Q2 2016 Earnings Call

Company Participants

- Jeffrey D. Kelly
- Kevin J. O'Donnell
- Peter Hill

Other Participants

- Amit Kumar
- Brian Robert Meredith
- Elyse B. Greenspan
- Josh D. Shanker
- Kai Pan
- Michael Nannizzi
- Quentin McMillan

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Jessa, and I will be your conference operator today. At this time, I would like to welcome everyone to the RenaissanceRe Second Quarter 2016 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session Thank you.

Mr. Peter Hill, you may begin your conference.

Peter Hill {BIO 15385944 <GO>}

Thanks, Jessa, and good morning, everyone. Thank you for joining our second quarter 2016 financial results conference call. Yesterday, after the market close, we issued our quarterly release. If you didn't receive a copy, please call me at 212-521-4800, and we'll make sure to provide you with one.

There will be an audio replay of the call available from about 1 PM Eastern Time today through midnight on August 27. The replay can be accessed by dialing 855-859-2056 U.S. toll free, or +1-404-537-3406 internationally. The passcode you will need for both numbers is 41403323. 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 October 5.

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 factors shaping these outcomes can be found in RenaissanceRe's SEC filings, to which we direct you.

With us to discuss today's results are Kevin O'Donnell, President and Chief Executive Officer; and Jeff Kelly, Executive Vice President and Chief Financial Officer.

I'd now like to turn the call over to Kevin. Kevin?

Kevin J. O'Donnell

Thanks, Peter, and good morning, everyone. Overall, I am pleased with our team performed in a difficult market, exercising discipline and executing well across all lines of business. There are three major themes for the quarter. First, in a period of high cat activity, heightened macroeconomic uncertainty, and a continuing rate of competition, we achieved a 6.1% operating return on equity and grew our book value per share, plus accumulated dividends by 2.8%. Second, we took advantage of market volatility during the quarter and repurchased a substantial number of shares. Finally, and most impressively, our team worked hard to achieve growth in all three of our reporting segments.

Today's soft market started several years ago for property cat. We continue to see the impact of this dynamic at the June 1 renewal, where rates continued to fall, although at a slower pace than in previous quarters. Despite market conditions, we grew in property cat due to our leadership position and our continued emphasis on superior customer relationships. This growth reflected our ability to meet the bespoke needs of our clients by using our integrated system and by matching good risks with efficient capital. It is sometimes difficult to demonstrate leadership in a softening market. So, it's gratifying to see that in times of stress, our customers valued our long-term commitment and continue to look to us for help managing the risks.

Turning to the casualty and specialty market, which faces many of the same market dynamics, we were pleased to find opportunities to grow in key areas such as mortgage reinsurance. Overall, we saw relatively flat ceding commissions compared to prior years. However, we have seen some reduction in economics over the last 12 months in some lines of business. We will continue to closely monitor our profitability by line and by underwriting year and look for further signals of weakening.

Given the current market dynamics, we continue to believe the best opportunity to improve our performance will come from managing our net underwriting risk and seeking to increase our participation on the best transactions, while reducing participation on the worst. We will also to continue build optimized portfolios of risks, as measured by expected net returns on modeled required capital.

Of course, there's been a great deal of speculation about the recent Brexit vote. While I'll talk more about how we believe that it might impact our Lloyd's business later on the call, our global structure and the specific platforms and initiatives in which we have chosen to invest will continue to provide us access to the markets we currently serve.

We had an active quarter from a capital management perspective, with share repurchasing being roughly equal to net income year-to-date. Our philosophy is to reward long-term holders of shares when we have excess capital, but only when doing so is likely to be accretive to tangible book value.

Finally, I want to take a minute to thank Jeff for his efforts on behalf of RenaissanceRe over the last seven years. Jeff's contributions to our success have been substantial, and he has worked tirelessly to continue to advance our thinking about risk and capital in ways that will benefit us long past his retirement.

As we previously announced, Jeff is retiring, and today will be his last call as our CFO and COO. I am grateful to him for both his counsel and his friendship. I look forward to introducing Bob Qutub on the next call and know that he will continue to challenge us and push the team to even greater accomplishment.

And with that, I'll turn the call over to Jeff.

Jeffrey D. Kelly {BIO 1390834 <GO>}

Thanks, Kevin, for those kinds words, and good morning, everyone. Before I begin my prepared remarks, I just like to say how much I've enjoyed getting know and working with all of you in the analyst investor community over the last seven years. I know I leave RenaissanceRe in one of the strongest financial positions in our history and in the capable hands of a top flight management team.

I'll move on to discuss our results for the second quarter and year-to-date, but before I do, I'll touch on some highlights from the quarter. While the second quarter was an active one in terms of insured catastrophe losses for the industry, our losses were very manageable, and I think, demonstrate our disciplined approach to underwriting in a more challenging pricing environment.

As we noted in our press release, the total net negative impact of our exposures to the 2016 Texas events and the Fort McMurray wildfires was $41 million. Top line growth was strong across each of our segments. Some of the main drivers of our growth were some unique opportunities on the Catastrophe Reinsurance side and continued expansion in specialty credit.

The decline in interest rates during the quarter, again, resulted in strong mark-to-market investment performance that helped our reported net income and book value growth. However, as you might expect, this will likely have negative implications for longer-term expected returns for the investment portfolio. And lastly, as Kevin mentioned, we also had one of our more active quarters in terms of capital management through share repurchases, and I'll discuss that later on in my comments.

