# Q2 2019 Earnings Call

## Company Participants

- Keith McCue, Senior Vice President, Finance and Investor Relations
- Kevin O'Donnell, President and Chief Executive Officer
- Robert Qutub, Executive Vice President and Chief Financial Officer

## Other Participants

- Amit Kumar, Analyst
- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Josh Shanker, Analyst
- Matthew Carletti, Analyst
- Meyer Shields, Analyst
- Michael Phillips, Analyst
- Ryan Tunis, Analyst
- Yaron Kinar, Analyst

## Presentation

### Operator

Good morning. My name is Jason and I will be your conference operator today. At this time, I would like to welcome everyone to the RenaissanceRe Second Quarter 2019 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions).

Keith McCue, Senior Vice President, Finance and Investor Relations, you may begin your conference.

### Keith McCue {BIO 20595590 <GO>}

Thank you. Good morning. Thank you for joining our second quarter 2019 financial results conference call. Yesterday, after the market close, we issued our quarterly release. If you didn't receive a copy, please call me at 441-239-4830 and we'll make sure to provide you with one. There will be an audio replay of the call available from about 1:00 PM Eastern Time today, through midnight on August 24. The replay can be accessed by dialing 855-859-2056, US toll free, or 1404-537-3406 internationally. The passcode you will need for both numbers is 9860689. Today's call is also available through the Investor Information section of www.renre.com and will be archived on RenaissanceRe's website through midnight, on August 24, 2019.

Before we begin, I'm obliged to caution that today's discussion may contain forward-looking statements and actual results may differ materially from those discussed. Additional information regarding the factors shaping these outcomes can be found in RenaissanceRe's SEC filings, to which we direct you.

With us to discuss today's results are Kevin O'Donnell, President and Chief Executive Officer; and Bob Qutub, Executive Vice President and Chief Financial Officer. I'd now like to turn the call over to Kevin. Kevin?

## Kevin O'Donnell

Thanks Keith. Good morning and thank you for joining today's call. I'll open the call with an overview of our second quarter performance. Bob will then cover our financial results, and finally I'll come back on to the call to speak about our segments and take your questions.

We released our second quarter earnings last night and I'm pleased to report that we had a strong quarter. We reported annualized return on average common equity of 29%, and annualized operating return on average common equity of 16.7%. We grew our book value per share by 7.3% and tangible book value per common share plus accumulated dividends by 8.2%. These increases to book value represent absolute quarter-to-quarter changes and are not annualized. The strong results this quarter were driven by higher net earned premiums as a result of growth across all business lines. A low level of catastrophe activity, underwriting income from both our segments, the inclusion of the TMR portfolio and increased net investment income.

I am pleased with the growth and profitability that we achieved, both in the second quarter and overall this year, as our differentiated strategy has allowed us to grow selectively into an improving market. Looking forward, I'm optimistic about the market and about the sustainability of rate increases.

In the Casualty business, we saw positive momentum on underlying rates across multiple lines of business and continued our strong engagement with clients and brokers. In our Property business, we experienced strong midyear renewals. We were strategically positioned to profit from rising rates and were able to deploy more capacity at better pricing and preferential terms. I will discuss the renewals and sustainability rates in more detail when I address our segments, but I'm confident that we constructed an attractive portfolio, that will benefit us and our shareholders over the long term.

Moving to TMR; this was the first full quarter since our acquisition closed and the integration of our people and portfolio is progressing extremely well. Bob will provide you more with details. But from my perspective, having gone through our first major renewal as a combined entity, we are now one company, speaking with one voice, operating one unified underwriting system with a single view of risk and executing a consistent strategy. We have increased our flexibility by adding new locations in Zurich and Sydney, and new balance sheet in Switzerland called RenRe Europe. All of the TMR business is captured in rents and represents our view of risk.

We have been able to retain the business that we find attractive, which we expect to continue, and by leveraging our integrated system, we're renewing it on the most efficient balance sheets. In short, I couldn't be happier about how the TMR integration is progressing, or more confident about its contribution to long-term shareholder value.

I'll update you at the end of the call on the recent midyear renewals, as well as opportunities that we're seeing in 2019. But first, I'll turn it over to Bob for a look at our financials. Bob?

## Robert Qutub {BIO 15269353 <GO>}

Thanks Kevin and good morning everyone. We had a strong second quarter and today, I would like to highlight a few of our key financial results. But first, I would like to update you on the TMR integration and finally, I'll turn it back over to Kevin.

So starting with TMR, we continue to make good progress on the TMR integration. Among other important successes, we executed smoothly on the recent June 1st renewal as a consolidated entity; advanced the process of vendor consolidation, completed the re-branding of the TMR entities and consolidated our London offices. We remain on track to realize anticipated synergies on TMR's expense base.

During the quarter, we continued the wind down of the third party capital business, transitioning several of its risk portfolios to highly rated reinsurance counterparties. These portfolio transfers will help reduce operational complexity going forward, especially with regard to collateral management. We continue to assume that income from this business will be negligible.

We recorded $14.5 million of corporate expenses this quarter related to the TMR acquisition, which breaks down into $1.9 million of transaction costs, $3.4 million of integration costs, and $9.2 million of compensation costs. This is the first time that we've reported a full quarter of consolidated results reflecting the TMR book. Our financial reporting now fully reflects TMR's earnings.

Contributing to our results for the quarter, was approximately $90 million of net income from TMR, the majority of which was driven by mark-to-market gains on investments and foreign exchange gains, as we reposition the non-dollar portfolio. Taking these and other factors into consideration, the ongoing contribution to operating income in the quarter from TMR was consistent with our projected after tax run-rate contribution of $100 million, which we remain on track to achieve.

