Q4 2015 Earnings Call

Company Participants

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

Other Participants

- Brian Robert Meredith
- Cliff Gallant
- Ian J. Gutterman
- Josh D. Shanker
- Kai Pan
- Meyer Shields
- Michael Nannizzi
- Ronald David Bobman
- Sarah E. DeWitt
- Vinay Misquith

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Hail and I will be your conference operator today. At this time, I'd like to welcome everyone to the RenaissanceRe Fourth Quarter 2015 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. Hill, you may begin your conference.

Peter Hill {BIO 15385944 <GO>}

Good morning and thank you for joining our fourth quarter 2015 financial results conference call. Yesterday, after the market close, we issued our quarterly release. If you didn't receive a copy, please call me, Peter Hill, 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 March 3. The replay can be accessed by dialing 855-859-2056 or +1-404-537-3406. The pass code you will need for both numbers is 22165596. Today's call is also available through the Investor Information section of www.renre.com and will be archived on RenaissanceRe's website through midnight on April 13.

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 the 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. I'll start this morning with an overview of the key accomplishments for the year and then I'll turn the call over to Jeff to go over the financial results, and then I'll come back on to talk about the business and the state of the market.

2015 was an important year for Renaissance, and only some of our accomplishments were observable by the outside world. But as I think about what we will speak about today, I want to highlight five key themes. First, we completed our first major acquisition and as of today, I am proud to say that we are fully integrated. Much of what we did was not externally visible, but from bottom to top, our team, which includes people from both the old RenRe and the old Platinum to, the spectacular job. So not only do we now have all the tools we need to effectively execute our strategy, we are also now a recognized and viable acquirer.

Second, we remained disciplined, we built portfolios not only last year, but for every one of the past 20-plus years that are designed to perform well against even the most challenging market conditions. The market is competitive, and like everyone, we are being paid less for the risk, but we have not and will not take the easy way out and put risk on to juice returns and hope for another lucky year.

Third, our clients are incredibly loyal. I like to think that we have earned that loyalty, but it is theirs to give and I am very thankful to them. We have worked hard to serve them better and we promise to work even harder in 2016 to be better partners and to provide better service. To be clear this is our number one objective for 2016 they earned this commitment from us.

Fourth, a common question is, will the market ever turn? This is not the righter question in my opinion. The questions that needed to be asked are, will the future look like the past, and will we see hard markets like 2006 again with a subsequent slow return to markets like this. We believe that a simple playbook relying on the old cycle is dead. The future will not see multi-region, multi-line hardening post event. There is too much capital interest in this risk and it can enter our business more quickly and with less friction. There will be cycles, but they will be more targeted and shorter, and we have worked hard to make sure that we can attract the best capital, underwrite better and deploy first when the market present an opportunity.

Fifth and before I turn the call over to Jeff to discuss our financial results in more detail, I would like to make some high-level comments. Comparing our historical returns for a low cat year to the 11.4% we earned in 2015, our return looks light. That said, I think 2015 was one of our best years yet. We are a bigger, stronger and more flexible company than we have ever been. We are looking forward not with rose-colored glasses but with clear focus. And we are doing what we do best – matching efficient capital with well-structured risk.

Our value was recognized by all our stakeholders, and in light of the change we are seeing and all the competition we are facing, we are executing our strategy with skill and with precision. We don't know what the future will bring, but we will consider all options and work hard to make sure RenRe will remain successful no matter the challenge the market presents. So, yes, I am proud of our results, but I'm even more proud of the team that earned them.

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

Jeffrey D. Kelly {BIO 1390834 <GO>}

Thanks, Kevin, and good morning, everyone. I'll cover our results for the fourth quarter and full-year 2015 and then give you an update to our top line forecast for 2016. We were generally pleased with our fourth quarter results, reporting strong profitability across our catastrophe and specialty reinsurance platforms. This capped off another profitable year for the company. The fourth quarter was again relatively quiet in terms of catastrophe losses. For the full year, we experienced relatively low losses with only a couple of moderate-sized events such as the Tianjin explosion and the winter storms in the U.S. during the first quarter. The volatile investment environment also hurt financial results, resulting in mark-to-market investment losses for the quarter and full year. Favorable reserve development again benefited overall operating results.

There were a few one-time items in the fourth quarter results that I wanted to highlight. We recognized an $8 million income tax recovery associated with the December 2015 IRS decision to revoke excise tax previously imposed on foreign-to-foreign retro sessions. We booked this as a reduction to acquisition expenses in our catastrophe reinsurance segment. Offsetting this benefit was a $6 million impairment charge related to goodwill and intangibles for one our ventures investments and $1.6 million of expenses related to the Platinum acquisition and integration both of which were booked as a part of corporate expenses.

Moving on to the financial results, we reported net income of $92 million or $2.09 per diluted share and operating income of $135 million or $3.07 per diluted share for the fourth quarter. The annualized operating ROE for the fourth quarter was 12.5% and our tangible book value per share including change in accumulated dividends increased by

2.3%. For the full-year 2015, the operating ROE was 11.4% and growth in tangible book value per share including change in accumulated dividends was 5%.

