Q1 2018 Earnings Call

Company Participants

- Kevin O'Donnell, President and Chief Executive Officer
- Peter Hill, Investor Relations
- Robert Qutub, Executive Vice President and Chief Financial Officer

Other Participants

- Amit Kumar, Analyst
- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Kai Pan, Analyst
- Meyer Shields, Analyst

Presentation

Operator

Good morning. My name is Kelly and I'll be your conference operator today. At this time, I would like to welcome everyone to the RenaissanceRe First Quarter 2018 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. (Operator Instructions)

And I will now turn the call over to Mr. Peter Hill. Mr. Hill, you may begin your conference.

Peter Hill {BIO 1828241 <GO>}

Thanks, Kelly. Good morning. And thank you all for joining our first quarter 2018 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 make sure we 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 June 2. The replay can be accessed by dialing (855) 859-2056 or +1 (404) 537-3406. The passcode you will need for both numbers is 18690171. Today's call is also available through the Investor Relations section at www.renre.com, and will be archived on RenaissanceRe's website through midnight on June 2.

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 now like to turn the call over to Kevin. Kevin?

Kevin O'Donnell

Thanks, Peter. Good morning, and thank you for joining today's call. I'll open the call with an overview of our performance for the quarter, Bob will then go over the financial results and finally, I'll come back on to speak more about the segments and take your questions.

Last night, we released our first quarter earnings. I am pleased to report that we had a strong quarter. We executed well into an expanding market and were able to grow our book materially. What we accomplished was not easy but rather it was the culmination of years of preparation, creating new platforms, developing gross to net partnerships, sharpening our tools and relentlessly focusing on the 3 superiors. This preparation facilitated access to desirable risk across our Property and Casualty and Specialty businesses. Our team understood this strategy and pursued it aggressively.

For the first quarter, we reported growth in book value per share of 0.6% and growth in tangible book value per share plus accumulated dividends of 0.8%. We also reported an annualized return on average common equity of 5.7% and an annualized operating return on top end equity of 13.5%. The solid results we reported for the quarter were driven by a low level of cat activity during the quarter, higher net earned premium following a successful January 1 renewal where we targeted key announce and executed well and prior year favorable development.

We had strong renewals at both January 1 and April 1, and are heading into the June and July renewals with a clear strategy. I will discuss the renewals in greater depth after Bob updates you on the financials. I'm confident, however, that we've constructed an improved portfolio that can generate shareholder value over the long term.

Consistent with our approach following the 2017 catastrophe events, we did not repurchase any shares during the first quarter. As we have discussed in the past, our first priority is to deploy capital into the business, and we were able to do so at both January and April renewals. As you know, the insurance industry has been experiencing increased competition for several years. The market must recognize the reality of lower returns and higher earnings volatility. As I discussed in my recent letter to shareholders, we anticipated these market conditions many years ago. At that time, we made the strategic decision to fundamentally transform RenRe. We increased underwriting, operating and investment leverage by diversifying into casualty business, acquiring Platinum Re, aggressively implementing our gross to net strategy and growing our Lloyd's syndicate. Over the past 5 years, we have nearly doubled our gross written premiums, while increasing shareholder equity only 25%, and keeping operating and corporate expenses essentially flat. In addition, we increased our investment leverage substantially over the same period.

In the first quarter, we continued to improve efficiency. We grew our top line significantly, while keeping shareholder equity flat versus the prior quarter and reducing operational expenses versus the comparable prior year quarter. This has allowed us to continue to deliver shareholder value in the face of a challenging operating environment. I should add, while we're pleased with the improved efficiency, should expect that our expense base will grow going forward. This is due to the need to support additional expansion in the business, although hopefully, at a lower rate relative to that expansion.

I'll provide a few more details on the opportunities we're seeing in 2018 later on the call, but first, I'm going to turn the call over to Bob to take a look at our financials.