The one aspect of the TMR transaction I would like to briefly address, is the mechanics underlying the adverse development cover or ADC. As you recall, the ADC protects the reserves we acquired from TMR, including unearned premiums. The ADC is an enterprise cover, protecting us on paid losses above the attachment point of the ADC. However, we report our underwriting performance quarterly and by segment on an incurred basis. Consequently, there can be some noise in our reporting. This quarter, there was no impact to the ADC.

From an economic perspective, this results in three likely outcomes; if TMR results are as anticipated, the ADC is not impacted and our shareholder received the originally targeted return on the TMR acquisition. If TMR results are favorable, the ADC is not impacted, and over-time, this favorable development enures to the benefit of our shareholders.

And finally if TMR results are unfavorable, we recover on the ADC up to the limit of the contract and our shareholders' suffered no economic loss. To be clear, not recovering on the ADC is positive; because it means we experienced overall favorable development on TMR's reserves at the holding company level, which our shareholders keep, or results were as anticipated.

Now moving on to consolidated results; our annualized return on average common equity was 29%. Our results this quarter benefit from significant mark-to-market gains in the investment portfolio. We also had a strong quarter on an operating basis posting annualized operating return on average common equity of 16.7%. We reported net income for the quarter of $368 million or $8.35 per diluted common share.

Year-to-date, we have grown tangible book value per share plus a change in accumulated dividends by 16%. Our operating income was $213 million or $4.78 per diluted common share, which excludes $194 million of net realized and unrealized gains on investments, as well as $14.5 million of transaction, integration and compensation expenses associated with the TMR acquisition.

We had underwriting income for the quarter of $171 million and reported an overall combined ratio of 81%. Net premiums earned for the quarter was $912 million, up $482 million or 112% from the comparable quarter last year. The considerable growth this quarter is a combination of organic growth and the impact of the TMR transaction.

TMR had about $1.3 billion of net premiums earned in 2018. While we expect this number to reduce as we re-underwrite the TMR business, this process will take about a year. In addition, since this premium is protected by the ADC, it is largely retained net, as it is not ceded into our retro program. As the TMR business runs off. We will have a diminished impact on premiums earned.

We accrued $9.5 million of income taxes this quarter, mostly related to capital gains in our investment portfolio. We now have multiple balance sheets located in taxable jurisdictions, and as these businesses generate profit, including investment income under invested assets, they will be subject to income tax.

Now, before moving on to our segment results, I would like to briefly update you on our operational efficiency. Our direct expenses, which are the sum of our operational and corporate expenses, totaled $84 million for the quarter, which is up from $46 million in the same quarter last year or an increase of $38 million. $16 million of this increase was in corporate expenses, and was primarily driven by the $14.5 million in expenses associated with the TMR acquisition that I referred to earlier.

Adjusting for the impact of transactional TMR costs incurred during the quarter, direct expenses would have been $69 million or an increase of $23 million or 49% from the comparable quarter. This increase was driven by our expanded global platform following the acquisition of TMR, as well as ongoing expenses that will support the continuing growth of our business.

As I previously discussed, direct expenses have been increasing as we invest in the business and integrate TMR. However, the ratio of direct expenses to net premiums earned improved this quarter to 8% and reflects the significantly increased leverage the TMR business has afforded us. As TMR's net premiums earned run-off, this ratio may tick up somewhat.

Now moving on to our segments and starting with our property segment, where gross premiums written in the first quarter grew by $287 million or 52% over the comparative quarter to $839 million. Of the growth, about $165 million was from Property cat and about $122 million was from other property. Similar to last quarter, we retained about 40% of the growth in Property cat gross premiums written or about $64 million. In total, our Property segment reported underwriting income of $152 million and a combined ratio of 64% in the second quarter, with Property catastrophe printing a 45% combined ratio and our other Property printing an 85% combined ratio.

Now moving on to the Casualty segment, where our gross premiums written are up $213 million or 50% in the second quarter of 2019 over the comparative quarter. The majority of this increase is from the TMR business that was in force, as of the acquisition date and is not reflective of new business this quarter. We reported underwriting income of $19 million and a combined ratio of 96% for the quarter. The current accident year loss ratio for the Casualty segment was 65%, which was flat with the prior year quarter.

Now moving to fee income, where total fee income was $40 million for the quarter. We are in $26 million in management fees and $14 million in performance fees. Relative to the comparable quarter, our fee income grew 23%, which is due to the growth in the amount of third party capital that we manage. We raised an additional $700 million in third party capital in June, of which our participation was about 10%.

Now turning to investments; for the quarter, the return on our fixed maturity and short-term investments was $106 million and overall net investment income was $116 million. Net investment income was up $44 million from the comparable quarter, due to higher invested assets and increased returns on private equity investment. Of our $116 million of net investment income, $15 million was attributable to our various joint ventures and we retained $101 million.

We posted total investment results of $310 million for the quarter, driven by mark-to-market gains of $194 million, of which $143 million was from our fixed maturity investments. We distinguish our investment results between our managed investment portfolio and our retained investment portfolio. Our retained investment portfolio is a subset of our managed investment portfolio, and only includes those assets that contribute to our net income. As a reminder, our managed and retained investment portfolios include our fixed maturity and short-term investments, but exclude our equity investments and other investments, as well as investments in other ventures.

In the second quarter, our managed investment portfolio reported a yield-to-maturity of 2.4% and duration of 2.7 years on assets of $15 billion, while our retained investment portfolio reported yield-to-maturity of 2.5% and duration of 3.1 years on assets of almost $11 billion. For the quarter, we grew our managed investment portfolio by almost $1.6 billion, this growth was driven mainly by $625 million of new third party capital, which is net of our participation, $500 million of redeployed cash from the TMR portfolio and $310 million of total investment results.

As a reminder, this was the first quarter that we incorporated the impact of TMR on our net investment income and our total investment results. The TMR asset portfolio has been successfully integrated into our overall investment portfolio, as we transition these assets to new investment managers, converted non-US dollar assets to dollars and sold TMR tax exempt municipal holdings.

