Q2 2018 Earnings Call

Company Participants

- David Bonham, VP and CFO
- Derek Bulas, Assistant Vice President-Legal
- Prem Watsa, Chairman and CEO

Other Participants

- Christopher Gable, Analyst
- Howard Flinker, Analyst
- Jeff Fenwick, Analyst
- Mark Dwelle, Analyst
- Paul Holden, Analyst
- Tom MacKinnon, Analyst
- Unidentified Participant

Presentation

Operator

Good morning and welcome to Fairfax 2018 Second 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) For time sake we ask that you limit your questions to one. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

Your host for today's call is Prem Watsa with opening remarks from Mr. Derek Bulas. Mr. Bulas, please begin.

Derek Bulas

Good morning, and welcome to our call to discuss Fairfax's 2018 second 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 Chairman and CEO, Prem Watsa.

Prem Watsa {BIO 1433188 <GO>}

Thank you, Derek. Good morning, ladies and gentlemen. Welcome to Fairfax's second quarter conference call. I plan to give you some of the highlights and then pass it on to Dave Bonham, our CFO, for additional financial details.

In the first half of 2018, book value per share increased by 3.3%, adjusted for the $10 per share common dividend paid in the first quarter. Our insurance companies continue to have excellent results with a combined ratio of 96.1% with very good reserving and they produced an underwriting profit of $116 million in the second quarter. All of our major insurance companies, with the exception of Northbridge, had combined ratios of less than 100%: Zenith at 88.6%, OdysseyRe at 91.4%, and Allied World at 94.9%.

Second quarter operating income was also very strong at $237 million, while net investment losses in the quarter were $58 million, which arose primarily as a result of mark-to-market losses on Blackberry and ICCI Lombard, offset by net market gains on Seaspan.

As shown on Page 40 of our quarterly report, our net investment loss of $58 million in the quarter consists of realized gains on our investment portfolio of $201 million, offset by unrealized losses of $260 million. As we have mentioned in our annual meetings, annual reports, quarterly calls, with IFRS accounting, where stocks bonds are recorded at market and subject to mark-to-market gains or losses, quarterly and annual income will fluctuate and investment results will only make sense over the long term. All-in-all, we reported net earnings of $63 million.

Our insurance and reinsurance business premium volume was up in the second quarter of 2018 versus '17 by 44%, primarily due to growth at Northbridge, Crum & Forster, and Odyssey, and the acquisitions in the second half of 2017 of Allied World, the Latin American operations of AIG in Argentina, Chile and Colombia, and AIG branches in Central and Eastern Europe, offset by the divestiture of First Capital.

Excluding the acquisitions and divestiture, our net premium written was up 10.7%. Combined ratio for our insurance and reinsurance operations, as I said earlier, was 96.1%. At the subsidiary level, the change in net premiums written and the combined ratios in the second quarter were as follows: the Odyssey Group 91.4% combined ratio, premiums up 20%; Crum & Forster 98.5%, premiums up 8%; Northbridge in Canadian dollars 106.2% and premiums up 8%; Zenith 88.6%, premiums were down 5%; Fairfax Asia 99.5%, premiums were down 47% -- almost 50% reflecting the divestiture of First Capital; Brit 96.8%, premiums up 3%; Allied World 94.9% with the premiums up 10%.

We continue to hold our CPI-linked derivatives, as I mentioned in the past, with a notional value of $116 million, which produced unrealized gains of $1 million in the second quarter. The average term to maturity is 4.1 years and the carrying value is $16 million. If some of the unexpected risk come to pass, these CPI-linked derivatives could become very valuable. We will hold them until their maturity. When you review our statements, please remember that when we own more than 20% of a company, we equity account, and when we own above 50%, we consolidate, so that mark-to-market gains in these companies are not reflected in our results.

As you can see on page 66 of our quarterly report, the fair value of our investments in non-insurance associates -- that's non-insurance -- and listed consolidated companies of Recipe -- that's new name for Cara -- Grivalia, Thomas Cook, Fairfax India and Fairfax Africa is $5.4 billion versus a carrying value in our balance sheet of $4.7 billion, an unrealized gain of approximately $750 million, or $27 per share pretax, not on our balance sheet.

In June, Fairfax Africa completed a bought deal public offering of 12.3 million subordinate voting shares at a price of $12.25 per share, which raised gross proceeds of $150 million, net proceeds of approximately $148 million after commissions. Fairfax acquired 4.1 million subordinate voting shares for $50 million through the public offering and an additional approximately 650,000 shares for $7.6 million through open market purchases. These transactions collectively decreased Fairfax's ownership interest in Fairfax Africa from 64% to about 59%.

In February, the Company invested $250 million in securities of Seaspan, comprised of 5.5% unsecured debentures due 2025 and warrants to purchase 38.5 million common shares with an exercise price of $6.50. In March, we committed to invest in January 2019 an additional $250 million of the same debentures and warrants to purchase 38.5 million shares with an exercise price of $6.5 a share. On May 31, the Company agreed to an early exercise of the first warrant, and it was exercised on July 16; and to exercise the second warrant immediately upon issuance in January 2019. So we've committed to buy common shares worth $500 million; $250 million immediately and $250 million in January 2019.

