Q1 2017 Earnings Call

Company Participants

- David James Bonham, Chief Financial Officer & Vice President
- Eric P. Salsberg, Vice President-Corporate Affairs and Corporate Secretary
- Vivian Prem Watsa, Chairman & Chief Executive Officer

Other Participants

- Mark Dwelle, Analyst
- Markus Homor, Analyst
- Mikel Abasolo, Owner
- Paul Holden, Analyst
- Tom MacKinnon, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to Fairfax's 2017 First Quarter Results Conference Call. Your lines have been placed in a listen-only mode. After the presentation, we will conduct a question-and-answer session. For time's shake, we ask that you limit your questions to one. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

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

Eric P. Salsberg {BIO 1552007 <GO>}

Yeah, thank you. Good morning and welcome to our call to discuss Fairfax's 2017 first quarter results. This call may include forward-looking statements. Actual results may differ perhaps materially from those contained in such forward-looking statements as a result of a variety of uncertainties and risk factors, the most foreseeable of which are set out under risk factors in our Base Shelf Prospectus, which has been filed with Canadian Securities regulators and is available on SEDAR.

I'll now turn the call over to our Chairman and CEO, Prem Watsa.

Vivian Prem Watsa {BIO 16700363 <GO>}

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

In the first quarter of 2017, book value per share increased 1.1% adjusted for the $10 per share common dividend paid in the first quarter of 2017. Our insurance companies continue to have an excellent first quarter with a combined ratio of 94.6% with excellent reserving and significant underwriting profits of $107 million. All of our major insurance companies again had combined ratios of less than 100%, with Zenith at 80.2%, OdysseyRe at 90.4%, Fairfax Asia at 93.6%.

The first quarter operating income was very strong at $209 million, offset by net investment losses in the quarter of $18 million, which arose primarily as a result of net gains on equities of $39 million more than offset by losses on bonds due to the negative effect of credit spreads and fluctuations on CPI linked derivatives.

As shown on Page 31 of our quarterly report, we have realized gains on our investment portfolio of $230 million offset by unrealized losses of $248 million. All-in-all, we had net earnings of approximately $83 million.

Insurance and reinsurance business premium volume was up in the first quarter by 12%, primarily due to Northbridge and Odyssey and the acquisition of Bryte Insurance, AMAG and Fairfirst Insurance, while the combined ratio, as I said earlier, for our insurance and reinsurance operations was 94.6%. Excluding these acquisitions, our premium was up 6.8%.

At the subsidiary level, very quickly, the change in net premium written and the combined ratios in the first quarter were as follows: OdysseyRe with a combined ratio of 90.4%, premiums up 14.8%; Crum & Forster at 99.5%, premiums up 2.3%; Northbridge, in Canadian dollars, 98.9%, with premiums up 14.1%; Zenith 80.2% with premiums up 1.3%. Fairfax Asia because of the AMAG and Fairfirst acquisition, premiums were up 54% with a combined ratio of 93.6%; and Brit combined ratio of 96.8%, premiums were down slightly at 2.7%.

Net investment losses of $18 billion in the first quarter consisted of the following: Please refer to page 2 of our press release. Net gains on equity exposures of $39 million resulted from net gains of $222 million on long equities and a $183 million net loss on individuals' short positions. We realized losses of $26 million on equities, principally from unwinding of sharp equity holdings in the first quarter of 2017, partially offset by the realized gains on our long equity of $76 million.

Also we had losses of $16 million on our bond portfolio, primarily due to the negative impact of credit spreads and losses on our CPI-linked derivatives of $15 million. The loss in the other category consisted of losses on our treasury locks offset by favorable foreign exchange movements.

As we have mentioned in our annual meetings, annual reports, quarterly calls, and I mentioned again with IFRS accounting where stocks and bonds are recorded at market and subject to mark-to-market gains and losses, quarterly and annual income will fluctuate and investment results will only make sense over the long-term.

As I said at our eighth annual meeting, we just had last week, we continue to hold our CPI-linked derivatives with a notional value of $111 billion, which produced unrealized losses of $15 million in the first quarter. If some of the unexpected risks come to pass, these CPI-linked derivatives could become very valuable. So, we will hold them for some time.