Let me shift to our segment results beginning with our cat segment followed by our specialty reinsurance segment and Lloyd's. In our cat segment, managed cat gross premiums in the fourth quarter were up relative to a year ago and totaled $17 million. The fourth quarter tends to be a light one in terms of renewals. For the full-year 2015, managed cat gross premium written declined 5.3% primarily reflecting softening market conditions and repositioning of our book. This was partially offset by the renewal of the Platinum cat book following the close of the acquisition.

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. The fourth quarter combined ratio for the cat unit was 15.4%. Catastrophe losses were benign and net favorable reserve development totaled $28 million in the quarter. The main contributors to the reserve releases were $9 million downward adjustment to the loss estimate for storm Sandy and reductions of $5 million each for the tornados in 2011 and 2014 U.S. weather events.

We booked the $8 million tax recovery from the IRS that I mentioned earlier as a reduction to acquisition expenses for this unit. The full-year 2015 combined ratio was 34.7%, also benefiting from generally low loss activity and favorable reserve development. In our specialty segment, gross premiums written increased by $195 million, primarily reflecting organic growth in our credit and casualty books of business and the inclusion of Platinum's specialty and casualty business.

Our top line in the quarter included $124 million of premiums booked in our mortgage reinsurance business, which was driven by the inception of new GSE related contracts. While we booked the premiums written for the mortgage deals at inception, they tend to have a long duration and consequently are earned over a period of 10 years to 13 years.

For the full-year 2015, specialty reinsurance premiums increased 121% from a year ago, again reflecting organic growth in the credit and casualty lines and the incorporation of Platinum's premiums. The specialty reinsurance combined ratio for the fourth quarter came in at 88.9%. Loss trends have remained generally benign. Favorable reserve development totaled $8 million in the quarter and related primarily to favorable claims experienced for prior years. For the full-year 2015, the specialty segment generated a combined ratio of 82.1%.

In our Lloyd's segment, we generated $56 million of premiums in the fourth quarter, an increase of 11% compared with the year-ago period. For the full-year 2015, gross premiums written grew 40%. Our market position at Lloyd's continues to benefit from the investments we've made in infrastructure there over the past few years. Net premiums written at our Lloyd's unit are up 20% for the full year 2015. Recall that throughout 2015, we meaningfully increased our sessions at Lloyd's to manage the risk profile of the business as we have grown in recent years.

The Lloyd's unit combined ratio came in at a disappointing 119.6% for the fourth quarter, reflecting slightly higher loss experienced and an elevated expense ratio. There was no net reserve development in the quarter. The expense ratio at 53.8% was higher than a year ago due to lower premiums earned as a result of more ceded premiums and slightly higher commission and operational expenses. For the full-year 2015, our Lloyd's unit generated a combined ratio of 104.2%.

Turning to investments, we reported net investment income of $46 million in the fourth quarter. Recurring investment income totaled $38 million for the fourth quarter. The slight increase relative to recent quarters primarily reflects the higher invested assets, as well as the reallocation of Platinum's fixed maturity investments to match ours. Our alternative investments portfolio generated a gain of $9 million in the fourth quarter. The private equity portfolio reported a gain of $8 million benefiting from a recovery in the equity markets in the fourth quarter, but slightly offset by continued pressure on some energy-related investments.

The annualized total return on the overall investment portfolio was 0.1% in the quarter. Higher treasury yields and higher spreads from many riskier investment classes hurt the investment results. For the full-year 2015, our investment portfolio generated a total return of 0.9%. 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 2.3 years and is stable relative to where it has been in recent quarters.

The yield to maturity on fixed income and short-term investments was slightly higher at 2.2%. Our capital and holding company liquidity positions remain very strong. During the fourth quarter, we bought back 446,000 shares for a total of $48 million. For the full-year 2015, we repurchased 2.5 million shares for a total of $260 million. Since the end of the fourth quarter, we repurchased an additional 339,000 shares for $37 million. As we look forward, any decision relating 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.

We have made the decision to pull back on the cat reinsurance when some returns on some transactions no longer met our return thresholds. This was particularly the case in the assumed retro book as we cut back on risk across our own balance sheet and that of our third-party capital backed vehicle, Upsilon Re. Since assumed retro business tends to consume substantial capital due to the high correlation of losses with the rest of our portfolio, our decision to pull back has resulted in an increase of our modeled excess capital position. We have also increased our ceded purchases. We believe this decision to de-risk the underwriting portfolio remains the right one in the current environment as we look to optimize the book across the range of potential outcomes. As we have said before, we remain committed to returning excess capital to our shareholders and we're not able to deploy it.

Switching to our ventures unit, we returned $100 million of capital to shareholders of DaVinci in early January. We have the same philosophy for our third-party capital backed investments that we utilize in managing our own balance sheets. We return capital to our partners when we cannot deploy it at adequate returns. We believe our partners appreciate us working on their behalf and will look to increase their capital commitment to us when market conditions improve.

Finally, let me provide you with an update to our top line forecast for 2016. For managed cat, we expect a top line decline of 10%. The reduced premium guidance primarily reflects our decision during the quarter to pull back more than expected in the assumed retro business. In specialty Reinsurance, we continue to expect top line growth of 20% and in our Lloyd's unit, we continue to expect growth of 20%.