As consideration for the early exercise of these warrants, Seaspan agreed to issue to Fairfax new warrants to purchase 25 million common shares with an exercise price of $8.05. And to amend the terms of the debentures such that Fairfax has the right to put to Seaspan annually some or all of the debentures up to their maturity dates. For the first six months, Fairfax reported unrealized gains of $246 million from Seaspan as pretax earnings. And in addition, there was $113 million unrealized gain on the original warrants not included in our shareholders' equity as the original warrants are recorded under the equity method of accounting -- IFRS accounting. A full breakdown of the transaction is shown on page 15 of our quarterly report. Seaspan is a publicly-listed company, as you know, independent charter owner and manager of containerships. In July, Fairfax purchased 11.2% ownership interest from OMERS for $252 million and paid an accrued dividend of $13 million under shares of Brit that we purchased. Subsequent to this transaction, Fairfax's ownership interest in Brit is 88%.

In July of this year, Advent and Brit announced a potential combination of some of their Lloyd's businesses. The decision was in response to the strategic challenges currently facing Advent as it has been striving to build a significant presence in target areas of business in an extremely competitive marketplace. Led by Nigel Fitzgerald and with the support of Lloyd's, we decided to take this course of action. As you would expect, we are taking care of all our employees at Advent. During the fourth quarter of 2017 and up to August 1, 2018, the Company repurchased for cancellation and repurchased for treasury a total of 556,000 subordinate voting share at an aggregate cost of approximately $291 million.

Now as we've said in the past, we believe the new US administration's policies of reducing corporate taxes to 21%, rolling back regulation in business, and significant possible infrastructure spending has the potential of boosting economic growth significantly in the United States. We saw this in the second quarter when US GDP grew by 4.1%. Sentiment among small businesses has improved dramatically and animal spirits [ph] in the United States are alive and well. And as I've said before, when the US economy, which is approximately $20 trillion, does well, much of the world does well, too. To us this means concerns of China or Europe precipitating a worldwide recession or depression have been significantly reduced but not eliminated. The fundamentals for the United States may well be excellent for the next few years.

Of course the trade policies of the US could precipitate a collapse in world trade, but we see these risks diminishing as the US does a trade deal with Europe, perhaps soon with NAFTA, and finally with China. So these risks will continue to be very much monitored by us, but we are thinking that the new administration's policies may make this a stock pickers' market and one in which we have thrived over the last 32 years. We will continue to pick good companies which provide significant downside protection and potential appreciation over the long term.

As of June 30, 2018, we have $10.7 billion in cash and short-term investments in our portfolios, which is 29% of our portfolio investments. We have another approximately $7.3 million of one-year treasury bills that are classified as bonds and are approximately $1.4 billion of high-quality corporate bonds with an average maturity of 1.8 years. In total, we have approximately $19.4 billion in cash and short-dated securities, which is 52% of our investment portfolio. Our investment portfolios will be largely unimpacted by rising interest rates as we have not reached for yield. In fact, we will benefit from rising investment income.

Interest income currently is at a run rate of approximately $700 million, up $100 million from year-end. With a run rate of approximately $16 billion in gross premium, a huge focus on underwriting discipline, a portfolio of approximately $39 billion, and with our investment team operating in a stock pickers' market, all grounded on our fair and friendly culture which we have built with over 32 years, we expect to generate a 15% return for our shareholders over time.

Before I turn it over to Dave Bonham, our CFO, so he can give you some more information on the underlying financials, I wanted to mention again that in the future, our conference call will be done by Paul Rivett, our President; and Dave Bonham, our CFO.

I will now pass it on to Dave.

David Bonham {BIO 15243784 <GO>}

Thanks, Prem. In the second quarter of 2018, Fairfax has reported net earnings of $63 million or $1.82 per share on a fully diluted basis and that compared to the second quarter 2017 when we reported net earnings of $312 million or $12.67 per share on a fully diluted basis. For the first six months of 2018, Fairfax has reported net earnings of $747 million or $25.46 per fully diluted share and that's an improvement over 2017 when we reported net earnings of $394 million or $15.70 per fully diluted share.

Underwriting profits at our insurance and reinsurance operations in the second quarter and first six months of 2018 were $116 million and $225 million with combined ratios of 96% in each of those respective periods. That compared to underwriting profits of $108 million and $216 million with combined ratios of 95% in each of those respective periods in 2017.

Total current period catastrophe losses were fairly comparable year-over-year. In the second quarter and first six months of 2018, they totaled $44 million and $97 million, respectively, about 2 combined ratio points in each of those periods, and that compared to $45 million and $84 million in those same periods in 2017, about 2 combined ratio points. Our combined ratios also benefited from net favorable prior year reserve development in the second quarter and first six months of 2018 of about $113 million and $199 million in those periods, and that translated into about 4 combined ratio points in each of those periods. That compared to a net favorable prior year reserve development of $108 million and $211 million, representing 5 combined ratio points in the second quarter and first six months of 2017.

Turning to net premiums written and adjusting for the impact of certain 2017 acquisitions and the sale of First Capital, net premiums written by our insurance and reinsurance operations increased by 11% in the second quarter, 9% in the first six months of 2018 reflecting primarily growth at OdysseyRe, Northbridge, and Crum & Forster.

