FINAL

Bloomberg Transcript

Q4 2012 Earnings Call

Company Participants

- Jeff Kelly, EVP & CFO
- Kevin O'Donnell, EVP & Global Chief Underwriting Officer
- Neill Currie, CEO
- Peter Hill, IR

Other Participants

- Amit Kumar, Analyst
- Brian Burns, Analyst
- Eric Fraser, Analyst
- Greg Locraft, Analyst
- Jay Cohen, Analyst
- Mike Kovac, Analyst
- Mike Zaremski, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

At this time, I would like to welcome everyone to the RenaissanceRe Fourth Quarter 2012 financial results. All lines have been placed on mute to prevent any background noise. After the speakers remarks there will be a question-and-answer session.

(Operator Instructions)

Mr. Hill you may begin your conference.

Peter Hill {BIO 3135705 <GO>}

Thanks Wendy and good morning everyone. Thank you for joining our Fourth Quarter and full-year 2012 financial results conference call. Yesterday after the market closed we issued our quarterly release. If you did not receive a copy, please call me at 212-521-4800 and we will make sure to provide you with one. There will be an audio replay of the call available from approximately noon Eastern time today through midnight on February 28. The replay can be accessed by dialing 855-859-2056 or 404-537-3406. The passcode you will need for both numbers is 87218821.

Today's call is also available through the investor information section of www.renre.com and will be archived on RenaissanceRe's website through midnight on April 18, 2013. Before we begin, I'm obliged to caution that today's discussion may contain forward-looking statements and actual results may differ materially from those discussed. Additional information regarding these factors shaping these outcomes can be found in RenaissanceRe's SEC filings to which we direct you. With me to discuss today's results are Neill Currie, Chief Executive Officer; Jeff Kelly, Executive Vice President and Chief Financial Officer; and Kevin O'Donnell, Executive Vice President and Global Chief Underwriting Officer. I would now like to turn the call over to Neill. Neill?

Neill Currie {BIO 6676681 <GO>}

Thank you, sir. Good morning, everyone. Thank you for joining us today. This year we celebrate our 20th anniversary. I want to begin our call by thanking the many clients, brokers, investors and partners who have been with us over the last two decades. 2012 proved to be a year of strong performance for RenRe, both for an earnings standpoint and in terms of demonstrating the value of our franchise for our clients and partners. For the year, we reported net income of $566 million with an operating ROE of 12.6% and growth in tangible book value per share, plus the change in accumulated dividends of 17%.

For the Fourth Quarter, consistent with our expectations outlined on our last call, we made a modest profit for the quarter. We reported net income of $41.7 million, despite $127 million of net negative impact from Sandy. The value of what we call our Three Superiors -- superior client relationships, superior risk selection and superior capital management -- was proven once again throughout 2012. These strengths allowed us to read the market well and we grew our book of business significantly early in the year, to take advantage of the more attractive market environment at that time. We then moderated our growth during the June and July renewals primarily due to increased competition and new capital entering the market.

In the aftermath of Sandy, the quality of our data and proprietary models allowed us to gain a good understanding of the impact of the storm, both on our risk, but also on the risk of our clients. We were able to share information promptly with our customers, giving them a helpful view of their position very early on. Underpinning our Three Superiors, in part driving our performance in 2012, was the seamless integration and operation of our underwriting, finance, modeling and scientific teams. RenRe's integrated system, as we call it, continues to be a differentiator. It is this integrated system which has allowed us for many years now to be leaders in bringing third-party capital into the sector and matching it with the types of risk our capital providers seek.

We had an active year in 2012 in this regard with the formation of Tim Re III during the middle of the year and the preparation for the renewal and expansion of our Upsilon Re sidecar this January. We reduced our ownership in DaVinci during the year to make room for a number of high-quality, long-term investors. Given the strong results enjoyed by DaVinci and the relative balance of supply and demand, we also returned a meaningful amount of capital to its shareholders at the end of the year. Turning to this January renewal season now, we were able to construct an attractive book of business at that renewal period. While rates remain generally satisfactory, we did not see an increase in purchasing overall and the capacity in the market limited opportunities for us to grow.

International catastrophe rates remained relatively competitive and we were selective as always in the business we took on. We saw increased competition in the retro space as well, that we were able to meet specific demands of our clients by growing Upsilon. As we look ahead, supply and demand seem to be pretty well-balanced. However, as we recently saw with Sandy and the events of 2011, the unexpected can happen at any time changing people's view of risk and pricing. But over our 20 years, we have proven that RenRe is adept at structuring innovative and efficient vehicles to match the types of risk our capital providers seek. I am confident in our ability to continue as a trusted partner, offering expertise, balance sheets strength, and flexibility.

Of course we will remain focused on performance over the long term. I think that is really key to focus on the long term versus quarter-by-quarter. We will always be disciplined, assuming risks that are attractive and well-suited to our overall portfolio, growing organically when it makes sense for us to do so and playing the hand we're dealt. So with that I will turn the hand over to Kevin.

Kevin O'Donnell

Thanks Neill and good morning everyone. Looking back over the last 12 months, I'm pleased with the portfolio that we constructed and the growth that we achieved. I believe that we executed well over the last 18 months, seeing opportunity early and executing effectively. Regarding Sandy, the loss was within our expectations. Our models indicate that our loss for this event in the Northeast has a return period of less than 50 years, which we feel is reasonable for an event of this size.

