Q2 2018 Earnings Call - Reconvened

Company Participants

- Alexander Maloney, Group Chief Executive Officer & Executive Director
- Darren Redhead, Chief Executive Officer, Kinesis Capital Management
- Elaine Whelan, Group Chief Financial Officer and Chief Executive Officer, Lancashire Insurance Company Limited
- Paul Gregory, Group Chief Underwriting Officer and Chief Executive Officer, Lancashire Insurance Company (UK) Limited

Other Participants

- Andreas van Embden, Analyst
- Ben Cohen, Analyst
- Joanna Tamar Parsons, Analyst
- Jonathan Denham, Analyst
- Kamran Hossain, Analyst
- Nick Johnson, Analyst
- Paris Hadjiantonis, Analyst
- Thomas Seidl, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Lancashire Second Quarter 2018 Results Reconvened Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Alex Maloney, Chief CEO. Please go ahead, sir.

Alexander Maloney {BIO 16314494 <GO>}

Thank you. Good afternoon, everyone. I'd just like to apologize for the technical issue we had on Thursday. We're not going to repeat our scripts again today. Obviously, that part of the call code worked perfectly, so I would just like to highlight five key points, which we think are the most relevant for this quarter and the commentary on our market and then we'll go straight to Q&A.

While multiyear premiums are stripped out of this quarter, we have grown in the areas that we would expect to. These are mainly property and the cat exposed lines, also our new business quarter-on-quarter is up. Our previous commentary on the market has been correct. Cat rates has continue to be positive, but the level of hardening has reduced as we have approached the winter season as others have rushed to fill overambitious business plans.

Our specialty book has been more constant and better than we expected. In fact, our specialty insurance RPI for our Lloyd's business has improved in Q2 versus Q1. We expect this to continue into 2019 as underwriters finally focus on profitable underwriting for non-cat lines.

At the half year stage, we have paid back virtually all of our 2017 losses, which I believe demonstrates the quality of our earnings of our underwriting book. Our 2017 the cat reserves have only reduced so far. We are seeing no deterioration at this point, which we believe demonstrates our prudent approach to reserving.

And finally, we have added three teams to add to our suite of specialty products. We have never done this before in our history and these have all been completed in the last nine months. This is a combination of our ability to attract the best teams due to our pure underwriting approach, conditions for these classes looking more favorable and the general state of the current market and the displacement of underwriters. We expect to be able to add more teams in the next 12 to 24 months.

And we'll now hand over to the operator for questions.

Q&A

Operator

Thank you. We can now take our first question from Thomas Seidl from Bernstein. Please go ahead your line is open.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thank you. Good afternoon. First question is on growth. I mean your commented that in the presentation on a couple of multi-year deals and premium true ups and so on. So, a simple question, how does management think about or see the underlying growth. So year-to-date, how would you see underlying growth versus the same period last year stripping out – there was a one-offs that's the first question.

Second, premium year-to-date slightly up 3%, capital 100 million down. Does that mean basically you remained right sized regarding capital, given where premium growth is going right now? And thirdly about pricing, and more about clarity is it is it basically right to interpret the chart you provide on renewal price, you said Q2 2018 prices were essentially for the non-Lloyd's segment at Q2 2017 level, and hence have not seen any increases post the cat losses.

A - Alexander Maloney {BIO 16314494 <GO>}

Okay. Thomas, thanks for your questions. I think Paul will give you some flavor on just some of the rates that we're seeing and where some of the growth is coming on the underwriting book and align with talk about (00:04:27) capital.

I think in general what I would say is, we believe everything is going in the right direction. And, obviously, you can look at quarter three RPIs, et cetera, et cetera. But you have to look at a broader picture if you like. And I think one thing that we just need to be very clear about is, we can talk about cat rates. And I think we've been very clear, we think cat rates have been and what they are today. And then obviously, we just have to make sure we're talking about specialty in the right frame, because the specialty story is probably better than we thought and the cat story is where we thought it will be, but obviously more disappointing. Paul, would you just want to give some flavor on some of the growth we've got in this quarter?

A - Paul Gregory {BIO 16314515 <GO>}

Yeah. Hi, Thomas. Yes. And I think as Alex mentioned in his opening remarks, (00:05:19) where you'd expect to see it, which is in the property lines, whether they be reinsurance lines or some of the direct lines that that we write for the syndicate. I mean if you look year-to-date, both of those factors whether that'd be property reinsurance lines in the company or property lines in the syndicate are both just under 11% versus RPIs of about 109 and 108 (00:05:43). So that's kind of where we'd expect it to be. You're tracking the rate, but you're seeing a bit more new the business, which Alex has commented on. We tell you that across the whole portfolio. I think stripping out the multi-year impacts out on last week's call Elaine gave some numbers around that on marine and energy.

