Q4 2016 Earnings Call

Company Participants

- Kevin J. O'Donnell, President, Chief Executive Officer & Director
- Peter Hill, Investor Relations Officer
- Robert Qutub, Chief Financial Officer & Executive Vice President

Other Participants

- Amit Kumar, Analyst
- Brian Meredith, Analyst
- Elyse B. Greenspan, Analyst
- Ian J. Gutterman, Analyst
- Jay Arman Cohen, Analyst
- Joshua D. Shanker, Analyst
- Kai Pan, Analyst
- Quentin McMillan, Analyst
- Sarah E. DeWitt, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Kelly, and I will be your conference operator today. At this time, I would like to welcome everyone to the RenaissanceRe Fourth Quarter 2016 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session Thank you.

And I will now turn the call over to Peter Hill from Kekst. You may begin your conference.

Peter Hill {BIO 15385944 <GO>}

Good morning, and thank you for joining our fourth quarter 2016 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 to provide you with one.

There will be an audio replay of the call available from about 1:00 PM Eastern Time today through midnight on March 1. The replay can be accessed by dialing 855-859-2056 or +1-404-537-3406. The pass code you will need for both numbers is 49123700. Today's call is also available through the Investor Information section of www.renre.com, and will be archived on RenaissanceRe's website through midnight on April 12.

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 to you.

With us to discuss today's results are Kevin O'Donnell, President and Chief Executive Officer; and Bob Qutub, Executive Vice President and Chief Financial Officer.

I'd now like to turn the call over to Kevin. Kevin?

Kevin J. O'Donnell

Thanks, Peter. Good morning, and thank you for joining today's call. RenaissanceRe performed well in 2016 against the backdrop of a challenging market. For the year, we grew book value per share by 9.4%, and tangible book value per share plus accumulated dividends by 11.4%. Also for the full year, our return on equity was 11%, and our operating return on equity was 7.8%.

Our results were driven by several factors, including the pricing environment in the reinsurance business, loss activity, reserve releases, and movement in interest rates. By focusing on our core strengths, superior risk selection, client relationships and capital management, we executed well against a difficult and rapidly evolving market. We have strengthened our operating platforms globally, developed deeper relationships with clients, brought more efficient capital solutions to market, and exercised underwriting discipline in building a diverse and profitable portfolio of risk.

I look forward to 2017 with confidence knowing that our teams have all the tools, relationships and capital to successfully execute our strategy. Though we continue to face challenging market conditions and evolving industry landscape and heightened macroeconomic uncertainty, our platform and team are well-prepared to serve our clients. Overall, I believe the challenges of 2016 will continue into 2017.

The pricing in our market continues to be pressured by capital supply increasing at a faster rate than demand for reinsurance. At the most recent renewal, in general, rates and property cat were down, but the reduction was smaller than in prior renewals, driven by the same over supply of capital and relatively flat demand.

In Casualty and Specialty, reinsurance terms were relatively flat, but we began to see some rate competition in underlying books being ceded that required careful underwriting and monitoring. Our advantage in such an environment has always been our ability to identify relatively well-priced individual risks and construct an attractive portfolio against the market average. Our growth portfolios are often managed and optimized as we match our risk with the most efficient sources of capital. Our ability to execute this process consistently and seamlessly has helped establish RenaissanceRe, a first call market for our clients.

Most recently, we raised additional capital in Upsilon and created Fibonacci Re, which demonstrated our ability to respond to changes in the market and deliver a more optimal solution for our clients. Partially, as a result of pricing trends, we have also seen a wave of consolidation in our industry in the past few years. Consequently, many of our clients have grown in size, expanded their capabilities, and demonstrated a need for broader and more sophisticated solutions from the reinsurance market. We welcomed this trend, and view these changes as additional opportunities to serve our clients in more ways.

We acquired Platinum in 2015, integrated the company quickly, and developed some new products on our unified RenaissanceRe platform early in the consolidation wave. Today, 40% of our clients are now served by all three of our underwriting platforms. For us, moving quickly and early, and anticipating that larger clients would have new risk needs was a strategic imperative, marked but not limited to our acquisition of Platinum.

We're also operating in a period of heightened macroeconomic and geopolitical uncertainty. The new administration in the United States has signaled several changes to economic policy that could have wide-ranging impacts on the insurance and financial services industry broadly.

Additionally, we have already seen interest rate volatility that has affected the results of insurance companies across a range of businesses, including life and property, casualty. Today, our customers want to do more with us. And the growth we choose to pursue will be disciplined and built around a framework of adding value to clients through underwriting.

Finally, I believe our reputation, experience and long track record of partnership in the capital markets will continue to enable us to source the most efficient capital that earns an attractive return for our investors, who provides optimal underwriting solutions for our cedants.

I will provide a few more details on the opportunities we're seeing in 2017 later in the call. But first, I'll turn the call over to Bob for a look at our financials and our new segment reporting approach.

