FINAL

Bloomberg Transcript

Q4 2017 Earnings Call

Company Participants

- Kevin J. O'Donnell, President, CEO & Executive Director
- Peter Hill, Unknown
- Robert Qutub, Executive VP & CFO

Other Participants

- Amit Kumar, Analyst
- Brian Robert Meredith, MD, Financials Research Sector Head & Global Insurance Strategist
- Elyse Beth Greenspan, VP and Senior Analyst
- Jay Adam Cohen, Research Analyst
- Kai Pan, Executive Director
- Meyer Shields, MD

Presentation

Operator

Good morning. My name is Amy. And I will be your conference operator today. At this time, I would like to welcome everyone to the RenaissanceRe Fourth Quarter 2017 Financial Results Conference Call. (Operator Instructions)

Peter Hill, you may begin your conference.

Peter Hill {BIO 3546857 <GO>}

Good morning. And thank you all for joining our Fourth Quarter 2017 financial results conference call. Yesterday, after the market closed, we issued our quarterly release. If you didn't get a copy, please call me at (212) 521-4800. And we'll be sure to provide you with one. There will be an audio replay of the call available from about 1:00 p.m. Eastern Time today through midnight on March 1. The replay can be accessed by dialing (855) 859-2056 or +1 (404) 537-3406. The passcode you will need for both numbers is 18690170. Today's call is available through the Investor Information sector of www.renre.com and will be archived on RenaissanceRe's website through midnight on April 18.

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 Bob Qutub, 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. Good morning. And thank you for joining today's call. In 2017, RenaissanceRe executed well and strengthened our franchise against the backdrop of a difficult market that was impacted by significant natural catastrophes. For the year, our book value per share decreased by 8%. And our tangible book value per share plus change in accumulated dividends decreased by 7.2%. Also, for the year, our return on equity was negative 5.7%. And our operating return on equity was negative 7.7%.

In this business, it is not a question of if. But when catastrophic losses occur. While we cannot control when these losses happen, we can plan for them. In 2017, I am proud of how we executed on things we could control, such as our gross-to-net strategy, paying our customers' claims rapidly and being a first-call market for new business. In 2018, I believe that rather than facing the strong headwinds of the last few years, we will have the breeze at our backs for the first time in a long time. Due to the cat events in the second half of the year, the reinsurance market at January 1 was improved over prior renewals. And our structure and access to the right capital allowed us to execute well and grow into the better terms. We saw the reversal of several years of declining rates in our Property segment, with across-the-board increases and material opportunities to grow both our Property catastrophe and other property portfolios. The Casualty and Specialty renewals were also positive, with better pricing and improving reinsurance terms and conditions, particularly on programs with elevated loss emergence. I will address the January 1 renewals in greater detail after Bob speaks. But suffice it to say that our underwriting portfolios in-force at January 1 already show the benefits of improved terms.

Overall, I look forward to 2018, knowing that our team has all the tools, the relationships and the capital to execute our strategy successfully and deliver shareholder value.

Moving beyond reinsurance renewals, rising interest rates should provide a positive tailwind going forward in 2018. The Fed raised rates 3 times in '17. And the expectation is that these interest rates will continue into 2018. Most of the impact has been to the shorter end of the rate curve, which has been beneficial to us, as this is where our investments have traditionally been concentrated. Bob will discuss the performance of our investment portfolio in greater detail.

We also now have more certainty around U.S. tax regulation. In December, the U.S. implemented significant reforms to corporate taxation. Most significantly, from our perspective, these changes alter the current taxation of most intercompany cross-border transactions, including reinsurance sections. For a company like ours, Bermuda remains a preferred jurisdiction, with a somewhat diminished but still substantial advantage relative to the U.S. Bob will explain the write-down of our deferred tax asset. But outside of this financial statement adjustment, we do not believe that the U.S. tax reform will have significant economic impact on us, given our flexible structure.

At the end of 2017, we advanced 2 important transactions that affirmed our reputation as an innovator in the reinsurance business. First, we entered into a joint venture in the life reinsurance space with RGA, called Langhorne Re, which closed a $700 million fundraising. Consistent with our joint ventures, we are a minority investor. We anticipate there will be a good pipeline of closed block business, particularly within Europe and are excited about the opportunity. We were delighted to have RGA as a partner and believe that our combined strengths will serve Langhorne customers well. Second, we agreed to invest in Catalina Holdings, a Property and Casualty runoff company. This is more than just an investment. But rather it helps further our strategy and, over time, may allow us to bring industry-leading runoff solutions to our customers. Additionally, we hope to partner on new transactions with Catalina either side-by-side or providing live protection alongside Catalina's runoff solutions. We're excited to begin these partnerships, which will help us explore new market sectors and expand our capabilities.

We also continued to see steady contributions from our public equities and strategic investments portfolio. In addition to the new investments we made in '17, we rebalanced our portfolio through selective trading in public or mature investments, where we have made significant gains over the years. We continued to think and act with a long-term bias in this area, which has allowed many of our early-stage investments to be very successful, including Essent and Trupanion, to name a few.

