Q1 2012 Earnings Call

Company Participants

- John Varnell, VP, CFO
- Paul Rivett, Chief Legal Officer
- Prem Watsa, Chairman, CEO

Other Participants

- Howard Flinker, Analyst
- Jason Chen, Analyst
- Mark Dwelle, Analyst
- Paolo Tramantana, Analyst
- Tom MacKinnon, Analyst

Presentation

Operator

Good morning. Welcome to Fairfax's 2012 First Quarter results conference call. Your lines have been placed in a listen-only mode. After the presentation, we'll conduct a question-and-answer session. (Operator Instructions) For time's sake, we ask that you limit your questions to one. Today's conference is being recorded. If you have any objections, you may disconnect now.

And your host for today's call is Prem Watsa, with opening remarks from Paul Rivett. Mr. Rivett, please begin.

Paul Rivett {BIO 15243791 <GO>}

Good morning. Welcome to Fairfax's First Quarter conference call. This call may include forward-looking statements. Actual results may differ, perhaps materially, from those contained in such forward-looking statements as a result of a variety of uncertainties and risk factors, the most foreseeable of which are listed in Fairfax's annual report, which is available on our website and set out under risk factors in our base shelf prospectus filed with Canadian securities regulators.

I'll now turn the call over to our Chairman and CEO, Prem Watsa.

Prem Watsa {BIO 1433188 <GO>}

Thank you, Paul. Good morning, ladies and gentlemen. Welcome to Fairfax's First Quarter conference call. I plan to give you some of the highlights, and then pass it on to John Varnell, our Chief Financial Officer, for additional financial details.

In the First Quarter of 2012, book value per share was flat, adjusted for the $10 per share common dividend paid out in the First Quarter of this year. We had a much improved underwriting result on increased premiums, but our defensive investment position through our hedging strategy resulted in a small, unrealized investment loss, as the markets moved higher in the First Quarter and we again finished the quarter with cask and marketable securities at the holding company of approximately $1 billion. We continue to maintain our equity hedges and we remain very concerned about the economic outlook over the next few years.

Net investment losses of $40.9 million in the First Quarter of 2012 consisted of the following. Please note the table on page two of our press release. Net gains on equity and equity-related investments of $838 million were predominantly unrealized as you can see, and were largely neutralized by net unrealized losses of $823 million on our equity hedges.

After bond gains of $33 million and $68 million in unrealized CPI-linked derivative losses, we had a net loss of $40.9 million, all unrealized. Realized gains from stocks and bonds during the quarter were $95.5 million.

Net premiums written by the Company's insurance and reinsurance operations in the First Quarter of 2012 increased by 9% to $1.521 billion and if you exclude acquisitions, the premiums increased by 6% in the First Quarter due primarily to continued growth in Specialty business at Crum & Forster, new business and higher priced retained business in Worker's Compensation at Zenith and increased pricing on property cat business and crop business at OdysseyRe.

At the subsidiary level, net premium written in the First Quarter of 2012, excluding acquisitions, grew as follows -- for Zenith, up 20%, Crum & Forster, 19%, OdysseyRe, plus 3%, Fairfax Asia, up 3% and Northbridge, in Canadian dollars, was down about 5%.

We are taking advantage of hardening markets for catastrophe risk. For example, in Japan, OdysseyRe increased its premium volume to close to $90 million from $60 million the year before, while holding exposures constant. Likewise in Thailand, through our investment in (ThaiRe) and our subsidiary in Singapore, First Capital, we will increase writing in response to sharply improved conditions.

In the United States, as wind season approaches, we have room to expand our writings to the extent prices continue to go up.

So we are growing again. The huge catastrophe losses in 2011, very low interest rates and the reduced reserve redundancies means there's no place to hide for the industry. Combined ratios have to drop well below 100% for the industry to make a single-digit return on equity with these low interest rates.

The Company holds approximately, as I said earlier, $1 billion of cash short-term investments and marketable securities at the holding company level at March 31, 2012.

Finally, we continue to be approximately 100% hedged in relationship to our equity and equity-related securities, which includes convertible bonds and convertible preferred stock.

As I said earlier, we continue to be very concerned about the prospects for the financial markets and the economies of North America and Western Europe, accentuated by the breaking of the real estate bubble in China in late 2011.

As of March 31, 2012, we have over $6 billion in cash to take advantage of opportunities that come our way. In the short-term, our investment income will be reduced.

Now, I would like to turn it over to John so he can give you some more information on the underlying financials. John?

