Q4 2014 Earnings Call

Company Participants

- Anne G. Waleski
- F. Michael Crowley
- Richard R. Whitt, III
- Thomas S. Gayner

Other Participants

- Adam Klauber
- David M. West
- John D. Fox
- Mark A. Dwelle
- Vincent M. DeAugustino

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to the Markel Corporation Fourth Quarter 2014 Conference Call. All participants will be in listen-only mode. After today's presentation, there will be an opportunity to ask questions. .

During the call today, we my make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They are based on current assumptions and opinions concerning a variety of known and unknown risks. Actual results may differ materially from those contained in or suggested by such forward-looking statements.

Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included under the captions "Risk Factors" and "Safe Harbor and Cautionary Statement" in our most recent Annual Report on Form 10-K and quarterly report on Form 10-Q.

We may also discuss certain non-GAAP financial measures in the call today. You may find a reconciliation to GAAP of these measures in the press release, which can be found on our website at www.markelcorp.com in the investor information section. Please note this event is being recorded.

I would now like to turn the conference over to Tom Gayner, President and Chief Investment Officer. Please go ahead, sir.

Thomas S. Gayner {BIO 1896932 <GO>}

Good morning, thank you. Welcome to the 2014 year-end conference call for the Markel Corporation. My name is Tom Gayner and I'm joined by Anne Waleski, Mike Crowley and Richie Whitt today. We've got some good and fun results to share with you this morning and Anne will jump in with the numbers in just a second.

Before we get into the details, though, there is one thought I'd like to share with you, mainly this. A year ago when we had this call, we and you would have been concerned about competitive conditions in the insurance markets with new capital providers continuing to enter the business. We would have all been concerned about interest rates being low and the struggle to earn investment income, we would have been concerned about the lack of premium leverage, we would have been concerned about an equity market that was an all-time high and seemingly bereft of good values. We would have all been concerned about the integration of the Alterra acquisition and we would have all been concerned about global geopolitical issues. We probably would have had a similar list the year before that and year before that and so on and so on. Sometimes it seems like the issues we face at any given point in time sound like the long list of side effects that you hear in the drug commercials on TV. There's always something to be concerned about.

But some of those issues led folks to model an outcome that suggested that the Markel Corporation had a tough time earning more than a single-digit return on equity on a comprehensive basis. Despite what the models said, the very good news is that we are reporting a double-digit return of 14% in our book value per share this year. Those results came about because of the hard work, creativity and dedication of the people of Markel. We'll also acknowledge and be grateful for the good luck involved in things like the major catastrophes in 2014.

All of those concerns I just mentioned at the beginning were valid a year ago and most if not all of them remain relevant today. When we look back at each year, there always seems to be some reason why things are going to get worse. Fortunately, the people in this organization always seem to find a way to meet the challenges and keep building the value and values of this company. I expect that to continue to be the case over time.

With that, it is my pleasure to turn the call over to our Chief Financial Officer, Anne Waleski to review the numbers and then to Mike Crowley and Richie Whitt, who will give you some commentary on our insurance operations. I will then return to briefly discuss Markel Ventures and our investment operations. Then we will open the floor for Q&A. Anne?

Anne G. Waleski {BIO 16735457 <GO>}

Thank you, Tom, and good morning, everyone. I too am happy to report that 2014 has been both an exciting and profitable year here at Markel. We had an excellent finish to the year, with our investing, underwriting, and Markel Ventures operations all contributing to our success.

Our total operating revenues grew 19%, eclipsing $5 billion for the first time, coming in at $5.1 billion in 2014 from $4.3 billion in 2013. The most significant drivers of this increase continue to be the inclusion of a full year of underwriting revenue from legacy Alterra product offerings in 2014, higher revenue from the Hagerty business and higher investment income due to our larger investment portfolio. Also contributing to the increase other revenues were up 24% to $883 million from $711 million last year, primarily due to revenue growth within Markel Ventures.

Moving into the underwriting results, in 2014, gross written premiums were $4.8 billion, which is an increase of 23% compared to 2013. The increase was driven by the inclusion of a full year premiums from legacy Alterra products in 2014 compared to eight months in 2013, which impacted all three of our ongoing underwriting segments. We also experienced growth in our U.S. Insurance segment within the Wholesale division primarily in our casualty product lines and in our Specialty division across various product lines.

Net written premiums for 2014 were approximately $3.9 billion, up 21% from the prior year for the same reasons I just discussed. Net retention of gross premium volume was 82% for 2014 and 83% for 2013. The decrease in net retention was due to 12 months of premium contributions from Alterra in 2014 compared to eight months in 2013. The slight decrease which is in line with our expectations is primarily due to higher use of reinsurance and certain insurance products previously underwritten by Alterra.

Earned premiums for 2014 increased 19% compared to 2013. The increase was primarily driven by the increase in gross written premiums that I just mentioned. Also contributing to the increase in earned premiums was higher earned premiums from our Hagerty business, which we began writing in the first quarter of 2014.