I'm pleased to announce our newest office, which we opened recently in ZÃ¼rich, Switzerland, a major hub for reinsurance. We've spoken before about the value of having a flexible platform. And we now have a small footprint in Switzerland, increasing our ability to transact with customers where and how they desire. I'll provide a few more details on the opportunities we are seeing in 2018 later on the call. But first, I'll turn the call over to Bob for a look at our financials.

Robert Qutub {BIO 15269353 <GO>}

Thanks, Kevin. Good morning, everyone. As we reflect on 2017, we are proud of the hard work and dedication we displayed in executing our strategy while navigating the challenging market conditions and loss events during the year. We remain committed to growing our underwriting platforms and joint ventures in a disciplined manner, matching the right risk with the most efficient capital available. We grew our consolidated gross premiums written to $2.8 billion in 2017, split roughly 50-50 between our Property and Casualty and Specialty segments. We achieved this measured growth while maintaining a strong focus on expense management through a concerted effort across the organization. And as Kevin noted, we believe the underlying market conditions of our business are showing improvement. And we're excited about the opportunities that lie ahead in 2018.

At this time, I'd like to take you through an overview of our financial performance for the quarter and full year. I'll then discuss our segment results, investment portfolio and capital activities.

For the quarter ended December 31, 2017, we reported a net loss of $3 million (sic) ($3.5 million), or $0.09 per diluted common share. And operating income of $41 million, or $1.05 per diluted common share. Our annualized ROE for the quarter was negative 0.3%. And our annualized operating ROE was positive 4.2%. During the quarter, our book value per share decreased 0.3%. And our tangible book value per share, including accumulated dividends, increased by 0.1%. Underwriting loss for the quarter was $10 million. And we reported a combined ratio of 102%.

On a full-year basis, we reported a net loss of $245 million, or $6.15 per diluted common share. And an operating loss of $332 million, or $8.35 per diluted common share. Our full year ROE was negative 5.7%. And our operating ROE was negative 7.7%. Our book value decreased by 8%. And our tangible book value per share, including accumulated dividends, decreased by 7.2%. Underwriting loss for the year was $652 million and reported a combined ratio of 138%.

2017 was one of the largest insured loss years our company has experienced. The Third Quarter hurricanes and earthquakes, combined with the Fourth Quarter wildfires in California, resulted in total underwriting losses of $820 million. We also incurred additional underwriting losses of $169 million from aggregate loss contracts driven largely by the aforementioned events. These aggregate loss contracts form an important piece of the design and execution of our integrated risk portfolio. All-in, the hurricanes, earthquakes, wildfires and associated aggregate losses added 59 points to our consolidated combined ratio and resulted in a net negative impact of $720 million to our consolidated financial results in 2017.

Now recall that net negative impact includes the sum of estimates of net claims and claim expenses incurred, earned reinstatement premiums assumed and ceded, lost and earned product commissions and redeemable noncontrolling interest. Given the way we think about our business, which is on an integrated portfolio basis, we've combined the Q3 catastrophe events in our Q4 and full year disclosures. Adding complexity to this is our significant purchase of retro protection, which we view as protection across the book rather than an individual event. For similar reasons, we have presented the Q4 California wildfires together as well. We believe this presentation provides more useful information based on how we view our integrated risk portfolio.

Now moving on -- further expand on Kevin's remarks regarding the tax bill, we wrote down a portion of our deferred tax asset, about $37 million, as a result of the reduction of the U.S. corporate tax rate. This write-down did not affect our operating results. As noted in our press release discussing the tax bill, we currently expect the future economic impact of the tax bill will be minimal for us given our flexible operating platform. For additional details of our quarterly and year-to-date results, I would refer you to our earnings release and financial supplement, which we issued last night and can be found on our website.

Let me now shift to our segment results, beginning with the Property segment followed by Casualty and Specialty.

During the Fourth Quarter of 2017, our Property segment gross premiums written were up $43 million compared to the Fourth Quarter 2016. And this is net of $10 million of reinstatement premiums written in both quarters. The Fourth Quarter is generally light for renewals in the catastrophe line of business. But we were able to enter into a number of backup covers following the Q3 catastrophe events. Certainly, these contracts are for partial period of an original exposure period. This drove most of the $27 million increase in catastrophe gross premiums written after removing the impact of reinstatement premiums written in the current comparative periods. In our Property class of business, gross premiums written were up $15 million for the quarter. Our Property segment incurred an underwriting loss of $23 million and a combined ratio of 111% in the Fourth Quarter compared to underwriting income of $100 million and a combined ratio of 45% in the comparative quarter. The underwriting results in our Property segment during the quarter were dominated by the impact of the California wildfires and additional aggregate losses, partially offset by a decrease in estimated losses from the Q3 catastrophe events. Combined, these items resulted in $151 million of net underwriting losses and added 72 points to our Property segment combined ratio in the quarter.

Now recall, in early December, we estimated that net negative impact from the Northern California wildfires would be about $90 million. Given updated information we have received, our estimate of the net negative impact for all the Q4 California wildfires is $104 million, roughly split 2/3-1/3 between the northern and southern fires. In addition, our aggregate contracts were also impacted during Q4. And we've put up an additional $31 million of net negative impact from these contracts.