Robert Qutub {BIO 15269353 <GO>}

Thanks, Kevin, and good morning, everyone. As we mentioned on the third quarter earnings call, we have presented our fourth quarter results under new reportable segments: Property and Casualty and Specialty. In connection with the move to our new segments, we committed to providing transparency into our Lloyd's platform and catastrophe underwriting results for a period of time.

This information is now provided in our fourth quarter financial supplement. In the 8-K we filed in early December, we provided historical underwriting results under the new segments back to 2014. We hope you found this disclosure useful, and we believe our new segment presentation will provide you better transparency into how we manage and measure the performance of our business.

Moving on, I'll provide you an overview of our consolidated results for the fourth quarter and full year, and outline a few key themes before turning to our segment results. For the fourth quarter ended December 31, 2016, we reported net income of $69 million or $1.69 per diluted common share, and operating income of $190 million or $2.92 per diluted common share.

We generate an annualized ROE for the quarter of 6.3% and an annualized operating ROE of 10.8%. Our book value per share increased 1.3%, and our tangible value per share including accumulated dividends increased by 1.8%. Underwriting income was $104 million and we reported a combined ratio of 71%. For the full year, we reported net income of $481 million or $11.43 per diluted common share, and operating income of $339 million or $8.03 per diluted common share.

As Kevin mentioned, we generated an ROE for the year of 11%, and our operating ROE for the year was 7.8%. Our book value per share increased 9.4%, and our tangible book value per share, including accumulated dividends, increased 11.4%. Underwriting income for the year was $386 million with a combined ratio of 73%.

As noted, the fourth quarter capped off another profitable year for the company despite a moderate level of insured catastrophe losses during the year. We also experienced a rise in interest rates in the fourth quarter, reversing some of the unrealized gains we booked earlier in the year. Our equity portfolio continued to perform well and partially offset the unrealized losses in our bond portfolio for the quarter.

For the quarter and full year, we recorded a net negative impact from Hurricane Matthew of $44 million after giving effect to the redeemable non-controlling interest in DaVinci. Now, as a reminder, net negative impact includes the sum of estimates of net claims and claim expenses incurred, earned reinstatement premiums assumed and ceded, lost profit commissions, and the offset by the redeemable non-controlling interest in DaVinciRe.

Given the magnitude and recent occurrence of Hurricane Matthew, meaningful uncertainty remains regarding losses from this event and the actual net negative impact from this event will likely vary from this estimate.

During the fourth quarter, we also recorded favorable development reserve of $87 million, with $67 million in our Property segment and $20 million in our Casualty and Specialty segment. Favorable development in our Property segment was driven by normal course reviews of large losses that reduced our estimate of expected ultimate losses on certain large events and a number of other smaller weather events in the U.S. from recent years. In our Casualty and Specialty segment, actual reported losses came in better than expected on attritional net claims and claim expenses.

Now, let's shift to our segment results beginning with the Property segment, followed by Casualty and Specialty. During the fourth quarter, our Property segment gross premiums written were up 19% relative to the fourth quarter of 2015, driven by our other property class of business. The fourth quarter generally is light in terms of renewals for our Property segment. Included in gross premiums written in the Property segment for the fourth quarter of 2016 was $9 million of reinstatement premiums associated with Hurricane Matthew.

For the fourth quarter, the Property segment generated underwriting income of $100 million and a combined ratio of 45%. Impacting the underwriting result was a reduction in operating expenses and favorable development on prior accident years of $67 million, as I mentioned earlier. Offsetting these items was net negative impact to the Property segment underwriting result of $49 million associated with Hurricane Matthew before giving effect to the redeemable non-controlling interest in DaVinci.

For the full year, our Property segment gross premiums written increased 4% over the year, reflecting growth in our other property class of business, partially offset by continued soft market conditions in property catastrophe. As a result, managed cat premiums were down 5% for the year. Included in property gross premiums written and managed cat premiums for the year were $21 million of reinstatement premiums related to a number of U.S. weather events, the Fort McMurray Wildfire and Hurricane Matthew.

The Property segment generated underwriting income in 2016 of $363 million and a combined ratio of 50%. Included in our year-to-date Property segment underwriting results is a net negative impact of $101 million associated with losses from a number of U.S. weather events, the Fort McMurray Wildfire and Hurricane Matthew.

For the fourth quarter, our Casualty and Specialty segment gross premiums written were down 7% relative to the fourth quarter of 2015. The main driver for the decrease in the quarter was a reduction in premiums in the credit book, which had several large multi-year deals incepting in the fourth quarter of 2015.

Recall that we booked a premium on mortgage deals at inception. However, they tend to have a longer duration and are consequently earned over a period of 10 or more or years. This book can be influenced by a small number of relatively large transactions.