As always, I'd remind everyone that the premium estimates of this nature are subject to considerable risk and uncertainty, our goal in providing them to you is to give you our best estimates at this point in time.

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

Kevin J. O'Donnell

Thanks, Jeff. I'll turn my focus now to the business and the state of the market. On the U.S. property side, as expected rates were down again at 1-1. Some programs were getting close to the point where additional rate softening made it difficult to offer material terms, wherein some instances even continue our support. Consequently, we remain disciplined in this environment, exiting business that no longer made sense. As I've discussed before, our approach was not just to say no. We worked as hard as ever with our customers to bring them efficient, creative solutions to their risks needs.

There is also increased competition in both the ceded and assumed retro markets. We have grown and shrunk our assumed and ceded retro portfolios many times in the past, and this may be as undisciplined and competitive a market as we have ever seen. We acted accordingly. We increased our ceded retro purchases significantly and decreased our assumed retro portfolio by about 40%. Even in this environment, our flexible approach to retro helped us construct a good portfolio. Overall, across the property portfolio, we have deployed less risk capital which is the correct decision in a declining rate environment and this is reflected in our revised guidance on property.

With regard to expanded U.S. operation, the Platinum acquisition brought us two great business platforms in New York and Chicago, both of which play well to our core strength of superior customer relationships. While we usually think about the legacy Platinum business in terms of casualty, Chicago is a recognized leader in the regional multi-line business, frequently taking large lines and desirable opportunities, and both the New York and Chicago platforms we were able to grow their property books.

Moving to international property, the magnitude of price reductions was surprising as margins for this business started out significantly lower than comparable U.S. margins. Continued rate reductions make much of this market unattractive. Underwriting standards are now at the lowest level seen for some time.

Looking at the retro market, where we are a recognized lead, we have chosen to shrink our Upsilon fund to one quarter of the size it was just two years ago given the increasingly inadequate returns offered. Our decision to shrink was based on our assessment that on many deals the risk premium offered in this market is inadequate for any capital. We do not confuse good results with good portfolios and being the preferred manager of third-party capital means simply returning it rather than inadequately deploying it.

Turning now to casualty and specialty, there was a bright spot in our overall portfolio in 2015, further confirming the wisdom of the Platinum acquisition. Due to the significant increase in the breadth and depth of our casualty and specialty underwriting, we're able to grow this book of business significantly with written premiums up 121% year-on-year. The whole was greater than the sum of the parts with our combined portfolio being larger than just one plus one and together laying a strong foundation for future organic growth. One of the key areas of growth in specialty has been building a market leading position in financial credit lines where we believe there are attractive opportunities.

Moving on to Lloyd's. A number of different influences converged at the same time, resulting in a tougher quarter than we originally anticipated. This in turn negatively impacted full-year results. When we first began building our Lloyd's platform in 2009, we had hoped we would have been profitable by this stage. They were two high-level reasons for this delay at profitability. First, the increased regulatory frameworks required to operate in Lloyd's were more expensive to build than we could have originally anticipated.

Second, the Lloyd's market has experienced continuing price competition over this period. Because of this, we intentionally came off business that was underperforming. So while establishing our syndicate has proved more costly than initially anticipated, having the Lloyd's platform has benefits beyond the local underwriting performance. There is significantly more value in our Lloyd's franchise than we originally forecast and we remain confident that our decision to enter this market was sound and we believe long-term value to shareholders.

In response to these market conditions as we did on the overall book, we employed our gross to net strategy and increased sessions to improve the efficiency of our book. As Jeff commented, this resulted in lower premiums earned and consequently a higher expense ratio. While on the short term this decreases profitability, we continue to make good underwriting decisions and remain confident that in time our discipline will be rewarded.

Our ventures team is a successful part of our franchise providing us capital flexibility in many ways. For example, we significantly reduced the size of Upsilon, which I discussed previously. Our reduction was conscious and closely choreographed in conjunction with our investors. We like to think that no one does this better in real time than RenRe. We continue to balance capital management with the addition of new high quality investors in our joint venture platforms and we are able to do so without deploying additional capital.

We remain a first call for high quality insurers seeking capital and strategic advice, and we raised attractively priced capital when it was efficient to do so. For us, capital management should be looked at holistically both across the public company and in our joint ventures. Our actions were consistent across the board and represent a coordination of nine balance sheets at all times, something we are uniquely set up to do.

As I typically do, I'd like to end with a few general comments. As I said at the beginning of the call, we are in a new world. We're simply waiting for the next hard market to materialize is not realistic. It ignores the way risk is being transferred, with attractive risk increasingly having its choice of attractively priced capital in both hard markets and soft. We are a bigger, stronger and more flexible company and have built the tools we need to be successful in any market. Our emphasis has shifted to superior customer relationships as a large number of our buyers of reinsurance are centralizing their purchases and increasing their reliance on a core group of reinsurers.

Focusing on client relationships in a market with flat demand is critical to giving us access to the best business, which will help us build an attractive portfolio of risk that generates superior returns for our shareholders and joint venture partners over the long term regardless of underwriting cycles. We keep hearing the term cross cycle underwriting, which appears to be a justification for writing business at an expected loss and hoping to make it up when the cycle turns. While this playbook may have been effective in the past, we have always believed that core underwriting catches up with you and often quicker than you think it will.