John Varnell {BIO 5699703 <GO>}

Thank you, Prem. I will start with the Fairfax consolidated results for the First Quarter of 2012. I'll talk about the operating Company results, and I'll finish up with financial position.

For the First Quarter of 2012, Fairfax had a net loss of $1.3 million. That compares to the 2011 First Quarter loss of $240 million. The First Quarter of 2012 loss, fully diluted per share, was $0.69, which reflects the preferred dividend impact, and the 2011 loss was $12.42 per share.

For the First Quarter of 2012, Fairfax had a combined ratio of 98.7. That compares to a 128.6 combined ratio in 2011. We had an underwriting profit in the First Quarter of $17.5 million compared to an underwriting loss of $350 million in 2011.

The First Quarter of 2012 catastrophe losses were at $26 million, or about 2 combined ratio points. The catastrophe losses for the First Quarter of 2011 are about $400 million pretax, made up of the Japanese earthquake, New Zealand earthquake and Australian floods which had an impact last year of 32.8 combined ratio points.

In terms of 2012, prior-period reserve development, Fairfax had $1.6 million of favorable reserve development for the quarter or 0.1 combined ratio points compared to $13.8 million favorable in 2011, which was 1.1 combined ratio points. So that works out to a First Quarter accident year combined ratio in 2012 of 98.8 and that compares to a 2011 accident year combined ratio of 129.7.

So now, we'll move to the operating companies, starting with OdysseyRe. In the First Quarter of 2012, their combined ratio was 86.9 and they generated an underwriting profit of $63.7 million. In 2011, Odyssey had a 153.3 combined ratio or an underwriting loss of

$227 million. On an accident year basis, the combined ratio at Odyssey was 87.4 for 2012, compared to a 151.3 in 2011.

Catastrophe losses in 2012 for Odyssey amounted to $23.6 million, or 4.8 combined ratio points compared to Odyssey cat losses in 2011 of $297 million or 66 combined ratio points. Odyssey's net premiums written increased 3.1% in the First Quarter of 2012 to $526 million from $510 million the year before, which reflected increased writings across a number of Odyssey's lines of business which included primarily property and crop insurance.

Crum & Forster in the First Quarter of 2012 had a combined ratio of 105 and an underwriting loss of $14.3 million compared to 104 in 2011 and an underwriting loss of $9 million. On an accident year basis, the combined ratio was 103.3 in 2012 compared to 104.9 in 2011. Net premiums written at Crum & Forster of $310 million compared to $237 million in 2011, and that reflects the acquisition of First Mercury, as well as internal growth at Crum & Forster as they grew their Specialty business and Worker's Comp business, as well as property, and that resulted in a year-over-year increase of 30% net premiums written in the First Quarter of 2012.

Zenith had a combined ratio for the quarter of 117.7, and an accident year ratio of 117.9 compared to a combined ratio in 2011 of 123.4. The improvements reflect that the 6.5 combined -- 6.5% combined ratio decrease in Zenith's expense ratio due to the rising net premiums.

Net premiums written by Zenith were $255.8 million in the First Quarter of 2012, compared to $214.1 million in 2011, an increase of about 20%. And that reflected Zenith's ability to write new business and retain existing customers at higher prices as the competitive environment for the Worker's Comp changes.

Northbridge's First Quarter 2012 combined ratio was 103.8 compared to 103.6 in 2011. On an accident year basis, the combined ratio at Northbridge was 106, as Northbridge benefited from favorable development of 2.2 combined ratio points. Net premiums written by Northbridge were $201.6 million for the quarter compared to $258.4 million in 2011, measured in US dollars.

Prior to giving effect to the unearned premium portfolio transfer in the First Quarter of 2011, net premiums written at Northbridge decreased by about 5% in Canadian dollars, reflecting competition and some changes in (facultative) (inaudible) risks.

For the First Quarter of 2012, the combined ratio at Fairfax Asia was 92.2 compared to 85.9 in 2011 and they generated an underwriting income of $4.2 million compared to $5.8 million in 2011. The First Quarter of 2012, the accident year combined ratio was 95.6 compared to 89.4 in 2011. Net premiums written by Fairfax Asia was $72.8 million, compared to $61.3 million in 2011. The net premiums written increased by 3.4%, excluding the Pacific acquisition, as a result of increased writings of marine hull, commercial automobile, and the favorable effect of foreign currency translation at First Capital.