What you're basically saying is, year-on-year growth is slightly ahead of where you are saying RPIs across portfolio, so mid-single-digit rates, which is broadly where you'd expect it to be, given our commentary earlier in the year, which is the market is better, which is good, not substantially better, but we're prepared to write a bit more income (00:06:19) in this market and that's exactly what we've done.

A - Elaine Whelan {BIO 17002364 <GO>}

Hi Thomas, just on the capital side, our approach is the same there, hasn't changed. (00:06:34) with buffer on top of that. And in terms of the business that we've been adding there, that hasn't been capital-intensive. That hasn't really had an impact in terms of where we are and we do want to keep a little bit of capital headroom in there as well just to see how the market develops and we might want to use for any kind of more capital-intensive business lines that we may add.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. Thank you.

(00:06:59) Great. Thank you.

Operator

Thank you. We can now take our next question from Jonathan Denham from Morgan Stanley. Please go ahead. Your line is open.

Q - Jonathan Denham {BIO 19972914 <GO>}

Hi. Thanks for taking my questions. What kind of price increases would you need to see to materially increase your risk levels? And then just secondly, based on the supply of alternative capital following last year's events, and how have your expectations of price increases in response to (00:07:25) changed, it at all? Thanks.

A - Alexander Maloney {BIO 16314494 <GO>}

Okay. I think it's clearly different for cat business versus other product lines. And even within the specialty books, there are each markets at different levels, so it just depends. I think, to give you a straight answer on the cat. I think if cat rates would have gone up 20%, we would be assuming more risk of it, a tiny more risk and that didn't happen.

And again rates are up which is good, as Paul said, but we did make a big point of that on the same reinsurance program this year. So, I suppose that just translate to rates are up and that's good, but we're not prepared to assume a lot more risk at the moment and I think one thing we've always said is that we will match – we'll match our underwriting to the market. And in a great market, we'd be happy to retain a lot more risk, but the rates just didn't move enough. So, I think as a risk-adjusted return that's coming up year-on-year, and if rates had gone up 20% consistently, we would have assumed more risk and we would have been happy to do that.

On the specialty book, it just depends where you are at and at different stages. But clearly as Elaine just spoke about capital as well, your specialty lines don't eat as much capital as the cat side, so we would really be happy with a lower number than 20%. So I think the cat, it would have to be in 20% just because of the rate reductions we've seen for a number of years. Sorry, on the Q2, question two, can you just give me that one again?

Q - Jonathan Denham {BIO 19972914 <GO>}

Sure. It's just obviously there's been a lot of supply, alternative capital and following breakage events, which maybe the market wasn't quite expecting. Have your expectations of how pricing would, what cap pricing would react to losses, has that changed at all?

A - Alexander Maloney {BIO 16314494 <GO>}

I think probably the speed in which the funds reloaded probably surprised everyone. It was always one of the big questions. Most of the capital in the third-party capital space had never experienced a year like 2017. That was always a big question mark. And those guys moved quickly and reloaded quickly. Clearly some of their expectations on the market tend to be slightly fair at that time everyone's expectation was higher, So, clearly, when they raised the capital some of those expectations just won't be met, and clearly some of the loss numbers that were given to those investors at the time have stepped up materially for some people and that may require some detailed explanation. But I think that, I think you have to assume that if you had a number of big events these guys will move quickly and it depends as the business have how good you are to the cat book. But if you looked at length, cat business is great, I still like cat business, we would like to write a lots of cat business but we're not completely beholding to the cat business and we have a good balance of cat versus specialty.

So if the cat market doesn't change from here and third-party capital continues to come into this space, but unfortunately and we can't match the returns (00:10:45) from cat business. We have historically. But if you look at the returns we can make even a sort of, say, 2016 pricing that was the overall return for shareholders is adequate for us.

So I suppose the short answer is, you just don't know. I think the interest rates going up in the U.S. helps, and I would suggest that some of the money in the third-party capital space probably doesn't appreciate, the volatility that's actually there. And obviously you only appreciate volatility. In our world if the wind blows or the earth shakes. So I think it's too early to say. I think, you probably need, if you had another loss year you could call it better than you've had one bad loss year in a number of years for those investors, so it's difficult to predict.