In comparison to the decrease in gross premiums written, net earned premiums in our Casualty and Specialty segment were up 2% in the fourth quarter. The Casualty and Specialty segment generated underwriting income of $3 million, with a combined ratio of 98% in the fourth quarter.

For the full year, our Casualty and Specialty premiums are up 35% from a year ago, reflecting continued growth in the mortgage reinsurance and the inclusion of Platinum results in our financials following the close of the transactions in March 2015.

As we have grown our Casualty and Specialty book, we have increased the use of reinsurance to manage our assumed risk and enhance overall returns. Consequently, net premiums written in Casualty and Specialty were up 17% for the year compared to the larger increases in gross premiums written previously noted. For the full year 2016, underwriting income in Casualty and Specialty was $21 million, with a combined ratio of 97%.

Now, turning to investments, in the fourth quarter, we reported net investment income of $47 million, comprised mainly of interest income from fixed maturity securities of $39 million and net investment income from our alternative investment portfolio of $10 million. Our strategic investment portfolio, managed by our ventures unit, recorded gains, and we continue to be satisfied with the long-term fundamentals of the companies we own.

For the quarter, the annualized total return on our overall investment portfolio was about flat at negative 0.2% due in large part to mark-to-market losses on our fixed maturity investment portfolio as interest rates rose in the fourth quarter. Strong returns in our portfolio of public equity investments partially offset the impact of rising rates.

For the full year, our investment portfolio generated a total return of 3.5% compared to 0.9% in 2015. Our investment portfolio remains conservative with respect to interest rate, credit and duration risk, with 89% allocated to fixed maturity and short-term investments with a high-degree of liquidity and modest credit exposure. The duration of our investment portfolio remained relatively short at 2.4 years and is consistent with recent quarters. The yield to maturity on fixed income and short-term investments was 2.1% at December 31 compared to 1.8% at September 30.

Finally, I'd like to note that our capital position remains very strong, with modest leverage and efficient access to capital through multiple sources. For the full year, we repurchased $309 million of our common shares. And looking across the spectrum of our managed balance sheet, we kept DaVinci flat, continued to raise capital on other select areas through Upsilon, Medici, and our newest venture, Fibonacci Re.

Our capital management actions reflect a quickly evolving market, and we believe we have developed a unique agility to deploy capital where it is needed most, and remove it from areas where it's not earning a suitable return. In short, RenaissanceRe continues to match well-structured risk with the most efficient forms of capital across several balance sheets and capital sources.

As we head into 2017, we are confident that our ventures team is actively building our relationships with high-quality, long-term investments, as well as looking for new strategic transactions that can enhance our underwriting franchise.

In closing, I would be remiss if I didn't mention it. Since my arrival last August, I continue to be impressed with the caliber of talent at RenaissanceRe and appreciate the ongoing support throughout the organization that has ensured a smooth transition of leadership in the finance team as we close the books on 2016. We have a deep bench, not only on the financing but throughout the company, with the necessary resources to continue to provide superior customer relationships, superior risk selection, and superior capital management in 2017 and beyond.

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

Kevin J. O'Donnell

Thanks, Bob. I will divide my comments between our Property segment and our Casualty and Specialty segment, starting with the discussion of the 2016 results and then moving to the January 1 renewal and opportunities in 2017. After that, we'll open it up for questions.

As we discussed last quarter and as Bob mentioned, we revised our reporting segments to Property and Casualty and Specialty to give you greater transparency into how we think about our business. Our Property segment includes our catastrophe excess of loss business and other property. Included in other property is property written on either a proportional or per risk basis, the property component of our regional multiline business, and E&S property insurance written on our Lloyd's platform, all of which were previously reported as part of either specialty or our Lloyd's segment.

I should point out that our Property business is also exposed to catastrophic events, although to a lesser extent than our catastrophe book. For the full year in 2016, we grew our Property segment marginally in a tough market. This growth came from our other property business, which grew significantly, although from a relatively small base.

Our other property business is predominantly written on our U.S. and Lloyd's platforms, and demonstrates how the strategic choices we have made over the last several years have developed into increased opportunities. Our catastrophe book was down year-on-year as we either reduced or exited business that no longer met our return hurdles.

Any growth in this market is an achievement. We're able to write more business by moving from the transactional to the strategic, increasing ties with our clients, and continuing to act as a trusted advisor across multiple lines of business. We are proud to have a value proposition that extends beyond price as our clients and brokers recognize the importance of our problem-solving capabilities and our ability to match risk with capital. They also appreciated the expertise provided by our scientists at WeatherPredict, and the integrated solutions we can offer through our Lloyd's platform and our various joint ventures to help them grow their business.

Moving to the January 1 renewal, my comments will primarily address the catastrophe excess of loss market as most of the renewals are in this line of business. Property rates continued to decline. In the U.S., rates were down by about 5%. Rates in the international market were down somewhat more than the U.S., while retro prices were down somewhat less. The relative outperformance of retro is the result of several new programs being placed.