Robert Qutub {BIO 15269353 <GO>}

Thanks, Kevin, and good morning, everyone. As Kevin noted, we are pleased with our performance this quarter and the portfolio risks we built at the January and April renewals and remain confident in our strategy given current marketplace dynamics. We believe our investment portfolio is well positioned given the rising interest rate environment and its short duration. Our balance sheets, both owned and managed, are well capitalized, allowing us to take advantage of underwriting and other business opportunities. And finally, we continue to demonstrate our ability to leverage our well-managed expense base.

At this time, I'd like to take you through an overview of our financial performance for the quarter. I'll then discuss our segment results, investment portfolio and capital activities. For the quarter ended March 31, 2018, we reported net income of $57 million or $1.42 per common -- per diluted common share, and operating income of $135 million or $3.40 per diluted common share. Our annualized ROE for the quarter was 5.7%, and our annualized operating ROE was 13.5%.

During the quarter, our book value per share increased 0.6%, and our tangible book value per share, including accumulated dividends, increased 0.8%. Underwriting income for the quarter was $130 million, and we reported a combined ratio of 71%.

For additional details on our quarter results, I will refer to our earnings release and financial supplements, 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 the Casualty segment.

During the first quarter of 2018, our Property segment gross premiums written were up $186 million compared to the first quarter of 2017. A meaningful portion of our catastrophe line of business renews in the first quarter, and we saw good opportunities to deploy capital. We raised over $600 million of third-party capital in Upsilon to allow us to take advantage of these opportunities. As a result, gross premiums written in our cat -- catastrophe class of business were $590 million in the quarter, an increase of 42% compared to the first quarter of 2017. This growth was driven by a combination of rate increases and a number of new and expanding customer relationships.

Given these market conditions, we were also able to meaningfully grow the book of business written through our Upsilon managed joint venture, which accounted for just over half of that growth.

In our Property class of business, gross premiums written were $117 million, an increase of 10% over the comparative quarter, primarily driven by continued growth across our underwriting platforms.

Ceded premiums written in our Property segment increased 53% to $353 million in the first quarter of 2018, compared to $231 million in the first quarter of 2017. A meaningful portion of the growth in our ceded premium written relates to Upsilon, where the gross premiums written through this vehicle at 1/1 were ceded to its third-party capital partners, allowing us to continue to execute on our gross to net strategy.

Our Property segment generated underwriting income of $127 million and a combined ratio of 43% in the first quarter compared to underwriting income of $91 million and a combined ratio of 51% in the comparative quarter. Impacting the underwriting results in our Property segment was favorable development on prior accident year net claims and claim expenses of $28 million or 12 percentage points.

Within the Property segment, this favorable development was split between Property catastrophe of $12 million, or 8 percentage points, and other property of $16 million or 20 percentage points. The net favorable development in our other Property class of business included $27 million related to the large cat events of 2017, which was driven by the passage of time and information received to date from our cedes. This was partially offset by some net increases in reserves related to certain attritional claims reported to us during the quarter.

As communicated to you last quarter, we continue to receive and analyze information associated with the 2017 large cat events and plan to form a deep dive within our Property segment related to these events in mid-2018 as our anniversary approaches.

Now moving on to our Casualty segment. Our gross premiums written were up 13% in the first quarter of 2018, relative to the first quarter of 2017. However, after excluding premium adjustments totaling approximately 5 percentage points, primarily related to general casualty and professional liability lines of businesses, the top line increase was in the mid- to high single digits.

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. The casualty segment generated underwriting income of $3 million and a combined ratio of 98.8% compared to an underwriting loss of $49 million and a combined ratio of 128% in the comparative quarter.

Positively impacting the Casualty segment combined ratio was a 21-point decrease in the net claims and claim expense ratio in the first quarter of 2018 compared to the first quarter of 2017. This improvement was largely attributable to favorable reserve development of $4 million or 2 percentage points reported in Q1 2018 compared to adverse development of $30 million or 17 percentage points in the first quarter of 2017, mainly as a result of the decrease in the Ogden Rate during that period.

