Q2 2021 Earnings Call

Company Participants

- Keith McCue, Senior Vice President, Finance and Investor Relations
- Kevin J. O'Donnell, President and Chief Executive Officer
- Robert Qutub, Executive Vice President and Chief Financial Officer

Other Participants

- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Jimmy Bhullar, Analyst
- Josh Shanker, Analyst
- Meyer Shields, Analyst
- Michael Phillips, Analyst
- Philip Stefano, Analyst
- Ryan Tunis, Analyst

Presentation

Operator

Good day, and thank you for standing by. Welcome to the RenaissanceRe Insurance Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions). Please be advised that today's conference is being recorded. (Operator Instructions).

I would now like to hand the conference over to one of your speakers today, Keith McCue, SVP Finance and Investor Relations. Please go ahead.

Keith McCue {BIO 20595590 <GO>}

Thank you. Good morning. Thank you for joining our first quarter financial results conference call. Yesterday, after the market closed, we issued our quarterly release. If you didn't receive a copy, please call me at 441-239-4830 and we'll make sure to provide you with one. There will be an audio replay of the call available from about 1:30 PM Eastern Time today, through midnight on August 23rd. The replay can be accessed by dialing 855-859-2056 US toll-free or 1-404-537-3406 internationally. The passcode you will need for both numbers is 5371939. Today's call is also available through the Investor Information section of www.renre.com, and will be archived on RenaissanceRe's website, through midnight on August 31st, 2021.

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, Keith. Good morning everybody and thanks for joining today's call. Last night, in our earnings release, we reported a solid quarter with strong top line growth and increasing bottom line profitability. This resulted in annualized return on average common equity of 27.6% and annualized operating return on average common equity of 16.8%. Now that many of our locations are tentatively reopening, we are excited to begin re-establishing our normal cadence of business. In many ways, last year was a trying one, but it was also a year of great opportunity.

I am incredibly thankful for the loyalty of our customers and the resilience of the RenRe community. I'm especially proud of our team's ability to continue to drive and execute in a time of great uncertainty. While for many, 2020 was a year of challenges, for us, there was also a time of opportunity and growth. I am pleased with all that we accomplished and we'd like to take a few minutes to talk about the journey we've been on and how that affects, who we are and what we do.

Back in 2013, the market was evolving rapidly. We anticipated that investors would increasingly seek yield which would result in capital becoming more interested in reinsurance risk. At that time we made the strategic decision to focus on our vision, which is to be the best underwriter. For us, this meant leveraging our skills into remaining a leading reinsurer while diversifying both geographically and into traditional Casualty lines. It meant remaining focused on reinsurance business and not pursuing an insurance strategy. It also meant committing to grow our hybrid business model by expanding our capital partners franchise.

We knew that achieving this strategic imperative would require us to become more efficient. We set specific goals to increase our capital leverage, investment leverage, and operating leverage, with a particular focus on managing expenses. This was because we expected the market to become more efficient and we wanted to insulate our investors, as best we could from the effects of the soft market. Lowering our expense ratio will help to mitigate the effect of the falling rates and offset its impact on our ROE.

In short, we transfer -- excuse me, we transformed the profile of the Company to ensure we continue to benefit our shareholders over the long term. We knowingly began building our Casualty business during a challenging phase of the market, with the intent that by doing so we can construct a portfolio with embedded options for growth when pricing improved. This is not a strategy for the faint of heart. You must believe that you understand the risk you were taking because there is little room for error. You need conviction in your beliefs on how, when and why the market will change and you must be positioned as a respected market participant, so you can grow quickly when opportunity arises.

I am pleased to report that we have succeeded in executing this strategy in our casualty book. Of course, we continue to monitor the impact of social inflation and other trends. What I am confident of however is that the successful execution of our strategy to grow Casualty in a clearly improving market will serve us well and the favorable balance of profitable business will ultimately benefit our shareholders. As we have said many times, we evaluate our Casualty business over rolling 10-year period. For the last few years, we have been writing well-rated risk that we believe will serve as the foundation for a strong portfolio with superior returns. While we believe that we are already beginning to see this profitability, we are in no rush to make changes today. Our long-term shareholders support us and they will be rewarded.

Shifting gears briefly to capital management, which Bob will address in greater detail. We have always been thoughtful and careful stewards of our capital. And have methodically grown our capital base at a -- at a pace consistent with scaling our business, while maintaining strong ratings. Since the second quarter, we have -- 2020, we have raised $1.1 billion in equity capital, raised over $1 billion of partner capital, grown gross written premiums in our in force portfolio by $1.8 billion, earned $1 billion in net income and returned over $700 million to our shareholders, through share repurchases and dividends. As a result, we now find ourselves in the enviable position of having what we believe to be the most -- to be more than ample financial flexibility to support our existing risk, take advantage of potential opportunities and continue repurchasing our shares or what we believe are attractive valuations.