Moving on to financial results. We reported net income of $136 million or $3.22 per diluted share and operating income of $67 million or $1.55 per diluted share for the second quarter. The annualized ROE and operating ROE for the quarter were 12.6% and 6.1%, respectively. Tangible book value per share, including change in accumulated dividends grew by 2.8%. On a year-to-date basis, our ROE and operating ROE were 12.1% and 6.1%, respectively. And tangible book value per share, including change in accumulated dividends increased by 5.5%.

Let me shift to our segment results beginning with our Cat segment, followed by Specialty Reinsurance and Lloyd's. In our Cat segment, managed cat gross premiums written in the second quarter increased 5% from the year-ago period. As Kevin mentioned, we saw some unique and attractive opportunities for new business as well as for greater placements on existing business. These more than offset some of the continued price reductions and repositioning of the book in a soft pricing environment. For the year-to-date, managed cat gross premiums written declined 2%. This compares with our top line guidance for a decline of 10%. As a reminder, managed cat includes business written on our wholly-owned balance sheets, as well as cat premium written by joint ventures DaVinci, Top Layer Re, and Upsilon.

Net premiums written for the Cat segment actually decreased 5% from the prior-year period during the second quarter, reflecting increased purchases of retro relative to a year ago. For the year-to-date, net premiums written declined 10%, as we have elected to cede more premium, as pricing has softened. The second quarter combined ratio for the Cat unit was 64.3%. Our losses were manageable and well within our expectations for these types of events.

Our main exposures related to the Texas events, which had a $24 million impact on the segment results; and to the Fort McMurray fires, which resulted in a $19 million negative impact. Net favorable reserve development totaled $14 million for the Cat segment in the quarter. For the first six months of the year, the Cat segment generated an underwriting profit of $150 million and a combined ratio of 46.2%.

In our Specialty Reinsurance segment, gross premiums written increased by 25% relative to a year ago. The main driver was significant growth in our credit book, primarily reflecting increased mortgage reinsurance opportunities that we had been highlighting in recent quarters. Most other classes of casualty and specialty business were flat to down relative to a year ago.

For the year-to-date, specialty premiums are up close to 100% from a year ago, reflecting strong growth in mortgage reinsurance and timing differences related to the exclusion of Platinum's results from our financials prior to the close of the transaction in March of last year.

As we have grown our specialty book, we have also increased the use of ceded purchases to manage our assumed risk and enhance our overall portfolio returns. Consequently, net premiums written in the Specialty Reinsurance declined 5% in the second quarter, but were up 61% for the first half of the year. The Specialty Reinsurance combined ratio for the second quarter came in at a profitable 89%. Attritional loss trends have remained generally benign. The segment reported net favorable reserve development of $17 million in the quarter. The year-to-date combined ratio on Specialty Reinsurance was 94.8%.

In our Lloyd's segment, we generated $161 million of gross written premiums in the second quarter, an increase of 38% compared with the year-ago period. Top line growth was driven by select opportunities in casualty, property per risk, and property catastrophe reinsurance. For the first half of the year, gross written premiums increased 19%.

As we have done across our other segments, we have meaningfully increased our cessions at Lloyd's to manage the risk profile of the business. So, while our gross written premiums are up 19%, our net written premiums are up 11% for the first half of the year.

The Lloyd's segment came in at a combined ratio of 103.1% for the second quarter. The segment's results included a $5 million net negative impact related to the Texas events and Canadian wildfires. The unit reported $2 million of net adverse reserve development in the quarter. The expense ratio at 42.7% was down relative to a year ago. For the year-to-date, the Lloyd's segment generated a combined ratio of 97.3%.

Turning to investments, we reported net investment income of $54 million in the second quarter. Investment income from fixed maturity securities totaled $46 million for the second quarter and included a few non-recurring items. Outside of those items, I'd characterize the recurring income on fixed income securities as probably more in line with what we've seen in previous quarters.

Our alternative investment portfolio generated a gain of $10 million in the second quarter, reflecting a rebound in the valuations of our private equity investments and continued positive performance of our Catlin (13:55) portfolio. The annualized total return on the investment portfolio was a solid 5.5% in the quarter. A continued decline in treasury yield and spreads from many investment classes resulted in strong unrealized gains on our investments.

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 remained relatively short at 2.2 years and a stable relative to where it has been in recent quarters.

The yield to maturity on fixed income in short-term investments was slightly lower at 1.8% reflecting the decline in interest rates we saw.

Turning to capital on liquidity. Our capital and holding company liquidity positions remain very strong. During the second quarter, we were active in the market for repurchasing our shares and bought back 1.7 million shares for a total of $187 million. Since the end of the quarter, we repurchased an additional 315,000 shares for a total of $36 million. This brings our year-to-date share repurchases to slightly over $300 million, which is above the level of net income we have generated in the first half. As we look forward, any decision related to share repurchases will, as always, depend on our view of business opportunities, the profile of our risk portfolio, and the valuation of our stock.

Finally, before returning – turning the call back over to Kevin, I'd like you to – I'd like to update you on our top line forecast for 2016. For managed Cat, given that the majority of our book renews in the first half of the year, we're not updating our guidance at this time. There isn't much premium that is renewed in the second half, and as such, we believe that the year-to-date premium decline is a good indication of the forecast for the full year. For Specialty Reinsurance and Lloyd's, we are maintaining our top line guidance for an increase of over 20%.

With that, I'll turn the call back over to Kevin.

Kevin J. O'Donnell

Thanks, Jeff. I'll divide my comments between our three segments, Catastrophe, Casualty Specialty and Lloyd's, and I'll also make some comments on the ventures unit. We performed well over the quarter with respect to our cat renewals. With rates declining about 5% and teams continuing to push terms and conditions, the market demonstrated more discipline than in prior years and either pushed back or added rate for coverage expansions. As I mentioned earlier, we were able to achieve decent growth despite generally difficult pricing conditions. I am pleased with the growth we achieved as it was at the right terms and with the right customers, and our underwriters continue to exercise sound judgment and discipline.

