Barclays Capital Global Financial Services Conference

Company Participants

- Jeff Kelly, CFO

Other Participants

- Jay Gelb, Analyst

Presentation

Jay Gelb {BIO 21247396 <GO>}

Hi, everyone. I am Jay Gelb from Barclays. We're very pleased to have with us today RenaissanceRe. Renaissance is a leading global provider of property catastrophe and specialty reinsurance coverage with a notable and superior long-term track record of book value growth. We're very pleased to have with us today RenaissanceRe's Chief Financial Officer, Jeff Kelly. So with that, I will turn it over to Jeff.

Jeff Kelly {BIO 20911735 <GO>}

Thanks, Jay. Good afternoon, everybody. I'll apologize in advance. As I was just telling Jay, in addition to living in a climate prone to mold and other allergies, I managed to get a head cold over the weekend, from which I am recovering. So hopefully that won't cause me too much unpleasantness here.

So as Jay said, I'm the Chief Financial Officer at RenaissanceRe. And I have the distinct pleasure of talking to you today about what I think is a really unique company with a really unique history. And I can tell you that it is an incredibly interesting, intense. And fun place to work, in addition to not being in a bad location in Bermuda.

So before I get started, let me call your attention to the safe harbor statement on the screen, covering forward-looking statements, as well as the fact that I'll be using some non-GAAP measures of financial performance in the presentation.

One of the areas for which I have responsibility at RenaissanceRe is corporate strategy. So today I thought I'd start with a bit of background on the Company and our history and then give you some insight into our corporate strategy, business unit strategy. And how we think about the role of investments and capital management within that strategy. So with that, let me give you a little bit of background on the history of the Company.

As Jay said, at RenaissanceRe we are a global provider of property and cat specialty reinsurance through our office in Bermuda. And right now not only property, cat. And specialty reinsurance. But also some insurance coverages via our Lloyd's operation. I think some people have typically thought of RenaissanceRe as a Florida specialist. But I suspect after the events of 2011, they were dissuaded of that misinterpretation.

Our business model is to match what we believe are attractive risks with the right capital to support it. Sometimes it's our own, sometimes it comes from third parties. But more often than not, it's a mixture of the two each and every time.

The Company was founded in 1993 and has a market capitalization of just under $4 billion.

We've enjoyed strong financial performance over our history with tangible book value per share plus change in accumulated dividends, which is our primary financial target, having grown at a compound annual growth rate of 20% since our inception as a public company.

Finally, we have some of the strongest financial strength and enterprise risk management ratings in our industry that I think attests to the competitive strengths of the Company, as well as that financial performance. Only about 3% of companies in our industry have earned an excellent enterprise risk management rating.

Okay. With that as background, let me shift to a description of our corporate strategy. I think it's rather simple and fundamentally unchanged since our inception some -- almost 20 years ago now.

Here's a summary of our business. Our mission is to produce superior financial returns for our shareholders. They hire us. That's our -- where we are laser-focused. Superior returns come from being a leader, not a follower, hence our vision statement to be a leader in the businesses in which we operate.

We think the leader in the businesses in which we are involved is the best underwriter, hence the identity that we have adopted. We avoid businesses where being the best underwriter isn't likely to produce the best returns necessarily. And we think this is a critical difference in our business model.

Our strategy -- to be the best underwriter -- is to operate the Company to a single system to match risk and capital.

In the slides that follow, I will touch on these each in a little bit more detail.

So on the surface, our business model is simple. We match desirable risks with efficient capital. We take risks in multiple forms and deployment capital in multiple forms. Ultimately, if we match desirable risk in the most efficient capital, we will have a single portfolio that over time will outperform the market.

It's important to note that we operate the Company as a single risk-taking book. We are not a collection of traders each with their own profit and loss statements. Over 19 years, we've invested in building a system that accurately assesses and measures risk and accesses and engages the most efficient forms of capital and to match them effectively.

Some parts of the system we believe have been imitated over the years on both the capital and the risk management side. But we believe our business model remains distinctive. And indeed, business models that have integrated systems are the most durable form of competitive advantage.