Turning to our operating company results, starting with Northbridge. Northbridge reported underwriting losses of $17 million and $15 million in the second quarter and first six months of 2018. That resulted in combined ratios of 106% and 103% in each of those respective periods. That was in comparison to underwriting profits of $1 million and $3 million, combined ratios of 99.7% and 99% in those same periods in 2017. Northbridge's underwriting results in 2018 included the benefit of net favorable prior year reserve development, $22 million in the second quarter, $35 million in the first six months, representing, 8 combined ratio points and 6 combined ratio points, respectively.

The underwriting results in the first six months of 2018 included $14 million of current period catastrophe losses. Those were principally related to windstorms in Ontario and Quebec, and that compared to $5 million of current period catastrophe losses in the first six months of 2017. In Canadian dollar terms, net premiums written by Northbridge in the second quarter and first six months increased by 8% in both of those periods, and that reflected increased renewal business and price increases across the group.

Looking at Odyssey, Odyssey Group reported higher underwriting profits of $61 million and $115 million with combined ratios of 91% in each of the second quarter and first six months of 2018. That was compared to underwriting profits of $56 million and $104 million in the same periods last year in 2017. Odyssey Group's combined ratios in the second quarter and first six months of 2018 benefited from higher net favorable prior year reserve development of $45 million and $86 million, representing about 6 and 7 combined ratio points, respectively, and those were principally related to a property catastrophe loss reserves. That compared to net favorable prior year reserve development of $31 million and $67 million. That's 5 and 6 combined ratio points in the second quarter in the first six months of 2017.

Current period catastrophe losses, all of which were attritional, were $27 million and $65 million, representing 4 and 5 combined ratio points in the second quarter and the first six months of 2018, comparable to current period catastrophe losses in the same period last year, again all attritional of $25 million and $54 million. Odyssey Group wrote $790 million and $1.5 billion of net premiums in the second quarter and first six months of 2018, increases of 20% in the second quarter, 22% in the first six months, and that reflected premium growth across all of their divisions.

Moving on to Crum & Forster. Crum & Forster produced underwriting profits of $7 million and $9 million in the second quarter and first six months of 2018 with combined ratios of 99% in each of those periods. That compared to underwriting profit of $4 million from $6 million, combined ratios of 99% in those same periods in 2017. Net prior year reserve development was not significant in the second quarters and the first six months of both 2018 and 2017.

Attritional current period catastrophe losses were $12 million in the first six months of 2018, about 1 combined ratio point. That was slightly higher than current period catastrophe losses of $10 million in the first six months of 2017. Crum & Forster's net premium written increased by 8% in both the second quarter and first six months 2018 with the growth broadly spread out across several of their lines of business.

Zenith National; it reported underwriting profits in the second quarter and first six months of 2018 of $23 million and $50 million and combined ratios of 89% and 87%, compared to underwriting profits of $21 million and $58 million and combined ratios of 90% and 85% in those respective periods in 2017. The combined ratios included 7 and 9 combined ratio points of net favorable prior year reserve development in the second quarter or first six months of 2018. That compared to 6 and 12 combined ratio points in those same periods in 2017.

Zenith wrote $162 million and $471 million of net premiums in the second quarter and the first six months of 2018, which was lower than $170 million and $502 million of net premiums in those respective periods in 2017. The decreases in net premiums in 2018 primarily reflected decreases in price.

At Brit; in the second quarter or first six months of 2018, Brit reported underwriting profits of $14 million and $18 million and combined ratios of 97% and 98%, compared to underwriting profits of $12 million and $23 million combined ratios in both the second quarter and first six months of 2017 of 97%. Net favorable prior year reserve development was $9 million in the second quarter and the first six months compared to $8 million in the same periods in 2017.

Brit's net premium written increased by 3% in both the second quarter and the first six months of 2018. The increase reflected the contribution from initiatives that they had launched in prior years, price increases, and favorable foreign currency translation, partially offset by reductions in other lines of business through active portfolio management.

Allied World; Allied World contributed $629 million and $1.4 billion to net premiums written in the second quarter and the first six months of 2018. Allied's underwriting profit of $55 million and the combined ratio of 95% in the first six months of 2018 reflected net favorable prior year reserve development of $15 million, which included a net favorable emergence on the 2017 catastrophe losses.

Fairfax Asia recorded an underwriting profit of $300,000 and an underwriting loss of $2 million, and combined ratios of 99.5%, 102% in the second quarter and the first six months of 2018. This was lower than underwriting profits of $12 million and $17 million and combined ratios of 86% and 90% in the same periods in 2017, which included the results of First Capital, which was sold in the fourth quarter of 2017.

The Insurance and Reinsurance - Other segment produced underwriting losses of $1 million and $5 million, combined ratios of 100% and 101% in the second quarter and the first six months of 2018, compared to underwriting profits in those same periods in 2017.

Looking at Runoff. Runoff reported operating losses of $21 million and $53 million in the second quarter and first six months of 2018 compared to operating losses of $40 million and $80 million in those same periods in 2017. The decrease in the year-to-date operating loss reflected lower net adverse prior year reserve development primarily related to asbestos exposures.