We grew the cat book at this renewal for several reasons. For the first time in several years, we saw shortfalls during the June 1 renewal, as the number of aggressively priced programs were unable to achieved 100% placement. In many cases, we were first call for these clients, and we're able to write deals at relatively better terms than earlier in the season. Although the market is difficult, our success is primarily a function of us having better access to business and being a first call market to solve problems for our customers. In general, the amount of limit purchased by the U.S. market was relatively flat. Reductions in purchasing from state entities were offset by corresponding increases in private sector purchases. Overall, supply was ample to meet the demand.

Outside of the U.S. market, the largest renewal in the second quarter was Japan, where rates were down in the range of 5% to 10%. This was better than what we saw more broadly internationally where rates were down between 5% and 15%. Even though rates have moderated somewhat since the 2011 Japanese Tohoku earthquake, we continue to see opportunities for RenaissanceRe and Top Layer Re to write Japanese business.

Moving on from the recent underwriting results. As Jeff highlighted, it has been a busy quarter with regard to natural pare losses. The bulk of which came from the Fort McMurray Canadian wildfire loss and the Texas severe convictive storm event. The Fort McMurray loss is the largest natural catastrophe loss in Canadian history, and as is often the case with large events, has certain unique aspects, which will take time to fully develop.

We have typically been somewhat underweight on Canadian programs due to our view of loss potential and pricing, whereby so called non-major perils are seemingly ignored. Interestingly, we also expect to see reasonable market losses to non-peak retro writers from this event. While we participate in this market, we have sold less retro than in prior years as prices moved below a level we could support. Consequently, we were underweight on the Fort McMurray loss. Further, our ceded program responded to reduce the net impact of this loss on the portfolio.

The Texas hail numbers consists of losses from 10 separate storms, many of which are relatively small, localized events, and will largely be retained by insurers and not transferred to the re-insurance market. Our analysis indicates that while 2016 is a relatively average year for industry losses from convective storm nationwide, it is the worst year on record for severe convective storm in Texas. We believe these elements are not related to a specific predictable pattern of weather. They are more likely explained by a random clustering of storms around populated areas in Texas, rather than by El Niño or jet stream patterns alone. Following up on our discussion from the last call, our losses on the Japanese and Ecuadorian earthquakes earlier in the second quarter were minimal.

Moving over to casualty and specialty, our strong brand and increasingly recognized expertise in many specialty lines served us well and allowed us to gain access to the business that we targeted. As an example, we continue to see select growth opportunities in the financial and credit lines, where we grew strongly in the mortgage reinsurance space. This is a market where the supply/demand balance is more favorable and, therefore, relatively attractive. We are recognized leaders in this space having taken steps to establish to a strong position early on. This has made us a First Call market and a lead on the best programs. As this book continues to grow, our gross-to-net strategy becomes more effective, and we believe we can continue to write an attractive portfolio.

As I mentioned in the last call, mortgage reinsurance has the type of business profile that we like, one in which the market meets our capacity and is looking to transact with only a select number of well-rated and highly-respected reinsurance counterparties. In general, we always look to grow our business with core clients in areas in which we're able to generate the best returns. The characteristics of this market match well with our three competitive advantages of customer relationships, risk selection, and capital management. And we are optimistic there will be more opportunities to deploy capital in this area.

As I alluded to in the opening segment of the call, the softening in specialty casualty market was initially limited to increased ceding commissions paid to primary companies. Our analysis showed that these books were achieving good returns even with the increased ceding commissions, which we were willing to bear. From our perspective, it was preferable that the entry cost was a fixed reduction in the form of higher ceding commissions, which was easily – which was an easily ascertainable cost.

Today, ceding commissions remain elevated but largely unchanged from last year. An issue we are now watching is if rates in underlying portfolio start to slide. This type of production is more concerning for several reasons. First, these books develop slowly, and it can take years to recognize under pricing. Second, unlike fixed reductions in margin due to elevated ceding commissions, price decreases in underlying portfolios can be more uncertain and difficult to accept.

We have a strong underwriting team and have built good tools to allow us to better understand changes in the underlying business. I am pleased with the gross premium growth in this segment, because the business provides diversification to our portfolio, which remains dominated by cat risk. As the portfolio grows, we are increasingly utilizing our gross-to-net strategy to optimize our specialty book. This also affords us increased access to risk, which in today's market is more critical than ever before. And most importantly, we have selectively chosen the most profitable classes and worked hard to achieve desired signings on the best business. A specific sample is our early move into mortgage business in 2009, which I previously discussed.

As I've noticed in the past, our Lloyd's syndicate will have good quarters and bad quarters. While the combined ratio of this quarter kicked above 100%, including losses from both Fort McMurray and the Texas hail storms, year-to-date Lloyd's is profitable. As we continue to grow this book, our goal is that it will become more consistently profitable over time.

The growth this quarter in Lloyd's has come from a few sources. Firstly, there's natural organic growth in a number of underlying portfolios we support on a proportional basis at Lloyd's. Secondly, having added to our underwriting team early this year, we have seen an immediate impact of expanding our skill set. And lastly, some of the growth witnessed this quarter is testament to the value of having multiple platforms to support our clients.