So in the next slide, I want to expand a little bit more on that green box in the middle there between most efficient capital and accessing the most desirable risk, which is focused on our risk-taking capabilities and our culture at the Company.

In the short-term, it can sometimes be difficult to discern the difference between luck and skill in underwriting the kinds of risk we ensure. For instance, were you lucky just because there were no cats in a year, or did you really construct a portfolio that offered the best risk return profile? Over short periods of time, it really is difficult to tell.

However, after almost 20 years, we have a track record of successful risk taking over many cycles that few reinsurers can match. We integrate what we believe are some of the most sophisticated risk assessment tools in the industry with a unique risk culture. Ultimately, the goal is to avoid surprises; be able to respond quickly with innovative solutions for our clients; avoid solvency risk; and while at the same time, accepting some earnings volatility.

I think the most critical differentiating factor at RenRe is how tools and culture work together. So our Chief Risk Officer has oft-quoted phrase, at least around the Company, that says, "A fool with a tool is still a fool." It's meant to convey the point that there's no substitute for good judgment. And tools are only useful to the extent that you have your own view of risk that incorporates not only the capability of the tools but, just as importantly, their limitations.

Let me stay on that just a second. One misunderstanding about our business that I sometimes encounter with investors is our risk level when the "big one" hits. The nature of excessive loss reinsurance incorporates policy limits and cats and is really important in limiting our exposure.

So once we reserve at a policy limit, we are off the hook for anything more -- no matter how big the event gets. In fact, in most cases as industry losses from a specific event grow, our share of those losses declined. It is simply the nature of cat exposures.

Our track record is also helped by the fact that our senior underwriters not only have long tenured experience in the property cat business. But they have long tenure at RenaissanceRe. They understand the intricacies of our models, how they are constructed and their attendant limitations. They are also guided by underwriting principles that drive clear accountability for ensuring that each deal is underwritten and rolled up into the overall portfolio properly.

In order to produce superior financial results over time, we have to be able to construct a superior portfolio of risk. That requires us to source attractive risks and match them with the most efficient capital. Our three competitive advantages are what some of us refer to as the three superiors support each component of portfolio construction -- having superior customer relationships, having superior selection and portfolio construction capabilities. And superior capital management, all operated in an integrated fashion. It doesn't do any of us any good to be able to source business. We don't have the tools and underwriting skills to separate good deals from bad deals. It doesn't do us any good to have superior ability to attract capital if you can't source risk and construct attractive portfolios from it.

Increasingly, we're finding that customers are becoming more and more sophisticated and expect us as a reinsurer to be superior managers of capital as well. They expect we will bring capital to bare quickly when capacity is needed. And investors expect us to return it when capital -- when that capacity is not needed and we have excess capital.

Customers also expect us to have superior risk capabilities to ensure that we can fulfill our promise to pay when they have a loss.

Investors and capital providers expect us to have superior customer relationships and risk capabilities such that we can accurately gauge the market and obtain the lines we want when pricing is attractive. Deals in the market are sometimes oversubscribed. And our superior customer relationships often allow us to obtain full lines when some of our competitors get signed back.

So in short, each of the three superiors is important. But we think that what differentiates RenRe is the way we integrate their delivery to create successful outcomes for both buyers of our products and for our investors.

This is a slide we usually have indexed because we think it is an incredibly important one for a number of reasons. I said our mission is to produce superior returns for our shareholders over time. This chart shows tangible book value per share, plus change in accumulated dividend since our inception in 1993, as well as our stock price since our IPO in 1995, which is the dark line. So the green bars are tangible book value growth over time. The gray portion of the bar are cumulative dividends. The line is our share price.

As I said, tangible book value per share plus change in accumulated dividends is the financial metric we use to measure value creation for our shareholders. And it tends to correlate highly to our stock price over time.

As I said, it has increased an impressive 20% since inception. And our stock price has appreciated at a 15% compound annual growth rate since our IPO.