I cannot emphasize too strongly, however, that last year's common equity raise was the cornerstone of all these capital management and underwriting successes. Having the right capital at the right time provided us the fortress balance sheet necessary to accomplish all that we have. That concludes my opening comments. I'll provide more detailed update on our segments' performance at the end of the call, but first, let me turn it over to Bob to discuss the financial performance for the quarter.

Robert Qutub {BIO 15269353 <GO>}

Thanks Kevin and good morning everyone. My comments today will focus on our accomplishments during the quarter and items that drove our results including our three drivers of profit. Starting with our consolidated results, where we reported net income of $457 million and operating income of $278 million for the quarter. These results were driven by strong performances in each of our three drivers of profit, excellent underwriting results, increased fee income and high quality net investment income, as well as robust mark-to-market gains in our strategic investments and fixed income portfolios. This produced annualized return on average common equity of 27.6% and annualized operating return on average common equity of 16.8%.

I'll now shift to our three drivers of profit, starting with underwriting income. Our top line grew significantly in the quarter. Gross premiums written were up $392 million or 23% with the Property segment growing $141 million and the Casualty segment growing $251 million. Year-to-date, we have grown net premiums written by $886 million or 36% and remain on track to grow well over $1 billion. We reported underwriting profit of $329 million million in the quarter and a combined ratio of 72%.

For our Property segment specifically, gross premiums written grew $141 million over the comparable quarter or 14% and we reported a combined ratio of 44%, driven by a lack of Cat losses and strong performance in our Other Property business and $51 million in prior year favorable loss development. Growth in gross premiums written was $50 million or 7% in Property Cat and $91 million or 28% in Other Property. Most of the growth in our property catastrophe business took place in our joint ventures. As a result, we currently only retain about 28% of the gross premiums written in our property catastrophe business. Attritional losses in Other Property book ran at about 46%. This is somewhat favorable to our expectations for this business. As a reminder, in addition to attritional risk, we also take catastrophe risk in our Other Property business.

Moving on to our Casualty results. Our Casualty segment reported gross premiums written of $911 million, growing $251 million or 38% versus the comparable quarter. Kevin will elaborate on the drivers of this growth in his discussion of underwriting performance. We experienced a small amount of favorable development in the combined ratio and the combined ratio was 97.8%. Underlying this was a 67% current accident year loss ratio, which is a 1.4 percentage point improvement from the same quarter last year and consistent with our expectations.

This quarter, there were no significant changes to our COVID-19 loss estimates. That said, this is a developing situation and we will continue to receive information over time. We continue to monitor COVID-19 development across both segments and our current reserves represent our best estimate of potential losses.

Now moving on to our second driver of profit, fee income. Total fee income was $46 million, which is up from the second quarter of last year. Management fees increased and we expect that they will continue to serve as a strong, stable source of recurring revenues going forward. Overall, we shared $114 million of income with the partners and our joint ventures, as reflected in our redeemable non-controlling interest, driven by profitable performance and a low Cat quarter and prior year favorable loss development. Our Medici and Epsilon funds raised in aggregate over $200 million in New Quarter capital this year, which we deployed it during the June 1 renewal. We made a small addition to our financial supplement this quarter. You will see that on the bottom of Page 11, we have broken out our fee income to show its contribution to underwriting results. The goal was to provide additional disclosure on the geography of our fee income in the income statement.

Turning now to our third driver of profit, investment income. We reported strong investment returns this quarter due to falling interest rates as well as gains in our equity portfolio. Net investment income was $81 million and we had $191 million in mark-to-market gains. This resulted in total investment returns of $272 million. The decrease in interest rates has lowered the yield on our retained fixed maturity and short term investment portfolio to 1.3%. The duration on our retained portfolio remain roughly flat at 3.8 years. You'll note that we reduced our exposure to corporate credit this quarter, shifting the portfolio to US Treasuries. We did this as credit spreads approach multi year lows.

Turning now to our expenses and starting with the acquisition expense ratio, which was up slightly to 24%. This was driven by Casualty acquisition ratio, which increased by 1 percentage point to 28%. The current expected run rate of our Casualty acquisition expense ratio is in the upper 20's. So this quarter is consistent with expectations. Meanwhile, the Property acquisition expense ratio -- acquisition expense ratio was flat. Our direct expense ratio, which is the sum of our operational and corporate expenses, divided by net premiums earned, was flat from the prior quarter at 6%. On an absolute basis, operational expenses were up in the quarter but remain below 5% as the ratio to net premium earned. Going forward, as we grow our top line, we will also continue to invest in the business to support our growth. We expect our direct expense ratio to remain generally consistent with this quarter, absent one-time items.

I'd like to now shift to our discussion on our capital management during the quarter. Earlier this month, we issued $500 million of our Series D perpetual preference shares with a fixed-for-life dividend of 4.20%. We plan to use $275 million of the proceeds to refinance our 5 and 3/8 Series E preference shares, which we have already been called and the remainder of the proceeds for general corporate purposes. As a reminder, last year we redeemed the outstanding $125 million of our 6.08% Series C preference shares and retired $250 million of our 5 and 3/4 senior debt. So in total, we have replaced $650 million of capital at an average cost of 5 and 2/3 percent with $500 million of capital at a cost of $420 million. This is part of our long-term strategy to minimize the cost of capital.