Our consolidated interest and dividend income increased year-over-year from $107 million in the second quarter of 2017 to $178 million in the second quarter of 2018 and that primarily reflected higher interest earned on increased holdings of short-dated US Treasury bonds and the consolidation of the interest and dividends of Allied World, partially offset by lower interest earned on US state and municipal bonds as a result of sales during 2017 and 2018.

Our total debt to total capital ratio increased to 26.6% at June 30 from 25.8% at December 31, 2017. That primarily was a result of increased total debt, partially offset by increased total capital. We ended the second quarter of 2018 with an investment portfolio which included holding company cash investments of $39.4 billion. That was slightly higher than $39.3 billion that we held at December 31, 2017.

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

Prem Watsa {BIO 1433188 <GO>}

Thank you very much, Dave. Now we're 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 everyone on the call. Okay, Cal, we are ready for the questions.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session of today's conference. (Operator Instructions) The first question is coming from Jeff Fenwick of Cormark Securities. Your line is now open.

Q - Jeff Fenwick {BIO 15350794 <GO>}

Hi there. Good morning, everyone.

A - Prem Watsa {BIO 1433188 <GO>}

Hey, good morning, Jeff.

Q - Jeff Fenwick {BIO 15350794 <GO>}

Hi, Prem. So I guess my first question is on Seaspan. Obviously, a big bet buy on this one here. And I don't know that industry well, but it seems like one that's sort of cyclical, maybe impacted by global trade flows, and it sounds like an industry that's been struggling and you see an opportunity there. What's giving you the confidence this is one you can get in for the long term here and make that size a bet on it and how do you see that playing out?

A - Prem Watsa {BIO 1433188 <GO>}

Yes. In the press release, Jeff, what we mentioned on Seaspan was that the key reason was David Sokol. David Sokol has built MidAmerican at Berkshire Hathaway over 20 years, a track record that really I haven't seen across the world, over 20 years of fantastic track record. Almost anything you think of was growing at 20% plus and David is a large shareholder here. The Washington family put him in as CEO and then Executive Chairman. He was able to attract a really good CEO, Bing Chen is his name, and David is Executive Chairman, fully involved in all of the capital allocation decisions, and he's mentioned that in the conference call. We just think that under David's leadership, Seaspan is going to do extremely well.

Now in terms of the industry, it seems like it's bottomed out. Capacity is not increasing at all. It had increased significantly. A few of the large shipbuilders have gone bankrupt, and demand is picking up. So the pricing -- these are all leasing rates. Leasing rates have picked up pretty significantly in the last six months or year, and you're buying a company which can make as is plus/minus a dollar in earnings and we paid $6.5. That stock's about eight and change and David is going to be -- David Sokol as Executive Chairman is responsible for building this company over time with the Washington family as the most significant shareholder, who we're a big fan off.

So all of those things, Jeff, are the reason why we are very excited about this company. We decided to exercise our warrants to make Seaspan really strong because we've effectively put $500 million in equity into the company, lots of consolidation opportunities, and David is a capital allocator supreme. So there's all sorts of possibilities ahead of us and we're very excited with our investment in Seaspan.

Q - Jeff Fenwick {BIO 15350794 <GO>}

Okay. And then maybe if I could follow up with one on the insurance side of the business here.

A - Prem Watsa {BIO 1433188 <GO>}

Sure.

Q - Jeff Fenwick {BIO 15350794 <GO>}

Obviously the standout is Odyssey in the quarter in terms of the growth that you're seeing. And I think what's interesting is that it sounds like it's coming from multiple parts of its business. So what's your impression of what we're seeing there? Is this indication of maybe some hardening of markets? Is it just a decision to push a bit harder with given how strong Odyssey's performance has been and how sustainable do you think that rate of growth is?

A - Prem Watsa {BIO 1433188 <GO>}

So, Jeff, our insurance businesses are in excellent shape. Great leaders, very decentralized environment, and you've seen our leaders over time, you've attended our annual meeting. And so we're very, very excited about our insurance business. $16 billion in premium now because of the growth that you alluded to. And most importantly, because of our culture, they're all working well together and saving expenses. When they purchase, they're looking at -- they don't have to do this, but each of the companies, they talk to each other in working groups, and they see one company getting a good price on something that they're buying and so the other companies decide to do the same thing. And so we are saving expenses. We are leveraging our strengths. Zenith has got a tremendous workers' compensation business and others can -- they specialize in that. So our other companies can take advantage of that, and we've got a global network.

So most recently, we've set up something called Fairfax Worldwide, which is based on Allied Worldwide, and Allied is taking the lead on it, Scott Carmilani, Fairfax Worldwide. So that any of our insureds in Canada, say for example, they have a worldwide business or four or five, 10 countries, well, we can provide insurance through the Fairfax Worldwide network that we have. So one-stop-shop in one place. You have access to a whole network.

So we're really quite excited about what we built and the opportunity. And remember, we haven't really have had a hard market. Now the pricing insurance business is not going down. So that stopped. And if you had to push across the world, across different segments, 3% to 5% in that range going up, but we have -- look at Allied World. Newest addition to our company, has 51 profit centers. That's 51 profit centers and nine of them are in the reinsurance area and the rest in insurance.