Also impacting the Casualty segment's combined ratio was an 8 percentage point decrease in the underwriting expense ratio. This decrease was primarily driven by an increase in net premiums earned, while continuing to leverage the Casualty segment's existing expense base.

Speaking of expenses, we are pleased that we have continued to keep our overall expense base relatively flat, thereby achieving improved operating efficiencies across the organization. In addition, we have made some minor adjustments during the first quarter of 2018 to better align the reporting of our operating and corporate expenses with the nature of those expenses.

Turning to investments. In the first quarter of 2018, we reported a total investment result of negative $26 million, resulting in annualized total return of negative 1%. Our total investment result included $82 million of realized and unrealized losses during the first quarter 2018. This was largely driven by an upward shift in interest yield curve impacting our portfolio of fixed maturity investments. This compares to a less pronounced yield curve impact in the first quarter of 2017. Partially offsetting this was $56 million in net investment income, largely stemming from our fixed maturity and short-term investment portfolios.

We benefited from higher average invested assets and the impact of interest rate increases during the recent periods. The yield to maturity in our fixed maturity and short-term investment portfolios was 2.9% at March 31, 2018, an increase of 40 basis points from December 31, 2017.

Our overall investment portfolio remains conservative with respect to interest rate, credit and duration risk with 88% allocated to fixed maturity in short-term investments with a high degree of liquidity and modest credit exposure. The duration of our fixed maturity in short-term investment portfolios is consistent with last quarter of 2.4 years.

Now moving on to our capital management activities. Following the large catastrophe events of 2017, we deployed capital against well-structured risk to through January and April renewals. Our balance sheets and joint ventures remain well capitalized as we enter into the midyear renewals and expectations of continued capital deployment. As a result, we have not repurchased any of our common shares thus far in 2018. And to reiterate my comments from recent calls, our approach to capital management has not changed. When making capital management decisions, we first and foremost look to deploying capital into underwriting and business opportunities that meet our risk-return hurdles, and we are pleased that we were successfully able to put more capital to work during the January and April renewals. We will continue to look for opportunities to deploy capital into the business as we approach the Florida wind season and are ready to leverage our superior customer relationships as we work with our customers during the upcoming midyear renewals.

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

Kevin O'Donnell

Thanks, Bob. I'll divide my comments between the Property segment and the Casualty segment.

Starting with Property. Overall, we grew gross Property written in our Property segment 36% over the comparable quarter last year. Property cat grew 42% with a substantial portion of this growth in our Upsilon joint venture. As we discussed, we raised capital in Upsilon late last year in order to take advantage of opportunities at January 1, where customers chose to grow with us. The remainder of the growth came from a mix of better rate and new business. The growth at January 1 was possible due to our strategy and flexible approach to capital. When we see a good opportunity, we're able to execute quickly. Our diverse capital sources, including the ILS capital deployed through Fibonacci, Upsilon and Medici provided great assistance in maximizing our performance and the ability to leverage into the market.

Gross written premiums in other Property also grew by 10% over the comparable quarter primarily from our European platforms. This growth was also the result of a combination of rate increases and new business. As previously noted, we experienced solid rate increases at January 1, albeit at the lower end of expectations. As I discussed on the call last quarter, loss-affected retro was up the most, averaging between 10% and 25%, with non-loss affected programs flat to up 10%. On loss-affected U.S. cat business rates were up between 10% and 20%, and 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 Property market were flat to up 5%.

Japan was a major focus at April 1. The Japanese book continues to be an important component of the international portfolio. Although demand increased this year, there was ample supply and renewals were orderly. Japan is viewed as one of the more desirable regions outside the U.S. In this market, however, incumbency is important. We were able to grow our Japanese book due to our deep and long-standing relationships with our customers in the region. Pricing for the Japan renewals was risk adjusted about flat. The U.S. cat team is currently busy with the June 1 renewals, which are dominated by Florida and other peak zone U.S. risk. Unfortunately, early signs indicate capital is being deployed aggressively as third-party capital continues to seek share in the Florida market.

