S1 2021 Earnings Call

Company Participants

- Tom Solomon, Group Chief Financial Officer
- William Spiegel, Executive Chairman

Presentation

Operator

(Starts Abruptly) Investors will be in listen-only mode. (Operator Instructions) The company may not be in a position to answer every question received during the meeting itself. However the company will review all questions submitted today and publish responses where it's appropriate to do so. These will be available via your investor meet company dashboard. You'll be notified once these are ready for your review. Also I would like to remind this presentation is being recorded. Before we begin, I would like to submit the following poll.

I would now like hand you over to William Spiegel, Chairman; and Tom Solomon, CFO of Randall & Quilter Investment Holdings Limited. Good afternoon.

William Spiegel {BIO 4942749 <GO>}

Good afternoon. Thank you very much. I'm William Spiegel, the Executive Chairman of Randall & Quilter and I'm here with my partner and our CFO, Tom Solomon. So we're pleased to present you with our H1 2021 results. We're going to put ourselves at times to go on mute we're going take ourselves off the camera, as we go through this presentation we will be back for Q&A. So today's presentation is divided into two parts. The first part will be discuss some important strategic updates and how we grow -- really about how we're growing our legacy insurance fee income and the second part of the presentation, we will review the details of our H1 2021 results.

Before I begin though, let me give you some key highlights we'll then go into detail on over the course of the presentation. As we have been clear about we are in a five year strategy, we are moving R&Q to be a largely fee-based business model, which is capital lighter, simpler to understand, simpler to model and forecast. We're doing this number two by turning legacy insurance into a fee-based model by raising Gibson Re and you'll hear more about this later, but Gibson Re is a legacy insurance sidecar and this move changes the timing of legacy insurance earnings from episodic and upfront day one underwriting income to a higher quality and predictable annual recurring fee income, which we should earn over at least the six year period.

Gibson Re allows us to be fully funded and benefit from the growing legacy insurance market in a capital light way. We won't need to raise any equity at R&Q. If I switch briefly to program. In program, the highlights are -- we have increased our target 2023 gross written premium to $1.75 billion from $1.5 billion and I just want to note that in H1 2021 our pre-tax operating profit margins for program were 40% up from 7.5% a year ago.

As we transition our business model and earnings pattern by 2023 we believe our pre-tax operating profit which will be largely based on fee income will be greater than $90 million. I want to briefly comment on H1 21 results both of our businesses are meeting or exceeding expectations, but our results in the first quarter were impacted by the timing of legacy deals. That's the episodic nature I was referring to earlier which will go away as we put Gibson to work.

And finally before we get into the details of the presentation we're committing to our progressive dividend policy of growing our dividends from the 4P per share we paid in 2020 and we are paying an interim dividend of 2P per share. So with that I want to go and talk about the strategic changes and dig into Gibson Re a little bit more.

So as I mentioned at the outset, we have been very clear that our five-year plan is to become a more capital-efficient, fee-oriented business, focusing on our core strengths of insurance origination, underwriting and claims management. We're very fortunate to have accelerated this plan, moving our business from being this balance sheet intensive business with episodic earnings and a reliance on the equity markets to support growth to a capital-lighter and more predictable fee-based model.

We are becoming an annual recurring fee business. This is occurring because of the formation of Gibson, this legacy reinsurance sidecar, I mentioned earlier, which transitions legacy insurance into more of an asset manager of legacy insurance reserves, more on Gibson shortly, but legacy now joins our program management in MGA investments in generating most of its future revenues from annual recurring fees.

At a high level and on a go forward basis R&Q will have three fee businesses. In Legacy Insurance, R&Q will manage Gibson Re for a fee of 4.25% of reserves for at least six years. Our program management business is developing exceedingly well and continues to grow, at the end of August, we had 68 programs with annualised fee income of over 50 or approximately $50 million.

Given our trajectory, as I mentioned, we are increasing our 2023 gross written premium target to $1.75 billion from $1.5 billion and so that you recall in program management we charge 5% of gross written premium.