And so you've got specialized underwriting talent all over the Company. Odyssey I think has got 35, 36 and growing profit centers. All of our companies have profit centers. So it's an excellent business. Our reserving is very good. And so as the opportunities come our way and we have had big catastrophe losses in the past. Our catastrophe -- we reserve properly for our catastrophe losses. They're coming down as you notice in each of our companies. They're not going up. And so we feel very good about what we have in the insurance business, Jeff.

It's $16 billion in premium worldwide. I'm quite shocked when I think about it because I remember we started with $10 million. So it's a very good operation, very decentralized. And the decentralized allows us, as you know -- and I mentioned this in our annual meeting -- allows us to spot a problem anywhere and it comes very quickly to Andy Barnard and through Andy to me. And if there's an opportunity, it allows us very quickly to spot the opportunity that comes from our insurance companies, right up to Andy and again to me -- to Fairfax. So we can react very quickly. It's a terrific structure. We've had it for now 33 years and I think it's a very, very significant strength for Fairfax.

Q - Jeff Fenwick {BIO 15350794 <GO>}

All right. Thanks for that. I'll re-queue.

A - Prem Watsa {BIO 1433188 <GO>}

Thank you, Jeff. Cal, our next question, please.

Operator

Our next question is coming from Paul Holden. Paul, your line is open.

Q - Paul Holden {BIO 6328596 <GO>}

Thank you. Good morning.

A - Prem Watsa {BIO 1433188 <GO>}

Hey, good morning, Paul.

Q - Paul Holden {BIO 6328596 <GO>}

So two questions. One will be a quick one and that is regarding what we should assume for normalized tax rate on operating income. And the reason I ask is there's a lot of quarterly noise related to capital gains and losses depending on where they originate. So

I'm trying to eliminate that noise and just focus specifically on operating income, what's the normalized tax rate there.

A - Prem Watsa {BIO 1433188 <GO>}

So, Dave, -- first of all, Paul, we have operations all over the world, as you know. A lot of it is in the United States. 60%, 65% is in the US. So, Dave, when you look at a normalized tax rate, how would you answer that?

A - David Bonham {BIO 15243784 <GO>}

Yeah. No, that's a good point to look at the United States. That's where the bulk of the earnings is going to be at roughly 21% tax rate. And then in other jurisdictions around the world, it tends to be lower than Canada. Canada is at 26.5%. So you see the amount of earnings that we have in Canada, and then you can -- I think from our disclosures and the like, you can kind of see we're earning income in the UK and other places. So I think you've got to start at about 21%, and then I think probably you go down from there because a lot of our -- or a good portion of the rest of our income is earned in tax jurisdictions that are lower than Canada. So I think if you're a little bit south of 21%, that's probably a good place to be.

Q - Paul Holden {BIO 6328596 <GO>}

Okay, that's helpful. And then second question is related to holding company capital and potential capital deployment. So to context [ph] there. First, you're using a portion of holding company capital I'm assuming for the Brit capital injection, which would reduce your HoldCo capital something around $1.8 billion. And I believe your ongoing target is $1 billion. So that gives you $800 million of let's call it excess capitals. Is that the right way to think about it? And then if it is, how do you think about using that $800 million?

A - Prem Watsa {BIO 1433188 <GO>}

So that's right. So, Brit, as you saw, Paul, we're already at 88%, and we're looking at that remaining 12% in the next few months, and that's very important for us to be able to buy that back. While I'm talking about that, as you know, Eurolife is the second one. We expect to buy the 40% from OMERS. We can only buy it in 2019, but we expect to buy that over time, and that will be funded through Eurolife itself because they've had good earnings. And eventually which is a few years from now when we first are allowed to buy a minority interest in Allied, so that's the buying 100% of our company. So that's number one.

And then after that, as I told you, for us to make 15%, we have to make $2 billion. That's what our company has the potential of making over time and $300 million of that goes in dividends and the rest is basically focused on buying back our stock. We think we've built a terrific company with $16 billion gross premium, $40 billion in investments, $12.5 billion in shareholder's capital. We've got many, many companies in our fold. As you know, Fairfax India; Fairfax Africa, Grivalia is one of the best real estate companies in Greece; Recipe Unlimited, the old Cara; Thomas Cook -- tremendous performance from Thomas Cook over the last four or five years since we've acquired it. We are very optimistic about India. And so when you put all of that together, we think that's where the opportunity comes. And I've talked about it in our annual meeting where we'll buy back our stocks.

So when you talk about that $800 million, we are focused on keeping a very significant amount of cash. We've got $1 billion cash and marketable, $1 billion, but over time, we might raise that higher as we become a bigger company. And remember, it's only for problems, not for opportunity. So that's what we're looking at as we speak.

Q - Paul Holden {BIO 6328596 <GO>}

That's helpful. Thank you.

A - Prem Watsa {BIO 1433188 <GO>}

Thank you very much, Paul. Next question, Cal.

Operator

Our next question is coming from Mark Dwelle of RBC Capital Markets. Your line's open. Mark.

Q - Mark Dwelle {BIO 4211726 <GO>}

Yeah, good morning.

A - Prem Watsa {BIO 1433188 <GO>}

Hey. Good morning, Mark.

