting into specifics, a few of them the way that we are recording them, we're recording them a quarter at a time. So, from that perspective, it won't have an impact, if you will, on comparability going forward. But there are certain other transactions that fall into this quarter, which would have gone into, say, the next quarter in 2016. So, there is a little bit of lumpiness because of some of those timing differences, yes.

Q - Jay Cohen {BIO 1498813 <GO>}

Okay. But I guess not big enough for you at – where you would call out, gee, look out for the 2Q, there's a significant headwind, there's not that sort of impact?

A - Albert A. Benchimol {BIO 2023727 <GO>}

That's correct.

Q - Jay Cohen {BIO 1498813 <GO>}

Okay. Next, can you give us an update on Harrington Re. What the general thought process is around this venture?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Well, look we can't speak Harrington Re, but what I can tell you is that we've been very consistent for a long time in saying that we believe that successful insurers and reinsurers in the 21st century are going to need multiple sources of capital and also the ability to align risk with the capital that is best suited for it.

And so, we continue to work with our partners at Blackstone to explore ways to create more capacity for our clients and to create multiple sources of capital for us. That has been a goal of ours that we've communicated to you for a long time. And until anything is done, I think it's best that we don't say much on that.

Q - Jay Cohen {BIO 1498813 <GO>}

That's fair. Thank you.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Sure.

Operator

Thank you. And the next question comes from Ryan Byrnes with Janney Capital.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Thanks. Good morning, everybody. Just wanted to see if I could get back into the mid-sized losses in the Insurance segment. Last year, we noted that they're elevated. In the press release, it said that they decreased this year. I just wanted to see where they average or abnormally low. Just wanted to see what the impact was there?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Slightly below average.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Okay. And then just one more numbers question. It looks like there's a tax benefit in the quarter. Just wanted to see what that was and see if that's going to impact anything going forward?

A - Joseph C. Henry {BIO 13390626 <GO>}

Yes. We really had an unusual thing going on there, Ryan. It's related to a favorable tax ruling that we got from the Swiss government. It actually benefited us by about $4 million. In addition to that, we actually had some losses, if you will, in high tax jurisdictions. So, that was really the second reason why we had an unusual, if you will, tax benefit.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Great. Thanks. That's all I had, guys.

Operator

Thank you. The next question comes from Meyer Shields with KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Good morning. Albert, you mentioned, when you're discussing 6/1 (1:02:31) renewals, client concern about a shortage of capacity, I haven't heard in a while, so hoping you could elaborate on that a little?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Well, it's really talking to last year. So, last year, there was a bit of a last minute rush and there were a couple of deals that weren't completed. That's why I think everybody is reading the same thing that we are which is that reinsurers are kind of pushing back. And they just want to make sure that they have the capacity that they need to avoid the experience from last year.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. No, that helps. So, you're anticipating, I guess, a bottoming. You're not actually not thought about rates going up for 6/1 (1:03:03) exposed accounts?

A - Albert A. Benchimol {BIO 2023727 <GO>}

No. No. I think I want to be very careful to give you my best view, but not excess of optimism. I think we're hitting a floor. I think we're seeing resistance. And certainly, I can tell you that in the first quarter, not just on the cat, we've seen a lot of deals where brokers and clients try to push the market and the reinsurers just said no, but no thanks.

And so, we're certainly think a greater percentage of deals that don't get done on offer terms, we're saying that number of short-placed covers. Those are all indications that there's an increasing level of discipline coming through the market. And so, I would expect that what we will see in Florida, certainly, what we've seen to-date a couple actually have some risk-adjusted increases, but very small. Some have a couple of reductions. By and large, it's looking flattish to me. And so, what I'm saying is, I'm hoping that we start to see a leveling off of pricing, not so much that we will see increases, but that we will see a slowing of reductions. That's really what we're looking at right now.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. That's helpful, I mean would have been great, but not realistic. Another really small question – nitpicky question, I guess, for Joe. One, should we will get $4 million in weather related losses in the reinsurance segment?

A - Joseph C. Henry {BIO 13390626 <GO>}

It wasn't $4 million. It was actually – get breakeven, so a slight loss. That was compared to about an $8 million gain last year.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Because I think somebody mentioned $14 million for the consolidated company. We saw $10 million in insurance.

A - Joseph C. Henry {BIO 13390626 <GO>}

No.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Hang on. Weather-related losses you're talking. I think the issue here is tax and weather-related which is $14 million for the underwriting.

Q - Meyer Shields {BIO 4281064 <GO>}

Yes.

A - Albert A. Benchimol {BIO 2023727 <GO>}

When we think about weather, we also think about our weather and commodities derivative units, which is separate. So, the weather and commodities unit is a unit within our reinsurance group that had a breakeven this quarter versus $7 million of gains last first quarter. The $14 million that we're speaking with too is basically losses relating to PCS events, weather events, of which $10 million were in the insurance division and $4 million were in the reinsurance division. That could be the differences in the numbers.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. So, that's not in the derivatives number. That's in the underwriting?

A - Albert A. Benchimol {BIO 2023727 <GO>}

No. No. The derivative number is actually a very, very minor profit.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Perfect. I appreciate the clarification. And last, we saw investment expenses up about 9% year-over-year. Is there anything unusual in that? Or is this is a good run rate?

A - Joseph C. Henry {BIO 13390626 <GO>}

No. This is a pretty good run rate. We did have some compensation-related inflation in that, Meyer. So, that's a little bit higher than normal.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Perfect. Thanks so much.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Okay.

Operator

Thank you. And that does conclude the question-and-answer session. So, I would like to turn the call back over to management for any closing comments.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Thank you very much for your interest and your questions. We are proud of the progress that we've achieved in the first quarter of 2016. And we look forward to continuing to deliver on our progress in the second quarter and beyond. Thank you and good-bye.

Operator

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