In addition, we do not anticipate significant new demand in Florida. These factors lead us to expect that rate increases at midyear are likely to be single-digit risk-adjusted. We hope to see some opportunities to grow at June 1, but do not expect to be able to do so anywhere near the rate we did at January 1. This is part of the reason why we grew so assertively in the first quarter.

Florida continues to be an important market for us. We will always be there to support our customers and rapidly pay claims in the aftermath of natural disasters as we did last year with Hurricane Irma. That said, Florida plays a significantly less substantial role in our portfolio now than it did even just 5 years ago. Consequently, rate changes in the Florida market do not affect our bottom line profitability as much as they once did.

We continued to assess the 2017 catastrophe events as we received additional information from our customers. As I've discussed before, each catastrophic event is unique. In Hurricane Harvey, for example, we expected to see more risk losses than currently experienced in our other property business. As Bob discussed, however, these risk losses have not emerged as expected, and consequently, we lowered our estimate.

Similarly, the anticipated commercial losses in Hurricane Maria haven't materialized as quickly as expected. But given the size of Maria and its continuing impact on Puerto Rico, it's too early to determine if this is indicative of lower actual losses. It is possible that losses just haven't been reported yet due to conditions on the ground. Hurricane Irma and the California wildfires are developing as expected.

We're very fortunate to have decades of experience with catastrophes in general, and US hurricanes in particular. We have our own proprietary post-loss estimation tools and loss development curves. More importantly, our years of experience estimating losses and settling claims provided a superior insight into the recent loss development in Hurricane Irma. For example, we were not surprised by the large number of reopened claims insurers are experiencing with relatively high levels of loss adjustment expenses. It's a similar situation with the California wildfires. Once again, our experience and proprietary tools and models provided us better insight into the potential impacts of these events. Consequently, recognizing that the Northern California fires are a tail event, we are comfortable with our loss estimate.

Our WeatherPredict subsidiary recently compiled a white paper on the 2017 wildfires, analyzing the conditions that led to these historic losses. Combination of heavy rains in the first 2 months of 2017, followed by the most extreme heat and drought conditions since 1895 resulted in large amounts of very combustible fuel for the fire. High winds then contributed to quickly spread the conflagration, while at the same time, overwhelming fire suppression efforts. These conditions, combined with high building density of wood structures in the wildland-urban interface, resulted in historic wildfire losses. This deep insight into the nature and courses of wildfires gave us a distinct advantage in estimating losses at the time of the event, while also improving our ability to serve our customers and provide them consistent underwriting and capital going forward.

Moving to our Casualty segment. Gross premiums were up 13% versus the comparable quarter. This number probably overstates how much we believe this book actually grew, however. As Bob pointed out, the book grew somewhere closer to 8% once premium adjustments are backed out. Going forward, there should be some growth in this segment from business already on our books. But while we are looking hard to create new opportunities, we do not expect significant growth in new business absent improvements in the market.

For our Casualty segment, this is a busy period of the year. Just over 40% of the book renews between March 1 and July 1. During the January renewal, the casualty reinsurance market exhibited some favorable adjustments in reinsurance terms and conditions. In addition, reinsurers exercised relatively more discipline. At April 1, there was less overcapacity and a reduced willingness in the market to support programs at expiring terms. Underlying rates continue to increase modestly in high severity lines of business. The bigger question will be whether insurance rates can stay ahead of loss trends, which have been rising, most notably in lines such as excess casualty. We have good visibility into loss trends and have been raising awareness of market conditions among our customers in order to help them navigate the current environment.