Every event has unique features. Like with any event, we have been able to learn from Sandy, which will help us refine our understanding of risk. We believe it will take many years for all the losses from Sandy to fully settle due in part to some of the more complex issues that may emerge on a commercial account. Turning to the recent renewal in the state of the market, we expect to see continued strong supply of reinsurance capacity, primary companies retaining more risk and a lack of growth and demand generally, which will serve to increase competition. The shifting nature of the market has changed our expectations and now we expect to write a bit less managed cap this year compared to last year. Jeff will provide updated guidance shortly, but let me give you a few comments around that.

In the US at January 1 demand was flat while the supply of reinsurance capacity remained abundant. The more competitive market led to fewer opportunities to grow than we saw a year ago. Rates were generally down modestly. The loss-affected accounts were up by as much as 20%. It is important to note that despite the market becoming more competitive, there is still good business to be written. So we were able to keep the book relatively flat. In the past I've talked about how we think of the US market being divided into three categories -- attractive return, average return and low return. And we're still finding enough business in the attractive return bucket to construct very efficient and attractive portfolios of US Cat business.

Outside the US, reinsurers showed an increased appetite for property business. This increase in supply was not balanced by an increase in demand. And as one would expect, the net result was moderate rate reductions. It's worth bearing in mind that although price reduction in the international book was modest, we should not underestimate its significant given that it is off of a much less well-rated base. Despite having good access to the business, we made the decision not to grow based rate adequacy and portfolio considerations.

We are a leader in the retro space of one of the most enduring players. Over the years we have seen the retro market change rapidly from one year to the next and we have always believed that you need to have discipline to move aggressively in and out of the market. This discipline has been an important part of our strategy, allowing us typically to outperform the retro market by a wide margin. We changed the profile of our book and increased our third-party retro writings because we saw continued opportunity in aggregate, structured, retro products. Over the last two years this market has increased in demand by approximately $500 million of (technical difficulty). In our endeavor to serve our customers better by matching desirable risk with efficient capital, we were able to increase our participation in this market with the renewal of our sidecar, Upsilon II.

Given the flexibility of our platform, we were able to provide the aggregate product on a collateralized basis as that maximized its efficiency. I have spoken before about our primary goal being to maximize the efficiency of our portfolio by balancing inwards and outwards business. In light of that goal, we decided to increase our net exposures modestly and retain more risk by changing the profile of our ceded reinsurance purchases. We did this as part of our normal portfolio optimization. We are continuously evaluating and optimizing our portfolios, and we will revise our ceded strategy if the right opportunity arises. In summing up the overall Cat market, for the reasons just discussed we expect to see continued competition, absent some stimulus to change people's perception of risk. That said, our long-standing relationships and strong balance sheet position us well and I remain confident that we can continue to construct attractive portfolios.

Moving on to our other businesses. We are always looking for risk management solutions for our clients, and on the specialty side we've added several products and platforms over the last 12 months. These new platforms allow us more flexibility around choosing balance sheets that are best suited for assuming risks and have attracted new lines and new partners. Although many lines are challenging right now, we feel that these changes afford us great opportunity to grow as various markets improve. In Lloyd's we ended the year achieving good growth, albeit off a small base. We continue to see more business, but consistent with our culture we remain disciplined in our growth.

The property insurance book that we write in Lloyd's is strengthening, largely, we believe, as a result of Sandy. And our specialty and casualty books are renewing without much change, but we are beginning to become somewhat more optimistic about future price changes. Our ventures group had another good year 2012. There's been much discussion around the market regarding the influx of third-party capital. We have seen increased interest from a good cross-section of investors and we've been busy deploying new managed capital. We are uniquely positioned in this space. Not only because of our long track record of successfully managing risk for others, but also because of our capability to accept capital in the form most desirable to investors.

As Neill mentioned, we restructured DaVinci's ownership, welcoming key new capital providers to the group. We continuously and carefully measure the capital level against the opportunities so the net result is an attractive portfolio. For 2013 we expect to keep DaVinci deployed at roughly the same size as last year. Lastly (Wheel), our weather and energy unit, had a solid first half to the winter season. Very proud of our performance in 2012 and believe we executed particularly well through Sandy. Going forward we face both challenges and opportunities. But as always, I believe we are well-positioned to succeed in the current market. And with that, I'd like to turn the call over to Jeff.

Jeff Kelly {BIO 20911735 <GO>}

Thanks Kevin and good morning everyone. I will cover our results for the Fourth Quarter and the full year 2012 and also give you an update to our 2013 top line forecast. The Fourth Quarter was a profitable one for RenaissanceRe, with strong underlying results more than offsetting the $127 million of net negative impact from Sandy. This was in line with the guidance we provided on Third Quarter conference call in which we stated our expectation for losses from Sandy to be contained within our Fourth Quarter earnings and our $130 million pre-announced loss estimate. We've included a table in our press release detailing the calculation of net negative impact. We reported net income of $42 million, or $0.87 per diluted share, and operating income of $31 million, or $0.65 per diluted share for the Fourth Quarter. The annualized operating ROE was 3.9% for the Fourth Quarter and 12.6% for the full-year, a solid result in our view, given that 2012 was a reasonably challenging year in terms of catastrophe losses.

