Q3 2019 Earnings Call

Company Participants

- Derek Bulas, Associate Vice President of Legal
- Jennifer Allen, Chief Financial Officer
- Paul C. Rivett, President

Other Participants

- Andrew Hollingworth, Analyst
- Jaeme Gloyn, Analyst
- Jeff Fenwick, Analyst
- Mark Dwelle, Analyst
- Paul Holden, Analyst
- Tom MacKinnon, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, and welcome to Fairfax's 2019 Third Quarter Results Conference Call. Your lines have been placed in a listen-only mode. After the presentation, we will conduct a question-and-answer session. (Operator Instructions) Today's conference is being recorded. If you have any objections, you may disconnect at this time. Your host for today's call is Paul Rivett with opening remarks from Mr. Derek Bulas. Mr. Bulas, please begin.

Derek Bulas

Good morning and welcome to our call to discuss Fairfax's 2019 third quarter results. 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 set out under Risk Factors in our base shelf prospectus, which has been filed with Canadian securities regulators and is available on SEDAR.

I'll now turn the call over to our President, Paul Rivett.

Paul C. Rivett {BIO 15243791 <GO>}

Thank you, Derek. Good morning, Fairfax shareholders.

Fairfax's net earnings for the third quarter were $69 million versus $106 million in the third quarter of 2018, which translates to net earnings per share of $2.04 versus $3.34 in 2018. For the nine months of 2019, our net earnings were $1.33 billion versus $854 million for the first nine months 2018. Fairfax's book value per share increased to $462.98 at September 30 2019, compared to $432.46 at December 31 2018, an increase of 9.5% adjusted for the $10 dividend in the first quarter.

Our operating companies generated another good quarter with an aggregate combined ratio below 100% with a combined ratio of 97.5% and strong reserves across the group, while producing an underwriting profit of $81 million in the third quarter. All of our major insurance companies with the exception of Brit generated combined ratios less than 100% with Zenith at 87.1%, Odyssey Group at 97.6%, Northbridge at 97.5%, Crum & Forster at 97.9% and Allied World at 96.2%.

Brit generally recognized higher losses relative to net premiums earned in the third quarter, and we expect this to reverse in the fourth quarter with Brit being closer to its plan of 97% for the year, excluding any major catastrophes. Allied World deserves a call out for the 96.2% combined ratio in the quarter. Lou and team are hitting stride. I should also mention that Scott Carmilani in his new role as President of Distribution and Strategic Operations of Fairfax is continuing to make good progress, growing new business with our companies and building out our data and Fairfax Worldwide platforms.

For the third quarter, Fairfax's operating income was strong at $280 million versus $250 million in the third quarter of 2018, reflecting primarily higher interest and dividends. Net losses on investments for the third quarter were $97 million, consisting of realized gains of $48 million and unrealized losses of $145 million principally from BlackBerry. The realized gains included a gain of $150 million on the sale of 5% of the company's 9.9% equity interest and ICICI Lombard.

In the fourth quarter, we sold our remaining interest in ICICI Lombard. Total cash proceeds from the third and fourth quarter sales of ICICI Lombard were $729 million. In total, we invested $347 million to establish ICICI Lombard and we raised $1.64 billion from the sale of ICICI Lombard, a return of $1.3 billion. We continue to be very good friends with the teams at ICICI Lombard and ICICI Bank and we wish them well in the future.

We have shifted our focus to Digit, our new digital insurance company in India, under the leadership of Kamesh Goyal, which was just awarded the prestigious General Insurer of the Year Award in Asia, after only 2 years of operation.

Now for some key highlights for the third quarter to bring to your attention. First, our companies are continuing to see firming pricing across most lines of business in North America, with the exception of workers' compensation. This was demonstrated again in the third quarter as our insurance and reinsurance businesses net written premium increased year-over-year by 13.7%. Principal areas of growth were at Northbridge, Odyssey Group, Crum & Forster and Allied World. By company, the change in net premiums written for the third quarter were as follows: Odyssey Group up 21%; Allied World up 18%; Northbridge up 18%; Crum & Forster up 16%; Zenith down 9%; and Brit down 3%. As we have said on prior calls, (inaudible) the team at Zenith continue taking the long-term view and are prudently letting go of workers compensation business that is inadequately priced. With Brit, they are seeing price increases but have reduced net premiums written in some low-margin business and have purchased increased reinsurance protection. In total, gross premiums written across the group is up 12% in the quarter versus last year and the first nine months are up 13% versus last year.

Growth in total investments or float has followed suit and is now at $41.5 billion versus approximately $39 billion at the beginning of the year. We have approximately $10 billion invested in short-term U.S. treasuries and short-term investment-grade corporate bonds. Given the continued strength of the U.S. economy, we feel it is prudent to remain positioned on the shorter end of the treasury curve for the time being. We continue to be focused on growing interest and dividend income, which was $215 million in this third quarter versus a $194 million in the third quarter of 2018.