Despite the price reductions, we grew our Property segment at January 1. This growth came across the board in both our catastrophe and other property business in the U.S. and internationally, and in assumed retro. This growth was driven by both new opportunities and growth on existing lines. What is particularly rewarding is the fact that we were able to identify attractive opportunities on each of our platforms.

Growth in the Property segment was augmented at January 1 by the expansion of Upsilon Re and the creation of Fibonacci Re, and we anticipate that we will continue to help this grow over the year. If you recall, last year, we shrank Upsilon Re, which is our collateralized reinsurer, as opportunities were limited. In 2016, we saw increased client demand and heightened investor interest for retro, and were consequently able to grow Upsilon. Fibonacci Re is our newest vehicle and has helped us bring additional capacity to Renaissance Reinsurance clients in the U.S. for more remote property risk. One new opportunity worth noting both due to its size and its potential is the NFIP flood reinsurance purchase. We were a significant participant on this program, which demonstrates the appetite of the private market for flood risk, and which, going forward, could see considerable expansion.

In 2017, we anticipate that our Property segment will be up slightly, with the growth in our property business more than offsetting the expected decline in catastrophe. We believe we can grow our other property business as our expanded platform and strategic approach to clients will continue to provide us new opportunities.

Another area targeted for growth is our regional multiline business where there continues to be significant opportunities. We see the significant portion of our property risk, which allows us to optimize our portfolio further, even with deterioration in rates. After adjusting for retro purchase and the use of joint venture vehicles, we retained roughly half our gross written premium in the Property segment. As I have said before, this may look expensive in a low cat environment, but we believe this is the right strategy for our portfolio.

Within our Casualty and Specialty segment, we write various classes of business. These include traditional casualty lines such as general liability and professional lines, the casualty business written through our Lloyd's platform, and the casualty aspects of our regional multiline businesses. Casualty and Specialty also includes financial and credit business such as our mortgage reinsurance book and trade credit.

Additionally contained in this segment are specialty lines such as marine, surety, terrorism and cyber. Previously, our Specialty segment had certain proportional and per risk property business, which has been moved to the new Property segment for increased transparency. The Casualty segment now represents more than half of our business globally, and has grown into a sustainable franchise that is core to our ability to meet client needs. For the year, we grew our Casualty and Specialty segment almost 35%, with growth coming across all of our platforms. This growth broke down to be about 25% growth in Casualty lines, 50% growth in our mortgage book, and 10% growth in Specialty lines.

There were three general drivers of growth for the year. The first driver was increased signings on existing programs where clients look to consolidate their panels. The second driver was the writing of additional lines of business with existing customers. And the third was from specific strategic initiatives such as helping clients expand to new lines of business, and developing a marine and energy book at Lloyd's.

At the January 1 renewal, conditions were consistent with recent experience, with rates declining slightly and terms and conditions generally remaining stable. Overall, ceding commissions were flat. Clients with attractive results probably got a little more ceding commission, and conversely, those with weaker results probably got a little less, which demonstrates that the market is showing discipline in response to cedant performance.

In 2017, we believe there will be some opportunity for modest growth in our Casualty and Specialty segment, although we do not anticipate the same pace of growth as we experienced in 2016. For example, given our leadership position, we expect to be first call for new opportunities in the mortgage space. Much of our growth in this book, however, has come from legacy business. So, future opportunities will be more constrained. It bears repeating, however, that due to the long tail nature of our mortgage book, the premium we have already written will continue to earn over several years.

Another area of potential growth will be in marine and energy reinsurance at Lloyd's. We've been diligently building capabilities in this area and are hopeful that we'll be able to grow this book. We also anticipate growth in our commercial multiline business run out of our Chicago office, and U.S. Casualty business written out of New York.

On the other hand, we continue to monitor certain lines of business for signs of price competition such as D&O and the accident and health business. Similar to our Property segment, we executed our gross to net strategy in Casualty and Specialty, with ceded purchases remaining fairly consistent during the quarter and for the full year. We currently cede approximately one-third of our premiums in this segment.

While we find the Casualty and Specialty business attractive overall and diversifying to our portfolio, we nonetheless make significant retro purchase on this book for three reasons. First, it helps us maximize shareholder value by enhancing our overall risk-adjusted return profile. Second, it allows us to maintain our leadership lines such as mortgage as we can deploy larger limits. Finally, our gross to net strategy helps us transform risk income into fee income. We have seen significant demand for our Casualty and Specialty ceded programs, which we believe demonstrates strong market validation of our tools and capabilities in underwriting casualty and specialty.

I was pleased with our team's performance in the fourth quarter and throughout 2016 as a whole. Across both of our segments, we continue to deepen our relationships with key clients and expand our ceded program to improve the capital efficiency of our portfolio. We also continue to leverage existing platforms and resources in order to manage expenses and optimize operational efficiency. Going forward, we will continue to execute our strategy, maintain our underwriting discipline, and drive growth in areas we find attractive.