Even with the incremental $225 million raised this month, we are comfortable with our various capital ratios, which are stronger than 2 years ago. Also in the quarter, we participated in the issuance of additional $250 million tranche of our Mona Lisa cap on. Consistent with our strategy, this adds additional efficient underwriting capital to our fortress balance sheet. As Kevin noted, since June -- since last June, we have earned a $1 billion. In the second quarter of 2021, we continued returning these earnings to shareholders, repurchasing 1.9 million common shares for $309 million. This works out to an average price per share of about $159 and an average price to book value of 1.1 times our current book value.

Subsequent to the quarter end, we continue to repurchase shares and as of July 19th, had repurchased an additional 920,000 shares for $138 million at an average price of just over $149 a share. In total this year, we have purchased 3.9 million shares for $618 million at an average price of $157 per share. This has reduced our share count by about 7.8% from the year-end 2020 total. Despite substantial quarterly share repurchases, we ended the quarter with more capital than we began, which reflects our excess earnings, net of share buybacks and dividends. Our common equity now stands at $6.7 billion. To be clear about the use of the $1.1 billion of common equity we raised last year, that money hasn't fully down streamed into our operating entities to support the attractive opportunities we took advantage of to substantially grow our book this year and position us well for the future.

Now, before turning the call back over to Kevin. I'd like to finish with a brief discussion on tax. We have been closely following recent G7 and G20 announcements on setting a Global Minimum Corporate Tax, the OECD's work on Pillar 1 and 2 and President Biden's proposals for US tax changes. When it comes to tax reform, the details matter and they are not yet clear. Over the years, however, the flexibility of our global operating platform has proven resilient. And we anticipate this resilience will persist. That said, we will continue to monitor this issue closely.

So in closing, we are pleased with our solid financial performance this quarter across our three drivers of profit and believe we have demonstrated proactive capital management, which should continue to contribute to shareholder value.

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

Kevin J. O'Donnell

Thanks, Bob. As usual, I'll divide my comments between our Property and Casualty segments. Starting with Property. While we always maintain our leadership in Property Cat underwriting, to be clear, we are increasingly doing it differently. We currently take more of our Cat exposed risk through our Other Property portfolio, because that is where we are seeing better returns for taking Cat risk. Our existing Other Property book has access to some of the most dislocated property lines in the US E&S market. We have the platforms, capital and expertise to focus across classes to target and obtain the best risk, due to the long term relationships that we've cultivated with customers for over 25 years.

This is evident in the 28% year-on-year growth, which our Other Property book has delivered and we now have an in force portfolio of over $1 billion. We also grew our Property Cat portfolio this quarter, but by a smaller percentage. The June 1 renewals proceeded as anticipated and overall we believe that we have constructed one of our best Cat books in years. The Florida renewals saw rate increases averaging 5% to 20%, with abundant capacity for upper layers, while many lower layers struggled to get placed, especially if they were loss impacted. As we anticipated on last quarter's call, we reduced the number of Florida programs that we wrote from 18 to 13, which is a continuation of last year's trend when we reduced from 25 programs.

Since 2019, we have reduced our bottom line exposure to Florida domestic companies by almost half. The Florida market remains highly challenged due to social inflation and as anticipated, proposed reforms do not appear likely to materially change the landscape. I reiterate that the Florida domestic market now represents less than 3% of our gross written premiums. That said, decreased exposure to Florida domestics is not the same thing, as decreased exposure to Florida Hurricanes. Southeast wind remains the peak risk in our portfolio. What has changed is that we have moved away from Florida domestic companies to more regional and nationwide programs and over the last year have increasingly taken Southeast wind risk, through our other property portfolio.

I should note, that as we have grown, so has our tail risk on an absolute basis. On a percentage of equity basis, however, it is similar to where we were prior to last year's capital raise. It is easy to grow in this business by simply going risk on, but we created a larger and more efficient portfolio than we had prior to the capital raise, and we did this while holding our relative risk levels consistent with prior years. Inflation has been in the news recently with headline CPA in May exceeding 5%. Most relevant to our Property book however is inflation in the commodity and labor markets. As that is more likely to impact rebuilding cost after an event.

Lumber and other commodity prices have been elevated this year, although recently they appear to be moderating. We price for inflation in our models, given the elevated risk in the current environment, we have stress-tested our portfolio and remain comfortable with this exposure to inflation. From our perspective as a reinsurer, it was a quiet quarter for Cat. Claudette made landfall in Louisiana as a disorganized weak tropical storm. In the beginning of July, Elsa made landfall in Florida as a strong tropical storm and was the earliest e-storm on record. While these storms may result in some losses, we currently do not anticipate these to be material.