Now I'll close with the comments on our capital management. We did not repurchase any of our shares during the second quarter. Our priority has always been to deploy capital into the business. The midyear renewals also provided us with ample opportunities to grow organically. Moving forward, I anticipate additional opportunities to deploy capital into the business, which is consistent with our previously stated preference. That said, we are proud of our strong track record of being good stewards of capital and repurchasing shares when it makes sense, and we will always keep all options on the table.

And with that, I will now turn the call back over to Kevin for more details on our segments.

## Kevin O'Donnell

Thanks Bob. I will first provide comments on our Property segment and then follow up with Casualty. Starting with our Property segment, we grew gross premiums written by 52% over the comparable quarter last year. Property cat grew by 38%, while other property grew by 106%. The growth in both lines was a combination of organic growth rate increases and the addition of the TMR portfolio.

At the June 1 Florida renewal, the industry experienced rate increases on average of 15% to 20%, with quite a spread around this. Overall demand in Florida was flat, with little change in limits purchased, although there was some movement between programs due to shifts in the cat fund participation. So any improvement in rate was due to recent loss experience as well as capital charges and costs coming through, which ultimately resulted in reduced supply. Several factors influenced these supply dynamics. The last two years have seen record losses to global reinsurance markets, as well as Florida specific losses from hurricanes Michael and Irma.

There was materially less retro available to take Florida risk, especially on an aggregate basis. In part due to third party capital experiencing elevated levels of trapped capital. In addition, anxiety over social inflation and ongoing loss we've added to existing concerns about providing capacity to this market. From our perspective, these rate increases were necessary, but not sufficient. On a risk adjusted basis rates were up only high-single digits, which needs to be evaluated in light of the substantial rate reductions Florida domestic insurers have enjoyed over the last several years.

Consequently, we changed the way we take Southeast hurricane exposure. Once again, reducing the proportion of the Florida domestic market we write. At the same time, we increased our exposure to more diversified pools of Southeast hurricane risk, where we could capture relatively better economics for the same exposure, such as retro. So while we grew Southeast exposure on an absolute basis rates, rates did not improve enough for us to take -- risk more equity to the terrible Southeast hurricane. And the percentage terms against our increased equity base, our exposure remains about flat.

So in summary, even though we are writing a smaller percentage of our Florida -- of our book in the Florida domestic market and our absolute Southeast hurricane exposure is up, with this peril as a percentage of our equity base remains about flat. The result is a stronger portfolio producing higher returns, which is consistent with our history of taking more risk when rates are better. Our experienced tools, access and underwriting uniquely position us to shape our portfolio to capture the best risk in the best form, using the most efficient capital, which is what I believe we did this quarter.

Additionally, we were able to deploy our newest balance sheet, Vermeer, in the various (inaudible) renewals, including Florida midyear, and we are pleased with the portfolio that we constructed for our investor in that vehicle.

Similar to last year, the biggest market losses continue to come from adverse development, particularly on events like Jebi, Irma and Michael. In a case of deja vu, so far, the largest event for the market in 2019 was adverse development on 2018's Typhoon Jebi, just as a largest event in 2018, was adverse development on 2017's Hurricane Irma. The industry estimate for Typhoon Jebi have increased materially since the third quarter of 2018 and now we're above the high end of our estimates, which were more conservative initially than the market.

Our gross loss has increased as well. Although Jebi's net negative impact to our property book is essentially unchanged from the third quarter of 2018, when we first reported it. We have successfully managed the volatility from this event, due to our superior underwriting tools, integrated system and robust gross to net strategy. For the 2018 large loss events overall, we did experience some adverse development in the quarter, primarily from our aggregate contracts including retro. The net negative impact of this charge was approximately $25 million and was offset by favorable development in other years. As I discussed last quarter, we are paying particular attention to Typhoon Jebi and its growing impact on the retro market and we'll continue to monitor it closely.

An important component of our portfolio construction is using retro, to help us shape our risk distributions. Due to the nature of the losses over the last several years, we have made substantial recoveries from our retro programs. This is not surprising to either us or our retro partners, as is evident from the fact that we were able to renew almost all of our retro programs that expired at midyear. While the profile of our retro program is different, and we have paid an increased risk adjusted rate, I am pleased with the result and believe that our portfolio is more efficient because of these purchases.

Even though our retro renewal was successful, we are not reliant on any one type of capital, including retro, but rather shift preferentially among available sources. Our strong underwriting and consistent performance with long term partners gives us preferential access, both to retro and to other potentially more efficient forms of capital, especially when supply is constrained. This year we saw several areas of opportunity within our broader portfolio to support our customers, including sellers in the retro market. Consequently, we raised capital at June 1, in order to deploy an additional $700 million in DaVinci, Vermeer, Upsilon and Medici at returns that were attractive.

In general, our partners choose to trust us with their capital, given our long-term track record, superior underwriting and modeling capabilities, aligned approach and their belief that RenaissanceRe will be the best positioned to leverage improving market conditions.

An important concern of the market is the sustainability of recent rate increases. Rate increases are often classified as being driven by either insurance changes or reinsurance changes. In the Property market, I believe rates have strong support from both. Primary carriers are simultaneously seeking to increase rates and reduce line sizes. In a similar vein, due to a changing view of risk, reinsurers are seeking Re, and most importantly willing to reduce limits, which is a dynamic that has not existed for quite some time.

This newfound willingness to reduce can be credited to two factors; the reduction of ILS capacity and increased discipline resulting from the realization that risk returns have been below long-term acceptable levels. Due to their losses over the last few years and inability to raise funds to replace those losses, ILS managers have less capital and are willing to write less business. So ILS managers are now aligned with the traditional market, putting further upward pressure on rates. Because of this, I believe current rate trends will be sustained moving forward. I also expect that the de facto regulators, such as Lloyd's and the rating agencies will continue to maintain pressure on carriers, encouraging them to improve results.