Mortgage business continues to be attractive despite recent headlines of decreasing PMI rates and increased competition. These developments could make mortgage business more competitive over time. They have low direct impact on the reinsurance that we assume, however, due to the levels we attach at and the structures of the risk. We are a recognized leader in credit reinsurance products, such as mortgage, and expect to continue to maintain this franchise going forward.

Across our Casualty segment, we continue to manage our share of business within classes of risk in order to weight the portfolio towards the most profitable classes. Ultimately, our goal is to improve faster than the market and our strategy to achieve this goal has 3 components: first, extend expertise, strengthening leadership and creating best-in-class tools to optimize our portfolio of business; second, continuing to focus on customer relationships; and third, targeting an overweight position in the most profitable classes and actively managing the portfolio.

In our ventures unit, we raised $70 million of notes from Fibonacci Re in February, covering a portfolio of U.S. risk. Innovative solutions, such as Fibonacci, let us match the right capital to the right risk at the right time. This allows us to facilitate efficient bespoke solutions for our customers. Our ventures unit is a critical component of this execution of our strategy as it provides us with the flexible capital to meet the needs of our customers. The uniqueness of our structure and access to rated and ILS capacities is critical in today's market.

In conclusion, the first quarter was strong thanks to low catastrophe activity, continued growth in premiums and prior year favorable development. Coming up to the midyear renewals, we remain focused on implementing our strategy and maximizing shareholder value. We will continue to build our book by leveraging our platforms and our ability to optimally construct portfolios against all sources of capital. Rising interest rates have had a short-term impact on our investment portfolio, but will benefit us over the long-term. Overall, I look forward to 2018, knowing that our team has the right strategy to deliver shareholder value. And as always, we will focus relentlessly on our 3 superiors: of superior capital management, superior customer relationships and superior risk selection.

Thank you, and with that, we'll turn it over to questions.

Questions And Answers

Operator

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

Q - Kai Pan {BIO 18669701 <GO>}

Thank you and good morning. First, my question is on the June 1 renewals. You guided single-digit rate increases. My understanding is that there will be more loss impact to the county in Florida at June 1 renewals, so which imply the weighted average price increase should be better than the January 1, but it seems like you see differently.

A - Kevin O'Donnell

Yes, I think in when looking at how we were thinking about constructing our portfolio for 2018, we had the expectation that the greatest rate change would be at 1/1, which is one of the reasons we leveraged into the opportunity at that point in time. Right now, we're working on the Florida renewal, so there's still more price discovery that will take place. But at the end of the day, we've constructed the portfolio based on the way we think the market will shake out. We think there is lot of supply looking for Florida risk right now, which is the reason we have a muted view of rate change in Florida compared to what we saw at 1/1.

Q - Kai Pan {BIO 18669701 <GO>}

Okay, that's good. And then back to your first quarter premium growth in Property cat. So if I think simplistically, and the rate increase in mid-single-digit at Jan 1, and last two years, rate have been declining probably in mid- to high single digits, then effectively your rate only back to where they were 2 years ago, 2016. At that time, you were actually actively pulling back from Property cat underwriting because you don't feel this rate was attractive. What is different now given the pricing maybe just going back to that level?

A - Kevin O'Donnell

So I think it is common to think about what level pricing return to from a gross perspective, but the way we look at building these portfolios is on a net basis. And one of the larger components of growth we had at 1/1 was in the retro market, both within our portfolio and using the Upsilon vehicle, where rate changes were greatest. So I think it's -- thinking about what macro comments people made about what the market is and kind of what year that equates back to is certainly one way to look at it, but we look at it as really how do we construct the portfolio on a net basis, knowing that different lines of business and different layers within programs will move differently.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. You don't disclose your PML, so given the premium increases, if 2017 were to repeat, will you have more or less net losses?