As the data shows, there have been years during which significant catastrophe losses have resulted in book value declines for us. But an important component of our strategy as a company is to take advantage of the market dislocations that frequently occur after large events to write strongly into those dislocations. This philosophy has allowed us to earn back the book value we lost in the event. And I think you can see that from this chart. It's hard to over-emphasize the importance of this because virtually every one of those instances where we lost book value in a particular year, it was more than recovered in the subsequent year. It's very easy to pull back from taking risk when you've incurred a loss. But that is not our business model.

Our business can be volatile from time to time. But we take on this volatility because we believe we're able to manage risk and generate superior returns for our investors over time.

This chart shows the operating return on equity for RenRe and the blue bars, as well as for a composite of our peer group since 1996. The solid line denotes the peer group average.

As we frequently say on average, reinsurance is not an attractive business. The peer average of an ROE of 10%, I think, attests to that. The trick, as we always say, is not to be average. And that's why we seek to be the best underwriter of the risks that we participate in because we feel that is the only way to differentiate ourselves.

We've historically generated higher ROEs than our peers. And in years of high catastrophe losses such as 2004, 2005, 2008. And 2011, we tend to underperform since our book has a higher concentration of cat risk. However, we manage our book to limit losses on the downside and subsequently outperform on the upside.

That has been the case in the years that have followed -- catastrophes such as 2002 and 2003, 2006 and 2007, 2009. And hopefully that will be the case in 2012. These are years where our clients need us the most as competitors often pull back capacity after large losses. By being a relatively stable source of capacity and establishing a reputation for exposure-based pricing, we have been able to build strong relationships with our clients over time.

We believe that being a disciplined underwriter has been key to our success. Our underwriters don't have premium goals each year. Our philosophy is to play the hand they're dealt by market forces. We do not try to force opportunities that aren't there, whether that's in our underwriting book or our investment portfolio.

We seek to grow when markets conditions are attractive. And we try and take as much good business as is possible. You can see that was the case in this chart, after 2002, after the World Trade Center catastrophe, when we grew our own cat and specialty book. But also rapidly expanded our joint venture capacity.

It was also the case earlier this year when we saw an attractive opportunity to grow our book internationally and, as a result, grew close to 30% on our top line in the property cat business around January 1.

On the other hand, we're equally willing to reduce exposures when market conditions become less attractive. You can see that in our specialty lines, which expanded rapidly between 2002 and 2005 and have since been reduced. And in 2010, we made the decision to sell our insurance business which consisted of more process-oriented lines where we believe the returns were not adequate and being the best underwriter wasn't the primary determinant of success.

So hopefully that gives you some sense of our broad corporate strategy. In the next several slides, I want to talk about each one of our business units. And we have three strong businesses in our Company, each of which work to get implement the three superiors. The first is our reinsurance business, which includes property cat and specialty reinsurance. The next one is our Lloyd's syndicate where we write property cat and specialty reinsurance, as well as some insurance coverages focused on business we don't see in Bermuda. In our ventures business, this unit is primarily focused on supporting our underwriting businesses by attracting third-party capital from providers and providing governance around balance sheets that are not wholly-owned by RenaissanceRe. This group also manages our weather and energy risk management business, REAL.

So let me start with the largest of our business units, which is our property catastrophe business. The largest of these -- this is the largest business for us. And we are probably the reinsurance company most focused on property cat. We think that the cat business is fundamentally an attractive one. But not all cat risk is attractive. We think we see most of the worldwide cat business that comes to the market. And we believe that about half of the cat market has attractive returns and the rest do not.

Now admittedly, this reflects our view of risk. And the 50% business that we rate as low scoring or negative scoring, having negative returns, may actually score well in some other people's models. And apparently it does since obviously it gets written.

But our focus at our Company is on getting as much of the business that is in what we believe is the attractive bucket as we possibly can. Over time we believe that a company that lacks superior risk selection skills will end up with a portfolio that ends poorer risk-adjusted returns. Our ability to get as much of the attractive business as we do is a result of a philosophy of having deep and long-term relationships with cedants in the industry.