Hamblin Watsa is vigilantly observing and monitoring global events and economic indicators. We remain skeptical that the U.S. economy is heading for a recession just yet. On the contrary, we believe the U.S. economy is growing. The U.S. job market continues to be firm. Financial conditions remain relatively loose. The U.S. consumer is indebted less today than a decade ago, and the U.S. savings rate is higher today than at any time in the last 10 years. Despite all this, the Fed has cut rates again this week. Recent global developments have led to some positive upward momentum in rates. The Phase 1 trade deal between the U.S. and China, followed by a potential Brexit deal between the U.K. and EU, have removed some fear for now and volatility ifrom the markets. All this said, if we are wrong and a U.S. recession is drawing near, we would expect to have plenty of opportunities to take advantage of given our large cash and short duration sovereign holdings at approximately 45% of the portfolio.

I will now pass the call over to Jennifer Allen, our new Chief Financial Officer, for additional financial and accounting details. But before I do, let me give you some background on Jen. We have the good fortune at Fairfax of having a number of talented, young executives in our organization that allow us to recruit internally. Jennifer Allen epitomizes that group. While at Fairfax over the last 13 years, Jen has worked in various roles on numerous projects with three of our former CFOs. Jen has previously excelled as our Assistant Vice President Finance and Global Controller, the CFO of Fairfax India and the CFO of Fairfax Africa. During her tenure as the Chief Financial Officer at Fairfax India and Africa, Jen played key roles in many initiatives for these publicly listed companies, including capital raising, mergers and acquisitions, negotiating credit facilities, liaising with regulators and of course, overseeing the accounting team. Amy Sherk has now moved into the CFO role at Fairfax India and Fairfax Africa. We are very thankful to have such a talented, experienced and humble executive as Jennifer Allen to takeover Fairfax's Chief Financial Officer role and we have every expectation that she will do a tremendous job for our company and our shareholders.

Okay. Over to you, Jen, for the first conference call.

Jennifer Allen {BIO 20542595 <GO>}

Thank you, Paul. Before I discuss Fairfax's third quarter results, I would like to take the opportunity to first thank you, Paul, for your kind words and support over these past few months, and to acknowledge and say thank you to the management team at Fairfax, all of our operating subsidiaries globally and a special thanks to the dedicated and talented people that I work with daily at Fairfax. Their hard work and dedication is unparalleled. I am so fortunate to have been provided the support throughout this transition, so thank you to everyone. Now turning to Fairfax's results for the quarter. In the third quarter of 2019, Fairfax reported net earnings of $69 million or $2.04 per share on a fully diluted basis. That compared to the third quarter of 2018 when we reported net earnings of $106 million or $3.34 per share on a fully diluted basis. For the first 9 months of 2019 Fairfax reported net earnings of $1.3 billion or $46.23 per share on a fully diluted basis, compared to the first 9 months of 2018 when we reported net earnings of $854 million or $28.83 per share on a fully diluted basis.

Underwriting profit at our insurance and reinsurance operations in the third quarter of 2019 increased to $81 million with a combined ratio of 97.5 compared to underwriting profit of $74 million and a combined ratio of 96.7 in the third quarter of 2018. Underwriting profit in the first 9 months of 2019 decreased to $271 million with a combined ratio of 97.1 compared to underwriting profit of $299 million with a combined ratio of 96.6 in the first 9 months of 2018.

Our combined ratios benefited from favorable prior year reserve development in the third quarter and first 9 months of 2019 of $94 million and $185 million that translated into 2.9 and 2.0 combined ratio points in each of those periods compared to net favorable prior year reserve development of $174 million and $372 million that represented 5.7 and 4.2 combined ratio points in both those respective periods in 2018.

Looking to our operating company results starting with Northbridge, Northbridge's underwriting profit was $8 million in the third quarter and $12 million in the first 9 months of 2019 and had combined ratios of 97.5 and 98.7 in each of those respective periods. That compared to underwriting profit of $1 million and $16 million and combined ratios of 89.5 and 98.1 in each of those same periods in 2018.

Northbridge's underwriting results in the first 9 months of 2019 included net favorable prior year reserve development of $32 million representing 3.5 combined ratio points, reflecting better-than-expected loss emergence across all major business lines. This compared to net favorable prior year reserve development of $37 million and $72 million, representing 12.7 and 8.6 combined ratio points in the third quarter and first 9 months of 2018 reflecting better-than-expected loss emergence on automobile and casualty business line.