These pressures play to our strengths. We are a recognized market leader in underwriting, modeling and managing partner capital. Our growth in premiums demonstrate that teams want to do business with us, because we have developed long-term strong partnerships with them. Similarly, our growth in partner capital demonstrates that capital allocators recognize our expertise and want us to manage their cat risk portfolios. So when I look forward, I'm very excited about the future, as we are uniquely qualified and preferentially poised to take advantage of the many opportunities that should continue over the next few years.

Moving to our Casualty segment. Gross written premiums were up $213 million or 50% versus the comparable quarter. This growth came predominantly from traditional Casualty business and to a somewhat lesser extent, our credit and other specialty portfolios. Of the $213 million of top line growth, about two-thirds comes from the legacy TMR book, and the remainder is organic.

We continue to experience satisfactory results within the Casualty segment, in terms of overall profitability and the stability of the core business. In addition, we are seeing positive momentum on underlying rates across multiple lines of business and an increasingly favorable rate environment for our clients. Generally, we've done a bit from an underlying rate increases, which are further enhanced by our focus on risk selection. These rate increases appear to be outpacing loss trends in general, and similar to the Property business, we believe that these premium trends are likely to persist going forward. The casualty market is being positively impacted by reform efforts at Lloyd's, as well as increased discipline from larger carriers. Falling interest rates should further encourage discipline.

Most of the rate sustainability in casualty is dependent on current underlying insurance market trends. Similar to the Property market, we are seeing primary rates rising due to capacity withdrawals and decreases in line size. As much of this market is placed on a proportional basis, insurers rate improvements directly benefit reinsurers.

On the reinsurance side, we can improve our economics through better terms and conditions, but that is not occurring as of yet. I believe the rate being sought by insurers is needed, and that they are committed to improving rate adequacy. So I remain optimistic that we have a degree of sustainability for rate in this market as well.

I am pleased with our market position in Casualty and Specialty lines. Both through organic initiatives and acquisition, we have built a leading franchise in the business, with great access to risk. With the recent addition of the TMR portfolio, we have increased scale and added new capabilities, platforms and balance sheets that strongly position us to access more risk in an improving environment. Moving forward, we are focused on developing new products and markets, as well as sourcing new forms of efficient capital.

In conclusion, the diligent execution of our differentiated strategy resulted in back-to-back strong quarter so far this year. I am pleased with our underwriting profits, increased net investment income and significant gains in both our fixed income and equity positions. The TMR integration continues to progress smoothly, and we remain on target for realizing our run rate and synergy targets. We executed well at the midyear renewals, raising considerable amounts of partner capital to provide needed capacity to constrained markets. Both our Property and Casualty segment's realized rate increases that we believe are sustainable.

Going forward, we remain optimistic regarding our opportunities, confident in our strategy and focused on maximizing shareholder value. And with that, I'll turn it over to questions.

# Questions And Answers

## Operator

(Operator Instructions) Your first question comes from the line of Josh Shanker from Deutsche Bank. Your line is open.

## Q - Josh Shanker {BIO 5292022 <GO>}

Yes, thank you. First, a quick numbers question maybe or I guess that's what it is. If we think about the TMR expenses that they added to your P&L in 2Q, are there any expenses that you incurred immediately, not related to the integration that will not recur in the quarters to follow?

## A - Robert Qutub {BIO 15269353 <GO>}

Hi Josh, this is Bob. We had recorded basically a couple of different categories. We have our ongoing run rate, which I talked about, is the increase in the $23 million, just under half of that is helping out on the growth of the platform. The other non-recurring costs, in the $14.5 million, there is a mixture of ongoing compensation costs and one-time costs. We'll expect to see those going forward, but they are non-linear, but it will decline.

## Q - Josh Shanker {BIO 5292022 <GO>}

Okay. And can you talk a little bit about Vermeer and Medici and some of the newer vehicles, what area of the market they are targeting and how that may be relates to some of the -- a hole in the market that the CATCo situation left, and just could you give us an idea of where you're playing and I know you don't want to give too much away, but can you give us some details a little bit there?

## A - Kevin O'Donnell

Sure. So of the $700 million, about half of it was allocated to DB. That was based on opportunities we're seeing from organic growth, also the pro forma roll-on of the TMR portfolio. And if you remember, DB's appetite is very similar to RenRe's appetite, where there is no business in DB, that is not in RenRe, but there is lots of business in RenRe, that's not in DB.

The other vehicles we also -- we're seeing good opportunity, and just to remind you of the strategies, Vermeer is writing high level US exposed risk. So we have top layer Re which writes high level non-US exposed risk. We have Medici, which is more focused on cat bonds, and then Upsilon, which is a worldwide vehicle, but that's also where -- when we find retro opportunities that don't fit our balance sheet, we put it on the Upsilon vehicle, and that is the one that probably has the most parallel to the CATCo. We are not writing the CATCo product, but the CATCo withdrawal of capacity from the market has allowed us to provide more traditional retro sessional products to some customers that were using other forms of retro session previously. So, is that helpful?

## Q - Josh Shanker {BIO 5292022 <GO>}

Yeah, that's helpful. Let me get one more in, on the other Property segment, the growth was significant. Can you divide that between TMR premium, the growth in the third-party vehicles and RenRe just broadening appetite in that area?

## A - Robert Qutub {BIO 15269353 <GO>}

Hey Josh, this is Bob. The growth in the other Property, about half would have come from the acquisition of TMR, they brought in and the rest would be -- and that would be generally what was in the in-force at the purchase date, the remainder would have been organic growth year-over-year.

## A - Kevin O'Donnell

And as far as the appetite here on the Property, I think it's always helpful to remind everybody that within Property -- we think about the world within property cat and other property; there is cat risk that's assumed in other property. But in other property, there's also other hurdles that can come in, more attritional type Property losses as well. So just as a reminder, there is cat risk in other Property. Our appetite hasn't changed, and we're seeing opportunities, particularly as underlying rates are increasing, particularly in the United States.