On the right side of this chart and each one of the other two businesses, we give a little more detail about the three superiors and how they are implemented in each of our businesses. It's not intended to be an exhaustive list, only illustrated examples of how the integrated system works at RenaissanceRe.

I think people think of us primarily as a cat specialist company. And to be sure, we are heavily cat-focused. However, we have also done quite well writing over $2.5 billion of specialty reinsurance business that has generated over $1 billion in underwriting profits since 2000. Doing so for us is highly efficient from a capital perspective due to its diversifying impact on our loss profile.

At RenaissanceRe, specialty reinsurance consists of a number of non-cat lines such as cat-exposed workers comp, surety, terrorism, aviation, energy, crop, political risk, financial lines and casualty clash.

We have been a specialty reinsurer since our founding. And while we actively provide capacity when the market needs it, we're equally willing to withdraw capacity when it's less needed. So as you can see here, we've rapidly grew in the years that followed 2001 and then subsequently reduced our writings after that. They have still, though, maintained core partnerships with a number of high-quality insurers. And again, we are there for them when they need us.

Recently you can see we've also been growing the book over the last three years. And I expect this to continue.

The makeup today is a little bit different than it was in previous years. But our focus is still the same. In specialty, we take more risk in the lines of business we think have the highest expected returns or what investors like you might call a sector allocation strategy. But we continue to have a platform in place that will allow us to grow this business quite significantly should market conditions allow.

We've grown our presence at Lloyd's over the last few years, although we are still a very small syndicate. We established our Syndicate 1458 in 2009. We built rather than bought an ongoing syndicate to retain RenRe's culture and our philosophy. One of our most senior underwriters from Bermuda, Ross Curtis, manages the syndicate which we operate as one book with Bermuda within the context of the Lloyd's Corporation.

Our presence at Lloyd's allows us to access business that we would not otherwise see come to Bermuda. And much of it being non-cat and, therefore, diversifying business for our overall book.

We're extending our reputation here, serving clients and brokers across new lines and new geographies. Our intention would be to continue to grow our Lloyd's presence, although only to the degree that we find attractive business. But with the size of the Lloyd's market, we think that is pretty likely.

Our final business is Ventures, which we think is unique at RenRe. Ventures involve three main activities. The first is our managed risk capital business, which is our joint venture and sidecar business where we manage capital on behalf of third parties. This is our core activity in the Ventures group. We started managing third-party capital with the formation of Top Layer Re in 1999 and DaVinci Re in 2001. And we establish sidecars as market conditions allow.

The second function of Ventures is evaluating, making and managing strategic investments where we principally provide capital to our customers in forms other than reinsurance. One example would be investing in the debt or equity of insurance companies in forming a strategic relationship. So examples of this would be our investment in Platinum prior to their IPO, which we exited in 2011. And our investment in Tower Hill, a leading Florida specialist insurance company.

The third area is managing our Houston-based weather and energy risk management business, RenRe Energy Advisors or REAL. This unit primarily provides weather protection in derivative form to energy and utility clients worldwide. Let me touch on each of these a little bit deeper.

As I mentioned, our core business in Ventures is managing third-party risk capital. So this is where I'll spend most of my time on Ventures. Our mantra here is matching the right risk with the right capital at the right time. Not all capital is suited for all risk. Being able to recruit the right capital and the right risk is critical for both customers and capital providers. Managing risk capital allows us to deploy more capacity at customers and leverage our underwriting platform to earn management fees and profit commissions. The first joint venture on this chart is one of our long-standing franchise plays, DaVinci Re, which we established in 2001. We set it up in partnership with State Farm right after the World Trade Center catastrophe when clients needed capacity. But did not necessarily want to place all of their risk with a single counter party.

We created a separate entity. So while the client deals with us on the front-end, the business is written on two pieces of paper, representing two separate rated balance sheets. DaVinci always writes property cat business alongside RenaissanceRe Ltd., our reinsurance business. And no deals are in DaVinci that are not also in RenaissanceRe Ltd.