Our tangible book value per share, including change in accumulated dividends, increased slightly by 0.3% in the Fourth Quarter with growth muted by the level of repurchases during the quarter. On a full-year basis, however, tangible book value per share, including change in accumulated dividends, was up 17%. Adjusted for the impact of share repurchases over the course of the year, which were executed at premium -- at premium to book value -- we estimate that growth in tangible book value per share plus change in accumulated dividends would've been roughly 2.5percentage points higher.

Let me shift to the segment results beginning with our reinsurance segment, which includes Cat and specialty followed by our Lloyd's segment. Adjusted for reinstatement premiums in the current and prior-year quarters, managed Cat gross premiums written declined $6 million compared with a year ago. This year-over-year decline primarily reflects $9.2 million of negative premium adjustments in the current year quarter. I would remind listeners that the Fourth Quarter tends to be light in terms of Cat premium volume.

For the full year 2012, managed Cat gross premiums written totaled $1.3 billion. Managed Cat premiums increased 15.7%, or $173 million, compared with a year ago when adjusted for $160 million of reinstatement premiums in the prior year period and $19 million of reinstatement premiums in the current year period. The current year reinstatement premium adjustment includes $45 million of reinstatement premiums earned related to losses from Sandy and hurricane Isaac, offset in part by the negative reinstatement premiums related to the reallocation of IBNR for 2011 events that we had discussed earlier this year. As a reminder, managed Cat includes the business written on our wholly-owned balance sheets, as well as Cat premium written by joint ventures, DaVinci and Top Layer Re and our sidecars Upsilon Re and Tim Re III. The Fourth Quarter combined ratio for the Cat unit of 94.4% included 79percentage points from Sandy.

Net favorable reserve development totaled $24 million for the Cat unit in the quarter. This was driven primarily by favorable development of $25 million on the Chilean earthquake and $14 million for other small events, and partially offset by $14 million of adverse development on the 2010 and 2011 New Zealand earthquakes. For the full-year 2012, the Cat unit generated a 42.9% combined ratio, a good result given the level of Cat losses in the year. Specialty reinsurance, gross premiums written increased 62% in the Fourth Quarter primarily driven by a few quota share transactions. For the full year, gross premiums written are up 44% compared with a year ago period. Percentage growth rates for this segment can be uneven on a quarterly basis, given the relatively small premium base. The specialty combined ratio for the Fourth Quarter came in at 69.9%, as loss activity was generally benign.

The combined ratio does include $11 million of losses from Sandy during the quarter. Favorable reserve development totaled $15 million in the quarter. For the full year, the specialty reinsurance combined ratio was 78.8% and included $21 million of current and prior-year losses related to the LIBOR situation which we had discussed in the Third Quarter and $11 million from Sandy. Net favorable reserve development totaled $34 million for the year with $14 million of this amount related to actuarial assumption changes primarily in our casualty and medical malpractice lines and $20 million from loss activity coming in better than anticipated. In our Lloyd's segment, we generated $26 million of premiums in the Fourth Quarter, an increase of 10% compared with the year ago period.

For the full year, gross premiums written increased 43% to $160 million. The Lloyd's unit came in at a combined ratio of 140.9% for the Fourth Quarter. The results of this segment include a $17 million loss from Sandy, which added 55.6percentage points to the Lloyd's combined ratio in the quarter. The expense ratio remained high at 56%, but has generally been declining sequentially as business volume has increased. For the full year the combined ratio at our Lloyd's unit was 121% with Sandy contributing 16percentage points.

During the quarter we entered into a loss portfolio transfer where we ceded $29 million of our net reserves on our contractors' liability book of business to a third-party. This book of business has been in runoff for some time and is reflected in our former reinsurance segment -- our former insurance segment. The loss portfolio transfer provides a significant protection against any future adverse development as well as provides for claims handling and other runoff management services. The protection we purchased resulted in a $7.4 million net premium which, due to the retroactive nature of the reinsurance purchase, is required to be reflected on day one as a loss under GAAP. This loss comes through as adverse development in the Fourth Quarter and our former insurance segment results.

Turning to investments, we reported net investment income of $40 million for the Fourth Quarter and was driven by a few factors. Our alternative investments portfolio generated a gain of $14 million in the Fourth Quarter, driven by continued solid results in our private equity and bank loan portfolios. Recurring investment income from fixed maturity investments remained under pressure due to low yields on our bond portfolio and totaled $29 million for the Fourth Quarter. The total investment return on the portfolio was 0.8% for the Fourth Quarter and 5.1% for the full year. Total investment returns for 2012 continued to benefit from realized and unrealized appreciation in the values of fixed maturity investments due to credit spread compression and strong returns on the alternative investment portfolio.

Our investment portfolio remains conservatively positioned, primarily in fixed maturity investments with a high degree of liquidity and modest credit exposure. The duration of our investment portfolio remains short at 2.2 years and has remained roughly flat over the course of the year. The yield of maturity on fixed income and short-term investments also remained flat at 1.4%. As Neill and Kevin mentioned, our ventures team had an active year and early this year announced the formation of Upsilon Re II to target primarily worldwide aggregate retro deals. Capital for the vehicle was provided by third-party investors and by us. Upsilon II represented an expansion of the vehicle we'd set up a year ago and was able to deploy $186 million of limit at the January renewals, more than double Upsilon I.