With respect to the UK's decision to exit the European Union, we believe the impact on our Lloyd's business will be minimal. Lloyd's has a number of pre-existing relationships with Europe, and we'll be working hard to bridge any potential gaps. Our most vulnerable exposure in terms of potential loss business is on insurance business from Lloyd's to Europe, which is only about $2 million or less than 1% of our syndicate premium.

Our ventures unit had a good quarter, contributing to our broader investment results and our ability to execute our gross-to-net strategy. Specifically, our joint ventures continue to perform well, driven by investment returns, and we maintain our disciplined approach to selecting risks that fit our appetite.

Our strategic investments also continue to perform well despite some choppiness in the equity market. The ability of our ventures unit to innovatively match risks and capital has long been a differentiator for RenaissanceRe. We will continue to evaluate opportunities to grow in this area and structure transactions that are consistent with our disciplined approach.

In closing, I'm pleased with our June 1 renewal, and the steps we have taken to reduce our peak market risk going into this year's wind season. Across all three of our segments, we have deepened our relationship with key clients and expanded our ceded program to improve capital efficiency of our portfolio. We have executed well in a difficult market, driving growth in areas we found attractive, while maintaining our underwriting discipline.

While there's still work left to do, overall, I'm proud of our team for what we've accomplished in order to maintain our underwriting leadership position heading into the second half of 2016.

And with that, I'll turn the call over to questions. Thanks.

Q&A

Operator

And your first question comes from the line Michael Nannizzi from Goldman Sachs. Please go ahead.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thanks so much. I guess, Kevin, one question, to start out, is how would you look at the first half of 2016 compared to what a normal-ish year would look like for rent today, given the mix of business that you have and that you expect to move towards in the future?

A - Kevin J. O'Donnell

So, I think, the strategy that we have in 2016 is reasonably consistent with the strategy we had in 2015. And looking at what's likely to occur in 2017, I think, 2017 is likely to be more difficult than 2016, but I think our strategy will continue. We've increased the scale of the organization quite considerably, both becoming deeper in the lines that we're in, but also opening new platforms, which allow us to serve our clients better.

Looking at the Lloyd's book of business, we are working hard to maintain profitability there. I think, we've done a good job hedging the portfolio. And as we continue to grow the benefits of those hedges or the increased ceded that we have there will continue to endure to our. With Specialty and Casualty, we're increasingly being recognized as a lead in many lines. And, I think, that will continue to provide us with opportunity. The mortgage book has performed well, and we see that as a continuing area of growth for us.

And Cat's one that, I think, looking at what at happened at 6/1 is a little different than what happened at 1/1. We saw more discipline at the 6/1 and 7/1 book than what we saw at 1/1. I'm not sure that necessarily translates to what can happen at the 1/1 renewal for 2017. But to be perfectly honest, our strategy doesn't rely on being able to call the market. Well, if that's where the market is, we'll build a performer for 2017, and then we will execute the strategy, and which I think will be largely similar to the strategy that we have in 2017 and 2016.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. I mean, I guess, more simplicity thinking just ROE. I mean, first half of year, your average about a 6% ROE, $50 million in Cat, or $40 million, depending on how you're looking at it during the first half of the year. Is there anything about - I think if - is the Cat load higher than you would think? In a more normalized environment, is it about right? And what are put and takes for that 6% to be higher from here, assuming that we're at some sort of bumping along the bottom line Cat, and we don't see a shift in margins in that business?

A - Kevin J. O'Donnell

Sure. It's a difficult market currently to touch on. It's been difficult in Cat for a while, and increasingly, we're monitoring more closely what's going on in the specialty line. Investments, obviously, I won't spend a lot of time on that, but that's going to be more of a challenge going forward for everybody. We're not trying to optimize returns in a single quarter, or even on the single year. We're trying to build an optimal portfolio against the full set of outcomes. I think, in looking at the first quarter, we had a good quarter, a low cat quarter, but the value of our hedges cost us return. In the second quarter, we hedged our portfolio beyond just the losses that occurred, but we did receive some value for that.

There's a cost associated, I think, for doing the right thing in difficult markets. And I believe that we're doing that, but we're managing risk, I think, well across the entire portfolio, well across the whole distribution. And according to the measures that we have, we're still producing output to the market. So, without getting specific as to what returns might be, I think, we're looking to build the franchise – to be a more valuable franchise next year in five years and 10 years. And if that's at the cost of current year earnings, that's okay, because what we're doing now, I think, puts us on the stronger platform going forward.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. That's very fair. Thanks for that. And, I guess, just a couple of quick numbers, I wondered if I could, Jeff. Good luck with the where you go – with what's next in front you, Jeff. But fixed yield, should assume the Q1 $36 million is better starting point than the $46 million in the second quarter. Sounds like there's some one-timers there. Just want to confirm that. And in the Lloyd's business, the operating expense number, the dollar drops in the second quarter which contributed to the lower ratio. I just wanted to get some context on that as well.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Okay. On the fixed income securities, yeah, I would say – I wouldn't put too fine a point on it. I think the – on the last few quarters, the recurring income on fixed maturity investment has been between $36 million and $38 million. I think, it's going to be – my guess is it's going to be around that number, perhaps around the higher end of that range going forward. But, yeah, there were a couple of onetime items in the quarter that created that anomaly. And the second question is about Lloyd's, right – the Lloyd's expenses?

Q - Michael Nannizzi {BIO 15198493 <GO>}

Yeah. The operating expense at Lloyd's, yup. Just sort of seeing the growth there, normally, I mean, I would expect that the operating expense maybe would be flat, and then, you'd get some leverage. But it looks like you got both. You got leverage on the top line, but also the notional dollar went down.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Yeah. Michael, I think, probably a better way to look at it is it's – I think for the first six months, it's about flat or maybe just slightly higher. I wouldn't – any given quarter, I wouldn't point too much at, but I think we don't see any significant expense growth in the near term at Lloyd's. So, I'd say, the first six months compared to the last six months is probably a good proxy.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. Great. Thanks so much.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Thanks, Michael.