Thanks. And with that, I'll turn it over to questions.

Q&A

Operator

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

Q - Kai Pan {BIO 18669701 <GO>}

Thank you and good morning. First question is on the – Kevin, you mentioned last year that some of the Atlantic hurricanes might be overdue over time, but then we had Hermine and Matthew, and seems now that losses was not big enough to really moving the pricing to the positive territory. I just wonder, in your opinion, what could turn the pricing.

A - Kevin J. O'Donnell

Really, what a large hurricane can do is kind of ratify the normal system of capital within our business where premiums are paid and return to clients through losses. So, I think what we need is some sort of shock loss in the system, and it doesn't necessarily mean to be of X size or in X location. It really is something that people are surprised to be paying. So, it's my belief that a much smaller New Madrid earthquake can have as profound a market impact as a very large Florida hurricane. So, I think it's really about just having more losses and more of our premium returned to the buyers through losses or some other mechanism.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. And then on the capital management front, you guys didn't purchase any shares in the fourth quarter. But for the full year, you actually returned more than you earned. I just wonder is that sort of 100% payout ratio still reasonable assumption for 2017.

A - Robert Qutub {BIO 15269353 <GO>}

Thanks, Kai. That's a good question. As I've mentioned before, nothing's changed regarding our philosophy or our approach to capital management. Our framework remains the same. We'll always favor allocating capital to the businesses where the opportunities make sense and returning capital to shareholders over time when it's appropriate.

It is, I think, critical to remember that this is not a quarterly or an annual event, but a long-term commitment. It takes into account how our business is evolving over time, and the timing will depend on a number of factors, including business opportunities, I would say the profile of our company, as well as liquidity profile.

Now regarding guidelines for returning capital, we don't have a set dollar or calendar or targets for returning capital, nor do we have really an operating benchmark that we would action against. As indicated last quarter, we do take into consideration net income available to shareholders, but that's just one of many factors we got to consider.

Let me close with the fact, there is no single metric we use to benchmark our capital levels. As you look back over our history, you'll see that we've demonstrated that we've really been good stewards of our capital and returned over $1 billion over the last three years.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. That's great. Lastly, if I may, is a market question like on U.S. tax reforms. Some argue that U.S. insurers' tax rate could go lower, but some of the global offshore insurance companies' tax rate could go higher. What's the potential implication for RenaissanceRe?

A - Robert Qutub {BIO 15269353 <GO>}

Look, there's a lot of – as Kevin mentioned, there's a lot going on in the legislation in the U.S. There's much discussion, and I would have to say there's a lot of uncertainty, but we've been watching this very close, keeping an eye on what's happening with the Ryan Bill, the Neil (31:17), all those things, they're moving parts. And as you've seen, there's a lot of volatility. But what we will say is we have comfort in our platform that gives us a lot of flexibility and we'll react accordingly as we see that.

Q - Kai Pan {BIO 18669701 <GO>}

Great. Well, thanks so much.

A - Kevin J. O'Donnell

Thanks, Kai.

Operator

Your next question comes from Amit Kumar of Macquarie. Your line is open.

Q - Amit Kumar {BIO 16979665 <GO>}

Thanks, and good morning and congrats. Maybe a couple of quick follow-ups and then I'll re-queue. Just going back to the broader discussion on cross-border taxation. Yes, it's too early days in terms of what's going to happen, but if you were to sort of think this through and talk about the planning, do you think that RenRe is – obviously, the company is morphed, would be able to address any potential changes in terms of re-domiciling operations, or do you think you'll be taking pricing action at that point if some sort of tax reform does go through?

A - Robert Qutub {BIO 15269353 <GO>}

There's a lot of broad things to consider. And I hear what you're saying. We're looking at all of these different sort of perspectives that we continue to hear in the market. We do have a flexible platform. We do have the ability to make adjustments to react accordingly. And, yeah, in some scenarios, you do see that there could be significant impact to the end consumer, but these are all things that are being drawn out in the scenarios that are out there, and it is too early to make a call. But there are a lot of things being circulated that could have, in some cases, a significant impact; in other cases, not as much.

A - Kevin J. O'Donnell

And just to amplify Bob's comments. I feel really good about the investments we've made over the last several years, which have been strategically important for our business. But investing in the U.S. platform and continuing to grow the Lloyd's platform, Singapore and other things, provide additional flexibility to the platform, which will serve us well going forward.

Q - Amit Kumar {BIO 16979665 <GO>}

Got it. Yeah. That's, I guess that's what I was looking for. The second and final question also goes back to the broader discussion on capital management. Assuming the tax discussion heats up over the next few months, could there be a likelihood that you'd probably take your foot off the gas pedal at that time and say, let's see how this situation evolves, or is that a separate discussion based on your excellent capital strength? Thanks.