As we have stated on recent calls, we believe we have capital well in excess of our requirements. So we took a number of steps late in 2012 to begin to right size our capital base. During the Fourth Quarter we continued with our share repurchase program, buying back 2.8 million shares for a total of $222 million. For the full year 2012, we repurchased 6.4 million shares for an aggregate cost of $494 million. This represents the largest dollar amount of share repurchases in our history, but was roughly in line with the income we generated over the course of the year. In addition, during January we repurchased another 1.4 million shares for an aggregate cost of $111 million.

Late last year we also redeemed six million of our outstanding series D preference shares for $150 million. Then early in January, DaVinci returned $150 million of capital to third-party investors as well as to the company. Some existing shareholders elected to increase their stake in the joint venture and our ownership in DaVinci stood at approximately 33% as of January 1. Even with the capital management actions I have just described, we think our balance sheet remains strong with more capital than we feel we probably need. Our liquidity is also strong with over $500 million in cash and securities at our holding company. We continue to have industry-leading financial strength and ERM ratings.

Finally, let me turn to update our top line forecast for 2013. For managed Cat, we currently expect premiums to be about down 5% in 2013, excluding the impact of reinstatement premiums. In specialty reinsurance we are maintaining our top line guidance of down about 5%. Keep in mind that growth in this segment can be uneven due to the relatively small size of the premium base there. In our Lloyd's unit we still expect premiums to be up over 30%. This growth too is off a relatively small premium base and we are in the building and growth phase for this platform. Finally, I would remind everyone that premium estimates of this nature are subject to considerable risk and uncertainty. Our goal in providing them to you is to give you our best estimates at this point in time. Thanks and with that I'll turn the call back over to Neill.

Neill Currie {BIO 6676681 <GO>}

Thanks Jeff. Before we turn it over to questions I would just like to thank everybody again for joining us. I know there is a conflicting call today so thanks for being with us. And with that we are open for questions.

Questions And Answers

Operator

(Operator Instructions)

Greg Locraft.

Q - Greg Locraft {BIO 4221265 <GO>}

Good morning, everyone.

A - Neill Currie {BIO 6676681 <GO>}

Good morning, Greg.

Q - Greg Locraft {BIO 4221265 <GO>}

I just wanted to pick up the topic of capital management because as you mentioned it was a banner year for buybacks and you certainly have not been shy so far in 2013. One of the biggest push backs we hear from investors is the valuation of RenRe is at a premium to others. How does the concern for some constituencies in the investment community compare to your appetite and willingness to buy back stock so aggressively at these levels? How you think about valuation?

A - Neill Currie {BIO 6676681 <GO>}

I will start. As you might imagine I have a mild bias. Somebody said way back when you get what you pay for. I think RenRe, based upon our future runway and growth potential and earnings potential at this type pricing is quite attractive. If you look back since I have had the good fortune of being CEO, we have bought at prices to book higher than this. And I am also pleased we have bought back a whole bunch since I got back in 2005. So I'm really pleased to see us do this and be able to do it. And I'll it over to Jeff for further comments.

A - Jeff Kelly {BIO 20911735 <GO>}

Thanks Neil and thanks for the question, Greg. I think from our perspective, we always evaluate in capital management a whole range of potential uses for capital management. And those include everything from dividends to changing the structure of our capital base via preferreds or senior debt or anything else. And as I mentioned in my comments, we did adjust the capital structure by redeeming some of our preferreds. So we don't just pull the share repurchase lever.

Having said that, as Neill said, over time the way we -- our preferred method of managing common equity has been through share repurchases. Because we think, if executed thoughtfully over time, it will contribute primarily to our goal of growing tangible book value per share plus changing accumulated dividends. And we view that as share repurchase as being the -- even at the levels that we have executed share repurchases out over the course of the last year and certainly earlier than that -- as the most effective tool to boost the growth and tangible book value.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay. Then you actually mentioned more the leverage side. Which, we saw the action on the preferreds and now if you include preferreds and just look at leverage as a percentage of capital, it is at 10-year lows -- it is actually below; it's almost near all-time lows. Is this the right kind of leverage ratio going forward? It just seems like you are right sizing the balance sheet very aggressively here given the outlook.

A - Jeff Kelly {BIO 20911735 <GO>}

I think the way I would answer that, Greg, is I wouldn't look at -- I would look at where we are as just a point in time. I would not necessarily say that because our leverage is what it is or the capital structure is what it is today, that that portends anything for the future. We actively manage the capital structure based on where we see opportunities to add value and the structure could very well change going forward, depending on where we think we can structure it most appropriately.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay great. Then last one for me is just a jump to the outlook. It is obvious -- I think you're the only carriers so far that sees the world a bit more negatively than before Sandy. So I sort of wanted to just -- what in your mind changed the view even though we've had a top of five -- and it's just at the margin. It has gone from flat to down five in terms of managed CATs for this year -- managed CAT premium guidance. So what at the margin changed into January 1 even with a top five all time event?