## Q - Josh Shanker {BIO 5292022 <GO>}

Thank you and congratulations.

## A - Kevin O'Donnell

Thanks.

## Operator

Your next question comes from the line of Amit Kumar from Buckingham Research. Your line is open.

## Q - Amit Kumar {BIO 15025799 <GO>}

Thanks and good morning. The first question I have is actually on the Casualty book. On the last conference call, you had talked about TMR's book being more Casualty than Specialty, and running at a higher loss ratio. I was curious if there was a way to talk about how we should think about -- I guess what's a good run rate for the blended book and based on your comments regarding the underlying rate improvement, is it time to start thinking about improving profitability in that book?

## A - Kevin O'Donnell

Let me take a stab at answering that, it's quite a bit in there. The TMR Casualty portfolio, that will form part of our Casualty and Specialty segment, is more heavily weighted to General Casualty than the in-force legacy RenRe book. And General Casualty has a higher loss ratio than Credit and Specialty and some of the other lines that are in that segment. So there will be an uptick. My belief is in that loss ratio. However, the book that we retain within the General Casualty section of the Casualty book of TMR will be re-underwritten, and that's one of the reasons we're seeing the substantial reduction in premium that will be kept on a run rate basis for RenRe Limited. We've talked before about the auto book being a large component of the Casualty segment within the legacy TMR, that has been the component of the book that is running at the highest loss ratio and it's not a book we intend to materially renew. So I would look to say that, we will rationalize the Casualty book against the book that we have in-force. We will grow where it makes sense, and hopefully over time, we will begin to enjoy the better rates that we are beginning to observe in that market.

## Q - Amit Kumar {BIO 15025799 <GO>}

Got it. That's a fair comment. The only other question, and I will requeue is, in your opening remarks you talked about optimism, sustainability, and you're talking about, you know, the losses, the adverse development, et cetera. And what I was actually wondering is, if you don't have an active hurricane season, doesn't a lot of these points become moot at that point, as we head into 2020 renewals. Do you still have confidence that not even having an active hurricane season will still predicate future improvement in the marketplace?

## A - Kevin O'Donnell

So I think everything can change, depending on what happens in wind season. But in -- and it being a normal wind season, I feel optimistic that the trends that are pushing rates, lot of them coming from the primary insurance side, will persist. I think there is a general realization within the reinsurance market, that particularly markets like Florida, it's been a buyer's market for a long time. It's been a small shift tidally to rates improving, but that needs to go further. And at 1-1, much of the business in late in the third and fourth quarter -- much of the business, that was lost effective in prior years, either renewed after the losses occurred -- sorry, before the losses occurred, or on a multi-year basis, so I think there's still sustainability of rates coming through.

## Q - Amit Kumar {BIO 15025799 <GO>}

Got it. That's very helpful. I will stop here. Thanks for the answers and good luck for the future.

## A - Kevin O'Donnell

Appreciate it. Thanks.

## Operator

Your next question comes from the line of Meyer Shields from KBW. Your line is open.

## Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Kevin, when you're talking about the Casualty and Specialty segment, I think you made a comment about pursuing other forms of capital, I think that means third party capital. I was hoping you could update us on where the investor appetite is for non-property or non-cat lines is?

## A - Kevin O'Donnell

I think the -- there is appetite for non-cat lines, and I think we talked last year, that we put some third party capital to work in event based Casualty business in the third quarter of last year. There are substantial issues with bringing third party capital to the market, which have to do with the tail, and how to think about rolling the tail into either future vehicles or truncating the tail through run-off. I believe that the appetite is further along than the structures are there to support it, and what we've seen is more vertical integration of third party capital, trying to get lower in the stack and closer to insurance risk, that is beginning to gain some traction, and I remain optimistic that some lines of business, probably more in the specialty area like cyber and others, may ultimately find a way to get more access to third party capital. The one thing I'll say, many of these lines are not constrained from a capital perspective and there is good reinsurance support available. So part of it is, whether the customer needs it and whether it can be cheaper.

## Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's very helpful. And then shifting gears, I guess last quarter you talked about -- maybe paraphrase in a higher likely ratio of net to growth relative to the book in 2018. Does that still hold following mid-year renewals?

## A - Kevin O'Donnell

So reduced session rates, is that what you're asking?

## Q - Meyer Shields {BIO 4281064 <GO>}

Yeah, particularly for tail losses.

## A - Kevin O'Donnell

Yeah, I think -- when we think about structuring our portfolio, retro is a component of it and we don't have specific targets. So I wanted to comment that we renewed our retro program, because there was a lot of visibility to us purchasing it this year. But it is only a single component of what we do, and not something that is a required element of the portfolio. So I feel good about the risk that we put together from a portfolio perspective. The one thing I think I would like to highlight on the retro that we purchased this year from last year, is we purchased, ballpark, the same amount of limit. All that said, the portfolio is bigger. But the change in the construction of the purchases are such that we have more occurrence limit and less aggregate limit. And what that would mean is, if '17, which is in which is an '18 actually, were a series of medium sized catastrophes, I think we would recover less under the structure we built in 2019, than we did in 2017 and 2018. But if it's a single shock loss, we should recover about the same in '19 as we would have in '17 and '18.

So again, it's not any one element of it that is changing at a point in time, it's how we orchestrate all the elements of our portfolios together to come up, what we think is the most beneficial net portfolio that we can construct.

## Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Thank you very much.

## A - Kevin O'Donnell

Sure.

## Operator

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

## Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, thank you. Good morning. My first question is going back to the conversation on Jebi. Could you guys give us a sense, where you think the insured losses for the industry sits today, and then the $25 million, Kevin, that you said you guys added in the quarter. I'm assuming that's all for Jebi. I know you said it was aggregated in retro covers and that all shows up in cat, right? So then if you could also give some color on what drove the other property adverse development?