The underwriting results in the first 9 months of 2019 included $10 million of current period CAT losses compared to $17 million of current period catastrophe losses in the first 9 months of 2018, both periods related primarily to storms in Ontario and Quebec. In Canadian dollar terms, net premiums written by Northbridge in the third quarter and first 9 months of '19 increased by 19.1% and 16.9% in each of those respective periods, reflecting strong retention of renewal business, growth in new business and price increases across the group.

Moving to Odyssey Group, Odyssey Group reported underwriting profit of $20 million and $88 million with combined ratios of 97.6 and 96.3 in the third quarter and first 9 months of 2019. Compared to underwriting profit of $19 million and $134 million on combined ratios of 97.5 and 93.5 in the third quarter and first 9 months of 2018.

Current period catastrophe losses of $67 million and $135 million represented 7.9 and 5.7 combined ratio points in the third quarter and first 9 months of 2019. Those principally related to Hurricane Dorian and typhoon mangkhut smaller losses on various catastrophes. We're lower than the current period catastrophe losses of $77 million and $142 million that represented 10.4 and 6.9 combined ratio points in the third quarter and first 9 months of 2018 that principally related to Typhoon Jebi, Hurricane Florence, Typhoon mangkhut and smaller losses on various catastrophes.

RC Group's combined ratios in the third quarter and first 9 months of 2019 also benefited from net favorable prior year reserve development of $46 million and $86 million, which represented 5.6 and 3.6 combined ratio points respectively. That compared to net favorable prior year reserve development of $66 million and $152 million which equated to 8.9 and 7.4 combined ratio points, respectively, in the third quarter and first 9 months of 2018.

The net favorable prior year reserve development of both years principally related to catastrophe and property catastrophe loss reserves. Odyssey Group drove $855 million and $2.5 billion of net premiums in the third quarter and first 9 months of 2019 that represent increases of 21.2% in the third quarter of 19 and 14.9% in the first 9 months of 2019.

The increase principally reflected higher net premiums written within their US Insurance, North America and the London market divisions. Moving on to Crum & Forster, Crum & Forster's underwriting profit improved to $12 million and $36 million in the third quarter and first 9 months of 2019 with combined ratios of 97.9 and 97.7 in both those respective periods.

That compared to underwriting profit of $10 million and $18 million with combined ratios of 98.1 and 98.8 in the third quarter and first 9 months of 2018. Attritional current period catastrophe losses were $5 million and $13 million in the third quarter and first 9 months of '19 about 1.1 combined ratio point in each of those respective periods.

That was in line with the 2018 third quarter current period catastrophe losses of $5 million and slightly lower than the $17 million of current period catastrophe losses in the first 9 months of 2018. Crum & Forster's net premiums written increased by 16.4% in the third quarter and 15.1% in the first 9 months of 2019 primarily reflecting business volume growth in surplus and specialty, accident and health and surety and program lines of business.

Looking to Zenith National, Zenith National reported underwriting profit in the third quarter and first 9 months of 2019 of $24 million and $92 million with combined ratios of 87.1 and 83.3 which compared to underwriting profits of $41 million and $91 million with combined ratios of 80.3 and 84.9 each of those respective periods in 2018.

The underwriting profit in the third quarter and first 9 months of 2019 included $17 million and $75 million or 8.9 and 13.7 combined ratio points of net favorable prior year reserve development, which compared to $23 million and $59 million or 11 and 9.9 combined ratio points in the third quarter and first 9 months of 2018.

The net favorable prior year reserve development of both years principally reflected net favorable emergence related to accident years 2013 through 2018. Zenith wrote a $152 million and $580 million of net premiums in the third quarter and first 9 months of 2019 which was lower than the $167 million and the $638 million of net premiums in those respective periods in 2018. The decrease in net premiums written in 19 primarily reflected price decreases.

Looking to Brit, Brit in the third quarter and first 9 months of 2019. Brit reported underwriting loss of $16 million and an underwriting profit of $13 million and combined ratios of 104.1 and 98.9 compared to underwriting losses of $33 million and $50 million with combined ratios of 108.3 and 101.3 in each of those same periods in 2018.

Current period catastrophe losses of $40 million and $43 million that represented 10.3 and 3.6 combined ratio points in the third quarter and first 9 months of 2019 principally related to Hurricane Dorian and Typhoon which were lower than current period catastrophe losses of $66 million and $70 million that represented 16.8 and 6.0 combined ratio points in the third quarter and first 9 months of 2018 that related to Typhoon Jebi, Hurricane Florence and Typhoon Mangkhut.