Today and in the future, holding out hope for a hard market to absolve past underwriting sins is likely misguided. As always, we will work hard to make sure we can attract the best capital, underwrite better and deploy first when the market presents an opportunity. And I'm confident that RenRe will remain successful no matter the challenges the market presents.

With that, operator, we're ready to take questions. Thanks.

Q&A

Operator

Your first question comes from the line of Kai Pan from Morgan Stanley. Your line is open.

Q - Kai Pan {BIO 18669701 <GO>}

Good morning. Thank you. First question for Kevin and you mentioned it's basically we are in the new world. For you guys this is a sort of marketing environment basically the cycle will be less cyclical than it was before. And also for you, your business mix has changed from probably cat oriented to a more balanced probably in the casualty book. In that sense, do you see in this new world and with your business mix change, the low double-digit ROE is the new normal for you guys going forward?

A - Kevin J. O'Donnell

So, that's not really the way we think about it. When we think about building portfolios, we ask the question, do we like this year's portfolio more than last year's portfolio? And in building portfolios, we need to consider all outcomes including large loss years. The drivers in constructing this year's portfolio were, of course, the fact that rates were down, which was hurting returns, but proactively we rebalanced the book, increasing in specialty as you mentioned and reducing on some cat lines where needed. We bought additional ceded and we deployed less risk capital. So I think we've built a great portfolio and I like this year's net risk return profile better than last year's. And I think focusing on a single outcome as to how to build the portfolio with a return expectation is inconsistent with the way we think about building portfolios, making sure that over the full distribution of outcomes we produce superior results.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Thank you for that thought. And then on the follow-up on the reserve side. It looks like the specialty unit reserve lease that was much less than the fourth quarter last year. You know it might be some timing issue, but you also added to Platinum portfolio, which have their own reserve leases in the past have been pretty strong. Just wonder if any change in term reserving philosophy or process and how do you look at the book?

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

No, Kai, there has been no change in reserving process or how we look at the book. It's just the way the reserves came together this quarter.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Lastly if I may, I just want to touch base on – do you have any sort of – can you quantify your energy exposure in both on the underwriting side as well as on the investment side?

A - Kevin J. O'Donnell

We're not an energy specific writer. I think a lot of the energy risk that comes in to the market often comes into the marine market, where again we are very light. I think an area that we could have exposure, we've looked down, we don't believe it's substantial as within some of our financial credit lines books. But again, it's not something that we're particularly concerned about with what we're seeing in the book right now.

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

And on the investments side Kai, I would say in the fixed income portfolio generally not very much exposure. In fact, our high yield allocation performed very, very well over the course of the year, mostly as a result of the fact that we don't have very much energy exposure at all and in our high yield allocation. We do have a little bit of energy sector exposure broadly defined in our private equity portfolio. And as I mentioned there to some extent, the returns in that portfolio were dampened a little bit by some of the mark-to-market adjustments on those investments. I don't have the precise number in front of me, but I'd estimate the order of magnitude of those in the private equity portfolio is probably somewhere in the $20 million to $30 million range.

Q - Kai Pan {BIO 18669701 <GO>}

Great. Well, thank you so much for all the answers.

Operator

Your next question comes from the line of Vinay Misquith from Sterne Agee. Your line is open.

Q - Vinay Misquith {BIO 6989856 <GO>}

Hi, good morning. So the first question is on the pullback in property catastrophe. So was it mostly in retro, you said I think down 40% and my understanding is your retro business is mostly outside the U.S. So just wanted to get a sense for how your exposure to the U.S. to Florida is different this year versus last year?

A - Kevin J. O'Donnell

Thanks, Vinay. With regard to the retro, there's really two retro portfolios that we've been underwriting for the last couple of years. One is the portfolio that you referenced is largely a non-U.S. retro portfolio, which was written on our owned balance sheets and DaVinci. The other retro portfolio was more of a U.S. exposed and worldwide retro portfolio which was written on Upsilon. So we did reduce substantially with Upsilon, as I highlighted, which does have a knock-on effect of the overall book that we've built, exposed in particular to U.S. wind. Thinking about our guidance of being down 10% on the top line, we've de-risked by more than that with regard to the major perils within the U.S. A lot of that comes from our participation in Upsilon and then some of the other retro that we've written.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure. And in terms of the layers, are you writing low layers, middle layers or higher layers of it?

A - Kevin J. O'Donnell

It depends on – so I wouldn't point to any one as being a specific target. Quite specific within Upsilon, we had more than one fund and one of those was more of a low layer rider the other was a more of a higher layer rider. Within RenRe, we really are looking at it holistically against the whole portfolio without a strong bias for low, middle or higher layers.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay. That's great. And in terms of the retro purchases you said you brought more. So should we expect higher ceded reinsurance in cat segment? And how about the other segment, Lloyd's and specialty?

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

Yeah. So, Vinay, actually the ceded purchases in the cat unit were actually down for the year-over-year. The ceded purchases and Lloyd's and specialty were up pretty significantly over the course of the year.

Q - Vinay Misquith {BIO 6989856 <GO>}

Actually, my focus was more about 2016 versus 2015?

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

Oh, 2016 versus 2015.