A - Kevin J. O'Donnell

Aye.

Operator

Your next question comes from the line of Amit Kumar from Macquarie. Please go ahead.

Q - Amit Kumar {BIO 19777341 <GO>}

Thanks, and good morning. And thanks for all your help, Jeff, over the years.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Thank you.

Q - Amit Kumar {BIO 19777341 <GO>}

Just two or three, I guess, quick questions. Maybe a follow-up to Michael's question too. The first question is on the discussion on the cat rate. And I think you mentioned maybe a 5% number for June 1 renewals. And I know that you don't sort of look for that when you think of the book. Did that number change materially for July 1 renewals? And I know that's a different book altogether? The reason why I asked is a competitor mentioned that cat pricing stabilize from 6/1 to 7/1, but the latter seeing flat renewals. So, I'm just trying to get some perspective on that.

A - Kevin J. O'Donnell

So – yeah. Thanks for that. Firstly, generally, the June, July renewals were better than what we anticipated when we built our pro forma back in October of 2015. The – going in, I think, the comment that you're making, renewals that were done further away from June 1 or July 1 were more competitive than those that were done closer to the actual expiration of the contracts. So, we did see some improvement of terms and some hardening of underwriting stances, with regard to expanded terms, as we got to the actual renewal of either the June 1 or July 1. So, it wasn't a static renewal. Later renewals were more – early renewals were more competitive than late renewals. And the overall renewal was better than we anticipated when we built the pro forma for the June, July renewal period.

Q - Amit Kumar {BIO 19777341 <GO>}

Got it. That's helpful. The other question I had was on – I think, on the cat side in the opening remarks. And forgive me if I mixed up with all the calls. You mentioned the increase in retro purchase this year. And did you describe what areas will that protect in your book?

A - Kevin J. O'Donnell

I did mention that we bought more retro, but I didn't give any color as to the type of retro that we bought. Looking across the overall cessions that we're making, increasingly, we are taking the gross-to-net strategy that's been effective on the property cat book and deploying it into Lloyd's and deploying it into Casualty, Specialty. Once books become of size, we have more flexibility as to how to think about putting different types of capital against it.

Different books have different strategies for ceding as well. So, if you take the mortgage book, we are seeing more opportunity, presenting itself more quickly than we want to build our net portfolio, and we're finding opportunities to represent other capital that want to leverage off our underwriting, our tools and our ratings to give them access to that business. So, the combined risk capital that we're deploying and the fee capital that we're generating, really works to great advantage on that book of business.

Looking at property cat, our strategy is much more around managing the net retained risk that we're taking and balancing the portfolio. And the one comment I'll make regarding the cessions that we made this year is our net risk going into wind season for Atlantic hurricane is less this year than what it was last year. So, despite the growth we are able to achieve in property cat over the course of the quarter, we're still managing our net risk to be lower.

Q - Amit Kumar {BIO 19777341 <GO>}

Got it. And the – so, the Florida specific piece that was non-renewed last year, that hasn't changed?

A - Kevin J. O'Donnell

The Florida...

Q - Amit Kumar {BIO 19777341 <GO>}

Specific retro you had previously.

A - Kevin J. O'Donnell

Yeah. We – I guess, I'd make two comments on that. The reduction that we have going into Atlantic wind season comes from really two things. It's the change in our overall ceded program, without getting into specifics. But also, we diversify the books, so the growth that we had, actually, we deployed less limit in Florida this year with Florida – indigenous Florida companies than we did last year. What we talked about last year is that we were taking Florida risk in a different way, more through nationwide programs that have Atlantic hurricane risk. That trend continued this year, although to a lesser extent, but we do have slightly less limit deployed in the indigenous Florida market, and we have a different ceded program, which has reduced the net risk.

Q - Amit Kumar {BIO 19777341 <GO>}

Thank you. Thanks for the clarification. And final question, and I'll get off. In terms of – we always talk about consolidation, and there's always chatter, and again, there is chatter today, this is sort of a step back question, do you think RenRe would – being a private company, would that serve you better, would that benefit you in these market conditions, or you see that as a non-factor? I'm thinking about the competitive advantages of being private versus public for a very strong franchise such as you in these market conditions.

A - Kevin J. O'Donnell

Thanks for the question. I think – I love our position in the current market. We benefit from having DaVinci, which is private and access to private investors coming in. And we also benefit from being a publicly traded company and having access to the equity market. So, I think, having the balanced approach from where we are and the way we're executing our strategy is preferred. And we really enjoy having the most diverse group of capital that we can possibly attract and bringing it to our customers and our clients.

Q - Amit Kumar {BIO 19777341 <GO>}

Got it. That's very helpful. Thanks, and good luck for the future. And thanks again, Jeff.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Thank you.

A - Kevin J. O'Donnell

Appreciate it. Thanks.

Operator

Your next question comes from the line of Elyse Greenspan from Wells Fargo. Please go ahead.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Yes. Good morning. I was hoping we could just spend – I had a few more questions. Just, first, in terms of the Specialty, you guys didn't update the guidance for the year. Is that just that you kind of just don't really – it's a little bit of a lumpy business, I know, just being with the mortgage, if – based on your commentary, expect you continue to see growth there kind of as we go through 2016?