The U.S. Insurance segment included $203 million of earned premium from Hagerty in 2014 compared to $98 million in 2013. The consolidated combined ratio was 95% in 2014 compared to 97% in 2013. In 2014, a lower expense ratio was partially offset by less favorable prior accident year's loss ratio compared to 2013.

Underwriting acquisition and insurance expenses in 2013 included transaction and other acquisition-related costs of $75 million attributable to the acquisition of Alterra or 2 points on the combined ratio. Excluding transaction and other acquisition related costs in 2013, the 2014 expense ratio was comparable to 2013. The 2014 combined ratio included $436 million of favorable development on prior year's loss reserves compared to $411 million in 2013. The benefit of the favorable development on prior year loss reserves had less of an impact on the combined ratio in 2014 compared to 2013 due to higher earned premium volume in 2014.

Now, we'll talk about the results of Markel Ventures. In 2014, revenue from Markel Ventures were $838 million, compared to $686 million in 2013. Revenues from our Markel Ventures operations increased in 2014 compared to 2013, primarily due to the acquisition of Cottrell in July 2014 and the acquisition of Eagle Construction in August 2013.

We also experienced higher revenues in our manufacturing operations in 2014, primarily driven by cyclical changes in industry demand for transportation equipment, partially offset by lower revenues in our other manufacturing operations, due to fewer orders and shipments in 2014 as compared to 2013.

Net income to shareholders from Markel Ventures was slightly less than $10 million in 2014 compared to $24 million in 2013. Net income from our Markel Ventures operations decreased in 2014 as compared to 2013, due to less favorable results in our manufacturing and non-manufacturing operations in 2014, which were partially offset by net income attributable through acquisitions.

The decrease in net income in our manufacturing operations in 2014 was due in part to the lower revenues I just mentioned. The decrease in net income in our non-manufacturing operations was primarily attributable to less favorable results at Diamond Healthcare driven by a $13.7 million goodwill impairment charge taken by Markel Ventures in the fourth quarter of 2014. Markel Ventures' adjusted EBITDA, which excludes this charge, was $95 million in 2014 compared to $84 million in 2013. The increase in adjusted EBITDA in 2014 is due to acquisitions.

Moving onto our investment results. Net investment income for 2014 was $363 million compared to $317 million in 2013. The increase in net investment income in 2014 is primarily due to a larger investment portfolio in 2014 as a result of the acquisition of Alterra in 2013. Net realized investment gains for 2014 were $46 million, compared to $63 million in 2013. Variability and the timing of realized and unrealized investment gains and losses is to be expected.

Looking at our total results for the year, we reported net income to shareholders of $321 million compared to $281 million in 2013. The effective tax rate was 26% in 2014 compared to an effective tax rate of 22% in 2013. The increase in the effective tax rate was driven by higher earnings taxed at 35% in 2014 and a smaller benefit from our foreign operations in 2014, which are taxed at a lower rate.

Comprehensive income was $936 million for 2014. I think that's worth repeating. Comprehensive income was $936 million for 2014. That compares to $459 million a year ago. The increase is primarily attributed to net unrealized gains on our investments during the period. As a result of our investing, underwriting and Markel Ventures operations, book value per share increased approximately 14%, as Tom said, to $544 per share at December 31, 2014 from $477 per share at the end of 2013.

Finally, I'll make a couple of comments on cash flows and the balance sheet. Net tax provided by operating activities was $717 million for 2014 compared to $746 million for 2013. In 2014, we made higher payments for income taxes compared to 2013. These payments were partially offset by higher cash flows from investment income during 2014, primarily due to having a larger portfolio in 2014 as I previously mentioned. Invested assets at the holding company were $1.5 billion at December 31, 2014, compared to $1.3 billion at the end of 2013. The increase in invested assets is primarily the result of dividends received from our subsidiaries and an increase in unrealized gains on our investments.

With that, I'll turn it over to Mike to discuss operations

F. Michael Crowley {BIO 6836605 <GO>}

Thanks, Anne. Good morning. As stated in previous quarters, the U.S. Insurance segment comprises all direct business written on our U.S. Insurance company and includes all of the underwriting results of our Wholesale, Specialty divisions as well as certain products written by our Global Insurance team.

For the fourth quarter, gross written premium was up 4% over the prior year. Year-to-date gross written premiums have increased 11% over prior year. This increase was due in a large part to the Alterra lines of business that are now included in this segment. Excluding these lines, premium volume was up 6%.

Keep in mind that we have been exiting or re-underwriting some lines in our Specialty, Wholesale division and this has impacted growth. The U.S. Insurance segment combined ratio for the quarter was 90% compared to 87% last year. The combined ratio for the year was 95% compared to 92% in 2013. As discussed in previous quarters, the higher U.S. Insurance segment combined ratio was driven by less favorable development of prior year losses due in part to adverse development in the architects and engineers line of business earlier in 2014.

While we continued to see favorable development on our casualty lines of business in 2014, these redundancies were less than in 2013. Partially offsetting this impact was a lower year-over-year expense ratio. The improvement in the expense ratio was primarily due to non-reoccurring transaction costs recorded in 2013 associated with the Alterra acquisition.