When you review our statements, please remember that when we own more than 20% of a company, we equity account and when we own above 50%, we consolidate, so that mark-to-market gains in these companies are not reflected in our results. As you will see on Page 11 of our quarterly report, the fair values of our investment in associates is $4.4 billion versus a carrying value of $3.4 billion and unrealized gain of approximately $1 billion not on our balance sheet.

In January, the company purchased 12.3 million subordinate voting shares of Fairfax India for $145 million at $11.75 per share in a private placement. Through that private placement and a public bought deal, Fairfax India raised proceeds of approximately $494 million net of commissions and expenses. As we've said at our AGM, we are very excited about the long-term opportunity in India.

In February, the company purchased 30 million multiple voting shares of newly incorporated Fairfax Africa in a private placement and 2.5 million subordinate voting shares of Fairfax Africa as part of the company's IPO, for a total consideration of $325 million at $10 a share. Through private placement and the IPO, Fairfax Africa raised gross proceeds of $506 million, net proceeds after commissions of $493 million.

Fairfax's multiple holding shares and subordinate voting shares represent 98.8% of the voting rights and 64.2% of the equity interest in Fairfax Africa at the close of the private placement and the IPO. Fairfax Africa was established, with the support of Fairfax, to invest in public and private equity and debt instruments of African businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, Africa.

Also in March, Fairfax exercised its option to increase the cash consideration component of its offer to Allied World shareholders by $18 out of a possible increase of $30 per share. As a result, the $54 per share offer for Allied World will consist of $23 of cash per share payable by Fairfax, a $5 per share cash – special dividend payable by Allied World, so that's a total cash of $23 plus $5, $28 and $26 per share payable in Fairfax stock.

As I said at our annual meeting and on our fourth quarter conference call, we believe the new U.S. administration's proposed policies of reducing corporate taxes to 15% rolling back regulation and business like Obamacare, Dodd-Frank and myriad other regulations and significant infrastructure spending has the potential of boosting economic growth significantly in the United States. Already sentiment among small businesses has improved dramatically and animal spirits in the United States are being revived.

When the U.S. economy, which is approximately $20 trillion, does well much of the world does well. To us this means our concerns of China or Europe precipitating a worldwide recession depression have been significantly reduced, but not eliminated. Also the trade policies of the U.S. could precipitate a collapse in world trade, so these risks will be very much monitored by us, but we think the new administration's policies may make this is a stock pickers' market and one in which we have thrived over the past 31 years.

In the past few years, as I've said earlier, we have played defense, we are expecting to play offense, but always with a long-term value-oriented investment philosophy. We will continue to pick good companies, which provide significant downside protection and potential appreciation over the long term. As you know, we have invested about $500 million in bonds with warrants recently in Chorus, Mosaic Capital, Altius and Westaim. We get about 5% to 6% from the bonds plus upside through the warrants.

As of March 31, 2017, we had $12 billion in cash and short-term investments in our portfolios, which is 42% of our total investment portfolios to take advantage of opportunities that come our way. As a result in the short-term, our investment income will be reduced.

Now, I'd like to turn it to Dave, our CFO, so he can give you some more information on the underlying financials. Dave?

David James Bonham {BIO 15243784 <GO>}

Thank you, Prem. For the first quarter of 2017 Fairfax has reported net earnings of $83 million that's $3.03 per share on a fully diluted basis, and that compared to the first quarter of 2016 when we reported a net loss of $51 million or (12:19-12:23). Profit on our insurance and reinsurance operations decreased slightly to $107 million at a 95% combined ratio, compared to underwriting profit of $122 million at a 93% combined ratio in the first quarter of 2016.

Our combined ratio benefited from net favorable prior year reserve development in the first quarter of $103 million translating into 5.2 combined ratio points. And that was an increase compared to net favorable development of $86 million in the first quarter of 2016, which represented 4.8 combined ratio points. Current period catastrophe losses in the first quarter, all of which were attritional totaled $39 million, or 2 combined ratio points, and that was just slightly higher than cat losses in the first quarter of 2016, which totaled $31 million, or 1.8 combined ratio points.