We are closely monitoring meteorological conditions as we head into the third and fourth quarters. You've probably read news reports about wildfires and record droughts already in the US, particularly in California. We are expecting an active hurricane season, having already having three US land falling storms. Europe recently experienced a significant flooding event which we are closely evaluating, although it's too early to estimate potential losses. As always, RenaissanceRe Risk Sciences is proving invaluable, in helping us understand the climate dynamics likely to influence the remainder of the year.

I am often asked if we vary the amount of business that we write based on weather forecasts. I strongly believe that due to our superior tools and better understanding of climate change, we play a critical role in managing our customer's natural catastrophe risk. Behaving like a partner by providing long-term stable capacity as part of our value proposition, for which I expect we will be rewarded.

Moving now to our Casualty and Specialty segment. Our Casualty portfolio is performing well. Original insurance rates continuing to increase, although the magnitude appears to be moderating in those classes which have experienced the greatest uplift, such as D&O. We have grown our Casualty business by more than 300% since 2015 on an in-force basis. This includes adding over $1 billion of new business in the last 12 months, also on an in-force basis, which should position us well as the market has clearly improved. Reflecting over my career, I believe that many underwriters do not go large enough when opportunity knocks or small enough when it recedes. I am proud of how our team has performed and believe that we have executed into this market opportunity with great skill and dexterity. Our competitive advantages, including our long term relationships and first mover status, have served us well this year.

We anticipated this market well in advance and adopted a strategy of confident provision of consistent capacity. While other reinsurers haggled over terms and conditions, we were discussing new structures and coverages. We believe that this was the appropriate approach and it explains our ability to grow proactively into an improving market, which should benefit from building our largest and what we believe to be our best Casualty Specialty portfolio as the market hits a multi year high.

Cyber insurance has been getting a lot of attention lately. Rate changes have been greater than 40% year-on-year and the market has been growing by about 25% each year for the previous 5 years. Recently, this is being driven by multiple large cyber attacks and increasing instances of ransomware. As a result, the cyber market is currently experiencing increasing demand and limited supply. We have been reinsuring cyber liability for almost a decade and believe there are good opportunities to grow this book.

Casualty and Specialty losses, including those related to COVID-19 continue to develop within our expectations. In our credit book, mortgage forbearance rates also continue to improve and the US housing market continues to be very healthy. As I mentioned on our previous calls, in the Casualty business our actuaries are being patient in recognizing positive rate movement. We are optimistic that over time we will benefit from the improved underwriting terms and pricing that we believe we are enjoying.

Closing now with our Capital Partners business. The big news for this quarter, was that our Medici cap on Fund surpassed $1 billion in capital under management. This quarter experienced near record Cat bond issuances and we continue to see strong demand for our Medici Fund. Our strategic approach to asset management is not as an asset accumulator, but rather as an underwriter looking to match the most efficient capital with desirable risk. To achieve this, and provide the best solutions to our customers, we need multiple capital structures and capital sources. It is for this reason that we manage several vehicles, both rated and un-rated to provide additional capacity to our customers from third party capital.

Since 2015, we have grown our capital partner business from 4 vehicles and $6 billion in capital to 6 vehicles with more than $11 billion in capital. This is a critical component of our strategy, provides our customers efficient capital that are owned, rated balance sheets or less efficient. It allows our third party investors to partner with the best underwriter and benefit from on -- from our unparalleled understanding and modeling of the catastrophe risk that they desire. And it is good for our shareholders that it results in a stable growing source of fee income.

In conclusion, we delivered a solid quarter with strong premium growth, improving profitability and proactive capital management. We maintained our fortress balance sheet while heading into the wind season, continuing to build the foundations for long-term shareholder value.

And with that, I'll open it up for questions. Thanks.

Questions And Answers

Operator

(Operator Instructions). Our first question comes from the line of Elyse Greenspan with Wells Fargo. Your line is open. Please go ahead.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, thanks, good morning. My first question, Kevin, is picking up, I guess right on your last comment, where you said you guys have a fortress balance sheet heading into wind season. If I remember correctly, RenRe typically does not like to be as active with buybacks during wind season. But if we look at the disclosure of July to date, which I know isn't the active part of wind season, but is wind season you guys kind of continue to buy back your stock at a pretty robust clip. So, given the strong capital that you guys sit with today, can you just give us a sense of thoughts around buyback throughout wind season this year?

A - Kevin J. O'Donnell

Yes, I think we have in other years paused our buybacks during wind season. The way we look at our capital and our capital positioning going into wind season is, first to make sure you're right, the portfolio that we target and desire, which we have done. We hold capital available for opportunities that are likely to emerge during the quarter. And then we look at what excess capital is available and look to manage it typically through buybacks. I would say looking at this wind season, we are in a very strong capital position to continue to execute our strategy. We have ample financial flexibility for a new opportunities. And I would say that with that, we are in a stronger position to continue to think about buybacks during this wind season than we were last year.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then my second question, when you guys raised the capital, we had discussions last year after that, you spoke about wanting to put the capital to work right in 2021 and then in subsequent years. So you still sound pretty bullish on the opportunities within Casualty and Specialty and also within the Other Property market. Obviously you know we're still away a little bit away from thinking about next year's renewals, but as you kind of think about just the opportunity at hand, does it still seems like you'll be able to continue to put that capital to work, relative to what you guys had thought kind of following the capital raise last year?