Q - Mark Dwelle {BIO 4211726 <GO>}

Let me start out by saying we're going to miss you next quarter, Prem. I think I've been on every single one of these since--

A - Prem Watsa {BIO 1433188 <GO>}

I'm going to be very sincere, by the way, no plans to retire.

Q - Mark Dwelle {BIO 4211726 <GO>}

No, no, I'm sure you won't be a stranger. But it will be strange not hearing your voice next quarter. Hopefully you'll always drop in whenever there's big momentous events.

A - Prem Watsa {BIO 1433188 <GO>}

Of course, of course. I'll be working very close with Paul, of course.

Q - Mark Dwelle {BIO 4211726 <GO>}

Anyway, a couple of questions. First one is probably for Dave. With the planned combination of Advent into Brit, would you expect that there will be any charges or balance sheet impact related to that? I know that there shouldn't be economically, but accounting-wise sometimes stuff gets popped up.

A - David Bonham {BIO 15243784 <GO>}

Yeah. No, I don't think we're expecting anything like that. It will be clear-sailing when all that comes together.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. And then second, again, this is kind of a math question. If I've got it right, the amount of shares you've bought back since the end of the quarter, something around 88,000 or 90,000. Is that about right?

A - Prem Watsa {BIO 1433188 <GO>}

Yeah. I think we've disclosed that in our second quarter numbers, Mark, in the press release. But what I quoted was from the fourth quarter to the end of June right up to August 1. I think we did a little more than 0.5 million shares. And so we're keeping a cumulative run on that. And do you know what we did in the second quarter?

A - David Bonham {BIO 15243784 <GO>}

In the second quarter, in terms of buybacks, it was 50,000 for cancellation and 159,000 for treasury.

Q - Mark Dwelle {BIO 4211726 <GO>}

Got it.

A - Prem Watsa {BIO 1433188 <GO>}

So about 200,000. What page was that that you referred to?

A - David Bonham {BIO 15243784 <GO>}

Page 19.

A - Prem Watsa {BIO 1433188 <GO>}

Page 19 on the interim statement, Mark.

Q - Mark Dwelle {BIO 4211726 <GO>}

Got it. And then the last question I had. You've been making sort of I'll say gradual progress on redeploying a little bit more cash into fixed income and other investments. I guess one of the questions I had, as we follow interest rates higher, and I've seen across the PMC and insurance space more companies trying to make decisions about when to re-lengthen their durations and so forth. Really just wondering, what kind of metrics are you looking at? Are you looking at spreads? Are you looking at absolute yields? Are you looking at steepness of the curves? Just what kind of things are you considering as you make your decision about when to lengthen the portfolio and maybe put a little more cash into fixed income?

A - Prem Watsa {BIO 1433188 <GO>}

So we've been doing that, Mark. So we've moved into the two-year treasuries and moved up the curve in terms of getting more income. We've gone into predominantly single-A and above, 1.5, 2 years corporate bonds, picking up to 3%, 3.25% as interest rates have gone up. But we haven't gone into five and 10 years because we think there's a lot of risk. The big risk today, Mark, is that the world trade problems that we've all read about in the last few years, last few months are solved. That means Europe does a deal with the United States, NAFTA comes immediately after, and then China and the United States figure out a way to solve their trade problems. And that provides the United States the opportunity to grow for a long period of time for three to five years.

Remember, there's pent-up demand. We've talked about that in the past. Pent-up demand for the last eight years prior to this administration where the economic growth was like less than 2%. So given that pent-up demand and with these very attractive economic policies, the risk we think is interest rates rising and perhaps rising significantly. You'll see when you examine insurance companies, Mark, that the book values haven't grown because there's mark-to-market losses on that fixed income portfolio. And our experience, like we have 50% effectively in cash. While most companies have very little cash that doesn't yield much and most companies -- I'm talking insurance companies now -- have reached for yield. Spreads are very low, Mark. Record-low spreads, interest rates very low. When interest rates go up and for whatever reason, spreads you can't forecast these. But some time, this will happen. Spreads will widen and they are unexpected and they can widen dramatically. That, of course, will hit capital and perhaps hard, whereas we might have the opportunity of putting our money to work at very good rates. So that's the fixed income side. That's what Brian Bradstreet is looking at.

On the other side, when you get to Seaspan, we have 5.5%. We're going to get David Sokol running it, and you can buy shares at what we think are reasonable prices, we think we'll take advantage of that, and there's going to be opportunities in the United States particularly but in other parts of the world where people get sensitive about economic problems or short-term problems because we are always focused on the long term.

So we are very excited. We think we are well-positioned to benefit. Our interest income has gone up by $100 million to $700 million, should continue to go up as we deploy the cash in 1.5, 2-year bonds. We think long interest rates are bottomed and are on their way up. They bottomed at -- like 10-year rates have bottomed at maybe 1.5% to 2 %. They're now close to 3%, but in a total perspective of history, 3% is very low for long-term US treasuries, 10-year treasuries and above. So we can see them going up much more and spreads widening. And so in that environment, you have to be very careful with your fixed income portfolio. And so that's how we're looking at it, Mark. We're looking at the fact that interest income will continue to rise over time as we deploy the cash.

Q - Mark Dwelle {BIO 4211726 <GO>}

Thanks very much. I appreciate the perspective.