And finally, we own 40% of Tradesman program managers and receive quarterly distributions equal to our 40% of profits. Tradesman is one of our largest MGA relationships and it's growing strongly with H1 2021 annualised net income of $31 million.

Before we get into the details of Gibson, I want to remind you of the secular growth in the legacy market. As we have discussed previously legacy insurance has become a key provider of capital management solutions to the insurance industry.

According to PwC, global run-off liability stand at $860 billion and more and more of this is becoming addressable, as the legacy industry matures. You can see R&Q's growth over the last few years and we have -- as we have leveraged our broad global platform to grow our business.

We did GBP276 million of reserves in 2019. We grew GBP500 million of reserves that we acquired in 2020 and our pipeline today is over $1 billion. Not all of that we will do of course, but we are continuing to see a lot of demand for our business and under our previous model that would have acquired a lot of capital to grow.

So what is Gibson Re. Gibson Re is a $300 million Bermuda domiciled collateralized reinsurer that is owned by sophisticated investors. R&Q is not an investor in Gibson Re. Gibson Re will allow R&Q to acquire $2 billion or so of legacy reserves and fund our legacy business over the next three years.

This reduces the need for R&Q to raise equity, it diversifies our funding away from traditional capital markets and it frees up our capital to support growing dividends. What Gibson Re will do will reinsure 80% of all of R&Q's legacy reinsurance transactions over the next three years and R&Q will manage Gibson Re's reserves for at least the next six years for a fee of 4.25% of those managed reserves. Beginning in year seven R&Q will also offer to commute or purchase any remaining reserves in Gibson Re providing a new distribution channel for our legacy reinsurance business and it will be on a book that we know exceedingly well.

Our expectation is that we continually raise Gibson, we type deals or sidecars. So we can continue to support our business, our legacy business. Let me show you how this works technically with this chart. A client works with R&Q and R&Q assumes the legacy insurance. We then see 80% of that insurance to Gibson Re.

Gibson, as I mentioned is funded by third-party investors and that those third parties will collateralize the risk. The key points are, there is no cherry picking, all of our legacy insurance transactions will go into Gibson. Point number two, we are using the same underwriting standards that we used today and the same investment strategy and point number three is R&Q will hold 20% of the risk to ensure alignment of interest.

Let me now turn it over to Tom to just to show you how Gibson Re turns legacy insurance into an asset manager with a predictable and high quality earning stream. Tom?

Tom Solomon {BIO 18881774 <GO>}

Thanks, William. As mentioned 80% of R&Q's upfront underwriting income will be replaced with annual recurring fee income. The deployment of $300 million of Gibson Re capital over the next three years should allow for the acquisition of approximately $2 billion of reserves. Of which $1.6 billion or 80% will be ceded to Gibson Re, and approximately $400 million or 20% will be retained by R&Q.

To illustrate the earnings potential of legacy insurance transactions over the next three years, we have assumed that R&Q will earn upfront underwriting income of approximately 15% on the acquired reserves it retains, investment income, up 2% on those retained reserves and the allocated capital to it, an annual fee income of 4.25% on reserves ceded to Gibson Re.

We estimate that by year three gross operating income of future legacy transactions will amount to approximately $75 million, which comprises $50 million of annual recurring fee income, while requiring little to no equity capital from R&Q. Our outlook for future fee income is robust. Our half one 2021 annualised fee income of $50 million is based on $890 million of gross written premium and our 40% stake in Tradesman.

Based on our updated guidance of $1.75 billion of gross written premium by 2023, which is approximately $900 million more than what we right today and 5% program fees, we estimate that we will earn an incremental $40 million of fee income in program management over the next three years.

As we explained on the prior slide, we expect to earn $50 million of run rate fee income from legacy insurance transactions ceded to Gibson Re by the end of year three, assuming all of the capital of Gibson Re will be utilized. In total, we expect our fee income to be over $140 million by 2023 on a run rate basis.

Gibson Re changes the timing of when we recognize revenues, but most importantly it increases the quality of those earnings. Our business continues to perform in line with market expectations. Although we would require additional equity capital to support legacy insurance growth.