Q - Jonathan Denham {BIO 19972914 <GO>}

Fair enough. Very clear. Thank you very much.

Operator

Thank you. We can now take our next question from Kamran Hossain from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. I'm – afternoon, everyone. Two questions. First one, I guess coming back to the (00:11:54) Lloyd's is taking on the market, it seems to becoming a bit of a theme we heard this morning about or from (00:12:00) one of your peers. If they manage to deliver on that, do you think you'd look to write more in Cathedral in the Lloyd's business? And then, do you think also as well it would have much of an impact outside of Lloyd's? That's first question.

And then the second question, just looking at the reserve releases, obviously, fairly large versus nascent premiums, but the book's been stronger (00:12:25) in the last few years. Could you just give us an indication of what reserving strength has been like year-on-year kind of whether it's down, up or kind of pretty flat? Thanks.

A - Alexander Maloney {BIO 16314494 <GO>}

Okay. So I'll just give you my view on what I think Lloyd's is trying to achieve (00:12:40) to Paul, who'll talk about what actually is main for us. I think where Lloyd's has got to is that – if you listen to John Hancock, and all the commentary that's coming from Lloyd's is that Lloyd's is going back to profitable underwriting and a concentration on underwriting margins. And clearly we applaud that and clearly we support John Hancock 100% in that approach because that's what has been our approach. So if you look - if you look at Cathedral as an example, we could show you clear chart where our income has dropped heavily since 2012, and we have underwritten the cycle. And if you look at some of the numbers in Lloyds, they have gone the other way. So I think that what Lloyd's is trying to achieve, we applaud. I think it needs to happen. And, yes, we do believe it will create opportunities for us if it happens and clearly we will probably know in the next eight weeks, what Is actually going to happen with Lloyd's, because of the way, the Lloyd's business plan and people's final business plans have to be in about the middle of September. So the next six weeks or eight weeks is key. So, yes, we think there is an opportunity for us, and Paul can talk about that, but as I said we 100% support their approach, because we think this market has to get back to profitable underwriting it's the only way forward.

A - Paul Gregory {BIO 16314515 <GO>}

Yeah. I mean, Kamran, I'd echo Alex (00:14:17) this is exactly what needs to happen. And the areas that it's happening are actually all the kind of lines that Lancashire as a group, whether that'd be in the syndicate or outside specialize in so that (00:14:29) short tail, specialty, volatile, long and you know if you look at our portfolio even over the last (00:14:36) market, our combined ratios in all of those areas whether it be aviation, marine, energy. We've got very, very good market leading combined ratios.

There is a lot of people that haven't and therefore actions now being taken. I mean even if you look our income in Lloyd's for example this year, if you look at aviation and you look at marine cargo they are both up quite a lot year-on-year. Some of that's right, but some of that is new business, and some of that is something because we're already taken preemptive strikes and cut back in certain areas. So if rhetoric continues and an active action is taken. This is all good for us.

And to be honest, we can grow out our specialty lines, which is actually something we're looking to do and the reason we brought three new teams in the last nine months that's all so good for us. We think we're reasonably good at these lines of business and I think history bears that out. And also as Elaine alluded to earlier a lot of these lines are not really capital-intensive. So you know any improvement there is really good for us and this is the bit (00:15:43) the market, that we are most confident, excited about at the moment. We do need more to happen, we need Lloyd's to follow through, which I'm sure they will and this can all be helpful, particularly these lines that we're talking about here are dominated by London, a lot of the business is controlled in London. And Lloyd's is actually a very, very big part of the London market. So, at the moment, we are pretty positive about these areas and we are hoping that the improvement continues.

Q - Kamran Hossain {BIO 17666412 <GO>}

Okay. Thanks for the color.

A - Elaine Whelan {BIO 17002364 <GO>}

Just on the reserve release question, I'm going to give you a really (00:16:26) pretty variable. If you look at what we've had over the last number of years, it does move around quite a lot. And just to give you kind of a flavor of where things come from, we have (00:16:35) we then have reporting patterns that run that [Technical Difficulty] (00:16:38-00:16:45) but if you look at the [indiscernible] (00:16:48) quarter-on-quarter have been fairly steady and there's a little bit of earnings [indiscernible] (00:16:52) over the last few years, otherwise [indiscernible] (00:16:55) and you can see it was a bit different [indiscernible] (00:16:57) reserving exercise in the second half of the year. And some of this variability that you see around the reserve releases were driven by large losses or cat losses.