The rate environment remained unchanged in the fourth quarter. We continue to achieve modest single-digit rate increases on our small and medium-sized accounts, consistent with previous quarters. The market for larger global accounts remained very competitive and the rate for most lines remained under pressure.

During the fourth quarter of 2014, and the first part of 2015, we announced several management promotions in the U.S. segment. Britt Glisson was appointed President of Global Insurance. Britt has been with Markel since 1990 serving in a number of management role, including President of Markel Insurance Company and most recently Chief Administrative Officer of Markel, a position he retains along with his newly delegated responsibilities. Britt has been working closely with the global team for the past year having spent most of the year in Bermuda.

Steve Letak was named Chief Operating Officer for Global Insurance and Chief Administrative Officer for Bermuda. Steve has been with Markel since 2010, joining us as part of Markel's acquisition of FirstComp and was most recently Controller for the

Specialty division. He has 30 years' experience in the industry and has both his CPA and CPCU designations.

Jim Arnold was appointed Chief Administrative Officer for the Wholesale division. Jim also joined Markel in 2010. He has significant experience in strategic planning and business analytics. Previously he served as Chief Administrative Officer of FirstComp, where he was responsible for operations, customer service, legal and compliance teams.

When Markel acquired THOMCO in 2012, Greg Thompson who built and led THOMCO for 33 years stayed with Markel and soon after the acquisition assumed the position of President of the Specialty division. Greg did so with enthusiasm and a great sense of urgency and commitment. Recently Greg expressed a desire to step down from his position, but remained with Markel and focus his energy on building programs which is a real passion of his.

Effective April 1, 2015, Matt Parker will take over from Greg as President of the Specialty division. Matt most recently served as Managing Executive, Markel FirstComp where he and his team have consistently improved results every year. Matt has a very strong management background having spent 15 years with Gillette and Procter & Gamble managing businesses out of London and Germany. Since joining Markel, Matt's track record is excellent and we look forward to his leadership of this division.

Chad Bertucci has been promoted to Managing Executive for Markel FirstComp effective April 1, 2015 replacing Matt Parker. Chad joined FirstComp in 2006 and has served in several capacities including Vice President, Strategic Planning; Vice President of underwriting, loss control and audit.

At the beginning of the fourth quarter we announced the combining of Markel and Alterra claims units into one organization for Markel North American and Bermuda. Nick Conca was appointed Chief Claims Officer and will be responsible for the strategic vision and performance of this department. Nick joined Markel with the Alterra acquisition and has more than 25 years' experience in the insurance industry, including senior leadership positions with several international brokerage, insurance and claims organizations.

All of these management promotions clearly illustrate the depth of talent that exists at Markel. Our ability to attract, retain and promote top performer from within this organization, supports our belief that we are well positioned for success in the future.

I'll now turn the call over to Richie Whitt.

Richard R. Whitt {BIO 7084125 <GO>}

Thanks, Mike. Good morning everybody. Today I will focus my comments on our 2014 underwriting results for both International Insurance and Reinsurance segment. You may recall that last quarter, I used terms like solid and business as usual to describe the first nine months of the year, there is word equally applied to our full year results for both segments. We had a strong finish to 2014 in both the International Insurance and

Reinsurance segments and reported improved 2014 combined ratios in both segments compared to 2013.

The International Insurance segment which includes direct business and facultative placements written by our Markel International division as well as that written by our Global Insurance division performed extremely well in 2014.

Gross written premiums in the International Insurance segment increased 9% to $1.2 billion for the year. The combined ratio was 93% compared to 94% in the prior year. The increase in premium writings in 2014 was primarily due to Global Insurance division, which was created after the acquisition of Alterra on May 1, 2013. Consequently, it only contributed eight months of business in 2013.

The lower segment combined ratio was driven by more favorable prior year takedowns, that was partially offset by higher current accident year loss ratio. The increase in the current accident year loss ratio was primarily driven by favorable development on prior accident years for the Global Insurance division, which was included in the current accident year for reporting purposes in 2013. I know that makes a lot of sense but Anne will explain it if you need her to.

Now I would like to discuss the 2014 results of the Reinsurance segment, which includes reinsurance programs written by our Global Reinsurance division as well as those written by the Markel International division.

Gross premiums written for this segment were $1.1 billion for 2014, up from $566 million a year ago. The increase in premium writings was primarily due to including the full year writings for products previously written by Alterra in 2014 compared to eight months of writing in 2013, obviously, a much bigger difference than in the International Insurance segment. Keep in mind, Reinsurance, big dates for renewals on Reinsurance are January 1 and April 1. So obviously those were not included in 2013.

The combined ratio for the Reinsurance segment was 96% compared to 109% last year. The reduction in the 2014 combined ratio was driven by more favorable prior year takedowns in the lower expense ratio. The lower expense ratio in 2014 is driven by Alterra acquisition related cost included in 2013. Included in the 2013 current accident year loss ratio was favorable movement on pre-acquisition accident years related to the Alterra company. These takedowns totaled approximately $23 million. Excluding these takedowns and about $25 million of cat losses in 2013, the current accident year loss ratio was flat period-over-period.