With the formation of Gibson Re, we expect our pre-tax operating profit in 2021 to be relatively flat to the $20 million we earned in fiscal year 2023 depending on when we complete legacy transactions. This is due to the loss of 80% of upfront underwriting income in exchange for annual recurring fee income that will grow over time.

Nonetheless, we will not require any additional equity capital to finance this growth. We expect to grow to over $90 million pre-tax operating profit on a run rate basis by 2023 assuming Gibson Re's capital is fully utilised. We expect to grow our fiscal year 2021 dividend from 4 pence per share paid in fiscal year '20 with the benefit of excess capital created by Gibson Re.

Hence our payout ratio will likely be meaningfully above the high end of our 25% to 50% target payout range for 2021.

And now I want to turn it back to William.

William Spiegel {BIO 4942749 <GO>}

Thanks, Tom. So this is a slide we have used in every presentation over the last 18 months. So we believe our business is a combination of a fee business and a specialty insurer and hopefully we'll get that valuation in the market. What has changed with the formation of Gibson Re is that we have moved future legacy insurance underwriting profit into becoming a recurring fee business, increase in the size of our future fee bucket.

Now let me discuss the H1 results in a little more detail. So I'll give you the highlights. At the group level, as I mentioned at the outset, we had a pre-tax operating loss of $24 million, which would have been breakeven if we included the two legacy deals we have signed, but are waiting to close. This is exactly what we mean when we say legacy is episodic.

Note that historically 70% of our legacy insurance transactions occur in the second half of the year as measured by reserves. Program management, if I switch there, continue to grow and had a record first half on all key metrics.

Gross written premium was $445 million, up 80% versus the prior period, pre-tax operating margin -- pre-tax operating profit was $10 million and 11 times increase over H1 2020 and pre-tax operating margin was 40% up from 7.5% in H1 2020.

Legacy insurance completed eight deals with the $113 million of reserves and as I mentioned, another two are signed and waiting to close with $60 million of reserves. Legacy insurance also completed the first insurance business transfer between two unrelated parties in the US and we believe this will open up a new avenue for legacy growth in the United States.

We maintain a strong solvency and leverage position, and finally as we've mentioned a couple of times, the Board of R&Q has declared an interim cash dividend of 2 pence per share in line with our progressive dividend strategy of growing our dividend from the 4P per share we paid in fiscal 2020.

And now I'll turn it over to Tom to go into the details.

Tom Solomon {BIO 18881774 <GO>}

Thanks, William. Due to the seasonality of legacy insurance transactions, which tend to complete in the second half of the year, we incurred a pre-tax operating loss of $24 million during the first half of '21. Have we included two legacy insurance transactions that were actually signed, but we're not expecting them to close to the end of this year our pre-tax operating profit would have been breakeven.

As we explained in our fiscal year '20 results, we focused on pre-tax operating profit, which is a proxy of run rate, cash earnings, and includes unearned program fee revenue and excludes intangible assets created from legacy insurance transactions, mark-to-market changes and our fixed-income assets and non-core one-time items.

Our IFRS loss before tax was $45 million, when including these non-cash, non-core items in the first half of the year. As mentioned earlier, we are paying an interim cash dividend of 2 pence per share with the objective of growing the annual dividend paid in 2020 of 4 pence per share.

Our gross operating income was down 29% due to the timing of legacy transactions and its impact on underwriting income. Nonetheless, we continue to experience strong growth in fee income, which was up 135% driven by growth in program fee revenues and our 40% stake in Tradesman. Investment income was up 31% due to assets acquired in legacy transactions that have been completed over the past 12 months.

We will discuss the results of program management and legacy insurance on the next couple of slides. Our corporate other segment, which includes unallocated costs and interest expense on our debt decreased 27% due to the higher allocation of cost to our operating segments, partially offset by the increased interest expense associated with the raise of $125 million of subordinated debt last year.