With respect to the Q3 catastrophe events, we continued to receive an annualized information. And during Q4, we modestly reduced our initial estimate of the net negative impact from these events by $30 million. We plan to perform a deep dive of these events in mid-2018 as their anniversary approaches.

Now for the full year, our Property segment gross premiums written were $1.4 billion, up $329 million, or 30%, compared to 2016. Included in this growth are reinstatement premiums of $175 million in 2017 compared to $21 million in 2016, each associated with large events. Our Property -- our other property line of business saw gross premiums written increase $109 million, or 48%, in 2017. In our catastrophe line of business, gross premiums written were up $69 million, or 8%, for 2017, excluding the impact of reinstatement premiums. Driving this growth was increased participation on a select number of deals as well as entering into certain new transactions. As mentioned in my earlier comments on the quarter, we also entered into some backup covers following Q3 catastrophe events. Our Property segment incurred an underwriting loss of $575 million and a combined ratio of 162% in 2017 compared to underwriting income of $363 million and a combined ratio of 50% in 2016. As with the quarter, the underwriting results in our Property segment were dominated by the large loss events, adding 111 points to our Property segment combined ratio for the full year.

Moving on to our Casualty and Specialty segment, where in the Fourth Quarter of 2017, gross premiums written were up 16% relative to the Fourth Quarter of 2016. We continued to be pleased with our disciplined growth in this segment and were able to selectively execute on a number of new deals during the quarter, primarily within the professional liability business. During the Fourth Quarter of 2017, the Casualty and Specialty segment generated underwriting income of $11 million and a combined ratio of 94% compared to underwriting income of $3 million and a combined ratio of 98% in the comparative quarter. Positively impacting the Casualty and Specialty segment, combined ratio during the quarter was a decrease in the underwriting expense ratio driven in part by a decrease in operating expenses, reflecting lower compensation expenses and combined with continued growth in net premiums earned. Our Property segment also experienced a similar decrease in operating expenses. However, the impact was muted, given the large cat losses in that segment.

For the full year 2017, our Casualty and Specialty gross premiums written were up 7% as we continued to selectively grow new and existing business within certain casualty lines. Partially offsetting this increase was a decrease in gross premiums written in our financial lines of business, primarily the result of a large, in-force multiyear mortgage reinsurance contract written in 2016 that did not reoccur in the current year. With the growth we've experienced to date in top line, we continued to execute on our gross-to-net strategy, having ceded out 34% of our Casualty and Specialty premiums. For the full year 2017, the Casualty and Specialty segment incurred an underwriting loss of $78 million and a combined ratio of 110% compared to generating underwriting income of $21 million and a combined ratio of 97% in 2016. The net increase in the combined ratio was primarily driven by underwriting losses from the Q3 catastrophe events and the impact of the change in the Ogden Rate. Our disciplined growth over recent periods continues to leverage our existing expense base. And as we have communicated to you before, we have a long-term view of the Casualty and Specialty book. And its fundamentals remain well within our expectations.

Now turning to investments. In the Fourth Quarter of 2017, we reported a total investment result of $66 million, generating an annualized total return of 2.6%. And for the full year 2017, our total investment result was $358 million, generating a total return of 3.6%. We benefited from the rising interest rate environment and higher average invested assets in our fixed maturity investment portfolio and as we experienced strong returns in our private -- portfolio of private and public equity investments driven by positive returns in the global equity markets throughout 2017. Our investment portfolio remains conservative with respect to interest rate, credit and duration risk and with 89% allocated to fixed maturity and short-term investments with a high degree of liquidity and modest credit exposure. The duration of our investment portfolio was 2.5 years. And the yield to maturity on fixed income and short-term investment was 2.5% at December 31, 2017.

Our duration is down slightly during the quarter, driven largely from the capital raised in Upsilon, which was invested in shorter duration assets given the nature of that vehicle. Our strategic investment portfolio, managed by our ventures unit, again produced positive returns overall for us. And we continue to be satisfied with the long-term fundamentals of the companies we own.

Now moving on to our capital management activities. Our balance sheets in joint ventures remain well capitalized as we enter 2018, a testament to our capital management strategy and access to efficient capital following the events of 2017. During the Fourth Quarter of 2017 and thus far into 2018, we have not purchased any of our common shares.

Rather, we focused on deploying capital during the 1/1 renewals and through our ventures unit. Our ventures team continues to actively build relationships with high quality, long-term investments as well as looking for new strategic transactions that can enhance our underwriting franchise as we are pleased to have worked with RGA to form Langhorne Re. Our third-party capital management will be well matched with RGA's experience in the life market. We're also excited to have signed a definitive agreement to acquire minority shareholding in Catalina subject to regulatory approval. Our ventures team was also instrumental in reloading Upsilon for the January renewals, deploying an additional $600 million of capital, with a significant portion of that raise from trusted long-term partners.

In summary, when making capital management decisions in 2018, we will be mindful of underwriting and business opportunities, the availability of capital and the recent actions taken by other market participants. But our approach to capital management has not changed. As we have always said, we first and foremost look to deploy capital into underwriting and business opportunities that meet our risk-return hurdles.