Q - Vinay Misquith {BIO 6989856 <GO>}

Yes, correct.

A - Kevin J. O'Donnell

Again, I would anticipate higher ceded within specialty, within Lloyd's and within cat in 2016 compared to 2015.

Q - Vinay Misquith {BIO 6989856 <GO>}

That's great. One last follow-up, if I may. Just on the buyback, looks like you've sort of derisked significantly. Should we be expecting share repurchases and dividends of more than a 100% of earnings?

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

Vinay, generally we try to stay away from any quarterly forecast, but I think given the capital position that we came into January 1 renewals combined with the de-risking that we've mentioned here, I think it's a fair statement to say that other things being equal, we would expect to return more than the income that we generate in 2016, that's our current thinking.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay, that's fair. Thank you.

Operator

Your next question comes from the line of Cliff Gallant from Nomura. Your line is open.

Q - Cliff Gallant {BIO 1854853 <GO>}

Hi. Good morning. Thank you for taking my question. A quick one was just on the fourth quarter buyback, was there anything that affected the pace of purchases there? It seemed a little bit on the light side. And then my second question was just more on the mortgage contract you read. Did I hear right that you said you'd earn it over 13 years? And if that's the case, how does it flow through your income statement and cash flow statement different than your typical reinsurance contract?

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

So on the fourth quarter, Cliff, no, I wouldn't say there was anything specific. As always, we look at the price of the shares and versus available liquidity and capital. And we had, I think, a pretty robust repurchase in the third quarter and we just backed off a bit in the fourth quarter.

Q - Cliff Gallant {BIO 1854853 <GO>}

Okay.

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

I think in terms of the mortgage reinsurance contracts, they did – they do have a reasonably long life and, as I said, they will be earned into premiums over the course of somewhere between 10 years and 13 years. But it should just be in the general earned premium line.

Q - Cliff Gallant {BIO 1854853 <GO>}

Okay. And from a written perspective, though, you did – you received the cash upfront for the full premium we saw booked in the quarter?

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

That's correct.

Q - Cliff Gallant {BIO 1854853 <GO>}

Okay, all right. Thank you.

Operator

Your next question comes from the line of Sarah DeWitt from JPMorgan. Your line is open.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Hi. Good morning.

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

Good morning, Sarah.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

On the specialties business, you've done a good job of growing that and Lloyd's and it's now bigger than your catastrophe business, how much more premium can you add to those business without adding additional capital?

A - Kevin J. O'Donnell

Hi, Sarah. The capital structures that we've built are still predominantly built around supporting our property cat business. So we have substantial amount of growth that we can still have within those lines without having to add economic capitals to the way we think about it. Secondly, not each line that we're writing in casualty and specialty is fully correlated. So the fact that we have a good spread of business within that portfolio adds to the flexibility of us to continue to write for sometime before needing to add capital to support it.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Okay. Is there a way to think about how to quantify how much more premium you could raise?

A - Kevin J. O'Donnell

Not necessarily. I think the way that I would think about it is thinking – the nature of the risk within the casualty specialty is that it is on an account basis and on a portfolio basis, less volatile. So I think the way I would track back to determine the capital that needs to be allocated to a line is to think about the volatility at the more remote return periods and then build it out from there.

Each of the lines that we have, we have built that model. We have also build correlations among each of the lines. So we have great precision in understanding how capital will be allocated among our balance sheets, but it's something we look at every night and changes each time we write a new deal.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Okay, great. And then on the Lloyd's business, how should we think about how long it could take for that to become profitable?

A - Kevin J. O'Donnell

The way I think about Lloyd's business is – I do believe it's extremely valuable. It brings a lot of expanded solutions to us beyond just what we're doing in London. Having insurance paper is a good example for that. The way I would focus on the Lloyd's is the profitability is not being driven by the loss ratio, it's been driven by the expense ratio. And much of that driven by the decision we made to increase our session. So we are making an overall holding company portfolio. Decision as to how to think about structuring our risk, rather than specifically addressing a concern within the Lloyd's book or the profitability within Lloyd's. So first the loss ratio looks good, secondly the expense ratio was trending well until we bought more ceded. So I feel good about it and it's not something I'm worried about being profitable next quarter or next year. It's really, what's the contribution to the overall organization.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Okay, great. Thank you.

Operator

Your next question comes from the line of Michael Nannizzi from Goldman Sachs. Your line is open.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thanks so much. I think you talked a bit about the mortgage related reinsurance contract, so f there's about flow through about over the next 13 years or so, is that right?

A - Kevin J. O'Donnell

Roughly 10, it varies a bit, 10 to 13 is a good estimate.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. And then do we know what sort of profitability you expect from that business? I mean, if it - has it played out as you expected? Is there any idea to just know you know what sort of annual profit contribution we can expect from that book?

A - Kevin J. O'Donnell

No we don't tend to - we try not to make give guidance on the anticipated profitability of individual deals like that, especially ones of that order of magnitude.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Right, okay. I mean is it within the sort of you know the range of profitability like of the rest of your reinsurance book? I mean, is it - or is it because its diversifying you are willing to accept you know lower profitability, I am just trying to get some understanding of how we should think about if this becomes an area of growth, you know how much of an impact can it have on the specialty segment?