The reinsurance and insurance other division in the First Quarter had a combined ratio of 101.7, compared to 166 last year. There was adverse development of 2.7 points in 2012 compared to 1.8 points in 2011. The net premiums increased to $157 million from $119 million as a result of the lower 2011 premium due to the unearned premium portfolio transfer to Northbridge.

And finally, our runoff group had another good quarter year, and earned $54 million pretax in the First Quarter of 2012, compared to $48.2 million earned in 2011. Consolidated interest and dividend income decreased by 27% from $178 million in the First Quarter of 2011 to $129 million in the First Quarter of 2012, primarily as a result of sales during 2011 of higher yielding bonds, the proceeds of which were reinvested into lower yielding cash and short-term securities.

The average portfolio size was close to $24 billion in both quarters. We ended the quarter with an investment portfolio which included holding company cash and investments at $24.3 (billion). In terms of financial leverage, our quarter-end total debt to capital -- total debt to total capital ratio was 26.5% compared to 26.4% at December 31. And in April 2012, the Company repurchased its $86.3 million of maturing debt at par.

That concludes my section and back to you, Prem.

Prem Watsa {BIO 1433188 <GO>}

Thank you, John. Now, we are happy to answer your questions. Please give us your name, your company name, and try to limit your questions to only one, so that it's fair to all on the call. So Fran, we are ready for questions.

Questions And Answers

Operator

Thank you. And that's exactly right. (Operator Instructions) Mark Dwelle, RBC Capital Markets, sir, your line is open.

Q - Mark Dwelle {BIO 4211726 <GO>}

Yes, Good morning.

A - Prem Watsa {BIO 1433188 <GO>}

Good morning, Mark.

Q - Mark Dwelle {BIO 4211726 <GO>}

A couple of questions -- one maybe for John. I was trying to sort through -- I saw that you did a reinsurance to close transaction in Advent. I was just trying to sort through the premium flows there and what implication that has for further 2012. That's all just historical unearned premiums that got transferred over?

A - John Varnell {BIO 5699703 <GO>}

Yes. Why don't you go to your second question, Mark, and then what we'll do is we'll just pull the number together for you on the reinsurance to close and the premium flow. Why don't you go to number two?

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. Yes, I started with off with kind of the final exam question, didn't I? The second question I had was really related in Odyssey. It looked like there was a very good improvement in the combined ratio. Is that mainly the byproduct of business shift away from casualty or are they actually seeing improved loss cost trends?

A - Prem Watsa {BIO 1433188 <GO>}

Well I think a little of both, Mark, but they have expanded in the cat area. As you know, the pricing has been very significant. Unlike last year, there's been much reduced catastrophe activity, but for some time now, they have reduced their casualty writing and increased the property business, particularly exposed to the catastrophes. And I think that First Quarter combined ratio was among the lowest that they've had in a long time.

So OdysseyRe -- all our companies, Mark, are well positioned, as I said at the annual meeting, to expand in this cycle. We've got our leverage ratios -- that means premiums written to surplus are running at 0.6, 0.7 times and in the past, we've run at 1.5 to 2 times. So the environment is changing in the property-casualty business. We have the ability, the management and the capital resources to take advantage of it.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. That's really all my questions. If --

A - Prem Watsa {BIO 1433188 <GO>}

Mark, I think John's got something for you. John?

A - John Varnell {BIO 5699703 <GO>}

Yes. So it's laid out on page 46, Mark, but basically, it's premiums equal to losses when we did that reserve transfer, so you'll see US $62 million moving and so basically, that's a $62 million adjustment to reserves, $62 million adjustments to premiums.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. But then that transaction, now that it's complete, that won't impact any of the forward premium growth or anything related to Advent? That's all just an off-the-balance sheet transfer?

A - John Varnell {BIO 5699703 <GO>}

That's right. It only happens the one time and then there's no impact on that going forward.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. Thanks for the help, thanks.

A - John Varnell {BIO 5699703 <GO>}

Okay. Thanks.

A - Prem Watsa {BIO 1433188 <GO>}

Thank you.

Operator

Now, our next request is from Jason Chen of Coremark Securities. Your line is open, sir.

Q - Jason Chen {BIO 18886771 <GO>}

Hi, Prem. Just a follow-up on Odyssey. So you talked about increasing premiums in Japan and Thailand, so we look at the overall premiums, it seems to be relatively flat. Just wondering if this is a rebalancing of the book or what's going on there?