Before turning the call back to Kevin, I just want to remind you that as we communicated with you on our Third Quarter call, this will be the last quarter we separately disclose our Lloyd's result in our financial supplement. We view our business as a portfolio of risk and are conforming our financial reporting accordingly. Lloyd's will continue to be a key part of our overall strategy. And its results will roll up in our Property and Casualty/Specialty results as appropriate.

And with that, I'd like to turn the call back to Kevin.

Kevin J. O'Donnell

Thanks, Bob. I'll take a few minutes to talk about each of our segments and then move to the 1/1 renewals. And finally, we will open it up for questions.

For the full year in 2017, we grew gross written premiums in our Property segment by 16%. More specifically, we grew catastrophe by 8% and other property by about 48%, albeit from a relatively small base. These numbers exclude reinstatement premiums from the cat events. We continue to assess our loss estimates for the Q3 catastrophic events. As Bob discussed, we recognized a reduction in our net negative impact of $30 million on these events during the Fourth Quarter. As the year progresses, we will receive additional customer renewal information related to the events, engineering reports and other proprietary research from our WeatherPredict subsidiary, including firsthand, on-location assessments that will assist us in fine-tuning our loss estimate. Once we have sufficient data, we plan to perform a deep dive on the Q3 cat events, which should occur around midyear.

As we preannounced, we suffered losses from the wildfires affecting Northern California in October. Similar drought conditions led to separate wildfires in Southern California in December. As I mentioned with respect to the Q3 cat events, when customers and perils are similar, they can be difficult to split out particular events. Consistent with that approach, we are reporting the combined negative impact from the Q4 California wildfires of $104 million. I should point out also consistent with my prior discussions that the net negative impact from the 2017 aggregate losses includes wildfire loss

(technical difficulty)

of the increase in the aggregate contracts in the Fourth Quarter is attributable to the California wildfires. As I noted on our last call, each loss has unique characteristics and develops differently. And this applies to the California wildfires. Even though they occurred after the Q3 cat events, we are finding that they are developing more quickly. As I discussed last quarter, we recognized the benefits of our gross-to-net strategy in the second half of 2017 and continue to do so on the wildfires. The positive side of abundant capital, particularly for short-tail risk, is our ability to purchase meaningful retro protection for less than we initially forecasted. We continue to evaluate the retro market and anticipate that, similar to 2017, we will retain about 50% of our Property cat risk in 2018.

Moving to the January 1 renewal. The Property segment experienced pricing increases for the first time in years. Going into the renewal market, the market appeared to have higher expectations on rate changes than we did. We entered the renewal prepared to execute in a better market. And we performed well. Rates were in an acceptable range. And seeing this, we executed quickly, deploying both more of our owned capital and more of our partner capital. As I said last quarter, rates needed to go up. And they did. It is our hope that the market continues to move closer to a suitable long-term equilibrium, with rates neither too high nor too low. Loss-affected retro was up the most, averaging between 10% to 25%, with non-loss-affected programs flat to up 10%. On loss-affected U.S. cat business, rates were up between 10% and 20%. Rates on other U.S. cat programs were flat to up 5%, while rates on other property were up 5% to 10%. Rates in the international market were flat to up 5% as well.

Given this environment, we continued to find ways to grow the Property segment profitably at a pace greater than the pricing rate change and are pleased with our execution overall at the January 1 renewal. For example, we were the first call in many programs and, generally had access to the business we wanted. Our focus on the strategic over the transactional was critical in strengthening our ties to our most important customers and reaffirming our role as a trusted adviser across multiple lines of business. This resulted in us having preferential access to over $200 million of new premium to the market. The growth in our Property lines was distributed across both catastrophe and the other property books in the U.S. and internationally and also assumed retro. It is noteworthy that a significant portion of our portfolio is multiyear in nature, which reduces the amount of limit subject to rate increase. That said, we were able to access new business and grow in a market with relatively flat demand. For example, consistent with our approach of moving from the transactional to the strategic, we grew our Upsilon vehicle from $300 million of limit to more than $800 million of limit year-on-year at January 1. Upsilon has evolved since we first won the vehicle in 2012 when it assumed almost exclusively aggregate retrocessional exposure. As of today, half of the Upsilon portfolio is retro, with the remainder coming from primary reinsurance or enterprise covers. This continues to be a great example of sourcing attractive risk and matching it with efficient capital. The manner in which our underwriting and ventures teams work together on these vehicles continues to impress me.

Overall, although January 1 is a heavy renewal period for retrocessional placements, only about 40% of our Property portfolio renews at 1/1. And there will be more loss-affected programs incepting at mid-year. We would expect to see the recent price increases carryforward to those programs as we move through 2018.

For the year, we grew gross written premium in our Casualty segment by 7%. This growth was driven by a number of casualty lines of business, whereas the written premium in our financial line book was down as expected, the result of having written several large deals in 2016, which will earn out over several years. Similar to our Property segment, we continued to execute our gross-to-net strategy in Casualty and Specialty, with ceded purchases remaining fairly consistent during the quarter and for the full year. As Bob mentioned, we currently cede about 1/3 of the premium in this segment. At the January renewal, rates in casualty lines were up. And terms and conditions generally remained stable.