Now turning to our operating company results, and we can start with OdysseyRe. In the first quarter of 2017, OdysseyRe reported an underwriting profit of $48 million and a combined ratio of 90.4%, slightly higher than underwriting profit of $45 million and a combined ratio of 90.3% in the same period last year. Cat losses in the first quarter of 2017, again all attritional totaled $29 million translated into 5.9 combined ratio points that was quite comparable to $27 million of cat losses last year that translated into 5.8 combined ratio points.

Net favorable prior year reserve development, principally related to property cat loss reserves was $36 million or 7 combined ratio points in the first quarter of 2017, and again about the same as the first quarter of 2016, when OdysseyRe reported $35 million or 8 combined ratio points of net favorable development. OdysseyRe's net premium written increased 14.8% to $555 million in the first quarter, principally reflecting increases in the North America division related to property and casualty reinsurance writings, in the EuroAsia division across most of those lines of business and in its U.S. Insurance and London Market divisions, partially offset by some decreases in the Latin America division.

Moving on to Crum & Forster. Crum & Forster reported somewhat lower underwriting profit of $2 million at a combined ratio of 99.5% in the first quarter that compared to underwriting profit of $10 million at a combined ratio of 98% in the first quarter 2016. There is nominal net prior year reserve development and no significant current period catastrophe losses in the first quarters of 2017 or 2016 at Crum & Forster. Crum & Forster's net premiums written increased by 2% in the first quarter and that principally reflected growth in accident and health, construction and contracting, and commercial transportation lines of business.

Zenith reported an underwriting profit in the first quarter of $37 million at a combined ratio of 80%, compared to underwriting profit of $31 million and a combined ratio of 83% in the first quarter of 2016. The change in 2017 reflected higher net favorable prior year reserve development, $34 million in the first quarter of 2017 or 18 combined ratio points that reflected a net favorable emergence on accident years 2014 through 2016. So that net favorable development this year compared to $24 million of net favorable last year, which was 13 combined ratio points.

Net premiums written by Zenith of $332 million in the first quarter, increased 1% year-over-year, reflecting an increase in exposure, partially offset by modest price decreases. Brit reported an underwriting profit of $11 million and a combined ratio of 97% in the first quarter of 2017, compared to an underwriting profit of $14 million and a combined ratio of 96% in the first quarter of 2016.

There is no net favorable prior year reserve development and nominal current period catastrophe losses in the first quarters of 2017 and 2016. Net premiums written of $394 million decreased by 2.7%, year-over-year, reflecting the unfavorable impact of foreign exchange, rate reductions, partially offset by the positive impact of underwriting initiatives that they have launched in prior years.

Northbridge reported an underwriting profit of $3 million and a combined ratio of 99% in both the first quarters of 2017 and 2016. Stable underwriting profit reflected the impact of an increase in non-cat loss experience related to the current accident year, particularly in commercial property and personal lines that was mostly offset by higher net premiums earned and increased favorable prior year reserve development.

Net favorable prior year reserve development at Northbridge in the first quarter was $10 million or 4.3 combined ratio points and that reflected better-than-expected emergence on personal and commercial automobile and casualty lines of business. Northbridge reported a nominal amount of net adverse development last year in 2016 and that was related to their mandatory participation in the Canadian motor pool.

In Canadian dollar terms, net premiums written by Northbridge increased by 14% in the first quarter of 2017 and that reflected increased renewals in new business and modest price increases across the group. Fairfax Asia reported an underwriting profit of $5 million and a higher combined ratio of 94% in the first quarter of 2017, and that underwriting profit was somewhat lower than the $12 million and the combined ratio of 77% that was reported in the first quarter of 2016.

Net premiums written at Fairfax Asia increased by 54% in the first quarter, but that primarily reflected the consolidation of AMAG in Indonesia and Fairfirst Insurance in Sri Lanka, both of these acquired in October of 2016. And the change in premium also reflected increased premium retention at First Capital, partially offset by lower writings at First Capital in marine hull and property lines of business.