Program management continues to experience meaningful growth. Gross written premium and fee income increased 80% and 135% respectively over the same period last year. Underwriting income on approximately 5% of the routine risk generated a loss of $1.2 million due to the purchase of stop-loss reinsurance to reduce earnings volatility, excluding this stop-loss reinsurance, we generated an underwriting profit of $1.4 million, which is indicative of the profits assumed by our third-party reinsurers.

We expect the impact of stop-loss reinsurance to continue to decrease over time as we diversify our programs. Our fee income includes both our program fee revenues as well as our 40% stake in Tradesman, which increased from 35% earlier this year.

Tradesman contributed $5.8 million to the 25 million of fee income realized in the first half of '21. Fixed operating expenses were up 59% due to higher allocation of corporate expenses and the expansion of staff to support our excess and surplus lines business.

Most importantly, our pre-tax operating profit has grown over 11 times and our pre-tax operating profit margin is at 40% or 7.5% last year proving the benefits of scale. As discussed, legacy insurance was negatively impacted by the timing of transactions, which tend to complete in the latter half of the year.

We completed eight transactions with a $113 million of reserves, which contributed $20 million of underwriting income down 66% from the same period last year when we experienced an unusual level of sizable legacy deals.

Our investment income was up 24% due to acquired assets over the past 12 months. Our fixed operating expenses were up 46% due to higher allocation of corporate expenses. We had a pre-tax operating loss of $15 million, had we included the two signed deals that will close later this year, our pre-tax operating profit would have been $8 million.

Our $1.7 billion investment portfolio continues to be high quality with over 93% in investment grade, liquid, fixed-income assets. We earned 1.4% yield on an operating basis, which excludes realized and unrealized net investment gains on fixed-income assets.

This is down about 30 basis points from last year due to lower interest rate environment and the decrease in US dollar denominated assets as a result of investments acquired in legacy insurance transactions. Our duration remains low at 2.7 years. However we are beginning to withstand biomaterials.

Now back to William on our five year strategy.

William Spiegel {BIO 4942749 <GO>}

Thanks, Tom. So this is a slide that we used at the -- in our announcement of our 2020 results. So we wanted to give the market and our investors a view as to where we're heading over the next five years.

And as I said at the outset, we want to be a capital-efficient, fee-oriented, data-driven company focusing on our core strengths of insurance origination, underwriting and claims management. This is implemented by four key initiatives. We're having great success in all of these initiatives.

But as you can hear today, we are particularly excited about our job of increasing fee income and making this business much more of a fee income based business, very excited to announce to you that we have -- that we are launching Gibson Re and what that does for our business on a go-forward basis.

I'll end on this before we turn it over to questions. We are a unique specialty insurance company, we're a market leader in both of our businesses, and both of our businesses are experiencing strong secular growth.

We're very pleased with where this business is heading and thank you very much for listening and we'll now turn it back over for questions. We'll bring back up the video.

Questions And Answers

Operator

William and Thomas thank you indeed for the presentation. (Operator Instructions) Just let the team take a few moments to review those investor questions submitted already. I'd like to remind you that we're recording this presentation along with a copy of the slides and the published Q&A could be accessed via Investor dashboard on the Investor Meet Company platform. I'd also like to remind you that your feedback is important to the company and immediately after the presentation has ended you'll be redirected for the opportunity to provide feedback in order to the company can better understand your views and expectations. William and Thomas perhaps before we go to the live Q&A, we did have one pre-submitted question. And if I may, I'll just read that out and get your response please. Why is the current success of the company, not reflected in the share price and what are you doing to explain to the market what RQIH actually does getting across your potential?

A - William Spiegel {BIO 4942749 <GO>}

So I'll take that. It's a good question. We obviously don't focus on the market. We focus on putting up great results and articulating our strategy and ultimately the market will recognize what we're doing and hopefully our stock price will reflect that. I think it's buffet that said, in the short run, the market is a voting machine and in the long run, it is a weighing machine, we're going to do what we can to continue to produce great quality earnings and easier to understand business model and doing presentations like this getting live questions. Hopefully we can explain our business and people will appreciate where it's going as we simplify the story, we hope that the market will reflect in our price.