A - Neill Currie {BIO 6676681 <GO>}

I will start, Greg, and then we'll go over to Kevin. Thanks. As I think everybody on the call knows I don't like giving guidance. We do it just to kind of give you guys some tracks to run on so that you have a fighting chance in terms of trying to predict the future. We don't know what is going to happen in the coming year. There a lot of big deals out there. But we try to be as forthright with you as we possibly can.

We try to look at all the influences that can change things and I think right now there's a little bit more of an influence in terms of -- that will stop us from growing. There is some more capital out in the marketplace. Not all of that capital -- some of that capital is coming in the Cat business -- but it does not affect all of the business that we write. So we think that will have some effect on the margin. I think Sandy has been absorbed. There's nothing really pushing demand up. So there's a little bit more supply.

So I would not over react. We are not negative or gloomy, we just think on the margin things might be down a little bit. So Kevin, over to you.

A - Kevin O'Donnell

Thanks Neill. One thing I will comment on Sandy is, after an event there is often pricing pressure on the market and things will begin to improve. One of the unique things with Sandy is that much of the loss is retained by the primary companies. So when the discussion for renewal comes, the balance of retained loss to ceded loss is a little different in Sandy than it was for some other large events.

So for those who are trying to make the argument about price changes from an event, it is a weaker argument because the primary companies retained a significant portion of the loss. We look at it from an exposure-base. So we tend to do well when those discussions take place and grow pretty effectively.

But the dynamic is a little different this year for the US Cat. We did see price changes on loss-affected accounts, but it was somewhat more muted for that reason. I think on the international side, the rates are down as I mentioned a little bit but that is not really a big driver for the market, except for the fact that it is a pretty tightly rated book right now anyway. So small changes can cause one to reposition their book. The one area that I think it is worth focusing on is retro. There was probably more movement in the retro market than one would have expected. And I think a lot of that was driven from new capital really looking to be deployed in that space.

We have been in that market for a long time and we have always been very aggressive about looking forward to see how it is going to change and changing the profile of our book ahead of that and it served us well. So I think the combination of those things is really on the margin pushing us to change our guidance a bit. But in general, I feel very comfortable that we, with the size of our balance sheets and everything else, are really well-positioned to continue to build very strong portfolios.

A - Neill Currie {BIO 6676681 <GO>}

Yes and I might just jump back in, Greg. You did not ask this question, but I'll throw this out. One of the major factors we're looking at is additional capacity in the marketplace. So while that could cause our premium growth to go down a little bit, that may provide opportunities for us to make our portfolio more efficient and help from that standpoint.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay great. Then, I guess just, Kevin, just following up. If I hear you correctly, it is the incremental supply in retro is more the alternative impact -- the alternative markets coming in? Then outside of retro it is more the traditional markets stepping up? Is that sort of how to read the supply dynamic in the market as you see it?

A - Kevin O'Donnell

Yes, I think at kind of the 40,000 foot level that is exactly right.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay great. Thanks guys.

A - Kevin O'Donnell

Thanks Greg.

Operator

Amit Kumar.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks and good morning. Just very quickly, going back on the discussion on pricing and the nature of the -- the tone of the comments. If you were to sort of fast-forward it to 6/1 and then sort of think about the depops coming out of Citizens and then look at the offset from the third-party capital, what sort of picture do you see at 6/1 renewals?

A - Kevin O'Donnell

I think that's the story that is going to unfold over the next couple of months really. I think the depops are something that we fully support and I think are a good thing for the Florida market, a good thing for Citizens. And it is a good thing for reinsurers. Because there is more reinsurance spend associated with each dollar that is not in Citizens than with each dollar that is in citizens, which I think is good, certainly good for us as a reinsurer. I am not 100% convinced that all of the depops will look exactly as they do now when wind season starts.

Some of those may end up back in Citizens so we need to think about really what is going to be coming to the private market. There's some other initiatives in Florida which I think are very good for Florida and for reinsurers that I think will become finalized over the next several months and we'll figure out whether there will be more reinsurance spend, even from the state pools, or whether there will be new ways in which risk can be deployed into the private market rather than Citizens.

So I'm reasonably optimistic for where Florida is going, but I think there's also a lot of capacity coming in. You had mentioned specifically the collateralized capacity. I'm less concerned about that in Florida right now than I am with traditional markets. I think the collateralized stuff will come into the market but around the edges. The main frame programs, I believe, will still largely be placed with traditional rated carriers.

Q - Amit Kumar {BIO 15025799 <GO>}

And is that based on specific feedback? Because some of the stuff we are hearing is that the third-party capital is very aggressively sort of pursuing those opportunities already, just based on the total excess capacity in the marketplace.

A - Kevin O'Donnell

I certainly think the third-party capital will look for a foothold in the Florida market. I remain confident, even if they are successful, it will not come from our share in the market.

Q - Amit Kumar {BIO 15025799 <GO>}

That is actually very helpful. The only other question I had was just going back to the discussion on capital management then, and you sort of touched upon it, but I just want to be sure I understand this correctly. Just based on the level of buybacks you have seen over the past sort of four months -- 2.8 million plus 1.4 million -- using that as a percent of outstanding, is that sort of the new normal for you? Is that how we should think about, just based on what you are generating today versus the past? Or am I sort of oversimplifying the thought process?