And with them, it really depends on how we're facing them individually and will happen is a slightly larger release this quarter, but we drew down the reserve on an older energy claim and the energy claims can take a quite a long time to resolve and can be quite volatile (00:17:22) going through that process. And so, I know that doesn't give you a great deal to go on for putting a number into your model. But, if you're looking for something there, then I think your best bet is to look to the last year and make an assessment on that.

Q - Kamran Hossain {BIO 17666412 <GO>}

That's great. That was a helpful, unhelpful answer. Thanks for that.

You're welcome.

Operator

Thank you. We can now take our next question from Nick Johnson from Numis. Please go ahead. Your line is open.

Q - Nick Johnson {BIO 1774629 <GO>}

Oh, sorry. The question has been answered already, so I can get out of the call. Thanks.

Operator

No problem. We can now take our next question from Ben Cohen from Investec. Please go ahead.

Q - Ben Cohen {BIO 1541726 <GO>}

Oh, thanks very much. There were two things I wanted to ask. Firstly, in terms of the increase in what looks like the underlying loss ratio in the second quarter. I think Elaine said last week that it was just noise or sort of volatility. I just wonder if you could sort of comment on that in more detail. And maybe, if you like, if you want to kind of recommit to I think you were talking about a mid-30s underlying claims ratio in the business does that still hold, or would indeed be that be improving with the price increases that you're seeing?

My second question was with regards to the new teams. I had in my notes from Q1 that you were talking about sort of on the energy side $20 million to $25 million of new business that you expect from those two those two teams. Does that still hold and can you give us any quantification as to what you expect, I think it's the aviation team to contribute (00:18:57)? Thanks.

A - Alexander Maloney {BIO 16314494 <GO>}

Hey. Elaine (00:19:02) the first one.

A - Elaine Whelan {BIO 17002364 <GO>}

Sure. Yeah. Yeah. Sure. So, the increase in the underlying loss ratio really is just a bit of noise (00:19:09) and a lot of timing. And we had a handful of reported claims that came in and that were sub-5 million, let's say. Then when you a fewer than in a quarter that makes a difference. So, when you adjust those back out (00:19:24) and we're bagging that mid-30s kind of range and entirely happy with that. It really just depends of what happens in the quarter. I mean, if they had been more spread out and if it would have had big an (00:19:32) impact and we're setting at high-30s for the year-to-date. And I think we've talked before, but now looking at the book on a quarter-by-quarter basis. Now I would say the same again, I think if you take a kind of longer-term portfolio view, then we're still pretty happy with that mid-30s, and you could place (00:19:49) adjusted for what we've been seeing about that's more in the cat book and less on (00:19:54) attritional side, so we're still pretty comfortable with that mid-30s.

Q - Ben Cohen {BIO 1541726 <GO>}

Okay. Thanks.

A - Paul Gregory {BIO 16314515 <GO>}

Ben, hi, It's Paul. Yeah. So, On the new team, yeah the number 20 to 25 just to remind people with that a fully annual number, once the teams that have been in, but for 2019, yeah, happy with the 20 to 25 guidance, and that's still same fair given current market conditions, then we've actually as you mentioned we added in the aviation team. So, I think if you look at all the three teams combined anywhere from 40 to 45 would be a reasonable assumption assuming market conditions remain as they are, et cetera. So, that's kind of where we are at the moment.

Q - Ben Cohen {BIO 1541726 <GO>}

Sorry. Just as a follow-up, can you just remind me what does – what's the new aviation team, what exactly are they writing and what's their background?

A - Paul Gregory {BIO 16314515 <GO>}

So they (00:20:51) what they do they were aviation predominantly aviation deductible business, which is a very niche area within the aviation market. A great thing from our perspective is, as you know we currently already write a number of aviation product lines and a number of our existing clients currently buy this product. And so we've got some natural cross-selling that should hopefully allow us to hit the ground running. As I say it's a pretty niche area of the market, got good historical loss ratios, which are now strange for aviation business, but we intended to make money out of aviation. This will only add to our products offering to our clients and brokers. So we're really happy to have got this one over the line.

A - Alexander Maloney {BIO 16314494 <GO>}

(00:21:38) And then as Paul said with the current aviators we have even if those guys are not here in time we can still service those clients with the existing personnel we have.

Q - Ben Cohen {BIO 1541726 <GO>}

Right. Okay the 19.