A - Kevin O'Donnell

So I think, that's a better conversation to have as we get closer to wind season, when we have really gone through what is likely to occur to our book with the renewals for the Florida, and also as we complete the net construction of our portfolio. So rather than think about whether 2017 -- 2018 will look like, 2017, I would say it's too early to tell because we have a meaningful Florida renewal coming up, and we're still working on structuring the way our net portfolios will be positioned.

Q - Kai Pan {BIO 18669701 <GO>}

Okay, great. Well, thank you so much for your time.

A - Kevin O'Donnell

Sure. Thank you.

Operator

And your next question comes from the line of Elyse Greenspan from Wells Fargo. Your line is open.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi. Thank you. Good morning. My first question, I also wanted to get a little bit more color on how you're thinking about the midyear renewals. I guess, a couple of questions here. On your last quarter call, you guys had mentioned that you had some multiyear cover that came up for renewal midyear that could potentially lead to stronger rates. Is that still the case or I guess, just based off what you see the market, you just think the rates won't be there? And then my second question is, I mean, we're still a little bit of a ways away from the midyear renewals. Given the amount of capital that's come back in since last year, as well is the fact that 1/1 fell short of the expectations, would you be surprised if rates were actually down at the midyear renewals?

A - Kevin O'Donnell

So there's a couple of questions here. Let me just start with the multiyear cover, and then I'll kind of move through them. So the multiyear covers are kind of spread, often they are 3-year deals and they are staggered each year. With the rate level changes I highlighted in my comments, for the June and July renewals, I would say '17 is going to look a lot like '18 -- excuse me, '18 is going to look a lot like '17 from that perspective, just as to how much is renewing and we'll have rate change on what renews, but it's not -- having multiyear deals or not, is not going to be a meaningful mover for our profitability. With regard to price, I think, there might be elements or there might be layers within Florida that have a risk-adjusted reduction. It's not my main thesis as to how the market will ultimately renew, but I do think the amount of capacity seeking to be deployed in Florida will outstrip demand, which will definitely mute the level of price increase that's achievable.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thanks. And then in terms of capital, you guys conserve capital following the loss just to take advantage of a stronger 1/1. As we think about the midyear renewals potentially being weaker than January 1, and you guys are sitting on a strong capital position now, how do you think about M&A? At what point does that more enter the equation, if rates continue to fall short at midyear, and then depending upon the loss level, maybe even go lower at next January?

A - Kevin O'Donnell

Sure. I think one thing to be clear is rates are not below our expectations. Rates were in the lower end of what we expected. So they're within the range of expectations that we had, but I think your comments are probably more that they were below what the market expected. So I think we're in a unique position to have great data over many years, and our ability to build pro forma portfolios continues to become more precise each year. With regard to excess capital, I think, we were pleased that as our first objective is to deploy capital into a market where we're getting good returns, we were able to do that so far this year. As we finish with the Florida renewals and the structuring of our net portfolios, we'll make the determination as to whether we want more capital or risk or less going into this wind season. With regard to how that forms M&A, I think from our perspective, we feel like we're in a great spot, and if there are opportunities for us to deploy capital organically, we'll absolutely do that. And if there's inorganic opportunities to deploy capital that further our strategy and financially viable, we'll absolutely take a look at those as well.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thank you very much.

A - Kevin O'Donnell

Sure. Thank you.

Operator

And your next question comes from the line of Amit Kumar from Buckingham Research Group. Your line is open.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks and good morning and congrats on the print. Two questions. So the first question goes back to the comments you made on the mortgage reinsurance business. And I wasn't clear what you were trying to suggest. Were you trying to suggest that based on your position, gaining pricing declines at the market still do not impact you to that extent? Maybe just expand on that a bit more.