A - Kevin J. O'Donnell

Sure. So firstly, we've deployed everything we've raised. And the way I think about that is, we have very high renewal retention. So our deployment I think of as an annuity for future value. So we brought it on to our platform, as Bob discussed briefly, we are still yet to earn much of the benefit of the premium that we've already written. And when we look into 2022, we are building our pro-forma's with the assumption that that business remains with us and we have further opportunity to grow. So when I think about the future, we are in a capital position where if that money is deployed, we have additional capital that we are targeting for future growth going into 2022 and we still have the financial flexibility to repurchase shares at what we think are attractive prices. So I couldn't be in a -- looking back over the history of my role at RenRe, I think this is one of the strongest financial positions we've been in, with the greatest flexibility we've ever had.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Thanks for the color.

A - Kevin J. O'Donnell

Sure.

Operator

Thank you. And our next question comes from the line of Ryan Tunis with Autonomous Research. Your line is open. Please go ahead.

Q - Ryan Tunis {BIO 16502263 <GO>}

Hey, thanks, good morning guys. Kevin, I guess just looking at your 1.3% retained investment portfolio yield, isn't that -- it's extremely inefficient, given how much you've mixed more toward longer liabilities in recent years?

A - Robert Qutub {BIO 15269353 <GO>}

I'll take that one Ryan. One, we're very comfortable with our investment portfolio. First, you have to remember, we're an underwriting Company. And we underwrite for the reserves and I'll answer the reserves question in a second here, but we're very comfortable with the liquidity, good stewards of that liquidity and we look at our balance sheet in totality and how the liabilities develop over time. We have extended duration. If you look back over the last few years, we've taken it out from a very conservative duration that you would expect with the Property Cat Company short tail, we've extended that to 3.8 years right now. So, we're consciously looking at that. But what we're not doing Ryan, is trying to swing for the fences and generate yield. Right now, we're trying to be good stewards of the liquidity to ensure that our reserves are taken care of.

A - Kevin J. O'Donnell

One thing I'd add to that is, in thinking about the portfolios that we construct and my comments about Southeast wind still being a peak risk for us, we also placed very high goals for our liquidity. So that, given any sort of Cat event, our liquidity is available. And that obviously affects returns and it has been a consistent part of our capital management over, frankly since I've been here.

Q - Ryan Tunis {BIO 16502263 <GO>}

Thanks. It just seems like a pretty obvious lever and it's a place where you're giving up a few ROE points, relative to the rest of Bermuda [ph]. So, yes, thanks.

A - Kevin J. O'Donnell

Yes.

Operator

Thank you. And our next question comes from the line of Josh Shanker with Bank of America. Your line is open. Please go ahead.

Q - Josh Shanker {BIO 5292022 <GO>}

Yes, thank you very much. So, I'm trying to do some work to figure out the paths. And when you interpolated Platinum into your business, there was a favorable development that was coming off the Platinum acquisition. And maybe things have seasoned enough in your legacy Casualty and Specialty portfolios that you got comfortable with a seasoning and improving underlying loss ratio coming through on that business. How is the -- are the lessons of I guess that '14 to '16 period and the favorable development that we saw in the Casualty and Specialty segment. What lessons can we apply to where your reserving the book right now and following the TMR acquisition?

A - Kevin J. O'Donnell

So the -- let me talk a bit about our portfolio. So, within the Casualty Specialty, we have a diverse portfolio, we do our reserving at a line of business basis. And we, generally as I've talked about on previous calls, have a long period before we begin to recognize positive news. We don't really think about periods, pre buy them and post buy them, as we integrated that portfolio, we integrated the Tokyo portfolio. What I would say is, our methodology is exactly the same as what it was 3, 4 or 5 years ago. The difference is -- and is that we are substantially growing our Casualty portfolio and we're growing into a much better market. We haven't fully earned the -- the growth that we have already achieved. And the growth that we're achieving is at substantially higher rates, than the in-force portfolio.

All of that will take time, but when I think about our Casualty portfolio, I sometimes think about is a battery and how much energy have we put into the battery. We've not only made the battery bigger, the pipe charging the battery is much stronger. So when I look at our -- the quality of our portfolio, I think it's better than it's ever been and it's bigger than it's ever been. And if, when you think about managing the Casualty portfolio being able to grow and leverage the portfolio into what is now the high mark for the portfolio so far, from a pricing perspective, is exactly what you want to be, where you want to be. So the portfolio is in exceptional condition, it's going to take a little bit of time to earn it, which is natural with writing quota share business. And we're enjoying the full benefit of the underlying rate change that has been available in the market for the last several years.