A - Robert Qutub {BIO 15269353 <GO>}

Going back to what I said, I'll give Kevin an opportunity to say a couple of comments here, but it really looks that our framework hasn't changed. We still are looking at buybacks as our means of returning capital. And you're right, there's a lot changing in Washington, in the U.S. administration, has a lot of volatility.

Where it lands could have an impact or not have an impact on how we look at our deployment of capital, too early to tell. Again, we're going to sit back and watch, and still proceed to return capital over time, not really set against any benchmarks. I don't know, Kevin, if you want to add anything?

A - Kevin J. O'Donnell

I think that's exactly right, Bob. I think you're focusing on – and a very important variable, which is what the legislative changes may be and how they can affect us. That's a singular component of how we think about deploying capital and managing capital, and it may inform how we ultimately invest in our business. But the process that we have of first deploying into our business and then thinking about ways in which we can return excess capital to shareholders is exactly the way we'll approach it, and an important component of that will be legislative changes with the new administration.

Q - Amit Kumar {BIO 16979665 <GO>}

Got it. That's helpful. I will stop here. Thanks for the answers and good luck for the future.

A - Robert Qutub {BIO 15269353 <GO>}

Thanks.

A - Kevin J. O'Donnell

Thanks.

Operator

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

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Hi. Thank you. A few questions. First off, Kevin, in your remarks, you mentioned when you were talking about the January 1 renewals that you guys found opportunities to grow in cat and other property. But then you also, in your kind of full year comments, you marked – talked about a decline in catastrophe. Am I not tying those two thoughts together, or did you grow at January 1 and you expect the cat business to decline as we move throughout the year?

A - Kevin J. O'Donnell

I think that's exactly right. We did see a couple of opportunities, which allowed us to expand our catastrophe writing at 1/1. I think that the guidance I'd point to is our belief is over the course of 2017, our cat book will be down, but less than the 5% it was down from last year. So, that means that going forward, we do anticipate continued rate pressure and possibly some reduction by us.

Offsetting that, though, is we think we have increasing opportunity in our other property business. So, I think our Property segment will be up marginally, but it will be kind of a yin and yang with property cat down and other property being up slightly.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. Thank you. In terms of share repurchase, just another question, is there a certain valuation where you, guys, take a pass on repurchasing stock? And then also, as you guys have slowed down on the share repurchases, I mean we haven't seen any repurchase since the summer, is – do you think, in a way, are you also holding on to capital for potential M&A? I mean, how do you balance where your stock is trading versus kind of holding on to capital for M&A opportunities down the road?

A - Robert Qutub {BIO 15269353 <GO>}

Yeah. Thanks, thanks, Elyse. It's a good question. I'll go back to kind of sort of my response to Kai here and looking at – really, nothing's changed in what we've – our framework on how we look at allocating our capital. The first order of the allocation is going to be to the development and growth of our businesses. We'll look at that. We'll return excess capital, but we've got many things to consider out there. We don't look at the metric. Share price is important, but also, a lot of other things are important, and what we're – being able to deploy it into the business, what's a risk for us. Just a lot of factors, Elyse, that we look at. And again, no set benchmark. And we feel that over time, we've been a good steward of our capital. As I mentioned to Kai, we've returned over $1 billion over the last three years.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. And then, if I look at the total Casualty and Specialty kind of current accident year combined ratio, backing out the reserve releases, you guys are running above $100 million, I guess about $110 million for the fourth quarter, $105 million for the full year. I mean, as we think going forward, that book will grow somewhere, but how do you think about the margin profile? What kind of combined ratio do you want to - do you envision that book running at either in 2017 or just over time?

A - Robert Qutub {BIO 15269353 <GO>}

Well, thanks for the questions. It's a good opportunity to get some comments out there. And this is a - the Casualty and Specialty is, you look at it, is a longer-tail business that's out there. It takes longer. And looking at it in a quarter or a single-year timeframe is probably not the best perspective to look at it. What you - we look at it, it is the longer tail aspect, the attritional nature of it. Some of these pan out over years. Obviously, we think - we feel good about the book. And on a current accident year, you can see on a full-year basis, kind of what you want to look at on a relative basis is it's got about a point when you think about it in that context. But again, this is something that takes time to develop, and we really haven't seen any trends at this point.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. And then, one last question, if I may. As we think about just higher interest rates, what's the delta between the new money yields and your portfolio yield? And how do you think - do you think we can see, given the rise - the recent rises in interest rates, a little bit stronger investment income in 2017?

A - Robert Qutub {BIO 15269353 <GO>}

That's a great question, Elyse. Here's how I kind of look at it when I think about the investment portfolio, and some of my comments are just reflecting back from what I said. A couple of sort of data points is that we ended the year with 2.1% yield, it was 1.8% in the third quarter, so that started ticking up. And you got to remember, we do really have a very liquid portfolio duration of 2.4 years, nearly 90% is in shorter, fixed maturity and liquid security. So, it gives us a lot of flexibility that we have out there. So, with that being said, I feel good about our prospects for 2017, our ability to adapt to where the market may take us. And we also have a strong equity portfolio as well, too.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. Thank you very much.