As Mike said, market conditions remain competitive in the Reinsurance segment. We continue to see rate pressure and saw rate decreases during the January 1 renewal process. The International Insurance segment also continues to experience rate pressure with property and marine and energy being the most heavily impacted at this point.

We've stated at many times, we're not going to chase premium when we feel rates are inadequate. We continue to reinforce this message with our underwriters and underwriting teams, everyday. As a result of current market conditions and our underwriting discipline, organic growth in these segments will be challenging in 2015.

So to quickly sum it up and hand it over to Tom, 2014 was a great year for International Insurance and Reinsurance segments. Given current marketing conditions, 2015 will be challenging but sort of similar to Tom's earlier comments, when have we not said that about markets. But we're very confident in our team's ability to navigate tough markets and deliver solid results.

Now I'd like to turn it over to Tom to discuss investments and Markel Ventures. Thanks.

Thomas S. Gayner {BIO 1896932 <GO>}

Thank you, Richie. Well, everyone here is reported to you as Frank Sinatra might have sung to you, it was a very good year. For Markel Ventures we grew in 2014 both organically and by acquisition. Ventures total revenues grew 22% from $686 million to $838 million and our adjusted EBITDA grew from $83.8 million to $95 million. The Ventures group includes some businesses that are performing better than we expected and some that are not. I think this will almost always be the case from a diverse group of companies. In aggregate, I'm very pleased with the economic value being created from these operations, and I'm optimistic about 2015 from the group. Several of our companies are cyclical and tied to overall levels of economic activity. So far, our order books continue to look good and I expect 2015 to be a good year for Markel Ventures.

In our equity portfolio, we earned 18.1% in 2014 compared to the 13.7% return of the S&P 500. I simply could not be happier with this. More important than the returns of anyone here though is the fact that over the last 25 years we've earned over 200 basis points more than the S&P 500. I would sign up for that sort of out performance for the next 25 years in a New York minute. Our commitment to equities has added immense value to Markel over the decade. We'll do our best and continue to follow our time-tested approach and try to keep that going into the future.

In our fixed income operations, we earned 6.5% and fulfilled our goals from fixed income investing of earning a positive spread on the insurance funds we hold and protecting the balance sheet against credit losses, as well as the possibility of rising interest rates. We continue to keep our duration a bit shorter in our estimates of the duration of our insurance liabilities. The actual foregone investment income from maintaining this approach is small compared to the risk of what would happen if interest rates rose dramatically. We will continue to be defensive as long as rates are low.

Again, thank you for your long-term interest in Markel. We love what we do here and we love the people we get to work with. 2014 was an intense and fun year and we look forward to meeting the challenges of 2015 and beyond.

And with that, we'd now love to take your questions. Thank you. If you could open it up for questions, please.

Q&A

Operator

Thank you, Mr. Gayner. We will now begin the question-and-answer session. Our first question will come from Vincent DeAugustino of KBW. Please go ahead.

Q - Vincent M. DeAugustino {BIO 17976273 <GO>}

Good morning, everyone.

A - Thomas S. Gayner {BIO 1896932 <GO>}

Good morning.

A - Richard R. Whitt {BIO 7084125 <GO>}

Good morning.

A - Anne G. Waleski {BIO 16735457 <GO>}

Good morning.

Q - Vincent M. DeAugustino {BIO 17976273 <GO>}

Just to start out with a question I guess for the team, no one in particular. But with Tom's opening comment about just modeling out a tougher environment, and so here I'm particularly thinking about the comments around Alterra. So, what I'm wondering is that might imply that you might have baked in some additional margin of safety or excess margin of safety beyond what was kind of needed. And if that implies that we might begin to see some initial accident year PIKs coming in and then might also see some favorable development on some of those kind of realignment actions that were kind of taken over the last year.

A - Richard R. Whitt {BIO 7084125 <GO>}

Vincent, this is Richie. I'll give it a shot. We're incredibly consistent in terms of our approach of trying to build reserves that are more likely redundant and deficient in building a margin of safety in our reserves. This is something we've done after every single one of our historical acquisitions. And so I think this is a case where past history is probably pretty good indicator of what future performance might look like. We're doing very consistent with Alterra, as what we did with a Terra Nova or a FirstComp or any other acquisition, building that margin of safety. And once we believe that margin of safety is established, you'll have that ongoing roll on of safety in the first year and roll off of margin of safety in the back years. I would hate to try to tell you when exactly I think that will happen. But I think we're on track to accomplish that just like we've done in other acquisitions.

Q - Vincent M. DeAugustino {BIO 17976273 <GO>}

Okay. Very good to hear. And then Tom, just on Diamond Healthcare, maybe not a good assumption, but I guess I would have thought that just with the healthcare environment that that would have been a favorable kind of tailwind for Diamond. So maybe that's not the case. Or I mean was there anything from a company standpoint that kind of, a) from a revenue side that's impacting it? And then b) from the goodwill side that had an impact as well?