A - Kevin J. O'Donnell

I'm sorry, Elyse, if I wasn't clear. Our expectation for Specialty is that it will be up over 20% on the year.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Yeah. But I guess, I mean, you've seen pretty strong growth in the first half of the year, so that would imply, I guess, a slowdown in the second half of the year, or was that just the 20% growth more just a half-year too comment?

A - Kevin J. O'Donnell

No. It's a full year comment. It's just taking into account the timing differences over which the business is originated during the year, and the fact that, as you said, it is a bit of a lumpy business. We don't want to put too fine a point on percentage increases in the book.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. Thanks. And then, Kevin, just following up on some of your market commentary. Just from some of the calls that we've heard throughout this season. I think, the overall comments that I've put together is that we're kind of getting a bit close to a bottoming of reinsurance market. No one's really kind of wanted to call for price increases from here, but maybe we'll stay around this level for a while. Would you agree with that? And then, if you can just start to give a little bit of some comments on January 1 just based on where we sit today.

A - Kevin J. O'Donnell

Sure. Let me comment a little bit about the one different thing that is – we talked about on this call is the fact that we grew our property cat book, which we haven't done for quite a long time. That growth comes from opportunities that were broader than just what occurred in the Florida-specific market. So, within the Florida-specific market, we saw programs that struggled to get placed, and we were able to come in at terms that were – better terms than what the market saw. So, that is generally good sign.

The other side of that coin is, I think, it's difficult to extrapolate what happens in Florida to the 1/1 renewal, because the 1/1 renewal is a much broader book of business than what is really Atlantic windstorm-focused, mid-year renewal. But the signs of what we saw at 1/1 – sorry, at 6/1 are good. I think, for us, whether it's – the bottom rates are up 5% or rates are down another 5% doesn't really change the way that we're going to execute on the market. So, we spend a lot less time really thinking about whether we're at the bottom and look at what is likely to occur and build the portfolio out.

A lot is going to happen between now and 1/1/17, so I think, it's a little early for us to start thinking about building a pro forma. We'll sit down in October, make an assessment as to where the market is, and then build a pro forma and have a much keener sense as to where we'll ultimately estimate 2017 to be.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. And then, Jeff, on the alternative investments that did rebound this quarter, what's – for modeling purpose, what's kind of a normal return that you would assume on those investments on a quarterly basis?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

We don't have – I wouldn't suggest there is a normal, Elyse. It's – I think, the way we think of it is on an expected basis is kind of tracking the S&P 500. But given the makeup of it, that's – there – it's hard to say. But we generally think about it as kind of tracking the S&P 500.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. And then, one capital question, the share repurchase did pick up this quarter. Given that we're now in wind season, would you guys book, I guess, maybe to curtail repurchase a little bit, or is it just kind of more based on opportunity and evaluation of the stock. How does that kind of come into play this year in your decision-making?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Well, the third quarter is rarely the largest quarter for share repurchases in any given calendar year. And I'd probably say this year is no exception to that. But it tends to be really based on opportunities we see for the business, the profile of our risk portfolio and just evaluation of stock as I said in my current – or in my prepared remarks. So, I'd say, that other things being equal, we expect to be in the market over the course of the remainder of the year. As I said, we have a very strong capital and liquidity position. I wouldn't worry too much or think too carefully about what – how much we do in any specific quarter. We try and steer away from that. But other things being equal, I expect us to be in the market over the course of the remainder of the year.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Thank you. And Jeff, congrats on your retirement. Best wishes to you.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Thanks, Elyse.

Operator

Your next question comes from the line of Kai Pan from Morgan Stanley. Please go ahead.

Q - Kai Pan {BIO 18669701 <GO>}

Good morning, and thank you. And Jeff, congratulations, and hopefully this time, it's a true retirement.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Thanks, Kai.

Q - Kai Pan {BIO 18669701 <GO>}

So, Kevin, you mentioned mortgage risk have been growing very strong, and we saw a lot of competitor coming into that place. I just wonder, could you talk more about your sort of underwriting competitive advantage in that and risk management in that, particularly long-tail business, as well as sort of what capital requirements is in this line of business?

A - Kevin J. O'Donnell

Sure. Currently, within RenRe, we take mortgage risk in three areas, and we're constantly looking at those three areas and making sure that we're managing not only the risk we have, but the opportunity that exists. So, within the investment portfolio, we're taking traditional securities, traditional mortgage type risks. Within the ventures team, we have an ownership asset, which is a private mortgage insurer. And then our reinsurance book is really the highest level broken up between two groups of players. And the private mortgage is about two-thirds of the premium, and the GSEs are about one-third. The private mortgage book is more quota share, and the GSE book is more excess of loss.

Looking across each of those, we're constantly optimizing what is the right place for us to deploy the capital that we're allocating to this business. We think, there's still good opportunities, but we do agree with you that there's more people – or more competitors looking at this space. And we anticipate that it'll become more competitive over time.

We think we've built an advantage in it, having gotten into the business in 2009, having strong underwriting talent committed to it, and increasingly, have built proprietary tools, as well as leveraging externally valuable tools. Finally, having the ratings that we have, puts us in a preferred position to many of our competitors as well. So, I think we do have unique capabilities here. We do see continued opportunity, but I think, you're right, as more people look at this it's likely to become increasingly competitive.

Q - Kai Pan {BIO 18669701 <GO>}

In terms of capital requirements?