A - Jeff Kelly {BIO 20911735 <GO>}

I think you might be oversimplifying a bit. I think part of the increase in intensity of our capital management in the third and Fourth Quarter and even in January of this year was to some degree anticipating the change in the market opportunity set we saw in the future. So just because we ramped it up that quickly does not necessarily mean that it will stay at that intensity. On the other hand, as I said in my prepared comments, we still believe we have capital in excess of what we need. And we expect going through the course of the year that we will generate more via earnings.

And as is our goal all the time when we don't think we can deploy it productively in our business over some foreseeable period of time, we feel strongly about returning it to the shareholders. So we try not to say what will happen in the future, but describe what we have done. But I think it would be reasonable to expect in the absence of some market hardening event that you would probably continue to see some level of share repurchase going forward.

Q - Amit Kumar {BIO 15025799 <GO>}

And I guess just a follow-up to the comment you just made -- capital in excess of what you need. Just generally, how much buffer do you think you have? I guess compared to the ratings agency requirement?

A - Jeff Kelly {BIO 20911735 <GO>}

Well I would prefer not to -- we don't look at -- our measure of excess capital is really we look at all kinds of different tests. And frequently the tests that tend to be what we would consider a binding constraint is really our own internal risk tests. So we don't really look at capital at a single -- versus a single test. I would just leave it at we feel we have more than enough capital than we need versus our current book. And that also incorporates a view about the future, as well.

Q - Amit Kumar {BIO 15025799 <GO>}

Okay. That's all I have. Thanks so much for the answers.

A - Neill Currie {BIO 6676681 <GO>}

Thank you.

Operator

Vinay Misquith.

Q - Unidentified Participant

Good morning. This is actually (Max Zomola) on Vinay's line. Just to follow-up on the previous question on capital management, just so I understand this correctly. Would it be fair to assume that you would return at least 100% of your earnings in 2013 in the form of buybacks?

A - Jeff Kelly {BIO 20911735 <GO>}

Well as I tried to say in response to a previous question, we don't just -- we just don't return capital just looking at earnings. But we will also include the share price as a governor on our share repurchase activities, as well. And we tend to intensify our share repurchases when we think we have excess capital in times when we think the share price is relatively more attractive and then throttle back a bit when it is higher. But having said that, the point I was trying to convey about earnings is we feel we have excess capital today, we feel we're going to generate more, and in the absence of an ability to deploy it, our best guess is that we will continue to return it to shareholders throughout the course of the year.

How that gets done could come in fits and starts and be a little chunky in various points in the year. So I wouldn't tie us to any specific dollar amount in any specific period other than to say I think it is fair to look forward to some level of share repurchase over the course of the year.

Q - Unidentified Participant

Okay that is helpful. Second question is on Lloyd's. You were reluctant to give data, but I wanted to get a sense for when you expect that segment to sort of exit the build-out mode? When you think of 2013, what kind of combined issues do you expect and do you expect maybe 2013 or 2014 to become sort of a normalized year?

A - Kevin O'Donnell

I think that is a great question. Looking at building up within Lloyd's, it is something that we have focused a lot of attention on. I think the one thing that has been a little different than our expectation and our buildup is the influence of solvency, too, and trying to get that technology built effectively within our syndicate. I feel that we are very close to having the build-out complete. The book is of sufficient size that I would expect that we are turning the corner on profitability on a run rate for the Lloyd's syndicate going forward.

A - Neill Currie {BIO 6676681 <GO>}

And maybe I will add a comment. I was over at our operation there about a week ago I guess it was, and I could not be more pleased with the way they are coming along there. The type things you guys can't see and we can is the quality of the employees. We've got a really good team over there and we're building it out nicely.

We prefer to grow organically or by the occasional hire of small team and we have hired some good folks. I think we have got a foundation now that we can write substantially more premium without increasing expenses. If that's kind of answering your question I think we're getting to that point where it won't be too long before we start reaping the benefits.

Q - Unidentified Participant

Okay and the last numbers question for me. The fixed income portfolio results this quarter did not include any derivative gains?

A - Jeff Kelly {BIO 20911735 <GO>}

It did in the Fourth Quarter. I think there was about $1.5 million in derivative gains in the Fourth Quarter included in the fixed maturity investments income line.

Q - Unidentified Participant

That's very helpful. Thank you very much.

Operator

(Operator Instructions)

Brian Burns.

Q - Brian Burns {BIO 2184807 <GO>}

Good morning, everybody. I just had more of a numbers question on the real portfolio. Obviously it bounced back nicely year-over-year. Just wanted to -- where do you think we can get the best guidepost for thinking about those numbers going forward? Looking at the UK weather or US weather, how should we think about that stuff?

A - Kevin O'Donnell

What I would say is that is a difficult question for us because it is a two-season book. We basically run the summer season and the winter season. I think, in general, think of the winter season as being larger than the summer season. I would focus for what historically we have done most of the volatility in the September to March band. As far as the construction of the book, we have capabilities to write that business worldwide.

I think you're right to point out the UK. At certain points of time, depending on the pricing and opportunity, we have been heavier weighted to the UK. Other times we've been heavier weighted to the US. It is very hard to give a, kind of a guidepost on that except to say that we generally run more risk in winter than summer.