A - Kevin J. O'Donnell

I think, probably a good way to think about it is that we'd anticipate it to be roughly similar to the profile of the specialty book overall.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. Okay. And then on the cat reinsurance business, so I am guessing the acquisition expense ratio was the one that was impacted by the tax item that you mentioned in the release. Just want to try and get an idea, I mean the operational expense ratio was a bit higher, trying to just sort of filter out those moving parts. I am guessing maybe the operational expense ratio just given the sort of top line guidance you talked about is probably reasonable and that the acquisition expense ratio was synthetically lower in 4Q, is that fair?

A - Kevin J. O'Donnell

Yes.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. And then, last one on the Lloyd's business so it will take a little bit more time to get to the profitability level there. It sounds like - is there a time period over which you sort of evaluate that business and say, hey, look, we're happy growing it as long as we see a trajectory for profitability in our return on our invested capital. Two years, three years or is it because of the capital efficiencies that you gained relative to your cat book that maybe you're not as focused on evaluating this business on a standalone basis?

A - Kevin J. O'Donnell

So we are focused on being profitable on a standalone basis but we do benefit by the capital efficiencies as to how we have it funded within Lloyd's. So I wouldn't put a timeline on it. I would say that in general, the same criteria we have about thinking about business within Lloyd's within the overall organization is what we do in Lloyd's where we believe each deal that we're writing is profitable, and it's a matter of building that portfolio up to make sure its profitable against the infrastructure that we've built. I think absent ceded and a couple of one-time items, we had a pretty good year in 2015 and I'm looking that in 2014 was profitable and hoping that we can continue to make great progress there.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. Great. Thank you so much.

Operator

Your next question comes from the line of Josh Shanker from Deutsche Bank. Your line is open.

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

Yeah, thank you very much. So, if I go back in time about a year ago and listen to the conference call, I think I asked a question about excess capital on the buy back and I think you said, you had several hundred million dollars of excess capital. You had a very profitable year with no catastrophes, I realize you answered Vinay's question so there was nothing unusual about the buyback happening in 4Q but I am kind of feeling the buyback appetite for 2015 was light, given what you said about the buyback is about the share price, the market opportunities and excess capital, what was the calculus in 2015 and how can we use that as a way of thinking about 2016?

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

Well, thanks, Josh. I really don't, I wouldn't - I guess I wouldn't interpolate anything from 2015 into 2016. The way we think about 2015 is if you look at share repurchases of $260 million or so and dividends of $50 million plus and the cash we infused into the Platinum deal, we feel like we deployed over $900 million on behalf of shareholders. So, we thought actually 2015 was far and away the biggest capital management year that we've ever had. I'd say you know as I said in response to Vinay's question, our book has changed a little bit as Kevin mentioned we did as in the second half of 2015, we did reposition the various balance sheets which freed up some capital. We thought we had significant excess capital, we still do. And if anything that, that level has is at least as high as it was going into the third quarter of 2015. So – as I always try and say on these calls, we don't like to forecast it over short periods of time, but the way I think about it is we'd expect other things being equal to return more than we earn in 2016.

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

Okay.

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

I wouldn't want to put too fine a point on that right now at this early part of the year as to orders of magnitude to that, but that seems like reasonable supposition at this point.

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

I'm not going to try and quibble, although I do think you guys have got some excess capital when you acquired Platinum as well. So am I right, you deployed a lot but you also received a decent amount, but we'll see how it goes. Thank you for the color though. The other question I had is whether you could give us any color as to the pricing for management fees on third-party transactions. And given where your total asset under management are today, how we should think about fee-based revenues in 2016 versus 2015?

A - Kevin J. O'Donnell

Well, speaking specifically for us, we are under no pressure with regard to fees in our major vehicles. So I think there is ample capacity. We are recognized lead manager. So I think we've had no redemptions within DaVinci. So we seem to be well positioned with what we are charging and how we are structuring the books.

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

And compared to the amount of the DaVinci revenues you guys generate for the past year, what was the split I guess Upsilon revenues versus DaVinci revenues, is there ways of easily sort of giving a guidance thereabout?

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

No we haven't. We don't really disclose that Josh. So – off the top of my head, I can't give you an easy way to think about it.

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

But of course given there is less assets under management this coming year, it's going to be lower in 2016 and 2015. That's easy to say, I suppose.

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

That's correct.

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

Yep, okay, thank you.

A - Kevin J. O'Donnell

Josh, one thing I might add to that though is we've increased again some of our sessions. Some of our sessions have override which are not dissimilar to fees earned on third-party capital management.

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

Thanks for the additional color.

A - Kevin J. O'Donnell

Yeah.

Operator

Your next question comes from the line of Meyer Shields from KBW. Your line is open.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks, good morning. I am really not sure going to ask this, but Kevin, why did you start off your commentary by saying that people see RenRe as a viable acquirer now?

A - Kevin J. O'Donnell

Yes, I am proud of the fact that we've – in less than a year, we've completed the transaction with Platinum. I think it positioned us well in the market. I think there is a lot going on and it puts us in the flow of information in a way that perhaps it wouldn't have been had we not done Platinum.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Thanks. That's helpful. You made some comments that I think very actively about the end of the traditional cycle on property cat, do you see the same phenomena playing out in the specialty and Lloyd's market as well?