Operator

William, thank you very much indeed. If I may just ask you both just to click on that Q&A tab. We've had a number of questions submitted during the presentations, you can see, if I might just hand back to William perhaps to just start at the top and read out those questions where appropriate to do so and get your response. Thank you.

A - William Spiegel {BIO 4942749 <GO>}

Sure. Tom and I'll go -- we'll go through these. So the first question is, will you be reinsuring any of the existing R&Q book into Gibson Re. Good question, the answer is no. We are only putting in go-forward books of business as of today's date and only deals where we haven't signed exclusivity. If we have signed exclusivity on a deal that is going -- that is going on as the old style meeting we'll take the day one profit, but anything else going forward will be split with Gibson, 80-20. The next question is what is the incremental capital requirement within program management for adding an additional say $1 billion of gross written premium. Tom, do you want to take a stab at that?

A - Tom Solomon {BIO 18881774 <GO>}

Yeah, program management, the capital requirement is really to support our credit rating. It is a rating sensitive business. We tend to hold about 10% for every dollar of premium we write. So if we wrote a $1 billion of incremental premium we would be looking to hold around $100 million of capital against that to support our credit rating.

A - William Spiegel {BIO 4942749 <GO>}

Good. Okay. The next question is how do you win new business in program? How big is your sales team? Are you winning competitive tenders? Who are you competing with? So it depends on the market. So the first answer is there are not really competitive tenders. There are brokers that bring us MGAs and we are therefore competing really on service or quality or reinsurance relationships. We get a lot of MGAs that come to us because they understand how that we have 68 programs and that we can execute. So it's a very open market. I'll go back to something that I mentioned in the first half or in the 2020 results. The independent -- the MGA space is about $100 billion of annual recurring gross written premium. The independent program players on which we are one of them take about 10% of that market. The rest is in the hands of existing insurance companies, who we believe deal with MGAs as a sideline. It's not core to their business and MGA takes existential risk if they work with an insurance company versus an independent program company because if an insurance company cuts them off they are (Technical Difficulty) business whereas our sole job is to help MGA grow their business. So we believe that 10% share will grow dramatically and if it grows by another 10% whether it's a $100 billion or it's a $10 billion that comes to the program players. So we are not seeing a lot of competition fighting over MGAs. It seems to be enough for everybody. All the competitors to get their share. In Europe, we only have two other competitors and we're the leading player. In the US there maybe two handfuls of competitors. We're one of the largest and at the end of the day I think people focus on your ability to execute and we have -- we are executing exceedingly well as 68 programs. Next question is Hurricane Ida. Will we have any -- will we have any will be there any -- be any impact on us. The answer is no. There is no impact of Ida on our business. Next question is are we telling the market that we can get 80% margins in Program and the answer is, yes. We believe we can get between 70% and 80% margins is where we're shooting. This is the -- the program management business has a lot of scale and a lot of operating leverage and we've had to build the infrastructure over the last four years, get ourselves to breakeven, now that we're adding premium, we're not requiring expenses to grow at anywhere near that level hence we're at 40% margins today and growing higher. So the next one over to Tom, which is how do you see fixed operating expenses growing to achieve the fee income target by 2023.

A - Tom Solomon {BIO 18881774 <GO>}

Yeah, our fixed operating expenses, we made a lot of investment in our fee business, particularly in program last year where we started up new branches and we started maybe E&S business. So that's effectively done on the program side. We don't see meaningful changes to what is really a fixed expense base. Legacy now that we're turning legacy to a fee business. We're really leveraging our infrastructure today without incurring any meaningful new costs and we're going to leverage our existing claims management team, our existing origination team on behalf of Gibson Re. So frankly we don't expect material increase in fixed expenses to drive the fee income we're going to get from legacy. So we think it's going to be growing the way modestly with inflation.