Moving to the Insurance and Reinsurance – Other segment, it produced an underwriting profit of $1 million and a combined ratio of 99.5% in the first quarter, compared to an underwriting profit of $8 million and a combined ratio of 93% in the same period last year. Lower underwriting profit principally reflected slightly lower net favorable prior year reserve development, increased current period catastrophe losses, and the consolidation of the underwriting loss of Bryte Insurance.

Excluding the $86 million of net premiums written by Bryte Insurance, which was acquired in December 2016, net premiums written by this segment increased by 10.7% in the first quarter, reflecting growth at Advent, primarily in its accident and health line of business; at Fairfax Brasil, primarily in the surety line of business and also reflecting favorable impact of foreign exchange.

At Runoff, Runoff had an operating loss of $40 million in the first quarter 2017 and that was an increase when compared to the operating loss of $15 million in the same period last year. Mostly attributable to losses on claims in the first quarter of 2017 and that principally reflected net unfavorable reserve development related to other health hazards and asbestos loss reserves.

In terms of our consolidated interest and dividend income, it decreased from $153 million in the first quarter of 2016 to $128 million in the first quarter of 2017, reflecting the impact of sales of municipal bonds late in 2016 and the first quarter of 2017. Fairfax recorded an income tax provision of $25 million at an effective tax rate of just under 25%.

And then moving to our financial position, our total capital to total capital ratio decreased to 27.7% at March 31, 2017, from 28.7% in December 31, 2016, that reflected the repayment of Fairfax India's term loan and repurchases of just under $18 million principal amount of our senior notes pursuant to our debt tender offer. We ended the first quarter of 2017 with an investment portfolio, which included holding company cash and investments of $28.4 billion and that was comparable to where it was at the end of December 31, 2016.

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

Vivian Prem Watsa {BIO 16700363 <GO>}

Thank you very much, Dave. Now we're happy to answer your questions. Please give us your name, your company name, and try to limit your questions to only one so that is fair to everyone on the call. So, Laura, we are ready for the questions.

Q&A

Operator

Certainly. Our first question is from Paul Holden of CIBC. Your line is now open.

Q - Paul Holden {BIO 6328596 <GO>}

Thank you, good morning.

A - David James Bonham {BIO 15243784 <GO>}

Hey, good morning, Paul.

Q - Paul Holden {BIO 6328596 <GO>}

Two quick questions for you on the investment portfolio. First is, maybe you can provide a little more color for us on the short positions on individual securities not necessarily asking going to each of the individual securities, but just giving us a general flavor of what kind of themes or securities you are going short on?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Yeah, Paul, we don't comment on individual securities of course, as you know. And, but broadly speaking, we have been reducing our short positions, but there are certain individual names where we think it's a good match for our long positions and so we continue to maintain them, but we have refrained from mentioning any names in the past.

Q - Paul Holden {BIO 6328596 <GO>}

Right. So, these are more – so, you're suggesting the more kind of pair trades against some long positions?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

No. They are not pair trades particularly, but they are ones where we think there is some potential for the stock prices coming down.

Q - Paul Holden {BIO 6328596 <GO>}

Okay, got it. And then second question with respect to the S&P 500 call options, is there any sense of expiry dates on those that you can give us?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Yeah. I think, Dave the expiry date is July on the option. These, we had bought, Dave, how long ago was that?

A - David James Bonham {BIO 15243784 <GO>}

Yeah, we bought those in July 2016 and they'll expire July 2017.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

So, we bought it about six months ago and it's sort of a one-year call option.

Q - Paul Holden {BIO 6328596 <GO>}

Okay and is that typical like it's third Friday of the month or?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

I believe it is.

Q - Paul Holden {BIO 6328596 <GO>}

Okay, perfect. That's all the questions I had. Thank you.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

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

Operator

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

Q - Mark Dwelle {BIO 4211726 <GO>}

Yeah, good morning, a couple of questions.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Morning, Mark.

Q - Mark Dwelle {BIO 4211726 <GO>}

Related to each of the acquisitions, the Allied World and the AIG Properties, I was just hoping you could provide a little update on what the timing looks like and the progress to date in getting all the necessarily closing arrangements and so forth?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

No. Thank you, Mark. Yeah, so, on the AIG acquisitions, they are taking place as we speak and let's say, you've got the - you got a whole bunch of countries in Latin America and Eastern Europe, and so they go country by country Mark, and I would say by the middle of the year we'll have many of them done and then later on in the year for a few more. The big one for us of course is - and the integration of those operations into our Fairfax system is going very well.