Net favorable prior year reserve development was lower in the third quarter and first 9 months of 2019 at $8 million and $10 million or 2.1 and 0.8 combined ratio points. Principally reflecting better-than-expected claims experience in various lines of business that compared to $19 million in $28 million or 4.8 and 2.4 combined ratio points in the third quarter and first 9 months of 2018, principally reflecting better-than-expected emergence in the 2017 catastrophe losses in the 3rd quarter and on energy, and US property business line in the first nine months. Brit's net premiums written decreased by 2.5% and increased by 1.6% in third quarter and first nine months of 2019, respectively. The decrease in the third quarter primarily reflected increased use of proportional treaty reinsurance and the purchase of increased catastrophe protection. The increase in the first nine months primarily reflected growth in their core book of business, generated by increased contribution from initiatives launched in recent years and price increases. That was partially offset by reductions in non-core lines of business and increased use of proportional treaty reinsurance, and the purchase of increased catastrophe protection.

Moving onto Allied World. Allied World reported underwriting profit of $23 million in both the third quarter and first nine months of 2019 with combined ratios of 96.2, 98.7 in each of the respective periods. This compared to an underwriting profit of $20 million and $75 million, with combined ratios of 96.7 and 95.5 in the same periods in 2018. Current period catastrophe losses of 2$3 million in both the third quarter and nine months of '19 represented 3.9 and 1.3 combined ratio points, also principally related to Hurricane Dorian and Typhoon Faxi, which compared to higher catastrophe losses of $62 million that represented 10.3 and 3.7 combined ratio points in the third quarter and first nine months of 2018. That also related to Typhoon Jebi, and Hurricane Florence and Typhoon Mangkuht.

Allied World's underwriting profit in the first nine months of 2019 was impacted by $79 million or 4.4 combined ratio points of net adverse prior year reserve development, reflecting deterioration in the insurance segment of $47 million, principally related to North American Casualty, and the reinsurance segment for $3 million that related to Typhoon Jebi. In the third quarter and first nine months of 2018, Allied World benefited from $13 million or 2.2 combined ratio points and $28 million or 1.7 combined ratio points, reflecting favorable emergence on the 2017 catastrophe losses. Allied World contributed $613 million or $2 billion in net premiums written in the third quarter and first 9 months of 2019, representing year-over-year increases of 18.2 and 6.1 respectively, relating to high renewal rates and new business growth across the entire organization.

Moving to Fairfax Asia. Fairfax Asia recorded underwriting profit of $2 million and $3 million with combined ratios of 96.9 and 97.8 in the third quarter and first nine months of 2019. This was better than the underwriting profit of $1 million and an underwriting loss of $1 million with the combined ratios of 98.5 and 100.9 in those same periods in 2018. Combined ratios in the third quarter and first nine months of 2019 included $8 million and $21 million or 14.6 and 14.4 combined ratio points of net favorable prior year reserve development, which compared to $6 million and 1#6 million or 12 points and 11.4 combined ratio points in each of the respective periods, our net favorable prior year reserve development in the third quarter and first nine months of 2018, the net favorable prior year reserve development of both years principally related to automobile, property and workers' compensation.

Moving on to Insurance and Reinsurance Other segment, they produced underwriting profits of $8 million and $4 million with combined ratios of 97.1 and 99.5 in the third quarter and first nine months of 2019. That compared to underwriting losses of $13 million and 19 million with combined ratios of 104.7 and 102.2 in those same periods in 2018.

And finally, looking to run-off. Run-off reported operating losses of $14 million and $45 million in the third quarter and first nine months of 2019 compared to operating losses of $49 million and $102 million in those same periods in 2018. The improvement in the underwriting loss year-over-year principally reflected improvement in the underwriting results and higher investment income.

And now, looking at the consolidated results of Fairfax. The consolidated interest and dividend income increased year-over-year from $194 million and $583 million in the third quarter and first nine months of 2018, $215 million and $672 million in the third quarter and first nine months of 2019, primarily reflecting higher interest income earned on our increased holdings of high quality corporate bonds, short-dated U.S. Treasury bonds and Canadian government bonds. That was partially offset by the lower interest income earned on a decrease holdings of our U.S. municipal bonds.

Fairfax recorded a recovery of income taxes of $5 million in the quarter that represented a 6.4 effective income tax rate and a provision for income taxes of $325 million at an 8.1%

effective income tax rate in the first nine months of 2019, principally reflecting the impact of non-taxable investment income and the tax differential in income and losses outside of Canada.

Our total debt to total cap ratio, excluding the non-insurance operations, increased to 27.1 at September 30 2019 from 25.0 at December 31, 2018, primarily as a result of the increased holding company debt that was partially offset by our increase in common shareholders' equity.

We ended the third quarter of 2019 with an investment portfolio, which included the holding company cash and investments of $41.5 billion that compared to the $38.8 billion investment portfolio at December 31, 2018.

And now I'll pass it back over to you, Paul.

Paul C. Rivett {BIO 15243791 <GO>}

Thank you very much, Jen. We now look forward to answering your questions. Please give us your name, your company name and try to limit your questions to only one so that it is fair to all on the call. Okay, Eunice, we are ready for questions.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions) Our first question came from the line of Paul Holden of CIBC. Your line is now open.