A - William Spiegel {BIO 4942749 <GO>}

You want to read the next question Tom and take that as well? It was the --

A - Tom Solomon {BIO 18881774 <GO>}

Sure. Central costs. It was a question of -- this year we did allocate more costs historically that were in our corporate other segment for the half year in 2020. We're now moving more of our -- of what was unallocated corporate costs and allocating it to our program and legacy segment as we identify, we readily identified the cost to support those two businesses. So this is a movement being done between 2020 and 2021. I don't expect any meaningful movements in that geography between corporate and the segments from here on forward. The last one is what prompted us to move to US dollars and the reporting currency as you could see we moved to US dollar starting in this year going forward, and that's because of the majority of our assets particularly on the investment side, our US dollar denominated, and we were just started would be more transparent and not have all the foreign exchange volatility flow through our income statement and balance sheet is to report where the majority of our assets are denominated.

A - William Spiegel {BIO 4942749 <GO>}

The next question is we made reference to Gibson Re not cherry picking, the existing R&Q legacy assets, does the same apply to the existing $2 billion Gibson Re reserves i.e. does R&Q have to participate in all of the existing book with our prior underwriting. So and the answer is that Gibson and R&Q are tied at the hip, everything come -- go on a go-forward basis, everything comes through R&Q and R&Q will cede 80% of those reserves to Gibson. So we are aligned and there are some exceptions, where we don't have to send certain deals to Gibson, those would be strategic transactions, but in general when you set up a vehicle like this, you really want to be aligned, we want alignment of interest, and the way to get the alignment of interest is not to allow R&Q to do some deals and Gibson to do other deals that would not lead for a good relationship. So there is no cherry picking in either side. The next question is, who owns Gibson Re and Gibson Limited and where it's incorporated. So we mentioned that Gibson well, first of all, Gibson is incorporated in Bermuda, it's a Bermuda domiciled company. It is -- we're not at liberty to disclose the names of the investors, but we had a lot of demand to participate, the investors that we picked were very sophisticated insurance investors and we're pleased to have them as our partners. When you're opening up a new market like we're doing, you really want sophisticated people to be a partners because we're doing this -- we're doing this together. There are also deep-pocketed investors that we believe can grow with us. The idea here is not to do only Gibson one. It's not a hard market or a soft market idea. It's actually part of our future, which is to continually raise these vehicles to support our growth and our job there for us to do -- is to do a good job. We have to get the right returns for investors that they want to participate going forward. Tom I think the next one is for you, which is how much of your cash balance is unrestricted cash or free cash for R&Q.

A - Tom Solomon {BIO 18881774 <GO>}

Yeah, first of all, all the cash at our parent company is unrestricted. We maintain when I think of cash I'm including money market funds around 15% of our portfolio is in cash and money market and around half of that is in converting trust to benefit the ceding company, the other half is unencumbered.

A - William Spiegel {BIO 4942749 <GO>}

Okay. The next question is, to what extent of your results been impacted by the hardening rate environment. I would say at this point, very little, where we're getting the benefit it is on the -- it is on the program side where if we have a policy -- and that policy is renewing, it's renewing at a higher price. We actually haven't looked at how much of our results are affected by the hard market, but I don't think it's a lot although we're getting the benefit, and that's good news, what we haven't dissected to say how much of each of our MGAs, how much of price increases versus volumes. Clearly helpful a little bit, but I don't think that's, as we like to say there's secular growth in both of our markets and we're really getting the benefit of that. Can you describe, next question is, can you describe Gibson Re's management structure and how it relates to R&Qs. So good question. Gibson Re is a collateralized insurance vehicle, really doesn't have management, and it outsources the decision-making to R&Q in terms of which deals go in 80-20 as we mentioned earlier and then there is a third-party that we have that is responsible for administration reporting accounting et cetera. So there is no management inside of Gibson per se. The next question is, can you clarify what happens to Gibson Re at the end of the seven year period. So let me just. We didn't mean to be cryptic on this. So what way this vehicle works is at the end of the year six, the investors in the fund or excuse me in the collateralized insurance company, they have their own board. They can ask R&Q to go and seek liquidity for the whole book or for just portfolios of the book. We think we're in the best position to bid on those because we will have been the manager for the last six years, but they may decide that they want to go to third parties and let them let the third parties bid on it. So at the end of year six, the investors, if they want can ask us to go and have and seek liquidity. If they don't ask that at the end of year seven, we are obligated to basically provide a commutation on that book of business in whole or in part will provided in whole and the investors can say how about just this book, where that book we'd like to -- we'd like to have a commutation on that. They are free to accept that price or not accept that price on the whole or on the portfolio. If they don't accept the price then we'll -- we're obligated to offer them and exit in year eight and so on and so forth. So it could go on indefinitely, which is why we say that we'll have fees for at least six years. My guess is that we will be generating these fees and managing this book for longer than that. So when we provide a commutation, the next question is, how will you price it and that's a very good question. We are going to price it exactly as we price books of business today and we've said to you and to the market, we price at a 15% return, IRR, and we will price at a 15% go forward return. So in year seven, we will look at what the reserves are we will do our actuarial work, we'll look at the investment returns that we will price at a 15% return on a go-forward basis. So as we said we offer and exit to investors, which is what they want. They don't need to take that if they don't want and they think they're still upside, but we can give them finality and that finality is the same cost of capital that we bid at and look at -- and look at -- and look at legacy deals today. It's a new origination source for ourselves or distribution source. And the final question which I'll turn to Tom is who will audit Gibson Re, will it be R&Q's auditors?