We are very happy with the way it's progressing and we expect it to continue and get done and we are very excited about these operations and these five countries in Latin America and think about six in Eastern Europe; that will be joining us. And we provided you the disclosure on the operations in our Annual Report and elsewhere.

On Allied World, of course, that's a transformative acquisition. We mentioned that before. We had Scott Carmilani at our AGM. Scott spoke to our shareholders and we are very excited about closing that.

And Mark, the date is yet to be fixed for the shareholder - for tender offer approval and that will be fixed soon and then we've got to close it. Always of course subject to regulatory approval, and so we think by the end of June, early in the third quarter somewhat there is when Allied will close and we continue to be very excited to get that done and move forward with Scott and his management team.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. Thank you for those updates. The second question I had somewhat less related was, just related to the large cash holdings within the overall investment portfolio, I know you've described in the past about being patient and deploying that and so forth. I guess, I would have thought though that we would have seen at least some of that cash put back to work. Can you just provide some updated thoughts on what you are looking at there and how you're thinking about putting that capital better or that cash back to work.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Yeah. So, the cash position is significant as you know, but we have sold our Treasury bond positions, our long bond positions and we've sold - predominantly sold our California bond positions and made a very large gain. And we've started reducing our muni position. So the cash comes from all of those activities. We think interest rates broadly speaking Mark, have bottomed. So, we are not looking at having long bonds and separately, we think credit spreads are still tight, so you have to be careful about reaching for yield.

So, given those constraints we are investing the monies in fixed income. There is many - through Allied World, we've accessed many fixed income managers that they have used in the past. We are reviewing them and seeing if it makes sense for us to continue with them, and which ones we should continue, what strategies we should use, our Brian Bradstreet and others are looking at that. And so but we - in this environment where we think interest rates have bottomed and could go up, and credit spreads are narrow, you have to be very careful about where you invest the money. So, we're taking our time and investing the monies appropriately.

In the meantime, I mentioned the four investments, where we're getting four companies that we've put, invested $500 million approximately, 5% or 6% for 5 years to 7 years in secured-type bonds plus a warrant that provides equity exposure. So, like a convertible, but splitting them into two. And we're very excited about those investments. We have made many of them in Canada, all four in Canada. We think in Canada, we get the first call.

In the United States, we're working on that same happening in the middle market in the United States and we are making progress on that front. So, the idea of - the markets are not cheap as you know, so the markets are quite high. We think the economic environment has changed and some of the things that we talked about corporate tax rate being reduced to 15%, that's already been mentioned there a couple of days ago, infrastructure spending, business regulation, if all of those things takes place as I said in my prepared remarks that the business environment could change pretty significantly in the United States.

So, in that environment we're trying to identify good companies, good track records, which we've done all over the world by the way. And we expect to invest that money in but always looking at downside protection, that's why we like these bonds plus warrant structure. We have done that of course in many, many places and so we expect to do that in the United States also. So, that's how we are investing it Mark, slowly but carefully.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. Thank you. I appreciate the update.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Thank you very much Mark. Next question, Laura.

Operator

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

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yeah, good morning, Prem. Thanks very much.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Hey, good morning, Tom.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Question just with respect to the unrealized losses you had in your bond portfolio, would you be able to highlight kind of which bucket was the contributor of that?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Yeah, it's just basically the – very simply the credit spreads widening a little, you know, and we've sold now our California bonds. You know of course we have made a lot of money on it, but on a quarter-by-quarter basis of course you have fluctuations and we have some Indian bonds where the spreads widened some and so – and it is also the way the accounting work's done, when you unwind realized gains, when you have realized gains, when you unwind them in that table it goes through the unrealized. Dave, you want to just expand on that maybe?