Q - Paul Holden {BIO 6328596 <GO>}

Thank you. Good morning.

A - Paul C. Rivett {BIO 15243791 <GO>}

Good morning, Paul.

Q - Paul Holden {BIO 6328596 <GO>}

So I have two questions for you. First one is on the investment portfolio. So I know that the Q4 '18 call you mentioned striving for better investment performance in 2019, and certainly to some extent you've achieved that. More specifically you referred to monetizations and process. I was wondering if we can kind of get status update on that monetizations and process and just a characterization of how far you think you're along in that process. Is there still a lot to potentially do there?

A - Paul C. Rivett {BIO 15243791 <GO>}

Yes. No, good question, Paul. So we are -- we're quite far along in the process there. We've got the whole Hamblin Watsa team from Prem right through working with us. A number of these things are close to fruition. A few that are more at the earlier stages, but as you can imagine, we can't give you specifics on it, but we're very happy that we're close to being able to get a few things across the line in the fourth quarter. ICICI Lombard was part of that. So you saw that we can act fairly quickly. But also it's a -- we want to get best price and best execution, right? So we're working to get working to do that for our shareholders. And as you said, we have done fairly well this year. We're on target for that 50% ROE. And that's a result of hitting that 6% return target in the portfolio. And we're excited because we've got a bigger float now that keeps coming in, thanks to our operating company. So that gives us a little bit more leverage as we go into the end of the year, but we're quite close on a few of the things we've been working on and we look forward to announcing them when they come across the line.

Q - Paul Holden {BIO 6328596 <GO>}

Great. Second question is on the underwriting performance, specifically premium growth. Wondering if you can give us a sense of how much of that is coming from volume versus price. And I guess what I'm really trying to get to here is sustainability of sort of -- let's call it a low teen type growth rate.

A - Paul C. Rivett {BIO 15243791 <GO>}

Yes. So it's always hard to tell because you don't want to get too excited, but I have to tell you that in my career here, 16 years, we're starting to get quite excited. I haven't seen anything quite like this. It's firming. No one's calling it a hard market yet; no one's ringing the bell but its firming. And I would say and I'd look to Jen but we're roughly of that 13%, were roughly 50% premium 50% price. So it's a good mix and we're quite excited than that don't want to predict where it can go from here but we think that might have links. Jen, I don't know if you want to add anything to that.

A - Jennifer Allen {BIO 20542595 <GO>}

No, I think that's a fair statement.

Q - Paul Holden {BIO 6328596 <GO>}

Great, thank you for your answers.

Operator

Thank you. The next question from the line of Jeff Fenwick of Cormark Securities. Your line is now open.

Q - Jeff Fenwick {BIO 15350794 <GO>}

Hi, there. Good morning, everyone. So, Paul, I just wanted to follow up on the question around the positioning of the investment portfolio, and I guess one point of push back. I often get from investors is the, Fairfax isn't afraid to take some bigger swing to stocks and have some larger positions like a BlackBerry and like the Telco in there. It can create some quarter-by-quarter volatility. So is this can when we talk about that, monetization or reorientation within the portfolio. Is that something that you're thinking about like how do you incorporate that type of approach that might help to maybe reduce some of the volatility or sort of improve the performance, were you going through time?

A - Paul C. Rivett {BIO 15243791 <GO>}

Yeah, Listen, I think we have heard that we've heard that from our shareholders and, but for us and we're always going to be value focus and then there may be larger positions from time to time. And generally speaking, we don't want to go any bigger than the current position sizing that we have but we continue to be focused on the names we have and we will always be value investors and there may from time to time be larger positions as value investors but keeping in mind that even now with the $41.5 billion in float even a $1 billion position is relatively small in the portfolio. So, but we are mindful of that and going forward, we don't want to have positions much bigger than $1 billion in any way.

A - Jennifer Allen {BIO 20542595 <GO>}

Then maybe if you could talk a little bit of as capital and balance sheet position here you're seeing units like Odyssey and Allied growing so much. How are you feeling from a balance sheet leverage perspective, and are you confident that you're are well positioned to go out and capture that opportunity.

A - Paul C. Rivett {BIO 15243791 <GO>}

Yeah, we're really excited and confident where we are on, from a capital perspective, you know this, but we always have been keeping and well for the foreseeable future keep more than $1 billion at the holding company level. And we don't get rating agency credit for that. But we keep it there, just to make sure that we're there for our subs in the future and for policyholders and shareholders. But we're very well capitalized. And as we've said on prior calls as we started to see this trend progressing. We are there for our operating companies to grow, because there is an opportunity for a little bit maybe of a step change as far as getting that business and growing the float and being able to stay at that higher level and meanwhile, we're out there doing things like refinancing our debt, you saw that we did a recently a Canadian deal we've pushed out maturities until 2022 of any consequence. And we're continuing to look at ways to find chief financing alternatives. Not much, really we can do now between now in 2022. But we are looking for alternative sources of financing. And to sum it up, we are very, very comfortable and very excited about where we are from a capital position there for our operating.