A - Thomas S. Gayner {BIO 1896932 <GO>}

Right. I've alluded to some of the Markel Ventures companies are doing better than what we had forecast; some are more challenged. In healthcare, the truth is we have not covered ourselves in glory. That is a changing industry and while there are tailwinds and you speak out from increasing demand, the change is just the swirl of regulation that's caused challenges. Additionally, in our healthcare operations we're in a rapid growth mode. So we're figuring things out. We are also conservative in our accounting from the way that we would report and describe that to you. So we're hard at it and I look forward to ultimately reporting better results to you some day on the healthcare arena, but we don't have them for you right now.

And one thing, I want to tie into some of Mike's comments earlier when he mentioned the list of people who received promotions and have grown within the organization, every single one of those, I think except Britt were folks that joined Markel as a result of acquisitions and every single one of those acquisitions that we spoke of had some J-curve associated with it, where for the first quarter or two you might have been concerned that why did we do that? But ultimately, the culture, the values, the system, the process that we embrace here at Markel works. We think that works in healthcare, just like we think it works in different forms of insurance and in different parts of the world. So, I look forward to reporting better news in the future to you, but I don't know whether that will be in the next quarter or two.

Q - Vincent M. DeAugustino {BIO 17976273 <GO>}

Okay. Sounds like it's going back to the benefits of all the diversification there, so not too concerned. So I guess the last question would be maybe on the workers comp side. So this seems like we're hearing that we may be kind of nearing an inflection point where rate increases are still available, but clearly it seems like things are getting a little bit more competitive. And so I'm just curious if you're seeing some of that same type of activity and if there is, I guess, the same comments on your small, mid versus large on the accounts side also applies here. Thank you.

A - F. Michael Crowley {BIO 6836605 <GO>}

Well, it's Mike. We only write small workers' comp in FirstComp, and the results of that organization have improved every year since we acquired FirstComp in 2010 and that was the case in 2014. They have changed their business, and I think I've talked about it on prior calls. They have moved in and out of geographies depending on the advantage of being in certain states and out of certain other states. They have dramatically re-underwritten and changed their position in California, particularly in Southern California. And they have tiered their business based on the quality of the business in terms of A, B and C type accounts. So they have managed that book of business extremely well in what isn't a necessarily a favorable workers' compensation environment. I don't see that changing going forward. I can't say anything other than they've just done an excellent job out-performing the overall workers' compensation market in the last few years.

Q - Vincent M. DeAugustino {BIO 17976273 <GO>}

All right. Thanks very much.

Operator

Our next question will come from John Fox of Fenimore Asset Management. Please go ahead.

Q - John D. Fox {BIO 1796608 <GO>}

Okay. Thank you, everyone. Realizing the overall results are terrific. Thank you for that. I did have a question on an area where it wasn't terrific, which is the Alterra life and annuity. And I'm doing this for memory. But I recall, when you closed the deal, you put up a rather large, I guess, charge or reserve against that. I think it was $300 million, but I may not remember that correctly. And it's continuing to be a drag of about $30 million a year roughly. So is that something that we're going to live with going forward? Or is that – as kind of Richie was commenting on building a margin on safety realizing it's a discontinued business at this point?

A - Richard R. Whitt {BIO 7084125 <GO>}

Hey, John, Richie. How are you doing?

Q - John D. Fox {BIO 1796608 <GO>}

Hey, I'm doing well. Thank you.

A - Richard R. Whitt {BIO 7084125 <GO>}

You're going to continue to see that $30ish million or whatever the number is every year. That's just simply the amortization of the discount on the reserves, because you established those reserves at a discounted rate. What you're not seeing is the other side which is what we're earning on the assets that we hold against those liabilities. You don't see that because that's sitting in the investment portfolio. We're very comfortable with where we are on the life and annuity reserves today. They're doing basically what we expected. And the discount rate we used when we acquired Alterra to set that reserve up was very conservative and even with the rather puny returns you can get right now in terms of your investments on fixed income. So it's a little bit – and we can get on the phone with you and talk about it. But you'll continue to see that number and what you're not seeing is the return on the portfolio on the other side.

Q - John D. Fox {BIO 1796608 <GO>}

Right. Of course, that's covered through investment income and unrealized gains and realized gains, so.

A - Thomas S. Gayner {BIO 1896932 <GO>}

Yeah, right.

A - Richard R. Whitt {BIO 7084125 <GO>}

Yeah. So I mean nothing untoward or different than what our expectations at the beginning has happened quite honestly.

Q - John D. Fox {BIO 1796608 <GO>}

Right. But Tom was talking about modeling at the beginning of the call and I should think about that in the other line as continuing going forward.

A - Richard R. Whitt {BIO 7084125 <GO>}

Yeah. Absolutely.

Q - John D. Fox {BIO 1796608 <GO>}

Okay. And for Tom Gayner, I'm looking back, three years ago you had less than $2 billion in equities and now it's $4 billion. And that, of course, has come from a terrific stock market and additional investments that you've made over time. Going forward from here, the market has done fantastically, valuations are higher than they were. What do you see going forward, Tom? Do you continue to dollar cost average, do you take your foot off the gas a little bit, what are your thoughts on equity investing going forward from here?