Operator

And your next question comes from Quentin McMillan of KBW. Your line is open.

Q - Quentin McMillan {BIO 19411547 <GO>}

Thanks very much, guys. I just wanted to touch on the overall underwriting. It looks like the accident year combined ratio to the core margin was down about 450 bps, and that's coming obviously from the two factors of both price declines, as well as the mix shift to the portfolio towards the Specialty and Casualty. And I was wondering if you could help us, in 2016, sort of how much of that maybe came from one bucket versus the other on kind of a broad brush statement? And secondarily and kind of connected with that, how far along are we for that drag for Casualty and Specialty before that starts to sort of normalize?

A - Kevin J. O'Donnell

Can I just ask a clarification? I'm not sure what you mean by the drag on Casualty and Specialty and normalizing.

Q - Quentin McMillan {BIO 19411547 <GO>}

Sure. What I mean is that the combined ratio of that business is naturally going to be higher than your – the run rate expected combined ratio is naturally higher than your property cat portfolio. So, I'm talking about sort of the drag as the mix shift moves more towards Specialty and Casualty. Are we at sort of a steady state now with the portfolio being 50/50 or could there be some more drag in the first half or even through 2017?

A - Kevin J. O'Donnell

Okay. Let me just kind of frame how I think about our combined ratio, and then I'll try to zero in a little bit on the questions that you have. So, starting with Property, our Property segment loss ratio or combined ratio will increase. That is how property cat is as it's normally been, and that's going to be really reflective as to whether there's events or not. But on the other property line, there'll be attritional losses, which will come in as a component of the overall segment. And it'll be transparent, it'll be something that will change the combined ratio on that side.

Going over to Casualty/Specialty, I am, again, breaking it down for the combined ratio between our underwriting expense and our loss ratios. I look at our loss ratios and it's been reasonably consistent over time. I'm pleased with the way the triangles are developed, and I'm not seeing any trends that are alarming. On the acquisition cost, acquisition costs are relatively elevated, but reasonably flat. So, looking at it from that side, I think it's reasonably stable.

The second question you're asking is to an optimal combination between how much Property and how much Casualty and Specialty, we don't have an optimal target for that. We're constantly looking at how to change the profile of our business. An important component of that balancing is our ceded. So, for many, many years, we've been active in capital management on our Property Cat business, and increasingly, we're active in capital management through ceded and other protections on our Casualty and Specialty business.

So, it's a little bit more of a convoluted way to think about it, but we think it's the appropriate way for us to structure our portfolios. There is no target mix. Our combined ratio will rise for the reasons I talked about and it's an outcome, but we feel good about that book knowing the fundamentals beneath that are different than property cat.

Q - Quentin McMillan {BIO 19411547 <GO>}

Okay. It's really helpful. Thank you. Secondly, just for clarification, in terms of your reporting structure, you guys are going to continue to report both property cat and property other going forward, or will property other start to disappear eventually, and it'll just be sort of the Property versus Casualty and Specialty segment reporting?

A - Robert Qutub {BIO 15269353 <GO>}

Well, I think that's a good question. As we laid out earlier when we talked about this, right now, we've got our Property, which includes property other and catastrophe, because if you go back to the third quarter call when we talked about this, we committed to showing catastrophe as a separate standalone given the significance of it. And we also committed to, for a period of time, showing the Lloyd's platform, and that's in the supplemental disclosures that you can see in the – in what we distributed yesterday.

Q - Quentin McMillan {BIO 19411547 <GO>}

So, it will be one bucket eventually?

A - Robert Qutub {BIO 15269353 <GO>}

No. That's not what I said. I said we look at – we committed to showing catastrophe separately from other property as part of the segment.

Q - Quentin McMillan {BIO 19411547 <GO>}

Okay. Great. And just sort of in the other property, it looks like the loss ratio and just the loss cost was elevated, and obviously, part of that, I think, was probably coming from Hurricane Matthew. Could you help us – how much of Matthew, of the $50 million, was bucketed into property cat versus property other because the loss number looks fairly elevated in 4Q? Just on a modeling question.

A - Robert Qutub {BIO 15269353 <GO>}

Yeah. Most – I mean, most of – as you would expect, most of our losses on Matthew would have been reflected in the catastrophe side of the Property aspect. There's a little bit I talked about that spills over into Property and then Casualty and Specialty, but we're talking about the majority, 90-plus percent was in the catastrophe side.

Q - Quentin McMillan {BIO 19411547 <GO>}

Then, is there a reason, the $36.5 million of losses in property other? It just seems like a higher number versus the run rate of that segment for what you gave us in the 8-K.