A - Prem Watsa {BIO 1433188 <GO>}

Yes, Jason, what happened in the First Quarter last year, there was huge catastrophe activity, so when this catastrophe activity that you get reinstatement premiums, you get another premium. So we got a lot of that in the First Quarter. When we're looking at quarter-to-quarter, we haven't adjusted for the fact that we got reinstatement premiums last year which of course, they don't have this year, but OdysseyRe is well positioned. As I said at our annual meeting, we're really well positioned to expand and grow our business worldwide, wherever the opportunity is. John, do you want to add to that?

A - John Varnell {BIO 5699703 <GO>}

Well I mean, crop insurance has been good for Odyssey, property cat has been good. Casualty is still soft and then the other lines, there's some pluses and minuses, so it's a bit of an averaging.

Q - Jason Chen {BIO 18886771 <GO>}

Great, thank you.

A - Prem Watsa {BIO 1433188 <GO>}

Thanks, Jason. Next question, Fran.

Operator

Thank you. Tom MacKinnon, BMO Capital, your line is open.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yes. Good morning, Prem and John.

A - Prem Watsa {BIO 1433188 <GO>}

(inaudible).

A - John Varnell {BIO 5699703 <GO>}

Good morning, Tom.

Q - Tom MacKinnon {BIO 2430137 <GO>}

The question is with respect to the interest and dividend income. It's fallen off not only year-over-year, but quarter-over-quarter, and I assume that's just because your portfolio has got a little bit more cash now than it would have had on average in the Fourth Quarter. And you've been selling down more of those US treasury bonds, and then I guess allocating more into cash. Now, how should we look at that going forward? Are you -- where do you want to get that cash hold? Now, you may have talked about this in the opening comments and I'm sorry, I just got on the call now.

A - Prem Watsa {BIO 1433188 <GO>}

Yes.

Q - Tom MacKinnon {BIO 2430137 <GO>}

But where do you want that to go and that's going to be a bit of a headwind in terms of interest and dividend income, and how should we look at that going forward?

A - Prem Watsa {BIO 1433188 <GO>}

So Tom, last year First Quarter, we might have averaged something like $3.5 billion, $3.6 billion. At the end of the year, like you said, it was $6.9 billion, but for December 31, but the average for the quarter would have been less. And now, we had this (March) at $6.1 billion, but what we've said for some time is we're selling our long treasury bonds and you've got about 2.5 points, maybe even a little more, that you lose when you go from a long treasury to short-term two-year rates of 0.25%. That's two-year rates and five years rates of course, are just -- treasury is at 0.8, 0.82, 0.83 -- so really very, very low rates compared to the past.

And with -- we've got the $6.1 billion. We think of it as opportunistic, so we don't make -- we're not trying to raise cash. We're just taking advantage of the fact that spreads have come down and so we're selling our corporate bonds. Treasury rates have come down. Last year, long treasuries were the best asset to have and so we've sold half our treasuries we told you, long treasuries, and we continue to sell it. We likely won't have any treasuries soon and so we're continuing to sell that, the long treasury position.

And so our interest and dividend income will come down and our -- one thing we won't do is reach for yield because we think this is not a good time to reach for yield. The spreads are very narrow again, and in fact, people who have reached for yield might suffer, as they have had in 2008, 2009, when spreads widened. So right now, we're just -- we've very long term, Tom, so we think of this as long term, but a month from now or next week, who knows? Things can change and we could put a lot of our money to work again. So it's not sort of a long-term forecast. It's just being opportunistic, ready for the markets and waiting for what the markets will give us.

Q - Tom MacKinnon {BIO 2430137 <GO>}

I mean, where would it be put to work? It doesn't sound like it would be put to work back into bonds? Would it be just put to work back into stocks?

A - Prem Watsa {BIO 1433188 <GO>}

No. Put to work means today, we'll keep it in cash. If you tell me that the current environment continues for the next few years as is, which means spreads narrow, stock price is high, then we would keep it in cash, but of course, you don't know and I don't know what'll happen in the next month or two months or six months. And when it happens, if I'll remind you what we did in 2008, going into 2008, we were fully hedged and by the Fourth Quarter, spreads just widened. The stock market was down 50%, so we took our hedges off and we went into corporate bonds and increased our corporate bonds. We bought a whole bunch of muni bonds guaranteed by (Bocsher Hadwick), but you can never forecast that.