While our ownership in DaVinci modulates from time to time, we currently have a 31.5% ownership stake in DaVinci with third-party owners including State Farm, a number of pension funds, endowments. And family offices making up the remainder.

Top Layer Re is still, we think, one of the more innovative structures in the property cat market today. It's a 50/50 partnership with State Farm and writes non-US, high-layer business. It is capitalized with equity amounting to $100 million with a $3.9 billion stop loss cover provided by State Farm above that level.

The third type of venture or product we have is something called CPPs, which is short for catastrophe portfolio participations. This is a product whereby we allow some of our clients to participate in our cat business on a quota share basis.

Lastly, we have performed a number of one year sidecars to respond to short-term market dislocations such as after Hurricane Katrina, Rita. And Wilma in 2005 and 2006 and after the record catastrophe losses of last year. We've done six of these deals since 2005 with the latest iteration being announced in June with the formation of Tim Re III.

Our partners in these ventures tend to be -- seek pure cat risk and a defined exit from a short-term vehicle as opposed to a longer-term relationship with Renaissance Re and DaVinci.

We have been forming joint ventures for longer than anyone in the market. DaVinci Re and Top Layer are our evergreen, long-term plays we manage as franchises. These are battle-tested, long-term vehicles having survived and thrived despite many catastrophes-filled years, including 2011. Our clients recognize the importance of long-term capital and the long-term nature of our joint ventures as a critical distinguishing factor from the newer forms of capital that have entered the market in the last few years. We deliberately create short-term vehicles to respond to market needs by forming such ventures as Tim Re III, Starbound in 2006 and more recently, Upsilon Re designed this year to target worldwide retro basis after the international losses of 2011.

This slide is a graphic that gives a brief overview of our business at REAL, our weather and energy business. This is a Houston-based unit with about 30 employees. The unit provides derivative-based weather and energy risk management solutions to utility and energy clients on a global basis. Thus, REAL takes on exposures in the US, Europe, Japan. And Australia. The unit operates with oversight locally, as well as in Bermuda. We monitor the value at risk on a daily as well as seasonal basis and also limit our exposure to counterparty guarantees on a deal-based level.

The value at risk at the 99th percentile confidence interval was $26 million on average in the first half of 2012.

Our business here is generally protecting our clients from warmer-than-normal winters and unusually cold temperatures in the summer. The exposures for this unit tend to be seasonally higher during the fourth and First Quarters due to the winter contracts where the variability of temperatures around the mean is a bit wider than in the summer. The unit's losses in late last year and early this year were the result of the record warm temperatures we saw in the fourth and First Quarters of the year, both in the US, as well in Europe. And they persisted over that entire time period, as you know.

So those are the individual business units and what we try and accomplish in each one of them. Let me turn to capital management and investments to describe how we view them in support of achieving our financial and strategic objectives.

We have what we think is a very strong balance sheet with a solid capital structure of over $5 billion, including the third-party capital in DaVinci. We also believe we're prudently reserved with over half of our reserves still booked as incurred but not reported losses or as additional case reserves.

We've historically had a very good track record of accurately reflecting event losses when they occur and not having substantial net upward revisions.

Our solid capitalization, we think, is one of the reasons, just one. But one of the reasons we receive industry-leading financial strength ratings from the rating agencies.

Needless to say, we strive to be good stewards of our investors' capital over time. When market conditions do not allow us to fully utilize our capital to write business with attractive returns, we seek to return it as quickly as is practical. A preferred method has been and is share buybacks for returning capital to our shareholders. We've only raised equity capital one time during our 19-year history. And this was to go on the offensive to take advantage after conditions following the World Trade Center catastrophe in 2001.

Since 2007 we have repurchased over 35% of our outstanding shares. We currently have a $500 million share buyback authorization in place that the Board has given us. And anticipating a question, have for the first time in our history, done share repurchases during wind season.

We will continue to manage capital with an eye toward returning to our shareholders when we can't generate adequate returns on it in our underwriting business.