## A - Kevin O'Donnell

Okay. So Jebi -- actually Jebi has been an interesting event. If you go back to when it was originally reported, I think the modeling firms and others were reporting it in the $2 billion to $5 billion range, and we came out initially thinking it was in the $8 billion to $10 billion range. I believe the loss is in the $15 billion range currently, and it's been a lot of reasons for that growth, including slow reporting of the claims. But it's something that we continue to monitor. We, as I mentioned on the previous call, we have more protections for our reinsurance portfolio than we do for our retro portfolio, which is one of the reasons we are so closely attuned to how this is flowing into the retro portfolios.

With regard to the $25 million that I -- I am actually going to turn it over to Bob to talk a little bit about the geography, I don't know, provide any color that I can't.

## A - Robert Qutub {BIO 15269353 <GO>}

Yeah, Elyse, it's a good question. That $25 million that Kevin referred to was a net negative impact, which is consistent on how we disclosed. You'll see that in the Q that we file tonight, and that was mostly Jebi, (inaudible) that came from. But it's a mixture of a number of events that came through in 2018.

## Q - Elyse Greenspan {BIO 17263315 <GO>}

And then what about -- that was in cat right, so then what are all the other property averse development?

## A - Robert Qutub {BIO 15269353 <GO>}

There is nothing significant. Those are small losses that we're talking about on these events in '17, '18 are driven in the Property Cat.

## Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thank you. And then my other question, you guys -- is obviously the first quarter with TMR on your books, and I know you gave a couple of figures, kind of the net income contribution and then would you view it as kind of the core ongoing and you did say I think -- both of you, that you guys remain on track relative to that $100 million target. It does feel like given the moving parts that, I would think -- it seems like you guys got more than $25 million of earnings this quarter, is there a seasonality to that, am I missing something? It seems like you guys already at that $100 million target?

## A - Kevin O'Donnell

Thanks for the question, Elyse. Look, I did point out in my prepared comments, and you'll see it in the Q, I think it's filed later today that we did have about $90 million that came in from TMR. But again, TMR is a big company. The integration is going very well. And as I pointed out in my prepared comments, a lot of that was mark-to-market gains that we had on the acquired investment portfolio, and one-time foreign exchange gains that we receive from the ongoing positioning of the portfolio. In our comments about giving sort of commentary on the $100 million run rate, that was on an ongoing run rate, and would have excluded the one-time items out there. And so going through the integration right now, we've not seen any surprises and we still feel very comfortable with $100 million, and we're hoping for more. So we'll keep you posted.

## Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. Thank you very much.

## A - Kevin O'Donnell

Thanks Elyse.

## Operator

Your next question comes from the line of Yaron Kinar from Goldman Sachs. Your line is open.

## Q - Yaron Kinar {BIO 17146197 <GO>}

Good morning, everybody. Maybe another follow-up on TMR. So on the investment portfolio, I saw that yields came down a bit, duration went up a bit. I am assuming that's somewhat attributable to the TMR assets coming on, and as you reallocate those, how should we think about yields and duration? And I guess now, we have another (inaudible) with interest rates coming in, probably more than what was expected at the time of the acquisition?

## A - Kevin O'Donnell

We brought in just over $2 billion of assets. In my prepared comments, I did talk about the repositioning, and you can see in the supplemental, just a number of different changes, like selling down in municipals and moving out of the non dollar agencies that were out there. So there was a lot of moving parts. But yes, yield came -- moved slightly. We reported on a managed as well as at risk. No substantial change, I mean the new money rate by came down, obviously that was reflected in the mark-to-market. So we did enure that benefit to our shareholders through tangible book value.

The duration remained relatively unchanged. It was 3.0 last quarter, it's 3.1 this quarter. And we're keeping an eye on it and the market is moving around, so we feel very comfortable. I will point out, that I did make an additional disclosure in my prepared comments about the amount of income on the investment portfolio of $115 million or $116 million, of which about $15 million is coming from our managed portfolio. So the core was around $101 million, and that's driven largely by our fixed maturity. The short-term adds on to that, but that's -- some of it's coming from the managed vehicles.

## Q - Yaron Kinar {BIO 17146197 <GO>}

And do you think that the yield on the core portfolio will improve from here as you reallocate, or is the interest rate pressure such that we're not going to really see much improvement?

## A - Kevin O'Donnell

We feel comfortable with the position -- where the portfolio is positioned right now, and we're not stretching for yield.

## Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. And then my second question is just around the California Utilities Wildfire Fund, do you see that impacting supply-demand or pricing?

## A - Robert Qutub {BIO 15269353 <GO>}

So that's reasonably recent, as an introduction in California, the way it's positioned and the way we look at our portfolio, we don't think it's going to materially impact the demand for the product that we are selling.

## Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. Thank you.

## A - Kevin O'Donnell

Yeah, thanks.

## Operator

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

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

Hi, a couple of questions here. I'm just curious, Kevin, given what's going on with the pricing environment, rating environment, do you think you are more likely to keep more of the TMRe business than you'd originally anticipated?

## A - Robert Qutub {BIO 15269353 <GO>}

I don't think it'll change our perspective on the auto book. And then, remember it is about $200 million of the premium ballpark, it was their fronted business, which is a business that we said from the very beginning, we would provide an orderly exit for their partners there. For the rest of it, I think we will underwrite each account individually, and yeah, if there is an opportunity to keep it, we will. So I hope that we can do at least -- I feel comfortable, we'll get this to $700 million, and I hope that as rates improve, we can do a little bit better than that.

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

Got you. And where is that fronting business coming through? Just the fee income and if any premiums coming through?

## A - Robert Qutub {BIO 15269353 <GO>}

It comes through the Property side.

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

So other property, so that's part of the big increase we saw this quarter in other property coming from TMRe and we should assume that necessarily won't continue going forward?