If you told me in August of 2008 that would happen in year-end 2008, I wouldn't have been able to -- we wouldn't have been able to guess that. So these things are never forecastable, but of course, if you didn't have cash at the time in 2008, you wouldn't have been able to take advantage of the opportunity. So here, all we've done is we've said, spreads have come down, we made a lot of money on our treasury bonds, we made a lot of money in our corporate bonds. We're selling it. We don't see much opportunity elsewhere. We're keeping it in cash. If we see opportunity in the next week, we'll invest it.

Q - Tom MacKinnon {BIO 2430137 <GO>}

And one follow-up, if I can --

A - Prem Watsa {BIO 1433188 <GO>}

Sure.

Q - Tom MacKinnon {BIO 2430137 <GO>}

-- on the CPI derivatives. I think the total pretax loss is somewhere north of $300 million on that. The total you've put into this is somewhere around 420. So does that mean you've only got the potential to lose another 120, but you've got the potential to make a lot more?

A - Prem Watsa {BIO 1433188 <GO>}

Yes. That's right. It's got a striking resemblance, Tom, at least in terms of the loss, to the credit default swaps that we had at -- our credit default swaps at one time -- they're long contracts, but they, at one time, were down 75%. So these are mark to market instruments. They go up; they go down. We mark it to market, but of course, as I keep emphasizing, it's not over until the 10 years is up or we sell it. It's still early days.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. Thanks very much.

A - Prem Watsa {BIO 1433188 <GO>}

Thank you. Thank you, Tom. Next question, Fran.

Operator

Thank you. Howard Flinker, Flinker and Company -- sir, your line is open.

Q - Howard Flinker

Hi, everybody. On your breakdown of investment gains and losses, you have "other." What's other, minus $41 million?

A - Prem Watsa {BIO 1433188 <GO>}

Are you talking about the insurance business, Howard, or are you talking about the --

Q - Howard Flinker

No, no. On page two of the release, you show realized and unrealized gains and net gains and losses, and the last item just below CPI derivatives is other.

A - Prem Watsa {BIO 1433188 <GO>}

Yes. So you'd have maybe the remaining credit default swaps that we have, the fluctuations in that, some perhaps -- I'm just looking at (inaudible). Perhaps foreign currency can get into that, the fluctuations in foreign currency, small differences like that, Howard, that come right in into the other category.

Q - Howard Flinker

Okay. Similarly, in your breakdown of premiums written, you have the second-to-last classification, insurance re, insurance other.

A - Prem Watsa {BIO 1433188 <GO>}

Yes. That would be in our disclosures, detailed disclosures, you can get it. You'll see our (CRC); you'll see our reinsurance subsidiaries that are other than OdysseyRe and the big one would be like a (CRC) would be there and I guess would be -- I'm just looking -- would be -- Advent would be there and our Brasilian operation, Howard, we began that. All of that is disclosed in detail if you --

Q - Howard Flinker

(inaudible).

A - Prem Watsa {BIO 1433188 <GO>}

And I know it's difficult to spend time going through the quarterly report. It's a long quarterly report, but if you do --

Q - Howard Flinker

But hockey games are long; I can do both at the same time.

A - Prem Watsa {BIO 1433188 <GO>}

Yes. If you -- it's all disclosed there.

A - John Varnell {BIO 5699703 <GO>}

Poland is in there, Brasil is in there and it's on page 45 that gives you the separation.

A - Prem Watsa {BIO 1433188 <GO>}

Yes. It gives you the details on page 45, Howard.

Q - Howard Flinker

Then I have two general questions.

A - Prem Watsa {BIO 1433188 <GO>}

Sure.

Q - Howard Flinker

(inaudible) on page 45. Have your underwriters or your agents in Europe yet seen some of the traditional big, old European underwriters back off? I have not seen much in the way of their taking write-downs on their sovereign bonds and I think when they do that, they'll say, oh, well, our capital is a little less --

A - Prem Watsa {BIO 1433188 <GO>}

Robust.

Q - Howard Flinker

-- a little weaker than we thought and maybe we ought to be more careful about our underwriting. Have you seen any signs of that yet?

A - Prem Watsa {BIO 1433188 <GO>}

John, I don't -- this is about the bonds. I think most of the European insurance and reinsurance have to now mark to market their peripheral debt, like Greece and other countries, but John, any comments on that?

A - John Varnell {BIO 5699703 <GO>}

Well I remember we were talking and we thought Italy would show some freeing up of premium that would flow to some of the companies that were in more trouble and that didn't happen.

A - Prem Watsa {BIO 1433188 <GO>}

Yes.

A - John Varnell {BIO 5699703 <GO>}

So to this point, we haven't really seen it.