Q - Jeff Fenwick {BIO 15350794 <GO>}

And I guess just to follow on with that is around prioritization. Clearly, you want to support the growth of the operating units there, but what about buybacks, I mean at the stock continue sort of -- here and the discount to the group just seems to be probably the highest I've seen it over the last 10 years or so, how does that factor into the next year for you?

A - Paul C. Rivett {BIO 15243791 <GO>}

We do watch it and as (inaudible) has said over the last 34 years. I mean there's a multiple goes up and goes down and certainly at a discount we see that, but in the third quarter, although we did both $30 million in buyback for treasury purposes, third quarter we want to make sure that we're watching that's the high CAT quarter. So we want to be extra careful there but it is, let's say, a priority for us. But first, as I mentioned in the prior question, we want to be there for our companies to make sure they grow and grab that great business while they can increase our float and we have already said, we're going to be looking to take our partners out in Brit and Eurolife in the coming months. But we're mindful on the stock and at there at the right time we'll obviously take advantage to the extent we can.

Q - Jeff Fenwick {BIO 15350794 <GO>}

Okay, thanks for that color.

Operator

The next question is from the line of Jaeme Gloyn of National Bank Financial. Your line is now open.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Thank you. Good morning. First question just related to the shift of Allied World to Bermuda based company is there, what are some of the impacts of that change?

A - Paul C. Rivett {BIO 15243791 <GO>}

No real impact.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Like from a tax point of view, we're financially that was --

A - Paul C. Rivett {BIO 15243791 <GO>}

No, not at all.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Okay. And then one of the things going on in US insurance and dig in the buzzword from other calls is social inflation. Can you provide us with any comments on the impacts to Fairfax's underlying business units as relates to that theme?

A - Paul C. Rivett {BIO 15243791 <GO>}

Yeah, so I mean the big impact is obviously if we think it's part of this increasing firming of pricing and including the fact that there's also capacity seems to be coming out in lower limits. But we believe we've been proactive on this trend in our underwriting actions, we've seen higher losses in commercial auto, for example, but we believe we're ahead of that curve on this trend with our companies and their underwriting actions and the company as a whole benefits because we have a diversified mix of business both by line of business and geography. And generally of lower smaller business that we write with lower limit. So for us, social inflation is as we see it is just part of what's giving this firming pricing and should be all things considered, a good thing for us going forward.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Great. And last one real quick, just with the growth in premiums. Is there a targeted leverage either from a underwriting leverage or where investment leverage that you're looking to achieve with the outsized growth in premiums at this stage?

A - Paul C. Rivett {BIO 15243791 <GO>}

No, real target, sky is the limit. I'd say that a little flippantly. But the reality is in our decentralized structure each of our CEOs is incentivized for 95 combined and they are as you see their growing profitably with great reserving. So but no target.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Great, thank you.

Operator

Thank you. The next question is from the line of Tom MacKinnon of BMO Capital. Your line is now open.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yeah, thanks very much. Just a question on your comments you said if there was a US recession you'd see opportunities, maybe you can elaborate as to what those opportunities are? I assume that would be deployment of the cash. But I don't assume it's buying anymore in terms of equities; given you're kind of at year at your limit there being totally being that these things including your investments in associates and whatnot or equivalent to your book value. So would these opportunities, really just be deploying the cash into more fixed income.

A - Paul C. Rivett {BIO 15243791 <GO>}

So, good question Tom. So we as we've done in the past you saw in the financial crisis, we were able to be there to provide convertibles to folks who just couldn't get financing anywhere else. So that convertible going to convertibles would be part of the change of mix being in very liquid short-term sovereign cash and sovereign debt, we can very quickly switch and deploy in areas like convertibles also take advantage of the extent that spreads -- take advantage generally. So that's, that's one area. But the other is I mentioned with one of the prior questions, we are changing the mix on equities as we're executing on some of the disposition strategy. So there is, there will be ready to the extent that it changes, will be ready either way, so that's what we're positioning ourselves. We have not despite pressure and we see it from our competitors, we're not reaching for yield, staying patient, preserving capital and we'll see which way it goes, we are leaning a little bit as I said towards thinking that the US is strong and we'll get a trade deal done Phase 1 shortly and we'll continue to follow that trend. Job numbers were good this morning and we see a little bit of potentially wage inflation from that GM deal. So, we think it might trend that way, but either way it goes, we're ready to go with the portfolio as it's currently structured.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. And just a follow-up with respect to your comments about the buyback. Now that we're kind of almost through the Cat season, given where your stock trades, what is your thinking in terms of buyback now?