A - David James Bonham {BIO 15243784 <GO>}

Yeah. So, Tom, in that column change in unrealized, when we sell a bond where we have an inception to date realized gain that will go through the change in unrealized as a negative and then be a positive in the realized gain column. So, some of what you are seeing in that change in unrealized is just the reversing of the inception to date gain on positions that we've sold.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Right, so the fact that there is no realized gains, doesn't mean you held your position throughout the quarters, it's just the way the accounting would work?

A - David James Bonham {BIO 15243784 <GO>}

Yeah, that's right Tom.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

When you realize a gain Tom, you know you are realizing a gain in a particular quarter, but the gain might have been in an unrealized position over the last few years. So, the accounting for that is how the statement works, that table, because you are realizing it in the first quarter, but of course it's reflected in unrealized in 2016 and 2015, so you have to take that out and that's how the table works. It's worth Tom spending a few minutes with Dave later on, just to understand that. It's about just understanding how the mechanics work.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay, thanks for that.

Operator

Thank you.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Laura, next question please.

Operator

Thank you, sir. Our next question is from Louis Fernandez (33:25), private investor. Your line is now open.

Hello good morning. Thanks for taking my question.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Sure. Good morning, Louis (33:34).

Q - Operator

All right. My question is regarding Allied World. I know the deal is pretty much done and its ready to execute, but I just wanted to understand a little better your thoughts on why issue so much equity to buy it? I mean all you need is around $2.3 billion or something and given all the cash reserves that you currently have, I just wanted to understand why issue so much stock right now, especially given the price et cetera?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Yes, Louis (34:10) the cash that we have, significant cash positions is all in our insurance companies and in our holding company the cash positions with marketable securities is approximately $1 billion, plus or minus, and we always want to keep that there. And so the way to look at how we look at, we could - if we bought Allied World, we would either have to pass on it, if we didn't want to issue stock or buy it, and we bought it with the idea that everything - all the metrics like premiums, investment portfolios, common shareholders' equity went up by a third and our shares outstanding went by 21%.

And I said specifically in this year's annual report that we have now built a company that is very significant in the United States, and a worldwide network. So, as we produce income, operating income and the investment gains over time and I'll remind you that we've cumulatively, over our time period have produced gains of $10 billion-plus, but as we do that in the future, we will look at reducing the shares outstanding. We've got a very good insurance operation. We are not expecting to add anything significant now because we've already got that. We are writing about $13 billion, $14 billion of premium once Allied closes.

We got a network across the world, of course we'll add a little here and there in the network, but the network is already there built, and now it is going to be - there's a lot of advantages that will be harvested in the years to come and we'll - our first focus will be buying back our stock because we think the intrinsic value of our company is a lot higher than where it is.

Q - Operator

All right. Thank you. And do you have a metric regarding the share repurchases on the price-to-book value or...?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Yeah, we look at all of those things Louis (36:29) and we bought stock in the past at – you'll go and have a look at it and you can see where we bought it, but we are – we don't of course disclose where we're going to buy it and what we're going to pay and all of that. We might someday, but not at the moment.

Q - Operator

All right. Thank you. Thanks for taking my questions.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Thank you very much Louis (36:57) for your questions. Laura, next question please.

Operator

Thank you. Our next question is from Markus Homor of BCK Capital. Your line is now open.

Q - Markus Homor {BIO 19493625 <GO>}

Hi. Good morning.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Good morning, Markus.

Q - Markus Homor {BIO 19493625 <GO>}

Good morning. Could you give us an update on the acquisition of Tower Limited in New Zealand?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Oh Tower, yeah. So we made an offer, as you know, you know there is a competitive offer that's come at a higher price than us. So we're waiting, Markus, for what the decision of the regulatory agencies will be, before we go forward. So our offer stays. We haven't raised it and we are waiting for regulatory agencies to come back.

Q - Markus Homor {BIO 19493625 <GO>}

And when do you expect that by?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Sorry.

Q - Markus Homor {BIO 19493625 <GO>}

When do you expect that by?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

I am not sure when. You know how regulatory agencies work, Markus. I'd love to tell you when it comes, but we're just waiting, we really don't know.

Q - Markus Homor {BIO 19493625 <GO>}

Okay. Thank you very much for the update.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Thank you, Markus. The next question Laura?