A - Prem Watsa {BIO 1433188 <GO>}

Thank you, Mark. Next question, Cal.

Operator

Our next question is coming from Tom MacKinnon of BMO Capital. Tom, your line's open.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yeah, thanks very much. Good morning.

A - Prem Watsa {BIO 1433188 <GO>}

Hey. Good morning, Tom.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Prem, just with respect to your comment about the interest and dividend income will continue to rise. It actually fell quarter-over-quarter. I don't know if there were some timing issues or what happened there, but in the first quarter, it was $211 million and in the second quarter it was $178 million. So as you're putting some of this money to work--

A - Prem Watsa {BIO 1433188 <GO>}

So quarter-by-quarter, I think what happened there with some of our tax deferred bonds, we're either selling or -- you'll remember the bonds that we bought, Tom. So the tax-deferred bonds, the tax-free bonds in the United States, they've either been refinanced, we've bought them back, some of them we've sold. So, yeah, so it's reflecting that basically.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Should we think about that trend to continue, Prem, or you're sort of finished with that?

A - Prem Watsa {BIO 1433188 <GO>}

Yeah. There's a little more still I guess might be there over time. We've done very well. Yeah, we've done very well in those -- some of them are the Berkshire Hathaway bonds that have either matured or refinanced and so slowly -- remember, we bought them I think at 5.5%, 5.75% in 2008, 2009 and they're going off our books. So it's going to be very tough to replace those at the rates that we had. But we've done a lot of that already and there's a little still to go, Tom.

Q - Tom MacKinnon {BIO 2430137 <GO>}

And just one other question just with respect to kind of your strategy with respect to investments and associates. It seems to be growing as a percentage of your total portfolio. And there have been times where you've been able to be opportunistic here and create value over time, and then just due to the accounting, these things kind of held at cost and then you can surface that value some time later. How should we be looking at this strategy now? And what's the largest percentage of your total portfolio you'd want some of these things to be at?

A - Prem Watsa {BIO 1433188 <GO>}

Yeah. No, that's a good question, Tom. We've got some companies like Fairfax India which we've created, and you've heard me say this before. We think there's just tremendous opportunity. We've built a lot of intrinsic value. When you look at the Bangalore International Airport, you look at the grain storage company that we've got, lots of intrinsic value in Fairfax India. IIFL fluctuates. It's really the only significant marketable company, which we think has a lot of prospects going forward. But the stock price have fluctuated a little and rupee depreciated some. So in the quarter, the net asset value of Fairfax India came down. But that's all short-term stuff. We think the long-term, the intrinsic value of Fairfax India grows significantly. Fairfax Africa, Tom, we are seeing all sort of opportunity.

One thing that's happening because this is what happens when you're in business for a long time and you've treated people well and you've got a culture of treating people well. People want to join us and they want to join us in Canada, of course. That's never been a problem in the United States. You saw Seaspan. But in Africa, they want to join us, in India they want to join us. So they feel comfortable giving us 30%, 40%, 50% of their ownership positions because they know we will never mistreat them.

And so you have Fairfax India, you've got Fairfax Africa I mentioned to you. Grivalia is a fabulous real estate company, owns some of the best commercial buildings, shopping centers, residential buildings in Athens, and we've got one terrific operator there in the name of George Chryssikos. And then you look at Cara, which is now called Recipe Unlimited with Bill Gregson as the Executive Chair, just phenomenal track record. And we have a very significant interest in that company, and we expect it to grow and do very well. We've got Thomas Cook in India, which is separate from Fairfax India, which created Quess. You remember Quess? We put $47 million into that company through Thomas Cook. We got $100 million out and the remaining half, 50% is now worth $1 billion. And just a phenomenal story because of this guy Ajit Issac who runs it.

So when we see these opportunities, they become associates because we've got 50% or 30% or 40%. They're not mark-to-market. As you know, there's $750 million if you take these companies in the main and say what's their market value compared to what it is on our balance sheet. It's about $750 million, about $27 a share pretax, and we have no plans to sell it, though we could sell it if we wanted to, but no plans to sell it. So we've got $27 that's not in our book value, and we expect this all to grow over time. But it's all in the context of $40 billion investment portfolio that's got interest and dividend income that's coming in and these. We've got a lot of common stocks there in our investment portfolio. These are the ones that you're talking about in terms of non-insurance associates. But we've got a whole bunch of other things that I wish I knew when they'd go up. We've never been able to predict that over 32 years, but in a good economy, we expect to make money, Tom.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yeah. Now these investment in associates, the only thing I'm wondering is how much of your total portfolio do you want them to be? Because presumably, your portfolio backs insurance contract liabilities and from a regulatory and capital perspective, there's a higher cost to capital associated with these.

A - Prem Watsa {BIO 1433188 <GO>}

Yeah. No, that's right. So our equity base is $12.5 billion, Tom. And so all of our equity, quasi equity or equity and as non-insurance, we like to keep it below that $12.5 billion, below the equity in our company. That's the equity. Everything else is policy hold. The money we expect to get interest and dividends from that in terms of a preferred or interest from some of these things I was talking to you about earlier.