A - Paul C. Rivett {BIO 15243791 <GO>}

We're definitely watching it. I don't want to give away our hand, but priority is making sure we're there as growth's accelerating. We're also obviously monitoring some of the Cats that have happened in this quarter, too. As you said, it's generally seems to be over, but we're seeing things like California wildfire, which so far hasn't been as serious as Camp Fire was last year. But, we are watching the stock, rest assured, but we want to be there for what could be a generational shift in pricing and we'll balance the approach, but definitely and always will be interested in our stock at the right price.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Thanks.

Operator

Thank you. And the next question is from the line of Junior Roth [ph], private investor. Your line is now open.

Q - Unidentified Participant

Good morning. Toys R US, can you give us an update on how that's performing, if it's performing as expected when you purchased it? And then, the other question is, what do you think about value investing, because in the last 5 to 10 years value investing hasn't really performed. Do you think that's going to change going forward or what's your perspective on that?

A - Paul C. Rivett {BIO 15243791 <GO>}

Junior, you never can tell with these things, but with Prem and the team with decades of experience, these things have a way of turning. We might have seen that, with what we've seen with WeWork and a movement among the growth group to focus a bit more on bottom line, free cash flow and earnings. So, we may be seeing a shift back to value, but listen, one way or the other that doesn't matter. We are focused on capital preservation and the value approach and we're going to stick with that. We think over the long run, it has worked and it will continue to work.

On Toys R Us, retail environment has been tough in Canada. You saw the news last night, this morning, about in Canada and particularly out west, loss of jobs. So retail is off. Toys R Us continues to be producing good EBITDA, it's a critical season right now, but the downside protection, as you think about it from a value perspective, is that we bought it for the real estate value and the business is all upside. We're very supportive there and we will continue to be very supportive of the business, continue to believe in it. But it's upside, and it continues to perform not in expectations, but over the long term, we expect that it will be a great cash generator for us.

Q - Unidentified Participant

Okay. Thanks a lot.

A - Paul C. Rivett {BIO 15243791 <GO>}

All right, thank you.

Operator

Thank you. And the next question is from the line of Mark Dwelle of RBC Capital Markets. Your line is now open.

Q - Mark Dwelle {BIO 4211726 <GO>}

Hi, good morning. A few of my questions have already been covered. But, a numbers question. On the ICICI Lombard sale, saw you commented in the interim report in terms of some of that was sold in the third quarter and some of it was in the fourth quarter. Where does the cash from that show up? Or maybe cash hasn't been received yet.

A - Paul C. Rivett {BIO 15243791 <GO>}

So Jen, maybe you want to take that one.

A - Jennifer Allen {BIO 20542595 <GO>}

So, on the ICICI Lombard sales, it's up in the holding company cash subsequent to the quarter, 250 of that proceeds that came in was used to repay at the credit facility. And we are working on the residual to be paid off in the next coming weeks. But that is up in the holding company cash line.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay, thank you. The second question, I was going to ask about it anyway, but you kind of mentioned it in your opening remarks about digits. Am I correct, that's not a consolidated entity, that's whatever you call, affiliate holding or affiliate investment?

A - Jennifer Allen {BIO 20542595 <GO>}

Yes. That's correct. It's investment in associates. So, it's equity accounted.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. And, any of the proportional proceeds of that are going to come through within that corresponding P&L line, is that all right?

A - Jennifer Allen {BIO 20542595 <GO>}

That's correct. It will come through in the share of profit and associates line and the income statement.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. And then, the other question that I had, the losses related to typhoon Faxai were fairly low, I thought, relative to my expectations. Any early comments in terms of where the (inaudible) losses may come in, higher than that, lower than that, about the same?

A - Jennifer Allen {BIO 20542595 <GO>}

No, we have no indication at this time on those.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. Those are my questions. Thank you.

A - Paul C. Rivett {BIO 15243791 <GO>}

All right, thanks a lot.

Operator

Thank you. And the next question is from the line of Luis Hernandez [ph], Private investor. Your line is now open.

Q - Unidentified Participant

Yes, hello, good morning and thanks for taking the question. My question is basically on India. Given the fact that both Fairfax itself, as you know, is a few direct investments that are pretty big and where the company has a big stake in, and then obviously there is also the Fairfax India vehicle. So, I just wanted to see your comments on how are you seeing the market? What are the opportunities that you're looking at? I mean as a general comment, given what I just said.

A - Paul C. Rivett {BIO 15243791 <GO>}

Thank you for the question. So, we continue to be very excited about India, under Prime Minister Modi. It's a little bit down now, the market. Emerging markets generally are a little down, but that's an opportunity for us. We think long-term future of that country and that economy is one of the best places to invest on the planet. And so, we continue to be very excited about opportunities, continue to be analyzing opportunities. Our investments there, we think are very good and we'll continue to grow, given it's just such a dynamic country and with what the Prime Minister Modi is doing and being business friendly. We continue to be very excited about that market.