So hopefully by now you see us as we see ourselves, which is as an underwriting-focused company. In that context, investments exist as a result of our underwriting activities. And our management of the investment portfolio is designed to support our underwriting activities. As such, we typically structure our portfolio to have a very high degree of liquidity so that we can meet any cash requirements our underwriting activities may have.

As you can see from this chart, about 88% of our investment portfolio is either in short-term instruments or high-quality, fixed-income instruments and about 12% is in alternatives.

We invest in the context of the risk profile of the overall business, which is principally driven by the underwriting book. We do not strive for returns in the investment portfolio that could create meaningful earnings volatility. We never want the investment portfolio to limit our flexibility in the underwriting part of our business. However, within all those constraints, we do seek to maximize after-tax, risk-adjusted returns.

I should mention also, because we get questions on the yield of our portfolio, we do not manage the portfolio targeting a specific yield. It's managed with a total rate of return focus.

So in summary, we think we are well-positioned as a company to take advantage of the opportunities and the challenges ahead. We have a long track record of delivering superior returns for our shareholders who are willing to experience some earnings volatility from time to time. We accomplish this by operating our competitive strengths as an integrated system. Parts of that system have been imitated by some of our competitors. But our culture is unique in the way that we integrate our delivery of these. We have a view that risk management like capital management and client relationships is everyone's job at RenaissanceRe. It's an important part of our success. And it underpins our culture.

Our past and continues stability to produce superior financial returns we think will help us sustain the strong financial strength ratings of the Company. And as a result of these, we believe we're well-positioned to remain a market leader in the businesses within which we operate.

So thank you very much for your attention. And with that, I'll turn it back to Jay and let you take it from there.

Questions And Answers

Q - Jay Gelb {BIO 21247396 <GO>}

Thank you. In the couple of minutes we have left for Q&A, Jeff, why don't I kick it off? Do you have any initial outlook for the January 1 reinsurance renewals coming out of Monte Carlo? You guessed that one was coming.

A - Jeff Kelly {BIO 20911735 <GO>}

Yes.

Q - Jay Gelb {BIO 21247396 <GO>}

Then the other near-term issue would be Hurricane Isaac -- what type of impact do you anticipate for the reinsurance sector probably as well as Renaissance?

A - Jeff Kelly {BIO 20911735 <GO>}

Well I probably won't have time for anything other than the Isaac answer. So let me turn quickly to the Isaac question. We have our own view of that at this point. But it's a -- I should say it's a -- it's still very early to know. All I can communicate to this group is that we see just what you see, estimates on the losses from Isaac. I've not know what the latest are. I've seen estimates around the $2 billion area. So we do not believe it is a large reinsurance event. I expect we'll have a bit of exposure. But not a significant amount of exposure. That's our view at this time.

I think you may be better connected to the folks in Monte Carlo than me. I'm not getting a lot of e-mail traffic with my colleagues from Monte Carlo. So I don't know whether they're having too much fun or what.

But I think our expectation is really unchanged from that which we communicated on our Second Quarter earnings conference call, which is that we think the series of events that conspired -- that's a bad term -- that came together to push pricing up in the market -- and those are the implementation and adoption, I think the subsequent adoption of the RMS 11 models, as well as just the significant amount of cats that occurred in 2011 have worked their way through pricing and are kind of in, for lack of a better term, equilibrium. We're at equilibrium at the end of June. And so while we had hoped that pricing would continue to rise for a period, I don't think we're terribly surprised to see it come to price increases, to come to more or less a halt at June 30 and was one of the reasons why we grew our book so much at the first part of the year.

So apart from that, things can happen beyond that. But I don't think we see the market forces that caused pricing to come to more or less full stop at the end of June, to continue. We expect that to be the case absent any other market forces.

But I would just say that we, in spite of the fact that pricing did not seem to go up post-June 30, we still view the property cat market largely as attractively priced. And we felt we had a very good -- we built a very good portfolio at the end of the Second Quarter.

Q - Jay Gelb {BIO 21247396 <GO>}

All right. Well I'm afraid we're out of time. Please join me in thanking Jeff Kelly from Renaissance. We are having a breakout session with Renaissance in the Riverside suite.