Operator

Thank you. Our next question is from John Valentine (38:17), private investor. Your line is now open.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Good morning, John (38:22).

Q - Operator

Good morning. How are you? Thank you for taking my question. My question is on the non-insurance operations. From – I think your disclosure says that from 2010 to 2016 (38:33). And then recently in this most recent quarter there was a fairly de minimis lack of. I was wondering if you could, sorry if I missed this in your prepared remarks, but I was wondering if you can touch a little bit on your non-insurance businesses, how much equity has been, was allocated to those businesses and then what's your expectation for particular margin (38:54)?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Well, John (38:57), we're building it, we disclose it for you. They are still small compared to our insurance operations. The engine of Fairfax is our insurance operations. The fact that we provide – we've got, as I said, with Allied $13 billion, $14 billion of premium as U.S. dollars. The fact that we've got an investment portfolio of plus minus $39 billion or $40 billion and you get investment income from there, you get underwriting profits from the insurance operations. And the combination when they work well together with investment gains is how we've made an outstanding return, if I may add, over the long-term for our investors.

We have every interest and every focus to repeat that in the next five years and we were careful – recently, we were careful in terms of looking at downside protection, but we now think, as I said previously, it's a stock pickers' market and that's where we are focused.

Non-insurance operations continue, wherever we see an opportunity; Cara is one. In India we are really excited, at our AGM, I mentioned to you, we had our Fairfax India second annual meeting, we had all of the presidents of them attend. I think I've talked to many of our investors there. They're quite excited about the opportunity of Fairfax India investing in India and that's going to be a very significant opportunity. I think we've said we have got approximately $5 billion in there and that's all the money we control, a little more than half is our own and is a direct Fairfax investment.

And Fairfax India by the way, as will Fairfax Africa over time, will also provide revenues for a stream of fees and incentive fees for Fairfax. I think at the end of the first quarter the first-time Fairfax India had incentive fees accrued, not paid. The number will be paid only at the end of the year and it'll be likely paid in the Fairfax India shares.

So it's not going to be in cash, but it's like $45 million, $50 million of accrued incentive fees, which of course would fluctuate, but it's a stream of income that comes to Fairfax. It's a very good return for Fairfax India shareholders and of course, our 30% interest in Fairfax India will also benefit. So these are widely diversified operations for Fairfax, but our core is still very much insurance and property casualty insurance and reinsurance.

Q - Operator

All right. Thank you very much for that commentary. It was very helpful. I was just, with respect to the payments and what goes in non-insurance operations line and not to press on the point, but I guess what will be included in that and then how much equity is allocated to that? Fairfax India has been an opportunity (42:21), a portion of that might be still recorded in top quarterly no (42:24)?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Yeah. John (42:28), it's all in our quarterly statement, but Dave, if you can highlight for John (42:34).

A - David James Bonham {BIO 15243784 <GO>}

Yeah. So in terms of the amount of equity that we have invested, about midway through our annual report, we present a segmented balance sheet and in there is a column for the other segment and that will show you how much equity we have invested in some of these other businesses.

And then in our interim report on page 42, we break it out in a little bit more detail for you between restaurants and retail, Fairfax India, Thomas Cook, and other and there is footnotes there, so it'll tell you what's in there the likes of Cara and St-Hubert, The Keg, Praktiker, William Ashley, various businesses like that.

Q - Operator

Great. Okay.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Thank you, Dave. Thank you very much for your question John (43:23). Laura, next question please.

Operator

Thank you. Our next question is from Mikel Abasolo of Solo Capital Management. Your line is now open.

Q - Mikel Abasolo {BIO 3756596 <GO>}

Yes. Thank you very much again for taking my question. This is only one question, a very quick one. I understand that last November you changed the positioning and the strategy for the portfolio and that resulted in economic inspired equity hedges and now you are – the shorts that you are running are more bottom up rather than top down. But I was wondering if, on average, the effect might be somewhat similar and I wanted to ask you about your next – net equity long exposure or long minus short and whether you intend to play short in individual names going forward, so that the final effect is probably not that you are just paying so much offense and perhaps your offense is somewhat muted for the time being until the valuations down moderate. Thank you very much.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Yeah, thank you very much for your question. So, yeah, what we did say was that we are basically having a long exposure after we took our hedges, as you pointed out. And a new administration came in for all the various reasons we've discussed. We are looking long, but you'll notice that we have 5% or 6% secured bond and the equity position is a warrant. So there's very little we can loosen in a warrant because we haven't paid anything for it. And so we get 5% or 6% on our money and we get the upside and perhaps we've eliminated the downside from a stock position point-of-view.