A - Kevin J. O'Donnell

You kind of broke up there a little. Sorry, can you repeat that?

Q - Meyer Shields {BIO 4281064 <GO>}

I am sorry, I'm asking whether your comments about how the property cat cycle probably doesn't look – won't in the future look like it has in the past. Do you see the same difference in specialty and in Lloyd's?

A - Kevin J. O'Donnell

That's a good question. I think the – one of the primary drivers in the cat market has been that there has been an abundance of capital looking in particular peak risk. I think that's driven competition. I think outside of – so when you think of specialty first, I think it's different by line. The other thing I'd say is a lot of the specialty risk that's traded is on a proportional basis, where a lot of the cat risk is non-proportional and being that is proportional, you're more exposed to insurance cycles than reinsurance cycles and I think the insurance cycle is always been a little bit more muted than the reinsurance cycle.

I think within Lloyd's, it's a bit of a mix where some lines will behave more like cat and some will behave more like specialty and casualty. Markets like aviation seemed to have a continuing softening. I'm not sure what the remedy to that is, it's a small market. There's a lot of capital that can be put to it, so I think that's one where potential of the upside that we've seen in post bad aviation years may be more muted, where other more insurance exposed lines within Lloyd's will behave more like the casualty specialty stuff.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, thanks. And final question if I can, I guess. The only thing that surprised me on the Lloyd's side is that you're not seeing more of a benefit from ceding commissions offsetting the impact of lower net earned premium. Am I thinking about that just too simplistically?

A - Kevin J. O'Donnell

I think that's something that being much of the session that's coming through is stuff that we've placed in 2015, it'll take some time for some of the overrides to start coming through. And actually, the other thing I would say is not all of it is proportional, some of it's excessive loss and that doesn't have the override component to it.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, perfect. Thank you very much.

Operator

Your next question comes from the line of Brian Meredith from UBS. Your line is open.

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

Hey, thanks. Just a couple of quick questions here for you. On the mortgage reinsurance, do you guys actually reinsure that out as well or is it pretty much gross net?

A - Kevin J. O'Donnell

No, it's something that increasingly we are building up a pretty nice portfolio of sessions behind us on that book of business. We really started writing it kind of immediately after the financial crisis. At that time, most of the book was retained net. Again, in 2015, we increased some of the sessions behind it and I think people are looking to us as being a lead in that business having great tools and great people. So I hope that over the course of 2016 we can increase the sessions behind us as well.

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

Great. And just a quick question numbers wise, the credit line, is that just about all mortgage reinsurance?

A - Kevin J. O'Donnell

The growth is mostly mortgage. We do have a smaller, but still meaningful whole accounting trade, a trade account, but the bulk of it is mortgage at this point.

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

And the bulk of the increase in the fourth quarter was mortgage.

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

Right. Exactly. And then another just quick question here. If I look at kind of your other income on $8 million in the reinsurance contracts area, anything unusual to happen there in the quarter?

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

I think there we commuted a contract, a quota share and we didn't commute – I'm sorry. We adjusted the loss ratio on a quota share contract that's accounted for – are the receipt deposit accounting and that it flowed through that, the change in the loss ratio flowed through that line.

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

Great. So it's just a one-time item now?

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

Yes, that's correct.

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

Great. And then a last question. Just philosophically, Kevin, another one of your competitors actually significantly increased the amount of alternative capital that – it's using our managed capital, right, or it seems like you guys have kind of modestly decreased it. Can you talk about just philosophy there? Is that kind of the right strategy here going forward given that your outlook on what's going to happen here with cat?

A - Kevin J. O'Donnell

So the area that we highlighted that we reduced our managed capital with Upsilon, which is mostly a retro targeted vehicle. I think looking at our bigger joint ventures, we kept capital flat in those. So we returned earnings effectively and some other capital, but the ability for us or desire to deploy is really on the renewal book within those. I think – I wouldn't comment on what other people are doing as far their managed capital, but we've done this for a long time. We've got a great group of third party investors which we actually expanded in 2015. Then we expanded without meaning to increase the size of the vehicles, which I think is great. So I wouldn't comment what others are doing. The reduction we had is mostly around the retro book, but we certainly didn't look to deploy more in any of our vehicles including our rate of balance sheets.

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

Got you. Thank you.

A - Kevin J. O'Donnell

The final thing I'd say is, we still have great penetration in the cat business. There's not much risk that's traded that we don't see. So it's not that we are, others are writing risk that is not being reviewed by us. They're writing risk that we rejected.

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

Great. Thanks.

Operator

Your next question comes from line of Ian Gutterman from Balyasny. Your line is open.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Thank you. I had a few of Lloyd's questions, but first just to clarify really quick on the mortgage. Were those contracts things like pre-merger lease for the MIs, or were they more like these capital market transactions?

A - Kevin J. O'Donnell

It's more - writing some - I think Jeff highlighted that we wrote some of the GSE contracts. We're also writing some of the private market stuff. It's a combination it's not the capital market transactions that are being done.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Got it. Got it, okay. So on Lloyd's I guess a few things. First, just a kind of technical numbers question, but I guess I am surprised looking at the earned premium has been down year-over-year for the last couple of quarters given premiums written has grown, right I mean it slowed in the second half, but still up, and it was up every quarter, it's up 20% for the year. So if premium was up 20% for the year on a written, why would earned be down?