A - Kevin J. O'Donnell

The capital requirements in the reinsurance book on an economic basis is not large, because they're balance sheets are not built to support tail risk within the mortgage book. They're built to support tail risk within the property cat book. We do have limits on each of deals that we have, so we're not taking on limited risk here, even the quota shares are capped. And we have a finite level of risk that we – we'll work towards across all three segments that we're taking risk in. But it's something that we're – as opportunity changes, we will amend. More opportunity we'll allocate more capital, less opportunity we'll allocate less capital. But we're not at the point, where we're capital constrained within the mortgage business.

Q - Kai Pan {BIO 18669701 <GO>}

Great. My second question is on the reserve side. I would just go through each of your segments. If you look at Cat segment, since Katrina, if you like look at your case reserve, almost reduced by two-third from $600 million - $700 million down to like $200-ish million. You have some small releases of 2015 events in this quarter. So, just wonder, is there - since we haven't seen large scale event over the past several years, does it mean naturally the potential pool for future release is becoming smaller? That's on the Cat side.

And then the second bucket, you mentioned you have some actual (48:16) assumption changes in your Specialty business on the reserve side. Could you elaborate on that?

And the third, on the Lloyd's. We saw some small adverse development. This is probably early of your book. I just wonder sort of like, because you're building out Lloyd's, how do you make sure your reserve is prudent like - as you have did - always did in the Catastrophe book.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Okay. Let me try and take those, and I'll let Kevin add in if I miss something. So, on the cat side, Kai, I would say, certainly, as you described the level of remaining ACR and IBNR up against old cats, is certainly much lower. I would say that, still, the two largest prior year cats that we have outstanding in terms of ACR and IBNR, the storm Sandy and the Thai floods. But in dollar terms, those - they aren't horribly large events, but they are still, in percentage terms, what we thought our initial losses are still reasonably or higher than most.

On the Specialty side, we do, usually every first or second quarter engage in a review of our specialty loss assumptions in our reserve calculations. We did make a change in the quarter, and the magnitude of that change in terms of the Specialty and Casualty reserves was about $6 million favorable. So, that was the only change - or that was the net impact of the change in assumptions that we made for this year.

And as it relates to the Lloyd's, the adverse development there it was relatively small. We don't - I don't - I wouldn't ascribe it to anything significant. Our reserving methodologies at Lloyd's are very closely aligned with our reserving methodologies elsewhere in the company, and we believe we're very well-reserved there. It was just a combination of very small things that resulted in the adverse development at Lloyd's.

Kevin, you want to add anything else?

A - Kevin J. O'Donnell

I think, that's exactly right. I think, the two things I would add - you asked the question as to how do we think about the Lloyd's reserve or how do we know. One benefit we have in Lloyd's is we do report into Lloyd's, and they look at the reserves that we have by line. So, we get feedback on that basis, and it continues to give us comfort about the overall reserve levels we have within the syndicate.

And then secondly within the Casualty and Specialty, Platinum, when we purchased them had great reserving tools. Our first priority in the integration was to get everything on a single platform and, increasingly, we're improving our tools by looking at what was best within the RenRe framework and what was best within the Platinum framework. So, there might be some continued shifting around of stuff, as we change methodologies or combine methodologies.

But again, I agree with everything that Jeff said. We're comfortable with our reserves, and I don't – we're not seeing any signals at this point that are concerning with the overall level of reserve that we have by class or by underwriting year.

Q - Kai Pan {BIO 18669701 <GO>}

Great. Well, thanks so much.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Thank you.

Operator

Your next question comes from the line of Brian Meredith from UBS. Please go ahead.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Yes. Thanks. Just a couple quick questions here. First, could you give us what your gross cat loss was for the quarter?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Yeah. Why don't you give us...

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Related to Fort McMurray and those – yeah, go ahead.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Give us just a sec, Brian. Do you have another question you want to ask?

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Yeah, yeah. And the next one, I guess, just as a follow-on. Kevin, just curious, how much of an impact do you think the catastrophic events in the quarter had on the retro markets? And are you seeing much opportunity to write some back up covers and stuff because of companies that have maybe exhausted some retro?

A - Kevin J. O'Donnell

No. I think, what I've commented is, I think, some non-peak retro will be impaired from this. I would say, it'll be the lower end of retro programs. I don't anticipate this changing the retro market in a material way. And we have not seen, and I don't anticipate seeing backups to retros that were hit.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Okay. Great. And then, any thoughts on kind of appetite from the alternative kind of capital providers at Florida renewals, and maybe your renewals, any change?

A - Kevin J. O'Donnell

I think, it's harder to press the point to Florida, because there's not a specific Florida sidecars that we've deployed right now. I'd say there's still interest in capital coming into this space, where they're saying that reinsurance generally is attractive against other alternatives that they're looking at. We've been disciplined about keeping our facilities roughly the same size as we have in the past. We did add a little bit of capital but not worth highlighting in any material way to both Upsilon and to our Medici Fund but we kept DaVinci, the same size as it was previously.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Great. Thank you.

A - Kevin J. O'Donnell

Still strong interest, but not a great opportunity to deploy.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Got you.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

And, Brian, the gross losses on the Fort McMurray and Texas – Fort McMurray Wildfire and the Texas weather events across Cat, Specialty and Lloyd's was about $77 million. So, net negative impact, $41 million. The gross losses across all three platforms – or all three segments was $77 million.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Great. Thanks. And, Jeff, best of luck with your retirement.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Thanks, Brian.

Operator

Your next question comes from the line of Quentin McMillan from KBW. Please go ahead.

Q - Quentin McMillan {BIO 19411547 <GO>}

Hi. Thanks very much, guys. Can you just elaborate on one of the points you made earlier and help me to try understand? You said that higher ceding commissions within the Specialty market is less concerning to you than a decrease in pricing. And just from my perspective, one year paying a little bit more, one year getting a little bit less. Can you sort of help just tie those two things together of why the pricing dynamic is less – is more concerning to you than the increase in the ceding commissions?