A - Alexander Maloney {BIO 16314494 <GO>}

Yeah.

Q - Ben Cohen {BIO 1541726 <GO>}

Okay. Thank you very much. Thanks. Thanks for taking my question.

Operator

Thank you. We can now take our next question from Andreas Van Embden from Peel Hunt. Please go ahead.

Q - Andreas van Embden {BIO 1795530 <GO>}

Hi. Good afternoon. I just have two questions. The first one or it's about top line growth. Could you maybe indicate what kind of headwinds in terms of multi-year contracts or other sort of types of issues you would expect for the second half of the year to try and calculate what the underlying growth is and then try and run through the headwinds as well.

And the second question is, if you look at your property reserves, it seems that paid losses came down in Q2. Obviously, you've got the cat reserves in there. How long would it take for you to pay down last year's U.S. hurricane losses? Is that the end of this year or will it take a number of years to pay down? Thanks.

A - Alexander Maloney {BIO 16314494 <GO>}

(00:23:07) Elaine.

A - Elaine Whelan {BIO 17002364 <GO>}

Hi. Yeah, yeah. Hi, Andreas, and on the top line growth. When we had our Q4 earnings call, we talked about $65 million impact last year I mean we said we expected something similar for this year. We didn't have much impact of the multi-years in the first quarter and we talked about the impact in this quarter so probably we're halfway through that. And so I think you can expect to see clear chunk of that in Q3 and a little bit more in Q4.

And in terms of the property reserves, we've seen them paying us more than normal. I think if (00:23:44) we look at the three events together, things have been more complicated in terms of adjusting and paying them. (00:23:48) the end of this year I think it's going to take a bit longer not for them to get paid though.

Q - Andreas van Embden {BIO 1795530 <GO>}

Okay. So, so I assume sort of by the middle of next year everything's paid out?

A - Elaine Whelan {BIO 17002364 <GO>}

Yeah. I mean I think even beyond the middle of next year or so (00:24:05) .

Q - Andreas van Embden {BIO 1795530 <GO>}

Okay, thank you.

Operator

Thank you. We can now take our next question from Joanna Parsons from Canaccord. Please go ahead.

Q - Joanna Tamar Parsons {BIO 1558226 <GO>}

Thank you. I've got two questions. Firstly, on the energy book and premium you referred to coming from the new teams. But a number of people seem talking about the way that the energy market is now picking up new opportunities coming through. So when you talk about the growth next year is, that taking into account your assumptions of how you see the energy market activity beginning to pick up or is that regardless of that, and therefore, there could be more growth? And you talk about the possibility of other teams that you might bring on board. Could you give us a feel for what sort of areas you might look at? Thank you.

A - Alexander Maloney {BIO 16314494 <GO>}

So on, on the teams, Joanna, we see ourselves specialized in niche product lines, short tel (00:25:14), we haven't stepped into casualty, same, we would never do that but, we haven't done that so far and we see our services as a specialized in areas that probably need an old fashioned underwriting approach with good underwriters and product lines the (00:25:30) so an online underwriting system. So you know the aviation deductible book is probably perfect for us.

The headline sounds pretty awful, doesn't it? Aviation is deductible. But that's exactly the kind of thing that we do here. So I think there's always lots of conversations going on. I think what's quite interesting is that if we actually go through across the line in a short period of time and that's a bit of a function of the displacement in the market, there is lots of people looking to (00:26:04) and we don't have any issue with employing

(00:26:09) people. We think a lot of the MGAs, the new MGA is a complete (00:26:15). But there are - there is a lot of movement in our world, there is a lot of people that they leave their current homes, there is a lot of unhappy underwriters.

And hopefully, we can employ some of those people if their books of business are good enough. So nothing really off limits as long as we can understand. The only issue sounds specialty, where we're interested. And Paul spends most of his life looking at these things. So but we - I don't think we'll go to casualty anytime soon. And if we were ever to go into casualty (00:26:50), we would have to bring some proper expertise into the business, because we don't currently have that.

So pretty much anything that specialty as Paul said, a lot of the business that we're interested in is still controlled in Lloyd's. And if Lloyd's is a more disciplined going (00:27:05) forward, that's quite grasp. And if we can (00:27:07) upon whether it's Lancashire or Cathedral or (00:27:11) people , that's what we will do. But equally, it has to make sense for us and we have to believe in the business plans and a lot of the business plans we see you just can't believe in. So there is nothing really off limits. Paul, would you just want about energy and split out the sort of new things versus what could be (00:27:33).