## A - Robert Qutub {BIO 15269353 <GO>}

No. It comes to Property cat and it's on a run-off basis. So what you're seeing is, some movements in the loss ratios, but those are all passed back and forth. So that's net neutral to us --

## A - Kevin O'Donnell

Well, it comes to us something -- well, one thing that comes to us, is the fees associated with the business, which -- it's something that -- from an original estimate for $100 million, we never included the fees, because it's not part of our run rate that we inject to run this business. But we are earning the money in thinking about -- in our transition of that book to others, willing to provide the fronting.

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

Got you. Okay. And that you're seeing -- that's an offset to the loss ratios?

## A - Kevin O'Donnell

Loss ratio has been neutral, because it's passed right through, it comes in and out. So there is no impact and you can see it right in the cash flow in the supplemental. You can follow up with Keith and we can go through that --

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

Yeah, I will follow-up and go through that. That would be helpful. That'd be great. And then just quickly, on the increase in the cat business you have, kind of a similar question. I think, Josh asked about, what percentage of that was TMRe versus just organic, your kind of growth?

## A - Kevin O'Donnell

In terms of the -- if I understand your question, what side is --

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

The Property cat -- the cat business, was much of the cat increase year-over-year at TMRe?

## A - Kevin O'Donnell

Very, very small piece of it.

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

Great, thank you.

## A - Kevin O'Donnell

Not significant.

## Operator

Your next question comes from the line of Michael Phillips from Morgan Stanley. Your line is open.

## Q - Michael Phillips {BIO 21023048 <GO>}

Thanks, good morning. A couple more on TMR. It sounds like most of the impact on TMR was, as you said, the mark-to-market gains. And apologize if I missed this, was there any impact from a consolidated loss ratio from TMR?

## A - Robert Qutub {BIO 15269353 <GO>}

The loss ratio, there was noise here or there, but nothing significant and sit out that would be worthy of getting into. I mean there's going to be a little bit of movement. I did point out in my prepared comments, that there was no activation of the ADC. So in other words, we're in a favorable position with that respect. But there'll be noise across the segments, as we go through time. But no.

## Q - Michael Phillips {BIO 21023048 <GO>}

Okay. Thanks. And can you just remind or remind us of, I guess TMR's, kind of global exposure to cats relative to kind of your historical book?

## A - Kevin O'Donnell

So there's two elements of their cat book. One is which Bob talked about is, they have the fronting business, we retain zero risk on the fronting business. So that is probably more US focused, but it's not a business that we have retained any risk on. The second piece is, they wrote a diversified portfolio and a diversified cat portfolio with the exclusion of Japan, because as a subsidiary of Tokio Fire Marine, they didn't want to add to the risks there. So it's a reasonably diversified portfolio, with a not uncommon spread for a traditional cat book, with the exclusion of Japan.

## Q - Michael Phillips {BIO 21023048 <GO>}

Okay. Thank you very much.

## Operator

Your next question comes from the line of Ryan Tunis from Autonomous Research. Your line is open.

## Q - Ryan Tunis {BIO 16502263 <GO>}

Hey thanks. Not trying to beat the dead horse on this, but Bob, you said that $90 million came in this quarter from TMR, in operating earnings?

## A - Robert Qutub {BIO 15269353 <GO>}

That's going -- potentially GAAP earnings. And a lot of that I pointed to the mark-to-market in the FX, which would be outside of the GAAP earnings. And so, we remain confident with $100 million run rate that we have out there, and we don't feel that we have seen any surprises that would change that. And we're hoping for upside Ryan -- go ahead.

## Q - Ryan Tunis {BIO 16502263 <GO>}

I'm just trying to understand, looking at the operating income line, how much of that might have been obscured by some mark-to-market or the FX within TMR?

## A - Robert Qutub {BIO 15269353 <GO>}

Actually, I was going to clarify that some of the FX did come through in the operating income, which is consistent with how we record all of our FX. Again, those are one-time, and we're really pulling it towards the core. In fact, the $90 million has -- is still -- it's becoming more and more difficult as we go through time, as we consolidate these entities, because they are reinsurance on reinsurance, and we will choose to re-underwrite on different balance sheets, which makes it difficult to track. So I wouldn't see this is a continuing disclosure, but we'll continue to talk about.

## Q - Ryan Tunis {BIO 16502263 <GO>}

Understood. I'm just trying to understand how much more than the -- if you just -- annualized $100 million, you are on pace -- so that's $25 million a quarter, how much more than $25 million was in operating earnings this 2Q?

## A - Robert Qutub {BIO 15269353 <GO>}

It's not an easy question to answer, because we already started integrating people that are running the business. So we've got a lot of movements in it. So it's a very difficult -- the FX, income into operating earnings, but we did have some of the increase of the $23 million in costs I talked about. Some of that -- a large -- half of that increase was a result of TMR that -- and a good chunk of it was booked outside of the AG, as we moved people into our services unit.

## Q - Ryan Tunis {BIO 16502263 <GO>}

Okay. And then my follow-up was just thinking about -- with the midyear renewals in a no cat year is it -- should we be thinking about the profitability being kind of similar to the magnitude of rate increases, the 15% to 20% up, or was there a lot of premium growth on top of that, just in terms of new business that would make it more significant than that in Property cat?

## A - Kevin O'Donnell

I'm not sure I fully understood your question. Can you repeat it for me?

## Q - Ryan Tunis {BIO 16502263 <GO>}

Yeah, I mean, I'm just trying to understand the -- obviously, you had the rate, but then there is the comment about -- I was just a little bit confused on the comment about the P&L versus the percentage of equity? And how you would expect -- taking all that together, how you'd expect the profitability of your book to be this year relative to last year, if you do not have an active wind season?