A - Kevin J. O'Donnell

Sure. What I mean to highlight there is reduction in economics is reduction in economics. The difference between the two is that ceding commission is fixed and known definitively at times zero, where you need to monitor books very carefully, and it takes a while to figure out whether underlying rates are moving up or moving down. Our concern now is that there could be rate pressure coming in on the underlying books, and we're spending a lot more time monitoring those reductions because they are less transparent than an increase in ceding commission. Either one has the same net effect on the overall returns on the margins on the business, which is one is harder to figure out than the other.

Q - Quentin McMillan {BIO 19411547 <GO>}

Okay. Thanks. Just a quick numbers question as well. The credit business that you wrote, is that basically a 100% mortgage, or is – what is the mortgage number in there?

A - Kevin J. O'Donnell

For the growth, it is – the vast majority of the growth is coming from the mortgage business. We do have some renewals in there for the trade credit stuff. But in thinking about the growth, the vast majority of it is coming out of the mortgage markets.

Q - Quentin McMillan {BIO 19411547 <GO>}

Okay. Thanks. And then last, you guys have – you were talking about the cession strategy and appreciate the color there, but can you just – is there any sort of optimization of the portfolio or optimal level that you guys are kind of moving towards? Is it just what the market bears and gives you, or are you generally trying to move the net to gross lower, and we should be thinking about that movement continuing over the next 6 months to 12 months at least?

A - Kevin J. O'Donnell

I would say, broadly, it's really a function what's available in the market and whether you can add that your portfolio and improve net returns. We don't have a bias at this point to try to increase or reduce cessions. And I would say, the opportunity from now to year-end certainly for increased cessions is pretty minimal.

Looking at next year, the only – the place that we – let me divide the world just between casualty, specialty and property cat. Property cat, the net risk we retain and the cessions that we apply to get there changed the level of capital committed to the business. Within casualty and specialty, it really is around optimizing the risk profile and the risk return/fee return we're getting on the business, but it doesn't necessarily change capital. So, it's two different philosophies for the different books, but there will be no change in the way we're thinking about our ceded between now and year-end, and probably limited to opportunity to increase the cessions.

Q - Quentin McMillan {BIO 19411547 <GO>}

Okay. Just to quickly follow-up on that, within the casualty, specialty, then you're saying that's more about the risk profile, so to kind of follow-up on Brian's question within the retro market and sort of buying some of that. It's not about the fact that you might see more attractive pricing in the retro market, it's really about the optimal portfolio strategy? And are you seeing more attractive pricing in the casualty retro market?

A - Kevin J. O'Donnell

For ceded or for...

Q - Quentin McMillan {BIO 19411547 <GO>}

For ceding that, sorry.

A - Kevin J. O'Donnell

I think the cessions that we have in 2016 compared to the cessions we have in 2015 are more favorable to us, but that's really – I think, as people become more comfortable with us as underwriters and being partners of ours, they generally will share more of the economics back to the cedent. I wouldn't say, broadly, we're seeing a material change in the economic benefit of cessions between last year and this year, though. I think, that's normal market behavior what I'm commenting on.

Q - Quentin McMillan {BIO 19411547 <GO>}

Okay. Great. Thanks very much. And again, Jeff, congrats, and best of luck to you.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Thank you.

A - Kevin J. O'Donnell

Thank you. Hey guys...

Operator

Your last question...

A - Kevin J. O'Donnell

Okay.

Operator

Your last question comes from the line of Josh Shanker from Deutsche Bank. Please go ahead.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Yeah. Good morning, everyone. My first question relates to – I don't know if you've listened to other conference calls but a very widely listened to conference call this morning suggested that the catastrophe activity in the quarter was in line with long-term global averages. I'm wondering what you think about that? Is there a reason to all this, and what it means if true for your ROE current pricing levels?

A - Kevin J. O'Donnell

So, I did not listen to that call this morning, so I'm not familiar exactly what the commentary is. I think, looking at it, I think, I don't have an answer to your question as to whether it was high or low relative to the worldwide cat expectations of our competitors. But I think, what we try to comment on is it was a big loss in Canada, as Canadian market is protected differently than the U.S. market. A lot of that'll come to the reinsurance community. And the Texas events, even though we discussed this Texas convective storm, it really was 10 events. I don't think it certainly showed that there was an increase in convective storm activity in the United States, but it was pretty bad for Texas and for Texas companies.

Q - Josh D. Shanker {BIO 5292022 <GO>}

That's fair. And on the Canadian wildfire, to what extent has the industry reinsurance been exhausted for that event? And if numbers were to go up, would that go back to primary layer, or could reinsurance loss continue to rise for that event?

A - Kevin J. O'Donnell

Yeah. I think it depends on – it's kind of by company within Canada. But in general, our view is to where the most likely estimate of losses that we could see continued increase in primary loss and increase in reinsurance losses. The analysis that we did was, as we normally do bottom up and top down, we did a much more granular bottom up analysis. And we feel pretty comfortable with our estimate, even at a larger than what's discussed industry loss.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Okay. And I also pass my wishes on to Jeff. Everyone wants to retire Jeff, but I have a great Korean sell-side research I can talk to you about if you're really itching.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Thanks, Josh.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Take care. Thank you very much.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Thank you.

A - Kevin J. O'Donnell

Thanks, Josh.

Thank you, everybody. We appreciate you tuning in for the call, and we appreciate all the questions, and look forward to speaking to you with Bob next quarter. Thank you.

Operator

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