And short positions, no, we'll be reducing it and we continue to move forward in terms of reducing it. We did that in the first quarter and we'll continue to do it over time. So thank you very much for your question. Laura, next question please.

Operator

Thank you. Our next question is from Junior Raw (46:02) private investor. Your line is now open.

Hi Prem. How is it going?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Hey. Good morning, Junior (46:08).

Q - Operator

Good morning. A question for you. How does the Allied acquisition impact the dividend? Because we're going to be issuing about 20% more shares right, so what does that do to the dividend when it comes time to generate?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

We'll keep our dividend. We'll maintain our dividend at Fairfax and yeah, we'll maintain it, Junior (46:30). We don't intend to change that. And Allied is a very significant – you've seen the record of Allied. You've seen what they've done in the last 10 years I think perhaps, it's a little longer. They have 10 years, they've reduced the share – as a public company, they reduced their shares outstanding from about 180 million to 90 million. That's 50% and they have increased their dividend. So it's something like I think $3.2 billion that they've given shareholders in a buyback plus dividend. So, Allied is going to be a significant profit income generator to us and we don't see any change in our dividend.

Q - Operator

Okay. Thanks.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Thank you Junior (47:15) for the question. Laura, next question please?

Operator

Thank you. Our last question at this time is from Inderjit Sidhu (47:24), private investor. Your line is now open.

Good morning.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Good morning Inderjit (47:30).

Q - Operator

Yes, hi there. My question is regarding the borrowings from the non-insurance companies.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Do me a little favor of Inderjit (47:38). Just say a little loudly please, we can't hear you.

Q - Operator

Sorry. All right. Is this better?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Yeah.

Q - Operator

Yeah. So my question is just regarding the borrowings from the non-insurance companies, they've gone up quite significantly and the income has stayed relatively flat. I'm just wondering what the long term prospects are of the borrowing? Are they long term borrowings or are they more towards short-term financings of small capital projects? Thank you.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Yeah, your question is very good Inderjit (48:09). What we have to do of course when we consolidate these companies, all of the - whatever borrowings they have come in on our balance sheet. But needless to say we don't guarantee it. We have no exposure to these borrowings. We just have to show it on our balance sheet because that's the accounting convention. And so even Fairfax India, we have never guaranteed to Fairfax India's debt of Fairfax Africa's got no debt, but - or Cara, they're all separately financed and they're financed in a very sound way, I may add, but they're separately financed and they have no exposure to - Fairfax has no exposure to this debt.

Q - Operator

Oh, I see. Okay and the quick question, is there anything in the works for ICIC (sic) [ICICI] being sold off anytime soon? Is there any comment on that?

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Yeah. I have said in the last conference call, there've been - in the last few months, four, five months, there have been many media and analyst reports with respect to rumored $1 billion sale of a portion of our 35% stake in ICICI Lombard and to rumored application by us with an Indian partner of our new insurance license in India. And these reports have noted public that if these - that new license were issued, we would be required to own no more than 10% of ICICI Lombard. At our AGM recently, we have confirmed that we have applied for a new license Inderjit (49:44), so I can confirm that. But other than that we have nothing more to add Inderjit (49:52).

Q - Operator

Okay. Thank you very much. Great. Thank you.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Thank you very much for your question. And Laura, any more questions?

Operator

At this time, speakers, there are no questions in queue.

A - Vivian Prem Watsa {BIO 16700363 <GO>}

Well, if there are no more questions, thank you all for joining us on this call. We look forward to presenting to you again after the next quarter. Thank you, Laura.

Operator

Thank you, speakers. And that concludes today's conference. Thank you for participating. You may now disconnect.