A - Thomas S. Gayner {BIO 1896932 <GO>}

So really the same as it's always been and to your answer about dollar cost averaging, that is one of the beauties of being part of Markel is that my insurance colleagues keep making deposits into the account all the time, which facilitates that sort of approach and they very kindly never ask for any money back, if they make an underwriting profit. So it doesn't get any better than that. There's always uncertainty in the investment markets and while we're talking about new highs, as an example, people in the oil patch might not be feeling that way right now.

I mean that price has been cut in half and there's also just implications and things that fall out from that in ways that people didn't foresee and I hope you don't hold me to a forecast. I hope you don't hold anybody to a forecast because some things about the oil market that has struck me is, I mean, this is the biggest, the most liquid, the most important commodity that's traded in the world. And the fact that it could sell for over $100 and then less than half that within six months tells me that nobody knows anything about anything when it comes to the future. So that being said, that was the case three years ago, the case 30 years ago, and it's fun to come to work every day because there's something that you did not expect to happen that creates an opportunity.

Q - John D. Fox {BIO 1796608 <GO>}

Right. Yeah. I'm certainly not asking for a forecast for the future, I guess. Just when you look at your investment opportunities, the future returns on equities will not be what they've been over the last three years, although they're going to be – my prediction is they're going to be better than fixed income. So, I was just curious, just for the incremental dollar coming from your friends in the insurance business, is the same proportion going into equities less, or it sounds like it's going to be the same going forward if I hear you correctly?

A - Thomas S. Gayner {BIO 1896932 <GO>}

Yeah, and what has happened over the last three years is we've sort of incrementally continued to invest in equities. And I've been inappropriately cautious about the equity market. But quite frankly we satisfied returns, but we didn't optimize them. But that's okay because that leaves us margin of safety, which is an important part of the culture here, and we'll continue to just plot along as the markets sheer off perhaps some big reaction, we have to drive power in the capital to invest more aggressively and we will.

Q - John D. Fox {BIO 1796608 <GO>}

Okay. Thank you.

A - Thomas S. Gayner {BIO 1896932 <GO>}

Thank you.

A - F. Michael Crowley {BIO 6836605 <GO>}

Thanks, John.

Operator

The next question will come from David West of Davenport & Company. Please go ahead.

Q - David M. West {BIO 1838548 <GO>}

Good morning.

A - Anne G. Waleski {BIO 16735457 <GO>}

Good morning.

Q - David M. West {BIO 1838548 <GO>}

Mike, I guess, first a question for you on the more recent acquisition, Hagerty doubled their own premium this year. Could you talk about that relationship and how you see – do you expect it to continue to expand at a pretty healthy rate?

A - F. Michael Crowley {BIO 6836605 <GO>}

Well, one, David, we didn't acquire Hagerty. We are simply the underwriter on their book of business. They are a privately held independent agent and broker that specializes in the collector car business. They grew significantly this year. That marketplace we were just out with them recently. There's a big marketplace. They obviously are a dominant player and a highly recognized player in that marketplace. I certainly don't expect their premium volume to double in 2015.

I think they'll see steady growth as they have in the past. So, our relationship with them is very good. We have a long-term focus with them, and I think that the relationship today is about as solid as it could be.

Q - David M. West {BIO 1838548 <GO>}

Okay, great. And just turning to the international side, Richie, maybe you have a quick update on that, the Abbey Protection deal.

A - Richard R. Whitt {BIO 7084125 <GO>}

Well, sure, Dave. Sorry, I didn't mention that. And some of it was probably because it's sort of business as usual. That acquisition has settled down nicely, did exactly – pretty much exactly what we wanted it to do this year in terms of premium volume and in terms of the fee income that it generates.

The things that we're working on right now with the Abbey folks and our UK retail folks, it's how we can cross-sell some of that retail product. Abbey has got some really neat products that we think we could sell alongside some of our other commercial products both for the retail market, and that is what's been the focus over the last couple months is really coming up with plans on how we're going to start to take advantage of that in 2015. And so, hopefully I'll have more to say about that as we go through 2015, but things have gone very well at Abbey in 2014.

Q - David M. West {BIO 1838548 <GO>}

Great. Great. And then lastly for Tom, you just alluded to all the turmoil in the energy sector, wonder could you comment on what kind of exposure you had to energy and the fixed income portfolio.

A - Thomas S. Gayner {BIO 1896932 <GO>}

I don't have any breakdowns, but nothing that concerns me. We have a policy of 90% of our fixed income portfolio by mandate is a 8 or better and we always state the top tier anything we would do, energy included.

Q - David M. West {BIO 1838548 <GO>}

Okay. Very good. All right. Thanks so much.

A - Thomas S. Gayner {BIO 1896932 <GO>}

Thanks, Dave.

Operator

The next question will come from Mark Dwelle of RBC Capital Markets. Please go ahead.

Q - Mark A. Dwelle {BIO 4211726 <GO>}

Yeah. Good morning. Few questions. Let me start with – on the international book of business in the fourth quarter, there's obviously some pretty significant reserve releases in there. Adding those back into get an accident year combined ratio, it looks like the accident year combined ratio year-over-year was a little bit higher. I was wondering if there was anything unusual in there, or changing business mix. I realize, obviously, these are always pretty conservatively stated, but I wouldn't have necessarily expected the accident year number to go up.