A - Kevin O'Donnell

Sure. So we like the mortgage portfolio that we've written. And the earned premium in our mortgage book, much of it was originated in 2013 to 2017, which obviously had a good profile of risk. The pressure on pricing that we're seeing now, it was something that we expected and we think it's normal within any insurance or financial market for there to be that sort of cyclical move between the excess rate and not. We think the mortgage business is really no different than that. And although rates are down for the first quarter that we've observed in 2018, we still think there's good adequacy in the rates that we're seeing. But more importantly than rate, what we're spending a lot of time looking at is other risk metrics. FICO score, LTV, DTI, large -- and making sure that the layering of these factors is being reflected in the price that we're getting and making sure that we're structuring caps against those metrics.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. Now that's fair. The other question I had was going back to the previous discussion on capital. Obviously you've made an investment in Catalina, and then there's Langhorne, is that how we should view further, I guess, investments or how you would view the market as, I guess, more opportunistic versus doing the old-school sort of consolidation?

A - Kevin O'Donnell

I don't see Catalina or Langhorne as anything different than what we've historically done in our ventures group. With Catalina, we have rights to reinsurance programs, and there's also opportunities for us to partner with them where there's a live book in conjunction with an acquisition of a runoff book. So that sort of partnership is something that we've done for many years. It might be a little bit different approach to it with them being a runoff company. Langhorne, again, we've partnered with lots of people over the years and partnering with a leader in life Re, against our ability to find capital and to build unique structures, I think again, is something that we've done for many years. So I wouldn't see it as any shift in the way we're deploying capital. It was just -- those two opportunities happened to come together at the same time, so it may have looked more like a shift, but it's a normal process for us.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. That's helpful. And just a final question. Going back to the discussion, I guess, Kai or someone else had a question on some pricing and the growth. Is it fair to say that your retro vehicles such as Upsilon, et cetera, do they position you, I guess, more favorably to take benefit of pockets of marketplace versus other competitors, and hence, we should view this profile as different from any other traditional reinsurer? Is that -- I guess, everyone is trying to figure out the growth numbers here versus the market pricing discussion?

A - Kevin O'Donnell

Yeah. I think we are unique in several ways. One is our ability to use the data that we have to forecast where we think the market is going to be. And as I mentioned, we're constantly working on fine tuning and adding more precision to the pro forma portfolios that we're building and then writing into those. I think the access to third-party capital and the ability for us to deploy that where we there's good opportunity for that capital to meet their return objectives is unique, and then our ability to figure out what capital goes to -- what risk goes to what capital and then how to structure the net portfolios, again, is something that the tools and experience we have is difficult to replicate. So I feel like we're in a unique position to build industry-leading cat portfolios, and I think what you saw at this 1/1 is our leveraging into that.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it/ Thanks for the answers. And good luck for the future.

A - Kevin O'Donnell

Appreciate it. Thank you.

Operator

Thank you. And your next question comes from the line of Brian Meredith of UBS. Your line is open.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes, thank you. A couple of quick questions here. First one, I know you talked about growing kind of your expense base a little bit here, investing in the business. And I noticed that G&A expenses, if I factor in corporate, were down about 9% in the quarter year-over-year. How should we think about that here going forward?

A - Kevin O'Donnell

Brian, a couple things that I pointed out in my comments is we continue to try and leverage the growth of the platform, through keeping a focus on operating expenses. We have seen some reductions, that's in the percentage, but that's generally through a lot of leverage we have out there, we did have some overrides. But going forward, we expect to continue to invest in the platform, but it's a balance between the profitability and maintaining that leverage is how we see it going forward.

Q - Brian Meredith {BIO 3108204 <GO>}

So the down 9%, there wasn't anything unusual in that number?

A - Kevin O'Donnell

Down 9%, we did have an increase in overrides on the operational side, which did bring it down some. The core operating costs were down slightly just as we continue to focus on it, and we did do a revaluation -- a reevaluation of what goes into corporate versus the segments, and you can see that the corporate side went up just a little bit. But you'll continue to see some growth over the course of the years, like I said, balancing that growth between managing the platforms and leveraging that growth.