A - Kevin J. O'Donnell

Let me start and I'll it over to Jeff. There's a couple of underwriting reasons why it was down, one of which is just the increased ceded that we already talked about. Another one is that within the Lloyd's portfolio, we have a delegated authority book, so we allow people to write risk within certain parameters on our behalf. With that, we book an estimated premium number. Some of those actual premium numbers came in lower than the estimated premium that we anticipated having which reduced the earned premium number. That's a bit of a double-edged sword, it certainly hurts the ratios, but it does give us confidence that we picked good partners to our exercising discipline and how they are deploying our capacity.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

But Kevin, one of those things that has impacted written as well I guess, that's why I'm confused, makes your buying more reinsurance if you're making premium adjustments, I thought this would affect written too?

A - Kevin J. O'Donnell

Yeah, it's going to come up over I think two years, this are risk attaching business coming in which is going to earn over 24 months.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Okay, got it, so it's a timing issue, okay. And then I guess the big picture question is given the results and given the increased competition in the market, does it make sense to still be thinking about 20% growth because I'm assuming that 20% has probably a negative price to it. So it seems like a lot of unit growth given the results that's only been okay and just the market stuff?

A - Kevin J. O'Donnell

A couple of - we're - looking at the book that we did, we built it in 2015 compared to the book we're building in 2016, the book is shifting.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

. Okay.

A - Kevin J. O'Donnell

So we've increased in where we see opportunities which is more in the financial credit lines, specifically the mortgage book. Secondly, I think - we done a good job increasing the breadth of business that we've written in Lloyd's. I think in 2016 a lot of our growth will be from getting deeper relationships with our best and biggest seasons. So not thinking about growing in lines of business necessarily but becoming deeper in the deals that we already have. So I feel in looking at the book, looking at the profitability, I feel that the 20% is achievable. Finally I say this is profitable business. We are not looking to bring business on with the hopes that it gets better over time, we're looking at a time zero being net accretive to the overall franchise.

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

And I'd just add, Ian, to the Lloyd's discussion and without over baking this comment. Lloyd's contributes the overall profitability of the organization and so far as even though on a segment basis it shows a loss or it shows a higher than 104 combined ratio. Some of that expense there is allocated by the company so - but Lloyd's prior to corporate allocations - is profitable. So we look at we do look at it as contributing the overall profitability of the organization, as Kevin said, it's not at a level that we're ultimately expected to be and we expected to be greater in the future, but it does contribute to overall profitability.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Let me, thanks, actually it's one, but I am going to ask you two, Jeff is, the G&A dollars went up about a couple of million in the fourth quarter versus where it had been for the last year, year and half. Was there something one-time in there? Was it a corporate allocation or do you have a higher run rate of G&A for Lloyd's now?

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

No. I think it's just corporate allocations.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Okay got it. And then just the last part is the loss ratio for the past couple of years 2013, 2014 and the first half of 2015 was kind of in that mid 50s. In the second half, it went up to about 65. Was there anything unusual in the past two quarters that drove that, that you didn't call out or is that a mixed thing or something else?

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

Yeah, I think it's mostly just business mix and leaning towards a bit more casualty business.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Okay. So the loss ratio is probably a little higher than it was maybe in the prior couple of years due to mix and then the expense ratio hopefully, gets back to maybe where it was in the first half. Is that a reasonable way to think about it?

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

I wouldn't want to forecast that for you, but I think generally that's what we would anticipate over time as a lower expense ratio. Yes.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Got it. Okay. Thank you.

Operator

Your next question comes from the line of Ron Bobman from Capital Returns. Your line is open.

Q - Ronald David Bobman {BIO 17308423 <GO>}

Hi. Good morning. Just a quick question.

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

Hi, Ron.

Q - Ronald David Bobman {BIO 17308423 <GO>}

There was I think sort of a marine underwriting association that commented this morning about sort of a heightened level of the Tianjin losses. And I was wondering if you sort of commented all about maybe what you learned over the last three months or recently about Tianjin to the extent you have any insights or view? Thanks.

A - Kevin J. O'Donnell

I read that news blog saying that the loss could be $5 billion to $6 billion. There is nothing that we're seeing that causes us to revisit the way in which we've assessed the loss and where it's coming in from. We're not a big rider of marine business generally or cargo business specifically. And I think to comment around that was just going to be largely within the marine market. So we should be somewhat insulated from the growth of that part of the news release that's true.

Q - Ronald David Bobman {BIO 17308423 <GO>}

Thanks.

A - Kevin J. O'Donnell

Sure. Thanks, Ron.

Operator

There are no further questions at this time. I'll turn the call back over to management.

A - Kevin J. O'Donnell

Thank you. So overall, 2015 was a year where we accomplished much to better position the company for the future. We completed a large and successful acquisition through our casualty and specialty business significantly and constructed a disciplined and balanced property cat portfolio and pivoted to deepen our focus on superior customer relationships. I'm proud of what we were able to accomplish and look forward to continuing to execute in 2016. Thank you, everybody.

Operator

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