## A - Kevin O'Donnell

Okay. Let me try to clarify the first part of your question, which is kind of what happened to our Southeast wind risk, which seems to be a component of it. So from a portfolio perspective, we did not grow limit in the Florida domestic market year-over-year. However, we are taking more Southeast hurricane risks, which includes Florida. So when we think about building our portfolio, as we think about the peril and then how we're constructing the portfolio, the peril Southeast hurricane, of which the Florida domestic is a component, but it's a smaller component of the risk that we're taking, and that's because we saw better opportunities to take that risk outside of the Florida domestic market. So the Florida domestic market did not draw our capacity as much as other lines such as retro.

And the final piece is, as a percentage of equity, at different points on our risk distribution, we did not increase the percent of equity we are exposing. However, our equity is higher for the 2019 wind season than it was for the 2018 wind season, which again supports that we're taking up more absolute risk in Florida. Is that more clear?

## Q - Ryan Tunis {BIO 16502263 <GO>}

Yes, I know -- I think that's helpful. I guess my one follow up that would be on the regional business, the domestic stuff, I think you said is up 15 to 20, what are the type of rate increases that you're -- I guess that you're writing more broadly in the Southeast?

## A - Kevin O'Donnell

So risk adjusted, we said, they were high-single digits in the domestic Florida. So we -- that is netting out the change and the view of risk from what we learned about the steepness of the social inflation curve. We are getting better rate adjusted (inaudible) exposure in other lines such as retro than that. So we didn't disclose what the other markets are producing. But it's higher than what we're getting in the domestic Florida market. If it was higher in the domestic Florida market, we would have grown that as a percentage of our book.

## Q - Ryan Tunis {BIO 16502263 <GO>}

Understood. Thank you.

## A - Kevin O'Donnell

Yes, thanks.

## Operator

Your next question comes from the line of Matthew Carletti from JMP. Your line is open.

## Q - Matthew Carletti {BIO 5249827 <GO>}

Hi, thanks. Good morning. Kevin, I just want to circle back to your Jebi comments, I would think that you guys in your position do a lot of work on this, and probably have a better view the most. You mentioned a little bit on late reporting, but I was hoping that you could just dive a little deeper and give us at least some of your thoughts on kind of why this one missed the mark so much and has turned out to be kind of a tough one for the industry to get its hands around?

## A - Kevin O'Donnell

Yes. So when I touched on before, is I think there's, I think is a couple of issues, in my early comments were specific to the fact that it's a much bigger industry event, than what was initially forecast. I think that has to do with -- this probably will be an optimistic representation of Japanese wind within the models, which is certainly a component of it. I think underwriters', over time, in regions without frequency or without severity even, they have a tendency to underestimate the risk that they're taking. So I think there is a degree of underwriting optimism in the market, and I think there has been all of that exasperated by there being slow reporting. So in Japan, one tends to expect slow reporting this week slower than usual, which probably added to this being something that has burned for longer than what would have been expected. So, mischaracterization of the event from time zero, optimism with underwriters representing the risk and slow reporting, all contributed.

When I think about our book, what I said in my comments is our net negative impact has not changed from when we first reported in Q3 2018. However, our gross is up. So as I mentioned, we started at 8 to 10. We think it's now at least 15. That has also had some growth in our gross loss. But because of the way we structured our portfolio, we have managed to maintain the same ultimate impact to our shareholders, which is the net negative impact. So when I look at our reserves, I feel good about where we are, with about half our loss in either ACR or IBNR, but I do have concern that if this loss continues to develop, that it can adversely affect us, particularly through retro and in retro repurchase, fewer protections than we do on our reinsurance book. Hopefully, that is helpful?

## Q - Matthew Carletti {BIO 5249827 <GO>}

Okay and then -- yeah. Maybe just a couple of follow-ups. Specifically, I mean there's been some talk in the market of the demand surge along the lines of a lot of World Cup construction, a lot of Olympic construction. Do you see that contributing at all? There's also been some talk of kind of, let's call it social inflation in the Osaka area, not to Florida extremes, but kind of a little atypical for Japan. Have you seen any evidence of that? And then lastly, what would your expectation be as we approach 4.1 next year, in terms of follow through from the kind of series of revisions we've had?

## A - Kevin O'Donnell

Yeah. I've read all that stuff as well. I'm not -- to be perfectly honest, I'm not sure the guy building Olympic Stadium is the same guy fixing somebody's garage door.

## Q - Matthew Carletti {BIO 5249827 <GO>}

Agreed.

## A - Kevin O'Donnell

But there is probably some element of contractors being told on to do more marquee jobs than doing the residential stuff. There probably is social inflation within the Osaka area. I think it's one that I mentioned on the previous call, we are still learning about how to improve this event, I tried to represent a few things that I think occurred. But we don't have full transparency as what's driving this loss to be as substantial as it is. I think the rate increases at 4.1 certainly were helpful. Japan has traditionally been great partners from a reinsurance perspective. But as the loss has grown substantially even after the 4.1 renewal, I would hope that we go in with an expectation of rate increases in 2020.

## Q - Matthew Carletti {BIO 5249827 <GO>}

Great. Thanks very much for the color.

## A - Kevin O'Donnell

Sure.

## Operator

There appears no questions at this time, I turn the call to Kevin O'Donnell for closing remarks.

## A - Robert Qutub {BIO 15269353 <GO>}

One thing, this is Bob. I'd like to go back to Ryan's question on the $90 million, just clarify that of the 90 million, less than half was in operating income and that would be consistent with the underwriting income that we would normally get off the full in-force book, the yield we get on the investment portfolio that goes with that. So I just wanted to clarify that question for you. But I think I'll turn it back over Kevin.

## A - Kevin O'Donnell

Thanks Bob. Thanks everybody for joining the call. I feel great about where we are and what we've achieved so far this year. I think we've got the right people in the right place, doing the right thing. The TMR integration is going very well and have a high degree of optimism as to our opportunities going forward. So with that, I would like to say thank you and I look forward to speaking to you next quarter.

## Operator

That concludes today's conference call. You may now disconnect.