A - Neill Currie {BIO 6676681 <GO>}

I might add to that one of the things that we do, just like we do in our property CAT book and everywhere else, is that we seek to maximize that portfolio and we also buy protection on that. So the volatility will remain there, but I don't anticipate having the downside anywhere near the downside that we had last year.

Q - Brian Burns {BIO 2184807 <GO>}

Okay. Then just one more follow-up on retro and new CAT bond funds. I guess looking five years out from now, what type of -- I mean, obviously, it's exploded in growth the last couple years. Can that continue or will there be a saturation point that you think that that will slow down? I guess it depends a little bit on interest rates, as well. I just wanted to see where you guys think that can be in 5 to 10 years?

A - Kevin O'Donnell

I think retro is an easy access point for risk. So I think there is going to be a third-party capital that is going to be interested in that business. I also think it is the trickiest end of the CAT market. So there will be substantial differences between the winners and losers who are writing either in aggregate or traditional retro book.

The CAT bond fund and the CAT bond market, I think that's -- that market is still relatively small within the overall CAT markets. And it tends to participate at a kind of high-level tranche in the market. So I'm not sure that that will migrate into the more traded layers among the rated balance sheets. But I certainly think CAT bonds have a role to play in the market and I think it is a great place for third-party capital to continue to play.

Q - Brian Burns {BIO 2184807 <GO>}

Thank you.

Operator

Mike Zaremski.

Q - Mike Zaremski {BIO 20606248 <GO>}

Thanks. Dialed in late, so hopefully these have not been touched on. In regards to the joint ventures platform, do you expect the structure and nature of the platform to evolve in the coming year? I guess for example, we know that certain reinsurers have started vehicles where they don't put in much of their own capital?

A - Neill Currie {BIO 6676681 <GO>}

I'm not sure I entirely understand your question. Are you saying because we have more than one platform?

Q - Mike Zaremski {BIO 20606248 <GO>}

I guess a couple reinsurers have started vehicles where it is just all third-party money and writes seem maybe lower, ROL business, for example, that's kind of the nature -- Are your new ventures, like the 2013 ones, are those much different from the 2012 ones in terms of what you guys are writing? So it's kind of a two-fold question.

A - Neill Currie {BIO 6676681 <GO>}

Okay, I kind of see where you're going. Well we have been doing these types of ways of bringing third-party capital to bear to help our clients out for 11 or 12 years now. And it is not particularly easy. And you have to be very careful that you have the right match between the capital and the need. So we have many different types of ventures. It just so happened that sort of the headline ones were more sidecars like Tim Re and Upsilon. But we also had some migration in DaVinci rate.

So our permanent platforms, if you will, are Top Layer Re and DaVinci Re, and some of these other opportunities typically tend to be short term in nature to help our clients out. This will continue to evolve for us. But I think it is sort of the flavor of the month right now. It is like somebody sees a kid with a new bike and they want one too. So we have been riding our bike for a long time and like it.

Q - Mike Zaremski {BIO 20606248 <GO>}

Yes, you guys are clearly a pioneer of the business. I guess related, I know you probably won't disclose the fee income terms within a lot of these joint ventures. But the income levels are clearly material and I'd therefore be curious if the terms of maybe some of the 2013 agreements have changed, and if so, if you could provide some color?

A - Neill Currie {BIO 6676681 <GO>}

No. I don't think we really can. I can just say it is meaningful. And each one of these partnerships or joint ventures have different fee structures and profit shares and that sort of thing. Each one varies.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay. Thank you very much.

A - Neill Currie {BIO 6676681 <GO>}

Sure.

Operator

Michael Nannizzi.

Q - Eric Fraser {BIO 15188768 <GO>}

Thanks, it's Eric Fraser for Mike. One more follow-up on capital management. You mentioned that share repurchase is the most effective form of deployment to grow book value plus accumulated dividends. But you also mentioned that you might throttle back on the buybacks with share price as a governor. Can you just talk about the balance between writing new business, buybacks and the potential for a special dividend? Is there a valuation at which a special dividend might be more attractive than buybacks?

A - Neill Currie {BIO 6676681 <GO>}

Yes there is and I hope we reach it.

A - Jeff Kelly {BIO 20911735 <GO>}

I think the interplay between share buybacks, Neill having answered the question on special dividends, I think the interplay for us between deploying more capital in the business, and share repurchases at our valuation, actually it is a pretty simple calculus for us that we would prefer to deploy capital in the business where we think we can do so profitably. But if the underwriters don't feel like we can deploy it in a manner that seems right to them, then it goes in the excess capital pot. Then we look to deploy it there in the most effective way we think.

And as we have said, for the most part, we believe the best way we can contribute to the growth in tangible book value per share plus change in accumulated dividends is by repurchasing shares thoughtfully at prices that make sense for that accretion and the growth rate of tangible book value. If the valuation were materially higher, that calculus could change and I suppose some other form could be ontemplated. But for us, for the most part, we focus on share repurchases to accomplish that.

Q - Eric Fraser {BIO 15188768 <GO>}

And a special dividend would be consistent with your goal of growing book plus accumulated dividends?

A - Jeff Kelly {BIO 20911735 <GO>}

Yes it would.

Q - Eric Fraser {BIO 15188768 <GO>}

Thank you very much.

Operator

Josh Stirling.