Q - Josh Shanker {BIO 5292022 <GO>}

All right. I appreciate and I realize you guys are trying. But I mean I look at the US reserving right now in your Casualty and Specialty book at about a breakeven combined ratio. Is that based on that you think that a recent accident -- not current, but just bring us that recent accident year, and we're looking at the industry producing much much better margins, than rent reinsurance on the Casualty business. Are you of the view that is there a lot of I guess ACR that you or cedents haven't put up enough for those recent accident years and the way you're reserves are contemplated is your IBNR and ACR is an access of what you're getting from the cedents?

A - Kevin J. O'Donnell

Let me just talk a bit about property types. I think the ACR is a little bit more relevant there. Within our property portfolio is an event-driven property portfolios. We generally carry significantly higher reserves than the primary companies. Looking at our Casualty portfolio, a lot of what is booked is -- is IBNR. And we are then given border of reporting and then we reconcile the actual against the curve that we've built from the up for the IBNR.

In general, we start with a higher expected ultimate than many of our customers. That's just who we are and what we do. Over time, that can be reconciled back to the performance that the underlying carrier is having, because ultimately that's the portfolio we're protecting. So I feel it's a prudent way to think about it when you're one step further away from the original risk. And it takes some period of time for the earnings to come through, because of that strategy, but I think it's the right strategy as a reinsurer. The fact that our portfolio is so much bigger than where it has been historically, also amplifies the change that the pricing should have on the overall return of the portfolio.

So I think we're in good shape. I like the way we reserve our portfolio. I think it's appropriate, and in general, it is higher than what we're seeing on the underlying portfolios that we're protecting, as a starting point, ultimately to reconcile.

Q - Josh Shanker {BIO 5292022 <GO>}

I certainly hope so. I'm learning. I appreciate it. Thank you very much.

A - Kevin J. O'Donnell

Thank you.

Operator

Thank you. And our next question comes from the line of Meyer Shields with KBW. Your line is open. Please go ahead.

Q - Meyer Shields {BIO 4281064 <GO>}

Great. Thanks. Kevin, in your comments, I guess, when you talk about moving towards, I'll say, bigger national carriers that have Florida exposure. So I would assume that that means that you're writing at higher layers. Is that just because they're biggest, they can retain more risk. Is that a fair interpretation and are there other changes in the profile of the book beside that?

A - Kevin J. O'Donnell

I think there's two ways, nation -- national carriers by one is including Florida and one is a Florida specific. The Florida Pacific -- specifics replicate a little bit more to how the regionals buy. Your comment in general on our Property Cat portfolio is that we are higher skewed in our attachment point for Florida. That is not true for our overall Property portfolio, because on the Other Property portfolio, we are writing more proportional exposure through the full risk distribution which will add exposure at the lower point of the curve or the more frequent return periods. So when I look at our portfolio at the overall Property level, your comments are accurate for Property Cat, but our overall Property portfolio is about equally exposed as it has been historically to small events and large events. And that is mostly because of the Other Property writings.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's helpful. That makes sense. And then a quick question for Bob, if we have some of the management fees offsetting expenses and the asset pools are growing, with so that translates into expense ratio improvement over time assuming that you continue to grow investor capital?

A - Robert Qutub {BIO 15269353 <GO>}

Yes, I'd say, as we continue to grow the fees, which we have been over the past several years, you will see the geography in the income statement come through, part of it will be in the Property and is an offset to the expenses. Using a disclosure we put in the supplemental this quarter, you'll be able to see that going forward on a trailing basis. The other is really, it's down in the non controlling redeemable interest and does not affect expenses, it just affects the amount that's released back into our Capital Partners.

Q - Meyer Shields {BIO 4281064 <GO>}

Right, no, I understand that. That's helpful. And just earlier you or in your prepared comments you talked about expecting basically a flat expense ratio and I'm trying to reconcile those two ideas.

A - Robert Qutub {BIO 15269353 <GO>}

The expense. Okay. Sorry. I misunderstood the question. I was thinking was definitely the expense ratio, as the ratio is going to continue to grow. We're going to have -- that is what our measure is, and we continue to invest, it's around just under 5% right now, on the underwriting side of it. The fees as they grow, will continue to be an offset to the operational expense, but we're going to continue to invest in our teams and our platform.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. That -- thank you so much.

Operator

Thank you. And our next question comes from the line of Michael Phillips with Morgan Stanley, your line is open. Please go ahead.

Q - Michael Phillips {BIO 21023048 <GO>}

Thanks. Good morning. Two, well, I guess one quick numbers question for Bob. Bob, you mentioned the change in the ports asset mix from corporate to treasuries. But there was a couple of just minor things that I noticed, if you can comment on cash will be up quite a bit, anything there that was kind of noteworthy for what that was? And then investment expense kind of jumped as well. On those two things, anything that was worth?