A - Tom Solomon {BIO 18881774 <GO>}

That will be a decision by the Board of Gibson Re. So I think to be determined, who they'll pick as an independent auditor.

A - William Spiegel {BIO 4942749 <GO>}

I said final question, but it's not, the final question is, what upside can accrue the R&Q if Gibson performs very well. We do have a performance fee, that performance fee is measured at the time that the vehicle has been fully exited. So it's so far out there. It's not that it's not meaningful. It is meaningful, but we didn't want to include in any of our numbers because it is -- it is subject to what the returns look like and it's probably payable in your somewhere between year seven and year 10 depending upon when the commutations occur and the vehicle has been fully realized. But there is upside, which is good for us, and good for the investors, the reason it's in there is to continue to align interest. So I just want to -- I just want to make sure everyone realizes that Gibson Re and

R&Q are working together. The great partners that have invested in it. Our job is to get that vehicle, great returns. We don't have to go to shareholders to raise additional equity for legacy which is what we've done in the last four years. We moved the business to be more fee-oriented. We have 20% at stake, plus the fees. So our objective is to get great returns for the investors that we can do Gibson two and Gibson three. And I guess as I said a core part of our strategy and finally who makes up the Gibson Re board. That's the investors. We are not in the Board. The investors are the Board, but again the relationship is the Gibson takes 80% of our legacy deals going forward. I think that concludes the questions.

Operator

Fantastic, William and Thomas, thank you very much indeed for responding to every single question you've had through and of course if there are any further questions is submitted, the team will have the opportunities to review those and we'll publish responses where it's appropriate to do so. And William if I may just ask you just for a few final words to wrap up before we redirect the attendees to give you some feedback please.

A - William Spiegel {BIO 4942749 <GO>}

No problem. Thank you. So thanks for listening or watching. We really appreciate your time. As you could hear from the excitement. I hope you heard from the excitement in both Tom's voice and my voice, we are really pleased with the way both of our business lines are heading. They are both growing well. There is a lot of demand for our services or secular growth and we are -- we are executing against our five year plan. The first point of which is that move our business more to a fee-based business with less episodic earnings and a much capital-lighter footprint. We're pleased with Gibson. We're really pleased with our partners. Thank you all shareholders or future shareholders who is supporting us and thank you to the Gibson investors for also supporting us and investing alongside us for being our partners.

Operator

Fantastic, William and Thomas, thanks again for updating investors today. Can I please ask the investors not to close the session as you'll be automatically redirected for the opportunity to provide your feedback in order to the management team can better understand your views and expectations. This will only take a few moments to complete and is greatly appreciated by the company. On behalf of the management team of Randall & Quilter Investment Holdings Limited I'd like to thank you for attending today's presentation. That concludes the session. Thank you and good afternoon.