A - Paul Gregory {BIO 16314515 <GO>}

Yeah. So Hi, Joanna.

Q - Joanna Tamar Parsons {BIO 1558226 <GO>}

Hi.

A - Paul Gregory {BIO 16314515 <GO>}

As you know historically, we've predominantly underwritten upstream energy, offshore energy and that market has improved as you see it from the RPIs, albeit coming from a pretty low base after what's happened over the last four or five years. And then on top of that, you've then got a more robust oil price that's been pretty robust for several months now.

When we speak to our clients, there is definitely more cautious optimism from our clients that they're putting rigs back to work, they're drilling more wells, they thinking about construction. I think as we said earlier in the year, there is always a lag between demand coming back into the market and the oil price. So, in our view, it's always more than 2019 story (00:28:15), and lots can happen to the oil price and it doesn't all flood back at once. And if you look I mean you know the world you won't right and demand going in the right direction. But at the moment both of those things are happening. It's just small steps at the moment. If it continues, then yes, we would like to see some growth in that upstream book next year.

And on top of that obviously, we've got a downstream energy, which again is good, because that's more income coming in, that was well underwriter plug into the U.S. teams, the capital outlays cost more. Also as where we just gives us (00:28:54) aviation, it gives us a bigger footprint with our clients, easy to become more valuable to them as a reinsurer because you can offer multiple products. And then more recently, our (00:29:04) joined us in May, and they were right with here on the ground and with the income at 16. So, again same thing 19 applied there, there are a number of – it's not quite the same as downstream and upstream energy, but having another platform on the energy banner is a good thing particularly with brokers. So, all combined we'd like to see that (00:29:26) as a whole growth year-on-year. But as we always say, it just depends on – it would just depend on the opportunity. But at the moment, the signs are good. All of those individual subsectors' writes are moving in the right direction and particularly on the upstream demand is just starting to tick up (00:29:45) where it is, then we're hopeful that demand will continue to tick up slowly through 2019 with annual premium now downside risk though.

Q - Joanna Tamar Parsons {BIO 1558226 <GO>}

Yeah. Okay. Thanks.

Operator

We can now take our next question from Paris Hadjiantonis from Credit Suisse. Please go ahead.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes. Hi from my side as well, guys. Two questions remaining. One is shown the investment portfolio. Can you give us an idea where exactly, what kind of yield do you currently reinvest your money in and I have noticed that duration has come marginally down. Can you actually increase duration a bit or are you fully mastered at the moment.

And the second question I have failed to actually hear any comments around Kinesis. I don't know if you've said anything about Kinesis. Where are you in terms of AUM year-on-year and in terms of underwriting fees and profit commissions, what should we be expecting given that you had a pretty good first half?

A - Elaine Whelan {BIO 17002364 <GO>}

Hi, Paris.

A - Alexander Maloney {BIO 16314494 <GO>}

Go ahead (00:31:01) Elaine.

A - Elaine Whelan {BIO 17002364 <GO>}

Yeah. And so, our current reinvestment rate is about 2.8% and we are expecting to get another couple of interest rate hikes this year, so call it three hedge (00:31:13)depending on how many highs we have in the time here in those and duration is deliberately low at the moment and we've been hedging out our interest rate restrict (00:31:23) for a while and keeping at fairly low. And as we think these people take hedge off of and we will slowly increase that over the next year or two years, so we'll see that kick back up and towards kind of 2, 2.2 level.

A - Darren Redhead {BIO 17995744 <GO>}

Hi, Paris. It's Darren from Kinesis. Regarding your question there on the assets under management, I think we've mentioned - I think we have mentioned before we're up 30% from previous years on an asset under management. Regarding the performance fees the profit machines that need to be earned from this year would be picked up during 2019.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Hi. Can you give us an idea of the magnitude of those?

A - Darren Redhead {BIO 17995744 <GO>}

Well, we're not going to give any guidance on that because obviously it's yet to be earned or whatever, but I've kind of given you what points were in (00:32:21) that and up plus 30% and you can look up previous years.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

So, we get an idea of where under writing (00:32:27) at least. Cool.

A - Darren Redhead {BIO 17995744 <GO>}

Yeah.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Thank you.

Operator

We have no further questions in the queue at this time. I'd like to turn the call back over to you for any additional or closing remarks.

A - Alexander Maloney {BIO 16314494 <GO>}

Okay. Thank you, everyone for your questions. Sorry about last week and we'll talk to you next quarter.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.