Regarding market conditions, casualty reinsurers exercised relatively more discipline in their approach to renewals. This was particularly observable on the most challenged accounts, whether it had been elevated loss emergence or underlying rate deterioration. However, the trend was broader. And even accounts that exhibited healthy loss trends and good profits saw some contraction in the supply of reinsurance capacity and terms and conditions adjusting in a favorable direction. On average, ceding commissions reduced. And our cedents were optimistic there would be upwards rate movement in underlying books of business. Overall, however, even with some supply contraction, there remained ample capacity from well-rated markets against basically flat demand.

While market conditions should continue to improve due to the significant number of proportional deals we write in casualty, a sustained change in underlying rates is needed before there will be a material increase in the profitability of our portfolio. While the adjustments in terms were often small, the movement allowed our underwriters to actively manage their positions to gain share on the most attractive business and reduce on underperforming accounts. And this resulted in an improved portfolio. Being a recognized leader in Casualty and Specialty has and will continue to benefit us in an improving market. Our ability to support clients with the breadth of products and platforms as well as provide meaningful insight on market trends and performance translates into preferential signings on certain programs and is evidence of our clear value proposition for our clients and brokers. Our customers want broad and deep relationships with reinsurers who provide expertise and consistency. Because of this, we're able to selectively monetize our relationships with customers and grow in areas where we wanted to be overweight, such as financial lines.

Ultimately, we take the approach that we can best maximize shareholder value by providing our partners with stable capacity over the long term. Once again, mortgage was a bright spot for the year. There is robust demand, although there continues to be ample supply. This business remains attractively provides -- and provides healthy returns on our risk capital. As I mentioned previously, the reduction in gross premiums written in our financial lines business was driven by some one-off 2016 contracts and not our view of its relative attractiveness.

We had a busy Fourth Quarter with respect to joint venture activity, raising in excess of $1 billion in various managed vehicles, including DaVinci, our cat fund Medici, Upsilon and other structures. This began in late September following the last of the major Atlantic hurricanes, when we raised $230 million of equity capital into DaVinci from both existing and new investors. This capital raise allowed us to replenish all of the capital lost in the Q3 cat events and gave us and the market confidence to trade forward into the Fourth Quarter.

As I discussed earlier, we made key strategic investments in both Langhorne and Catalina. I'm proud of our performance in '17 and optimistic regarding our opportunities in '18. Rates have mostly halted their decline across our segments and are trending in a positive direction. At the same time, we were able to execute a substantial gross-to-net strategy. This, coupled with rising interest rate environment and growing portfolio of strategic investments, has resulted in a portfolio that is both significantly better than the one we constructed in 2017 and capable of maximizing shareholder value.

With that, I'll open the call up for questions. Thanks.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Kai Pan with Morgan Stanley.

Q - Kai Pan {BIO 20547983 <GO>}

First question is on the Jan 1 renewal. What percentage of your account to renew on Jan 1 is loss-impact account versus loss-free accounts? I'm just wondering if that proportion would change in the upcoming midyear renewals.

A - Kevin J. O'Donnell

I actually don't have that split. But let me talk to it qualitatively. What's coming up later this year is really 2 big renewals, Japan. But more importantly, Florida. Most of the -- much of the Florida renewal is obviously loss impacted. So I think that percentage for the midyear June-July renewals will be greater than what we saw at 1/1. At 1/1, we have international book, which had some very small participation in the losses. We had a retro book, which had large participation in the losses. Then we had the nationwide book, which was mixed. Some at the low-end of the program had losses, further up in the program didn't. So without a specific split, I would say we're going into the 6/1, 7/1, with an expectation that there'll be a greater percentage of loss-affected accounts than what we had at 1/1.

Q - Kai Pan {BIO 20547983 <GO>}

Okay. Great. Kevin, you mentioned that you believe that rate momentum will carry forward at midyear renewals. What give you that confidence? And also, as the retro rate is increasing faster than the reinsurance rate, how that change your gross-to-net strategy? Are you buying less retro coverage?

A - Kevin J. O'Donnell

Sure. I think I'll start with the retro part of your question first. I think it could seem as a conflicted message in that we grew retro. But we're saying we had better-than-expected access to purchasing retro. The reason for that is, what we are selling through Upsilon is a very different product than what we are buying. So what we sell through Upsilon is a heavily loss-affected program, mostly worldwide and some aggregate. In addition to the retro that's in Upsilon, as I mentioned, we also have some enterprise coverage in some larger nationwides. That mix is actually -- because some of the retro pricing wasn't as high as what we needed for us to commit our partner capital. Our purchasing is done on a different basis. So as we talked in previous calls, we have a significant amount of our retro coverage, which I consider with partners, whether that be third-party capital partners or long-term partners participating on the programs that we have through our CPP facility, those largely renewed. And they will participate in the better market alongside of us. We have a trading account retro, which often is on a more specific basis of coverage than what we are selling within Upsilon. And the rate movement within that book was different than the rate movement we saw for Upsilon, Upsilon getting better rates. Your second question was, why do I think rate increases will persist through the rest of the year? One is, there's a lot of loss-affected business that has not been renewed yet, both for what I mentioned previously, for the 7/1 and 6/1 Florida renewals. But also there's a significant portion of our book that's multiyear. So part of that has renewed. But there's other parts that have suffered losses. But has not been touched. And finally, we've had a long period of rate decline, which has persisted for many years. So there is need for rate enhancement. So I think the overall discipline in the market recognizing that more rate is needed for reinsurance protections is going to be a backbone for discipline as we approach the midyear renewals.