A - Richard R. Whitt {BIO 7084125 <GO>}

Mark, Ritchie. We're sort of looking at each other here and nothing in particular stands out to us. Anne or Nora somebody can give you a call. But we'll look at it and let you know. But I guess, I would say I don't know of anything in particular in the current accident year that's a problem. I'm thinking it's probably more of a mix issue. But we'll take a look at that and get back with you.

Q - Mark A. Dwelle {BIO 4211726 <GO>}

Okay. Same question, also kind of related to combined ratios. It looked like, at least based on my calculation, that the expense ratio for the fourth quarter was back at about 40% relative to the kind of 37% to 38% you had been reporting. Was there anything that contributed to that?

A - Richard R. Whitt {BIO 7084125 <GO>}

Yeah, Mark, that's one of the good expense ratio issues. What contributed to that was having so much in takedowns that increases our bonus accruals around Markel. So there's a lot of happy people looking at the fourth quarter expense ratio at Markel. And it's what you would expect. I mean, we really had a nice year in terms of the loss ratio. Some portion of that comes back on the expense ratio side through bonus accruals.

Q - Mark A. Dwelle {BIO 4211726 <GO>}

Makes sense.

A - Thomas S. Gayner {BIO 1896932 <GO>}

We fixed that.

Q - Mark A. Dwelle {BIO 4211726 <GO>}

Sure, enough. Last question I guess – well, next to last question. Any comments on the January 1 reinsurance renewals? All the market commentary is that rates were fairly substantially down. You guys have normally been very disciplined about as you say not chasing those rates, anything that you can share as far as what to expect about the January 1 renewal book?

A - Richard R. Whitt {BIO 7084125 <GO>}

Sure, it's again, Richie, Mark. Yeah, it was tough. I mean January 1 was tough. I think everybody expected it to be tough. We're still putting numbers together, but we'll probably be down a little bit on our January 1 renewals just simply because of pricing and the fact that, when that starts to happen, some accounts get too close to where we think the line needs to be drawn, and we either have to reduce on them, or we have to come off of them.

So, yeah, I would say that the news that you'd probably been hearing from other people that 5% to 15% kind of on average is a pretty good number, and we'll wait and see what happens the rest of the year in reinsurance. Part of the beauty of Markel, I love having reinsurance as part of that business. I also love only having it as about 20% of our business, because of that diversification, we can be a bit more cavalier in terms of our approach to it and be more disciplined. So, we'll see how the rest of the year goes.

Q - Mark A. Dwelle {BIO 4211726 <GO>}

Okay. And then the last question I have is – you guys have had a buyback authorization in place for a little while now. You've not done a whole lot with it. And I know, historically, Markel hasn't been overly aggressive in buybacks. But I look at the amount of capital that you're generating, the prospects for growth as described and the valuation of your shares, which is really not that distinct from a lot of peers. Kind of curious, Rich, how you're thinking about buybacks and maybe why you're not being a little bit more aggressive at this stage?

A - Thomas S. Gayner {BIO 1896932 <GO>}

Sure. Well, thanks, Mark. This is Tom. As we've written for the last several years, the four-part list in the triage of how we would think about capital that comes in the doors – and, first off, let's not understate the importance of capital coming in the door, to start with. This is a very high-class problem we're talking about here.

The first thing we'd like to do is fund organic growth. And the good news is that given the size and scale of this organization and the talent we see in certain pockets, whether that's insurance or non-insurance, people seem to be coming up with ideas to deploy capital in a thoughtful way. And the best evidence you have that that works is the continuing sort of compound annual growth rate and the book value that we continue to report to you. So if we see opportunities to invest organically with people who are already part of this organization and have done well, we're going to do that all day long. So, we don't think we've exhausted that list at all.

The second thing we look at is acquisitions, both insurance and non-insurance entities these days, and I think that about covers the possibility. So given the fact that we have history and demonstrated ability to do that, it's a big world there and we continue to seek deals and a lot of flow and a lot of conversations that I think will accrue to the long term benefit to the Markel shareholders. The third thing we have the option of is publicly traded investments and we look at them in the same way that we would look at any other capital allocation opportunity. We've done pretty well on that over the years. So then fourth and final, after we've exhausted these first three opportunities, if we still have money left over and our stock is priced favorable, well, then, yes, we'll repurchase, but the good news is that for as long as possible, to deploy capital offensively in these first three categories, we've - all of us as Markel shareholders are better off, then we'll look to do that as much as possible and share repurchases are our item number four. That being said, we're very rational, we're Markel shareholders. This is a source of our own personal net worth, and if it makes sense to being aggressive on that level, we will do so.

Q - Mark A. Dwelle {BIO 4211726 <GO>}

Okay. Thanks for the update on that. I will drop off.

Operator

The next question will come from Adam Klauber of William Blair. Please go ahead.

Q - Adam Klauber {BIO 1494359 <GO>}

Good morning, everyone. A couple different questions. Number one, acquisitions you've done some acquisitions in the last couple years, I guess. What's your appetite going forward and particularly would you consider another large deal again in the next couple years?