A - Robert Qutub {BIO 15269353 <GO>}

So I think, the question, Mike was on cash changes in the portfolio?

Q - Michael Phillips {BIO 21023048 <GO>}

Yes. Cash was up quite a bit in the quarter. I know it was quite lumpy, but it definitely jumped up this quarter and then investment expense I think for the quarter over $7 million in Q4 [ph]. So sort of.

A - Robert Qutub {BIO 15269353 <GO>}

Got it. On a cumulative, starting with the expenses, it was $7 million this quarter, it was the timing of the accruals on a year-to-date basis, Mike, it should be normalized, consider, comparable to what last year was. On the cash side, you see we did raise a couple of hundred million dollars in our funds, that will be on our balance sheet until we get that put into some of the short-term investments which are out there. Just more minor on the geography and inflection of what we've had in our -- in our third party capital.

Q - Michael Phillips {BIO 21023048 <GO>}

Okay, cool vessel. Thanks. Kevin, you mentioned, I appreciate that, it's a little too early to talk about European flooding and exposure there, but we've seen some stories I guess late reported large claims activity from last quarter's winter storm (inaudible). I'm wondering if you've seen -- you didn't talk anything, I guess not, but any concerns there of that moving up at the industry level on what we've seen so far?

A - Kevin J. O'Donnell

Yes, I mean, we're -- I am aware of the changes that you're discussing, that's from our estimate and looking at our portfolio, we still -- we don't see that affecting us the same way it's affecting the market. So we feel good about the estimate that we have up.

Q - Michael Phillips {BIO 21023048 <GO>}

Okay. Thank you, guys.

Operator

Thank you. (Operator Instructions). Again we have a question from the line of Brian Meredith with UBS. Your line is open. Please go ahead.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes. Thanks. Kevin, I was hoping we could dig back a little bit into the whole inflationary question and kind of what the impact could be on losses here as we go through hurricane season. I know you said you're comfortable with your exposure, but how do we kind of think about it, frame it, when you renew contracts at 1-1, were you thinking about the same type of inflationary environment we are in today? And then as we kind of look at potential hurricanes hitting, could they be 5%, 10%, 15% higher given labor shortages and as well as lumber prices?

A - Kevin J. O'Donnell

So firstly, I believe losses will be more expensive this year because of inflation. And I would have said the same thing last year, and the way I think about inflation is, most of the -- the inflation in specifically for the Property Cat portfolio is going to be after an event. That's captured in our models through what we call demand surge. And we hold demand surge curves, significantly higher than the commercial models hold them. So we already have a degree of conservative relative to the industry with our view of inflation, post-event.

Going in this year, we already know there's pressures there. I think labor, the pressures post event could be significant. But we have it reflected in our model. We've done some stress-testing on where they -- where inflation is, we feel comfortable with the way we modeled the book. So if inflation is probably higher than what we thought at 1-1 but and thinking about how we built the portfolio, it's in a post event demand surge basis, I think we're well covered and going to be higher and we already have -- it held higher than the industry.

Q - Brian Meredith {BIO 3108204 <GO>}

Great, thanks. Very helpful. And then the second question, I'm just curious, could you give us a little bit of color on kind of what's your exposure right now as to aggregate covers and obviously with the first quarter events being high and now wildfires, do you think that's a book of business that's at risk for some kind of decent size losses again this year?

A - Kevin J. O'Donnell

It's early. I think all aggregate covers are going to be closely monitored, if there is large events in the first quarter. We've reduced our writing of aggregate covers this year. We have a vehicle Epsilon, which tends to be better suited capital for a whole host of reasons for that type of risk. And that's reduced its exposure to aggregate covers as well. So it's again, if we do have exposure to it, it's less than last year on a relative basis. And it's not something that at this point we have a significant concerns about.

Q - Brian Meredith {BIO 3108204 <GO>}

Great, real helpful. Thank you.

A - Kevin J. O'Donnell

Sure.

Operator

Thank you. And our next question comes from the line of Phil Stefano with Deutsche Bank. Your line is open. Please go ahead.

Q - Philip Stefano {BIO 20346322 <GO>}

Yes, thanks, good morning. In response to an earlier question, you talked about the difference in ultimate expectations between yourself in the season. And I was hoping you could layer into that, I guess some commentary around pricing. When we see the favorable pricing environment in the primary side that we have right now, does it feel like that spread between the ultimates grows, as maybe your ultimate expectations stay flattish. But the expectations of cedents come down to reflect the pricing may be more in real time?

A - Kevin J. O'Donnell

Yes. And the spread between us and our cedents from a pricing perspective is true, it's also the spread between our reserving actuaries in our pricing attitude. Our pricing actuaries spread has enhanced as well. So what that means is the -- our pricing actuaries in the moment are reflecting the price change that is occurring on our portfolio. Our reserving actuaries are monitoring trend and will more slowly reflect the price change that their -- the pricing actuaries are affecting immediately.