Q - Brian Meredith {BIO 3108204 <GO>}

Sounds good. And then next question, just looking at kind of your book yield on your investment portfolio. I would've thought, I mean, I saw in the short-term investment kind of pop nicely. Should we see that kind of move up on your just general fixed income portfolio given what happened with yields in the marketplace?

A - Robert Qutub {BIO 15269353 <GO>}

As I said in the comments, that's right, Brian, the short term did go up. Obviously, we're seeing more movement in the short end of the curve. It's been out there. We expect the shorter-term rates to continue to go up with what the Fed's been saying. With a duration of 2.4 years, we expect to be able to move with that over time. So we feel we're in a good position. It's been reflected. You've seen the yield go up slightly to 2.9%, which is the new money yield. So as the Fed continues to raise on a shorter end, given the duration of our portfolio, you should see some advances with that.

Q - Brian Meredith {BIO 3108204 <GO>}

Great, thank you.

A - Robert Qutub {BIO 15269353 <GO>}

Thank you.

Operator

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

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Good evening. Kevin, I want to go back to your comments about how you're anticipating sort of the pressure that we're seeing from excess capacity? Longer term, if you look out like five years, how much worse can aggregate returns in Property catastrophe get compared to where they are now?

A - Kevin O'Donnell

So I think you're talking about my comments with regard to Florida. So I'll put it in (inaudible), Florida is about 5% of our premium now. We recognize that when you look at where third-party capital is most likely looking to deploy and it's going to be -- we believe in peak Atlantic risk, and obviously in the Florida market. So our ability to construct a portfolio where Atlantic hurricane is still our peak risk, but to have diversified the way in which we're building that portfolio away from Florida, I think, does anesthetize us a bit from the strong appetite third-party capital has for the domestic Florida market.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, thanks. And same sort of question, again taking a few-year outlook, what should we expect in terms of alternative capital pressuring non-catastrophe and non-property lines?

A - Kevin O'Donnell

I think if you were to have this conversation with us 10 years ago, we would've thought that third-party capital would have looked more horizontally across different lines of business and entered, found ways to come into Casualty and other lines. And I think on the purest sense, we've seen third-party capital drill down and try to get closer to insurance risk. There are other vehicles associated more -- associated with the hedge-fund type approach where there's Casualty business that one could argue has moved to the third-party capital model. But the long-tail nature of it, there's security concerns, all that stuff, is a substantial optical for that capital to come into other lines. I do think there is opportunities for it to come in, but it will take longer for those structures to be developed.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, thank you very much.

A - Kevin O'Donnell

Sure.

Operator

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

Q - Kai Pan {BIO 18669701 <GO>}

Thank you for the follow-up. I have a question on the Casualty and Specialty business. The combined ratio, underlying combined ratio improved 10 points year-over-year, but it's still above 100%. So I just wonder what's your desired level of profitability for that business as that business now matures. And how long will it take to get there?

A - Kevin O'Donnell

As I mentioned, we believe that there are green shoots within the casualty market. I see rates moving up particularly in some of the more hazardous classes. I think it's a question as to whether it can stay ahead of some of the underlying trends. I think of that book over 10 years, and where we are now, the book does need some rate enhancement for what I think of as a sustainable return for over a 10-year period. I think the way we constructed the book, it's poised to leverage into a better market where we can restructure some ceded and we have, over the years, we've built great access to the risk there. So I wouldn't say that what we're seeing today is what I would want to see for a 10-year average, but to be in that business, you're going to have to manage the book through times where there is some degree of rate pressure, knowing that it's going to move back to greater rate adequacy over time.

Q - Kai Pan {BIO 18669701 <GO>}

Thanks again.

A - Kevin O'Donnell

Yeah. Thanks guys.

Operator

And there are no further questions at this time. I turn the call back over to Mr. O'Donnell for closing remarks.

A - Kevin O'Donnell

Thank you all for participating in today's call and we look forward to our call in a couple months' time. Thanks again.

Operator

And this concludes today's conference call. You may now disconnect.