Q - Tom MacKinnon {BIO 2430137 <GO>}

So if we took the comment that you have and your investments in associates and then Fairfax India and Africa, that in total you want that to be less than $12 billion?

A - Prem Watsa {BIO 1433188 <GO>}

Yeah, yeah, basically below our equity. Our equity base is $12.5 billion today. And our equity base didn't go up significantly in the six months because we paid a $10 dividend. We had some foreign exchange fluctuations, mainly because of the rupee coming down or weakening. And so you have these -- and we bought 0.5 million shares, basically in terms of a buyback. But over time, we expect as I said, the 15% to work its way through.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. Well, that's great. Thanks, Prem.

A - Prem Watsa {BIO 1433188 <GO>}

Thank you very much, Tom. Cal, any more questions?

Operator

Yes. We have more questions on queue. Our next one is coming from Sudeep Banerjee [ph], an individual investor. Please go ahead.

Q - Unidentified Participant

Hi, Prem.

A - Prem Watsa {BIO 1433188 <GO>}

Hey. Good morning, Sudeep [ph].

Q - Unidentified Participant

So I have two quick questions. One regarding Harsha Raghavan leaving Fairbridge, right, so he had a great profile. We met him at AGM a couple of times before, and he is with you a long time. So the question is that will that have an impact on the deal flow in India for Fairfax India?

A - Prem Watsa {BIO 1433188 <GO>}

Yeah, Sudeep [ph]. That's a very good question. Harsha is an excellent guy. He did a lot of good work for us and I'm recommending Harsha to other potential investors. He wanted to start his own fund. He wanted to manage money on his own, and we respect that. And so we're introducing him to people. We're not putting any money ourselves into the fund because that's a conflict with what we've done. Harsha has hired a terrific guy called Sumit Maheshwari. About the same time as Harsha was there and Sumit's been trained by Harsha and Chandran and we know Sumit very well.

So at the end of the day, Sudeep [ph], it's Fairfax. It's not even me. It's Fairfax, our culture, the way we treat people, and you see that as I've said it in Canada, you see it in India, you see it all over the place. And the Fairfax advantage of treating people well, of taking a long-term view, of being very trustworthy, that's the reason we'll see all sorts of opportunities in India and we continue to see that.

Q - Unidentified Participant

Okay. Thanks, Prem. Another follow-up is regarding Bangalore International Airport. So airport is charging the User Development Fee, right. So I read that that fee is going to come down in 2019. So will that impact any profitability?

A - Prem Watsa {BIO 1433188 <GO>}

Sorry. Repeat that, Sudeep [ph]? Just missed that last one.

Q - Unidentified Participant

Sorry. I'm saying that so that User Development Fee in 2019 is going to come down significantly. So will that impact airport's profitability?

A - Prem Watsa {BIO 1433188 <GO>}

What will come down?

Q - Unidentified Participant

So like airport is--

A - Prem Watsa {BIO 1433188 <GO>}

Yeah, the 16%. No, it will come down because we've made more money in the five years -- they have a five-year term that the 16% return is fixed. And if you make more than 16%, it comes down and then below 16% they raise it. So, Sudeep [ph], we think because the airport is in expansionary mode, it might not come down as much, but that's all being discussed right now. So, Sudeep [ph], thank you very much for your questions. I think we'll have one more question, Cal.

Operator

Yes. Our next question is coming from Howard Flinker of Flinker & Company.

Q - Howard Flinker

Hi, Prem.

A - Prem Watsa {BIO 1433188 <GO>}

Hey. Good morning, Howard.

Q - Howard Flinker

The 30 year -- excuse me, the 10-year bond few years ago bottomed at 1.37% -- excuse me, 1.35%. In 1939, it bottomed at 1.37%, just about the same number. I just wanted to pass that on.

A - Prem Watsa {BIO 1433188 <GO>}

Okay. No, thank you. Thank you very much.

Q - Howard Flinker

1.35% recently, 1.37% at the end of the depression.

A - Prem Watsa {BIO 1433188 <GO>}

Well, that's an interesting point, Howard. You always make interesting comments. Thank you for passing that onto us.

Q - Howard Flinker

You're welcome.

A - Prem Watsa {BIO 1433188 <GO>}

And, Cal, given that Howard is just passing on information, do you want to have one more question?

Operator

Yes. Our final question would be coming from Christopher Gable of Wells Fargo Advisors. Your line is open.

Q - Christopher Gable

Good morning.

A - Prem Watsa {BIO 1433188 <GO>}

Good morning, Christopher.

Q - Christopher Gable

Could you comment on the AGT privatization transaction and how you'll play a role in it?

A - Prem Watsa {BIO 1433188 <GO>}

Yeah. Thank you, Christopher. AGT has made an announcement that they're being privatized, led by their CEO Murad, and he's leading the charge, Christopher. So he's the one you should be talking to on that. We're, of course, helping them and financing the acquisition and it's been announced. We're big fans of Murad. We've invested with him before. He's done a terrific job in building the company, and so we're very happy to support him.

So with that, Christopher, thank you very much. Cal, that will be the end of the questions. So thank you all for joining us on the call, and we look forward to presenting to you again after the next quarter. Thank you, Cal.

Operator

That concludes today's conference. Thank you for your participation. You may now disconnect.