Q - Kai Pan {BIO 20547983 <GO>}

That's very helpful. One last one, if I may, is on the recent -- the investment in 2 runoff business. I was wondering, in addition to the strategic value of this investment, what -- how significant are the financial impact in terms of both investment, potential fee income or investment returns from these 2 joint ventures?

A - Robert Qutub {BIO 15269353 <GO>}

First, just from the financial standpoint, Kai, the minority interest that we have in Catalina is small. But that doesn't withstand the strategic value we're trying to get out of it. But it's less than 10%.

A - Kevin J. O'Donnell

And I think of these as very consistent with what we've done on other vehicles. If you take Langhorne, we are 50-50 joint venture partners with RGA on the management vehicle. But we have a small investment in the third-party capital pool, the $780 million that was raised by Langhorne to fund the transactions that are ultimately underwritten by Langhorne. That's kind of consistent with the way we think about DaVinci and other vehicles. And we're delighted to have RGA as a recognized leader in the life reinsurance space as the partner there. Catalina is a little different. As Bob mentioned, it's a small investment that we have in Catalina. I think the benefit strategically to us is that increasingly, our customers are seeing runoff solutions as a viable capital management tool. So if we can sit down with a trusted partner with a great reputation like Catalina with our customers and provide both life coverage or ongoing coverage for books of business through our reinsurance vehicles and runoff solutions through Catalina to those customers, I think it's a win-win for everybody.

Operator

Your next question comes from the line of Elyse Greenspan with Wells Fargo.

Q - Elyse Beth Greenspan {BIO 17263315 <GO>}

My first question probably just picking off on that last question. In the past, you guys have really focused these investments in other vehicles, I think, on your core cat expertise, I guess. When you guys thought about making these 2 investments in Langhorne and Catalina, what gave you comfort in moving away from the cat area? I mean, I know you mentioned Essent and Trupanion, which have been successful investments. You guys also had investment in ChannelRe, which was not as successful. So as you thought about going and putting capital here, I guess, what was the thought process and the idea that now is the time to put capital in more longer-tail vehicles than shorter-tail, which you have historically done?

A - Kevin J. O'Donnell

Sure. Let me start with Langhorne. So when I think of Langhorne, I think you're right that we are each contributing -- RGA is contributing a lot of underwriting expertise. We're contributing a lot of third-party capital and structure management expertise to the vehicle. In collaboration, I think those 2 sets of skills will be a tremendously powerful platform for us to be successful in block runoff business. I think there's some benefits that we're seeing for some European solvency requirements with an increased level of pipeline potentially coming to that market. So in thinking about it, what we looked for was an industry-recognized leader from an underwriting expertise. And I think what we bring to the table is industry-leading expertise with regard to capital structure and third-party capital management for that vehicle. So I feel very confident about where we are and how we've set that up for future success. Catalina is a little bit further field, with it being a minority investment -- equity investment in them. We've known the team for a long time. They've got a great track record. And they've got a strong reputation within the market. So I see us again -- that's a business in some ways we're familiar with. It's going to be more P&C. The way in which they ultimately participate in the risk is different than what we do. But I think we can help them think about risk from a live transaction perspective. And they will give us perspective as to how to think about the legacy issues of long-tail business. So I think everybody is contributing something to each of these joint ventures. And I think the combined effort of the partnerships will produce great returns for everyone.

Q - Elyse Beth Greenspan {BIO 17263315 <GO>}

Okay. Then going back to some of the market commentary. Kevin, you pointed to June and July potentially being better than Jan 1, as more loss-impacted business renews. We've obviously seen a lot of alternative capital reload in the market. As that continues as we get closer to June and July, how does that factor into your thinking on the pricing dynamic? And do you have a view on the potential when you put all your comments together, what type of premium growth Ren could see in cat in 2018?

A - Kevin J. O'Donnell

Sure. Looking forward into the June, July renewals, there's a lot that can happen. It's February. And there's a lot air to cover between now and then. But when I look forward with what we see coming, I think it's reasonable to expect a reasonably flat demand coming out of Florida. Your comments about third-party capital, whether there's more looking for risk in Florida, I'm not sure. But I think the thing to focus on is the incumbency priority given to reinsurers on placements. So without growth, I think it's going to be difficult to dislocate well-behaving traditional markets. So I'm not sure what role third-party capital will have. But I think, given opportunities for growth, I think we are about as well positioned to achieve that growth as anyone possibly can be in the Florida market. With regard to rates, I tried to indicate that I think the rate having the wind at our back from a rating environment, I think that will persist. I don't mean to indicate that I think 7/1 or 6/1 will be better than what we saw at 1/1. But I think the momentum for a positive rate and more economics coming to reinsurers will persist as we go into those renewals.