So it's a normal part of a rising market. The good news is, as we're moving into a by any measure a better priced market, we are substantially larger. So the beneficial impact of the quality of the portfolio that we've currently written, will emerge over time as we earn it out. So, when I think about the portfolio, when I made my comments about it being the best Casualty Specialty portfolio, we've written, I couldn't be more excited about the profile of the risk that I'm seeing and it'll just take time to earn out.

Q - Philip Stefano {BIO 20346322 <GO>}

Okay, understood. And I also -- I'm understood and appreciate the comments earlier that the full $1 billion or so that was raised a year ago is deployed. And as you work through the excess capital, you feel like you have enough levers in place to continue to grow and continue to repurchase shares. How should we be contemplating the excess capital position now versus a year ago and maybe 2 years ago? And but how -- without putting numbers on it, how should we think about the drivers moving this excess capital position versus the capital return that you're doing?

A - Kevin J. O'Donnell

So I think not all of these are things that are easily seen from outside the four walls of RenRe. But our portfolio is more efficient. We actually have more ability to share risk, both with third party capital, we mentioned we raised $1 billion third party capital last year and over the last 12 months. The -- we've seen more opportunities for portfolio enhancement through some traditional cedant and we were able to grow our top line more than we originally forecast. So all of that plays into the consumption of capital within our portfolio. And that's where the deployment of the $1 billion came from. We've earned out -- we've earned $1 billion and kind of the simplest math and we've only bought $700 million of stock back. So, right there, we've already created more room for growth just by not even keeping up with the earnings that we've had.

So when I look at it, it's a combination of greater efficiency with our portfolio, partially because we've had more opportunity to share it with third party investors and others and convert it to fee income. We've earned more than expected, partially because of the investment returns in the second half of last year. And as we look forward, that gives us a lot of financial flexibility to think about continue to invest in the portfolio and then also have the scale and the flexibility to buy more shares back. So, it's a combination of things, not always easy to point to one number on our Reports to reflect it.

Operator

Thank you. And our next question comes from the line of Jimmy Bhullar with JP Morgan. Your line is open. Please go ahead.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Hi, thanks. Good morning. So, most of my questions were answered. I just had a couple of items. The first, can you talk about the drivers of the favorable reserve development that you saw this quarter and any sort of color on either accident years or region or cases or what really drove that?

A - Robert Qutub {BIO 15269353 <GO>}

Thanks for the question, it's Bob. It really came across most of our years in perils. It's just part of a review that we go through. I would point out that of the $52 million, $28 million if it was in DaVinci. And so that was a lion's share of it and that's aligned with our Property Cat business, and we have 30% of that. So really $20 million of that favorable development was actually released back to our Capital Partners in the non redeemable controllable interest. So, favorable development that was on us was only about $32 million.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Okay and then on pricing overall, obviously the pace of increases has slowed, but how do you feel about the adequacy of pricing, given that rates have gone up over the past several years and, but then there are some pressures as well such as inflation. So -- and just across your various businesses?

A - Keith McCue {BIO 20595590 <GO>}

Yes. So I think, we've been getting rate on rate. So the -- the level of rate increase is reducing but still positive. So that's good news. Just to start with. So, we look at our portfolios -- our observations are broadly, we are seeing rate above trend, we do watch social inflation carefully to make sure that we're assessing that element of trend. And we feel as if the portfolios that we're writing are rate adequate. So, we believe that there is further rate increase coming in the pipeline. But we're already dealing with portfolios that are seeing rate above trend and our rate -- and have rate adequacy in them. So I think the book is in good shape.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Okay. Thank you.

Operator

Thank you. And our next question comes from the line of Meyer Shields with KBW. Your line is open. Please go ahead.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Hopefully, this is a good continuation of Jimmy's question. You've talked about the improving rate environment, I think that's undeniable, but it seems like eventually we're going to see softening in Casualty and Specialty. I was hoping you could talk about how your expectations for maybe the shape of this price cycle mess what we're seeing?

A - Kevin J. O'Donnell

Yes, I think rates won't go up forever. So I think we certainly expect that. I think one sometimes reflecting back on the last comment, we do monitor rate change, but we're disciplined in understanding rate adequacy. So, we believe that there is more rate coming through the system. That will take us again, so we're optimistic about where the portfolios are. Once we observe and whether that's from an increase in trend or a reduction in rate, that the balance is no longer in our favor, we will reduce the size of our books. We're nowhere near that point at this time in our observation of where the markets are though.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Thank you.

Operator

Thank you. And I'm showing no further questions at this time. And I would like to turn the conference back over to Kevin for any further remarks.

A - Kevin J. O'Donnell

Thanks everybody for joining our conference call today. I think this is an exciting time to be in the market, it's an underwriters market. We are the best underwriter in the market looking for the right risk at the right time. We very successfully and early when the opportunity arose, and I think that will be the cornerstone for the portfolio going forward. So thanks again for tuning in and we look forward to speaking to you next quarter. Thanks. Bye.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.