Q - Mike Kovac {BIO 20767805 <GO>}

Hello this is Mike Kovac on behalf of Josh. I just wanted to follow up on the convergence topic. I know we have talked about it a little bit, but I notice there are a number of moving pieces here and we've been waiting for the convergence story really to reach critical mass for maybe 15 years or so.

But it seems like both from comments from you guys and market commentators as well we're seeming to come to like sort of an acceleration of the story here. And I am wondering if you agree that we're nearing towards a watershed moment here? Or what is different now that makes us closer to the tipping point than what we have seen in the past?

A - Neill Currie {BIO 6676681 <GO>}

Why don't I start off and see if these guys want to chime in afterwards? I have been in the business now a long time going back to the mid-70s and you see an ebb and flow and frankly you just (don't see that much that has moved. Where to very low) interest rate environment, this is a diversifying area. So it is a pretty hot topic right now.

Let's see what happens if there's some big shock losses, let's see what happens if interest rates go up. So I think there will always be interest, but I think there will be an ebb and a flow. And I have not seen too many watersheds in my life. And I don't think we're at a watershed point now. You guys want to add to that?

A - Jeff Kelly {BIO 20911735 <GO>}

No.

Q - Mike Kovac {BIO 20767805 <GO>}

Great. Well I mean, just sort of following up on that, if we are more -- and not necessarily watershed, but there's certainly an impact on you guys going forward -- as sort of an innovator and leader throughout your history, what do you see, in terms of adapting your business model to what is more of a new normal for the next couple of years? Certainly Upsilon Re and some of the short-term things. Is there anything more longer-term that you see evolving for RenRe specifically?

A - Neill Currie {BIO 6676681 <GO>}

I think there's always evolution. We look at the profit potential in different areas. We look at serving our customers. We look at ways that we can maximize the effectiveness of our portfolio. So the third-party capital comes into play for us in all sorts of ways.

A - Kevin O'Donnell

I think, Neill, just to emphasize what Neill said is, we look to our customers first and try to find ways in which we can match risk they wish to cede with the most efficient capital. And there is, certainly within our framework, the capability to determine whether it sits on one of our rated balance sheets or we move it to some vehicle to transfer to third-party capital. I think our technology to do that is really industry-leading. And I think -- so regardless of how the capital is looking to the business, I feel we have a critical role to play in continuing to focus on what the customers are looking to cede.

A - Neill Currie {BIO 6676681 <GO>}

Yes. I think, I mean, this doesn't worry me. I like the position we're in. And there is a fact of the third-party capital that's there and how do play it. And there are several types of opportunities for us. As an example, you might have a third-party capital provider that wants to provide cover on an IOW basis to a client. The client doesn't want to buy that way, they want to buy it on an indemnity basis. And we can be a transformer and make a margin on it. So we have got the distribution channel and we have got the expertise, so I like where we are.

Q - Mike Kovac {BIO 20767805 <GO>}

Great. Thanks for your answers.

Operator

Jay Cohen.

Q - Jay Cohen {BIO 1498813 <GO>}

Thank you. Just a couple of questions. First is, on the fixed income investment income, it did take up in the past couple quarters. I know you had mentioned that you had the derivative gain. But even without that, it looked like directionally it was going in an unnatural direction given the level of interest rates and the direction of rates. Can you kind of explain why that is?

A - Jeff Kelly {BIO 20911735 <GO>}

Sure Jay. Well so I think that when you look at that line, you have to really look at the interplay of three different things. So I think the short answer I would offer you is I would not take too much away from it. I think if you look at the three things which I would say are fluctuations in the size of that category, fixed income securities; changes in the allocation that generally impact the yield on the portfolio; and then changes in interest rates that affect derivative income. So all three of those are changing over the course of the year and I think you can look back over that, I think it is page 13 of the supplement that has the various balance sheet sizes. So some quarters we're moving money out of fixed maturity investments into short-term investments.

I think what you are seeing there in terms of the increase in that number, though, has been principally a function of the change in rate over the course of -- changes in interest rates over the course of the last six months and how that has worked its way through derivative income. So I think if you went back to the end of the Second Quarter, I don't have the numbers right in front of me, but I think we had a pretty significant derivative loss in the Second Quarter. Then with interest rates rising a bit, that the derivative loss was smaller. Then in this quarter, there was actually a derivative gain. So I think that is principally what has changed it in the last couple of quarters. But if you look back over some of the quarters, you can actually see the impact from changes in the size of the fixed maturity category and also the rate on it.

Q - Jay Cohen {BIO 1498813 <GO>}

Got it. That's helpful.

A - Jeff Kelly {BIO 20911735 <GO>}

Long story short, I wouldn't make too much of it.

Q - Jay Cohen {BIO 1498813 <GO>}

Yes. That make sense. Lastly, operating expenses both reinsurance and at Lloyd's went up. I guess I'm assuming it's incentive comp towards the end of the year? Is that fair?

A - Jeff Kelly {BIO 20911735 <GO>}

I think that is, yes, far and away the largest part of it, Jay.

Q - Jay Cohen {BIO 1498813 <GO>}

Okay. Great, thank you.

A - Neill Currie {BIO 6676681 <GO>}

Well this looks like it's very scientific, operator. I think we're out of questions and we're right out of time. So thank you everyone for joining us and we look forward to talking to you next quarter.

Operator

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