Q - Elyse Beth Greenspan {BIO 17263315 <GO>}

Okay. Then, Bob, maybe this is a question for you. It seems like you guys saw a benefit on expenses in the quarter. Maybe it seems like lower bonuses potentially due to the high level of losses in '17. Can you quantify the benefit that we saw coming through your expenses just as we think about modeling the expense level going forward?

A - Robert Qutub {BIO 15269353 <GO>}

Yes. That's right, Elyse. As I pointed out in some of my prepared comments, both Property and Casualty segments saw a benefit in the Fourth Quarter as we did take down, one, our compensation expenses for the obvious reasons of lower profitability for the year. We don't typically show the number. But you can probably comparatively figure it out. But it was around $10 million, give or take. But that's reflective of the performance. But we've also -- which you can't really see in there is the efficiencies that we've gained by leveraging our operating expenses, not only the operational expenses. But the corporate costs. Corporate costs are down quite a bit year-over-year as a result of some executive exits last year, which is you're seeing a more normalized run rate in the corporate costs this year.

Operator

Your next question comes from the line of Anit Kunar (sic) (Amit Kumar) with Buckingham Research Group.

Q - Amit Kumar {BIO 15025799 <GO>}

It's Amit Kumar. Two quick questions, then I'll requeue. Going back to the discussion on 1/1 -- sorry, on 6/1. If you look at the JLT rate online index and if you go back to KRW, in '06 versus '05, the rate online index jumped by 25%. Then if you fast forward to, let's say, 2012 to 2017, it fell by, let's say, 40% or so. I was hoping if you could tie in your comments regarding the pricing equilibrium to the past versus where we could be. I guess, what I'm trying to figure out is, we get some rate momentum. Do we get to the point where you said equilibrium is needed? Or is there still a gap based on your perception?

A - Kevin J. O'Donnell

Let me try to answer your question with regard -- I think what you're asking is, is rate adequacy expected after this renewal?

Q - Amit Kumar {BIO 15025799 <GO>}

Yes.

A - Kevin J. O'Donnell

I look at -- just take 1/1. What was needed to be successful at 1/1 might be the model for what's needed to be successful at 6/1. Knowing that all the placements were completed should rationally lead one to believe that rates were adequate. Otherwise, there would have been shortfalls. So when I think about that, I think that what's required for success in this market is finding the most efficient capital and then making sure that where there is desirable risk, you have access to it. So in looking at what we did at 1/1, we were able to grow on our own balance sheet because we had access to risk. And we have structured our balance sheets efficiently both on a gross and net basis. And secondly, we were able to scale Upsilon as we've done every year since 2012 to meet the opportunity that our customers present. And that capital is efficient for the type of risk that we're writing on to it. So it's a very capital-consumptive on a rated balance sheet and very efficient on the Upsilon structure. So in order to be successful in that market, it's not whether rates are adequate or not because that has to be put in context of what capital you're using to match that risk to. As I look at 6/1, I think the same set of variables lines up, which means the same set of tools are required for success. So as I look at our ability to execute into 6/1 and 7/1, I think we will look very carefully at how much of our capital we're going to expose, both on a gross and net basis. And as to whether we're going to initiate some of the vehicles we've had in the past or a new vehicle that best meets our customers' needs.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. Fair point. The other question goes back to the discussion on Catalina and Langhorne. If you were to step back, is there -- I guess, I should ask, is there like a level of capital you would like to dedicate to these -- if I can call it noncore or non-P&C core businesses? Is there a number in your mind? Or is this more opportunistic for 2018?

A - Kevin J. O'Donnell

It's somewhere between. I think when we think about what we're going -- so we've been working on these deals for close to a year. So it's not as if they popped up in the quarter and we closed on them. It took a long time to come up with the structure and the overall parameters of the partnership. So when I think about it, we think about liquidity in these transactions, knowing that they can be very long tail in nature. We think about the value of the partnership and then because of the way we're structured, we can very easily collaborate, as I mentioned, between the ventures team and the underwriting team to come up with an enterprise value for the overall partnership. So it's not opportunistic because strategically, this is what we do. But it's also not one in which we have finite dollars allocated to these types of relationships. If there was another relationship from a joint venture perspective that emerged tomorrow, we would actively engage in it as long as it made sense for us strategically and we're able to get both partnership economics and capital economics.

Operator

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

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

A couple of quick questions here for you. The first one, just curious, Bob, I noticed a big increase in cash in your balance sheet at December and also big jump in other liabilities. Was there something unusual going on?

A - Robert Qutub {BIO 15269353 <GO>}

That's the prefunding for Upsilon that comes in there goes into cash. Recall my comment about the short durations. And that's just the liability that'll flip into premium on the liability side at 1/1.

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

Got you. So that's all on that one. Great. Then secondly, just thinking about your investment income right now, what are new money yields look like relative to kind of with the current kind of book yield that's on your portfolio? And should we expect a benefit this year from the higher interest rates we're seeing?