Q - Howard Flinker

So you haven't seen the European companies change their underwriting habits yet?

A - Prem Watsa {BIO 1433188 <GO>}

No, nothing significant, no.

Q - Howard Flinker

Okay. And just as a matter of curiosity, do you have any thoughts about American real estate and the REITs? I'm astonished at how ebullient investors seem to be in that sector. I was wondering if you had any --

A - Prem Watsa {BIO 1433188 <GO>}

Yes. We don't -- we have investments at (inaudible) Wilson, as you know, but we don't have any investments directly in a REIT, but we have, particularly in the past few years, invested in real estate and we said at 50% of replacement costs and good cash on cash, but we haven't --

Q - Howard Flinker

(inaudible). In '08 or '09, you had a terrific investment in some mortgages or something suggested by a small hedge fund guy in Toronto. You commended him in one of your letters.

A - Prem Watsa {BIO 1433188 <GO>}

Yes, yes. No. We were very fortunate to have done that. That was about a few years ago. We've sold all of that now, of course.

Q - Howard Flinker

Yes. That was a big score.

A - Prem Watsa {BIO 1433188 <GO>}

Yes. No. We -- that worked out not badly, Howard, but thank you for your question, Howard. We're going to move on.

Q - Howard Flinker

Okay, no problem.

A - Prem Watsa {BIO 1433188 <GO>}

Fran, next question, please.

Operator

And my last question today is from Paolo Tramantana of Schwab. Your line is open.

Q - Paolo Tramantana

Yes, hi. Thank you for taking my question. I have two, if I may. The first one is on China. You mentioned already a couple of times the bursting of the real estate bubble at the end of last year.

A - Prem Watsa {BIO 1433188 <GO>}

Yes.

Q - Paolo Tramantana

If you could maybe share a little bit your thoughts on what's happening there; also what could be the repercussions you can see from this, what is happening? And the second, if I may, is just the curiosity, what made you change your mind on Kraft? Thank you.

A - Prem Watsa {BIO 1433188 <GO>}

Okay. On China, Paolo, just -- China has got a very big real estate, in our minds, a big real estate bubble and had it for some time. Bubbles happen when people expect house prices, apartment prices, to always go up. They happen in many countries in the world. It's broken in the United States some years back; it's broken in Ireland, where house prices have come down 50%. So these things, when they break, have very significant consequences for the country in question in terms of the banks, in terms of all of the economic activity that benefited from the construction side.

And in the case of China, they're so big that they impact the rest of the world and if you look at commodity prices, commodity prices have benefited from China, the expansion in China. And if there's a problem in terms of the bubble bursting, then of course, commodity prices could be impacted. So we just worry about these things. You never know for sure, but we have seen these. Over 40 years, we've seen many of these bubbles take place and we try to protect ourselves and keep away from these bubbles.

In terms of Kraft, we just saw opportunity and other investments and sometimes, we make these decisions and we saw a better value in some of the other things that we've invested in, and that's why we sold and moved it to other investments.

Q - Paolo Tramantana

Okay. Thank you very much. Maybe just a short follow-up -- so in terms of protecting yourselves from these possible unintended consequences, I think it's clear, it's the equity hedges, as well as the deflation hedges, right?

A - Prem Watsa {BIO 1433188 <GO>}

Yes. So the equity hedges, Paolo, would be definitely one. The deflation hedges, they really protect all parts of our balance sheet. If you have deflation, it's very difficult to figure out where it'll come and impact you and so, it could hurt our insurance business, our reinsurance business, reinsurance recoverables, all sorts of areas. So we try to protect ourselves.

We did that with the credit default swaps and we're doing that with the deflation swaps too, and of course, the fact that we haven't reached for yield is another protection because we have a lot of cash, government bonds. We don't go into money market funds and so, but government T-bills, and so we just are careful and looking at doing well for our shareholders over the long term. We never try to do well over the next three months, six months. We're always trying to do well over the long-term for our shareholders.

Q - Paolo Tramantana

Sure. Thank you very much.

A - Prem Watsa {BIO 1433188 <GO>}

Thank you. Thank you, Paolo. Next question, Fran.

Operator

At this time, I have no further requests, so I would like to turn it back to you for any closing remarks.

A - Prem Watsa {BIO 1433188 <GO>}

Well Fran, if there are no more questions, then thank you all for joining us on this call. We look forward to presenting to you again in the next quarter. Thank you very much.

Operator

And the conference now is concluded. All lines may please disconnect.