Q - Unidentified Participant

Okay. All right, thank you.

A - Paul C. Rivett {BIO 15243791 <GO>}

Okay, thank you very much.

Operator

The next question is from (inaudible). Your line is now open.

Q - Unidentified Participant

Hi, there. I thought I might just sneak in one on India as well. And I'm not sure if you're in a position to comment, Paul. I mean maybe Jennifer can. One of the most notable aspects of their quarter that they reported last night was the big uptick in value at the Bangalore Airport, at the IAL. Looks like maybe plans for terminal being put in there. Can you offer any comment about that? Just the extent of the swing there was pretty meaningful in percentage terms, and any color you can offer on how some of the assumptions changed in the model there to trigger that increase.

A - Jennifer Allen {BIO 20542595 <GO>}

Sure, no problem. If we look at the Bangalore Airport that's held through Fairfax India, they recently had the master plan approved by the underlying regulation authorities in India, that allow them to bring on that third terminal. So, that's most of the lift that you're seeing in the third quarter. We didn't have it in the prior quarters, because it is quite a robust process they have to go through to make sure they have that regulatory approval and before we can actually factor that into the cash flows. So, that is most of the list that you see in the third quarter. Maybe to note also on that asset is, we've disclosed extensively in the past that the underlying real estate asset, we're still waiting on the master plan on that one, that value is not yet in. The underlying value of Bangalore Airport it's only at a least value. So, that is something, hopefully in the coming quarters, we'll start to see hopefully benefit lift on that as well, which we have disclosed previously.

Q - Unidentified Participant

That's helpful color. Thank you.

Operator

And our final question is from the line of Andrew Hollingworth, of Holland Advisors. Your line is open.

Q - Andrew Hollingworth {BIO 1896571 <GO>}

Hi, good morning. Can I just get back to one of the original questions that you had, just regarding the redeployment of the equity portfolio? I mean you made the point pull that billion dollar position is about as big as you roll and it's not a very big percentage of the $41 billion. But it is quite a big percentage of the equity portfolio of the business. So, I think maybe the message that investors want to hear is that, going forward, the equity portfolio will be just more diversified than it is today. And probably a bit more liquid than it is today, because I'm not going to say which Holdings you should and shouldn't own, that's not for us to do, but obviously trying to liquidate a 33 position in Eurobank would be very difficult thing to do. Is that the move of the company, to try and end up with a value orientated portfolio that's still sticks with the mentality of the organization, one that's a little bit more suited to the task of being the core equity of this whole organization?

A - Paul C. Rivett {BIO 15243791 <GO>}

No, I think, Andrew, that's a fair comment. And I think it's a correct comment. We do want to be in overtime and more liquid position, but always with the value. But continuing to be opportunistic. I think you're right, our preference would be to be liquid, but we do and take the opportunities as they come, and as I said, we will want to stay below the $1 billion. Even that is only for really good opportunities like we've seen with Seaspan, it's done some remarkably well. And we think there is upside still on that. But, we're mindful of that limit and we will continue to be focused on it, would be opportunistic and always with a value focus.

Q - Andrew Hollingworth {BIO 1896571 <GO>}

Can I just ask one separate follow-up? And just in terms of the comments you made earlier on about a slightly stronger market, in terms of premium pricing and all the rest of it. I'm intrigued here, why do you think this is taking place? It doesn't feel like it's got less capital in it and also maybe with the history, the group has got, looking back at previous situations where you've seen the firmer market. Is there ever a reason why it takes place, or do you just look back in 5 years and say, I know we can solve it in hindsight, but at the time we never knew really?

A - Paul C. Rivett {BIO 15243791 <GO>}

Andrew, it's the question right now in our industry. I think, in hindsight everybody can piece it together. But it's a number of factors. It's the low interest rate environment. It's the social inflation that we talked about, it's the capacity coming out from some of our competitors, including capacity coming out in the Lloyd's market, it's catastrophes like what happened in 2017, worst catastrophe year on record, that have really shaken up the core and got a whole generation of underwriters, focused on needing to get price again, as opposed to the opposite. So, it's a whole list of factors, all coming together. And I don't think anybody necessarily saw it coming. But it certainly seems like it's on its way now.

Q - Andrew Hollingworth {BIO 1896571 <GO>}

That was my last. Thank you for taking my question.

A - Paul C. Rivett {BIO 15243791 <GO>}

No, problem. Thank you very much. Well, if there is no further questions, thank you everyone for joining this call. Thank you.

Operator

And this does conclude today's call. All parties may disconnect at this time. Thank you all for attending.