A - Richard R. Whitt {BIO 7084125 <GO>}

Adam, Ritchie and Tom might kick in on this one as well. You know, we did the Alterra acquisition. It's coming up on almost two years ago now, which is - it's really kind of hard to believe. But we're in a great position as a result of that. I mean the Alterra acquisition has gone very well I think, and in terms of integration we really don't talk about it any more. It's pretty much a done deal. So, short answer is we're kind of open for business really in terms of looking at insurance acquisitions. In terms of size, we try not to get too hung up on size. We try to think about strategic fit and the opportunity. And of course at the end of the day, is there a market clearing price, we can get to. So there's - put it this way, given where we are today, there is quite a large number of opportunities that we could look at and potentially take advantage of. And then of course on Tom's side, lots of opportunities there and I don't know if you want to talk about it.

A - Thomas S. Gayner {BIO 1896932 <GO>}

I have nothing to add.

A - F. Michael Crowley {BIO 6836605 <GO>}

Well, the other thing - this is Mike. The other thing I'll add to that is that I think, the culture fit with the Alterra talent in Markel was very good. And I think that's the basis of why we retained most of that talent. And while there are opportunities that will come up and there have been opportunities that we've looked at, since the Alterra deal, of different sizes, you know, you can't discount the fact that one of the important things we look at is the culture fit which benefits us all for the long haul.

Q - Adam Klauber {BIO 1494359 <GO>}

Yes.

A - Richard R. Whitt {BIO 7084125 <GO>}

Yeah. And maybe just one last thought on it, Adam. There's been a ton of – a slew of activity recently and not to pick on any of those deals, I'm sure all of them had their reasons for moving forward. You know, strategic fit is critical. Culture is critical to us. There's been some discussion that maybe some of the deals recently have been big to get – bigger – big to get bigger. We're not interested in that. It's got to be a good strategic fit. It's got to be a good cultural fit.

Q - Adam Klauber {BIO 1494359 <GO>}

Okay, thanks. And then as far as the excess and surplus market, there's always the give and take between the standard market and the E&S market. Which way is the pendulum going now, it's been going towards the E&S market, is that continuing? Has that slowed down at all?

A - Thomas S. Gayner {BIO 1896932 <GO>}

Well, looking back at 2014, all five of our regions in the E&S segment grew in 2015 (sic) [2014]. And if we look at our top 10 or 15 relationships with the larger wholesale firms, brokers, almost all of those grew in 2014. We just had our wholesale producer council meeting in January down in Florida and the attitude with our customers was very upbeat. And their attitude towards Markel was very upbeat. And we're doing some strategic things there. So, right now I see 2015 as more of the same like 2014.

Q - Adam Klauber {BIO 1494359 <GO>}

Okay. Thank you. And then last, more of a detail question. In U.S., this favorable development, could you just give us, I guess some idea, which years most of the development came from, is it more recent, more older, just any ballpark would be helpful?

A - Anne G. Waleski {BIO 16735457 <GO>}

Adam, I don't think we have that level of detail with us, but I'm happy to call you after the call.

Q - Adam Klauber {BIO 1494359 <GO>}

Okay. That'd be helpful. Thanks a lot.

A - Thomas S. Gayner {BIO 1896932 <GO>}

Thank you.

Operator

[Operator Instruction] The next question will be a follow-up from Vincent DeAugustino of KBW. Please go ahead.

Q - Vincent M. DeAugustino {BIO 17976273 <GO>}

Hi, good morning, again and thanks for taking my follow-up, just one. Tom, it's a bit of a curve ball, but from your investment standpoint and going -turning to your point about diving into what no one can possibly know here. I'm kind of curious, if you see any situation where a strong dollar can create inflation outside of commodities and imports.

So really just U.S. services and domestic goods where that also simultaneously produces pressure on treasury yields, as you have some of that foreign money coming here. Now, the way I see that is, if that is a possibly, it'd be a negative for both the insurance industry reserves and investment portfolio. I mean, can anyone have a sense of that or do you have an opinion there?

A - Thomas S. Gayner {BIO 1896932 <GO>}

I mean, I have an opinion that you should be thoughtful about exactly that sort of risk. So it is in the mix of things that we think about. And we try consciously to make sure that no matter what sort of curveballs are thrown at us from that standpoint, we can answer the bell for the next round of the fight. And I'm confident that we have not locked ourselves into inflexible positions. That is the key problem in being able to answer the bell for the next round.

Q - Vincent M. DeAugustino {BIO 17976273 <GO>}

All right. Best of luck. Thank you.

A - Thomas S. Gayner {BIO 1896932 <GO>}

You bet.

Operator

And I'm showing no additional questions at this time. This will conclude the question-and-answer session. I would like to hand the conference back over to Tom Gayner for any closing remarks.

A - Thomas S. Gayner {BIO 1896932 <GO>}

Thank you very much. We look forward to chatting with you next quarter. Take care.

Operator

Ladies and gentlemen, the conference has now concluded. We thank you for attending today's presentation. You may now disconnect your lines.