A - Robert Qutub {BIO 15269353 <GO>}

I'll give you a couple of perspectives, Brian. The new money yield, I'd say, our yield at the end of the year was 2.5%. You'll see that in the supplemental I mentioned in my prepared comments. The duration is 2.5 years. So it's relatively short. We're in fixed maturity securities. And the interest rates have really started to take up over the course of the last month. So as we expect. And as Kevin said, we do think we have rates kind of having a general uptick. I would say given the short duration and where we're at right now, we're looking at potentially how are our yields in 2018, as I think a lot of other participants are.

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

Got you. And just quickly another -- just quick from accounting perspective to Langhorne Re, are you going to book the fee income through kind of your other income line where you've got Top Layer and Tower Hill? Is that where we're going to see it?

A - Robert Qutub {BIO 15269353 <GO>}

You're going to see -- the Langhorne is a joint venture 50-50. So you're going to see (inaudible) pickup side of it coming through there. That's where our investment in our limited partnership will be in that piece. But it's a minority noncontrolling interest. But given the JV nature of it, you'll see it come through there.

Operator

Next question comes from the line of Meyer Shields with KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Kevin, one basic question. When you talk about constructing a more attractive portfolio at 1/1, can you break that down between expected return, in other words, the improvement in expected return versus the improvement in overall risk?

A - Kevin J. O'Donnell

Let me try. What I would say is, we -- from a net perspective, we have increased our risk on our owned balance sheets. So -- and that risk shift has been reasonably uniform. So it's, honestly, like a jump up in the curve. It's not as if we're hotter down low or hotter up high. It's -- below the 1 in 100, it's a reasonably uniform shift. So from an expected return perspective, we're getting really 2 bumps, then we are using our capital a little bit more efficiently. And we are getting more rate per dollar of risk that we are taking. So I kind of highlighted the rate changes we're seeing by major segment. I think that could be a proxy for what you're seeing in the change in expected returns and then adding that we are taking a nominal amount more risk on our owned balance sheets.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. That's very helpful. Second question, I guess, I don't want to confuse your experience with broader industry. But it does seem a little odd to me that we're seeing loss estimates for the Third Quarter catastrophe kind of drift down rather than up, which has been the normal practice. Can you talk about that a little bit?

A - Kevin J. O'Donnell

I can talk about us. I think from our perspective, we are going to have movements on these losses. There's a lot of moving pieces, both -- when I think about it, there's a lot of events that came in, in close proximity. And we have a shared retro program. So as the wildfires happened, we had to go back and not just think about what retro is protecting the wildfires, we had to go back from time 0 and look at each of the events and then begin to allocate the retro across all the events again, making sure that there was an optimal set of recovery assumptions made against the gross losses we're incurring. So I think we're going to see some movement on them. If you look at it relative to the overall gross loss over the overall net loss, the movements that we had weren't particularly large. And more importantly, I wouldn't point to a trend specifically in any one of the events. There's a little bit of movement here, a little bit of movement there. As time passes from our process, we move from having kind of the dual approach, which is the top down, what's the industrial loss and starting very macro with market shares to increasingly more precision from our customers and understanding what they believe their losses to be. So I think the migration to more definitive information from customers will also mean that the loss numbers will be moving around a bit.

Operator

And your final question comes from the line of Jay Cohen with Bank of America.

Q - Jay Adam Cohen {BIO 3220715 <GO>}

Kevin or Bob, from a capital standpoint, there are seemingly more moving pieces at your company than we've had in probably years. Looking forward, given all those moving pieces, can you give us any insight on the potential for buybacks? I mean, should we just expect potentially no buybacks for this year, given everything going on?

A - Robert Qutub {BIO 15269353 <GO>}

This has been -- that's a good question, Jay. And thanks for asking it. And you look at -- this really started -- nothing's changed, first, on our deployment of capital and how we look at our capital management out there. We feel very comfortable. All our balance sheets are very well capitalized. And as we went into the 1/1 renewals like we talked about, our focus was on looking to deploy capital, which we did. As Kevin talked about on the 1/1 renewals, we were successful there. We also deployed it through other means through our ventures unit. So we felt very good about that. And that's something we kind of told you about. My comments are, we're still looking to see what the opportunities are as we go into 2018. And again, our priority is to deploy capital, put our money to work. Regarding share buybacks, those are things that will come as part of our overall considerations. And we're not going to get beholden to one quarter or one single metric. But rather looking at it over a period of time. And Jay, you've seen us over the last few years, we've been very good about returning capital as well as balancing that with capital deployment. Kevin, do you want to offer anything else? Or is that -- I think that covers...

A - Kevin J. O'Donnell

Yes. That's absolutely right. We'll deploy capital into the market first and then look to manage it in alternative ways if we can't deploy it.

Operator

This concludes our question-and-answer session. I will now turn the call back over to CEO, Kevin O'Donnell, for closing remarks.

A - Kevin J. O'Donnell

Thank you, everybody, for participating on today's call. We look forward to speaking to you in a couple months' time. Thanks, again. Bye.

Operator

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