A - Kevin J. O'Donnell

I believe most of that is actually the attritional, because the other thing to look at is what we're writing in that other property book is exposed to per risk losses, so there's some activity there. But also, with the regional book we're writing out of the Chicago offices, it's not necessarily Matthew, but it could be the Southeast tornado outbreaks and the Oklahoma earthquake. It could be smaller Midwestern events that is probably more likely to impact that than some of the Florida events. But per risk in the proportional books written elsewhere might have more Florida, but the Chicago book will be more Midwestern.

Q - Quentin McMillan {BIO 19411547 <GO>}

Great. Thank you very much, guys.

Operator

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

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

Good morning, everyone.

A - Robert Qutub {BIO 15269353 <GO>}

Hey, Josh.

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

Hi there. So, I was just trying to understand the preferred share issuance in Upsilon? And is that a netting out of capital or a netting in of capital?

A - Kevin J. O'Donnell

There's a lot of movement in the disclosure about capital coming in and out of Upsilon. The net result for us going into 2017 is Upsilon is bigger than it was in 2016, but not as big as we've had it at different times in the past.

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

And with the combination of Upsilon plus Fibonacci, are you materially larger than you were one year ago or you're in the same zip code? Can you sort of frame how much capital you're working with compared to a year ago?

A - Kevin J. O'Donnell

Yeah. So, one, let me comment, I think there's more opportunity over the course of the year for both Upsilon and Fibonacci. Right now, I would say we're between $200 million and $250 million up on those two vehicles in a ballpark range of committed capital to the vehicles.

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

And can you describe a little bit the different appetite of each of those vehicles?

A - Kevin J. O'Donnell

Sure. Upsilon is a vehicle we've had for several years. It was originally targeted to write capital intensive retro at reasonably exposed levels. It has morphed in size and it's morphed in appetite. It is still more directed towards retro, but it participates higher up in the capital stack, hence, the reason for our shift in appetite.

Fibonacci Re is something when we were speaking to our clients, we realized that they had increased appetite for high-quality, top end cover. So, we were able to put together a vehicle to bring that capacity to them mostly in contemplation or in complement to large participations within RenRe Limited. And importantly, Upsilon Re is worldwide and Fibonacci is U.S. only.

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

And Fibonacci, I guess, is publicly traded as well?

A - Kevin J. O'Donnell

No, it's not. That's a private placement behind it.

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

Okay. Because it's on the Bermuda Stock Exchange, I was trying to understand exactly how that capital books there.

A - Kevin J. O'Donnell

It's 144A notes.

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

144A notes. Okay. All right. Well, thank you for all the detail, appreciate it.

A - Kevin J. O'Donnell

Sure. Thanks.

A - Robert Qutub {BIO 15269353 <GO>}

Thanks, Josh.

Operator

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

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah. Thanks. Yeah, a couple of questions here for you. Kevin, does any of the kind of M&A that's happening recently – has that had any impact on your ability to kind of get additional share on programs. Was that a contributing factor at all?

A - Kevin J. O'Donnell

It's hard to point to specific wins from that, but I would say is as our customers consolidate, I think they've become a lot more sophisticated in thinking about the synergies with their books and how they're managing their placements. With that, it leads to two things. One, they want to consolidate their panels with people who can add value beyond capital; and secondly, they want to trade with people on a more composite basis. So, with the changes that we've made, I think we're in better position to continue to serve them. So, net-net, I think it's probably a benefit. We do obviously look for opportunities to take advantage of the fact that we're only a reinsurer and not competing with them, as many of these are around the insurance businesses, but it's hard to point specifically to wins.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay, great. And then next, I'm just curious, you mentioned opportunities in the marine and energy market, kind of getting some growth there in marine and energy reinsurance market. My understanding is pricing has probably stabilized in that market, but still at pretty low levels. Why the attractiveness at this point? There's plenty of capacity there, too.

A - Kevin J. O'Donnell

Yeah, I agree with all your observations. I think we are not looking to write an index of the marine and energy market. We have built good tools. We have good relationships. We're looking to come in, in a pretty targeted way, and we're coming in with our eyes wide open. There's full recognition, that particularly on the insurance side, it's a very competitive market and a lot of that translates to the reinsurance side. I do think there's some opportunities there and we're going to leverage into it slowly.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay, great. And then just last question. Historically, you actually provided what the credit part of the Specialty and Casualty business is. Are you going to provide that going forward or you not, just because it's easier from a modeling perspective to do that?

A - Robert Qutub {BIO 15269353 <GO>}

That's a good question. It kind of stems back to how we manage the company and the segments. While there's several classes of product lines like credit, we really don't manage them separately. And the fact of the matter is, they have similar characteristics, but – and separating them kind of from a fully-loaded basis would be inconsistent with how we look at them. But now having said that, we are planning to have a further premium breakdown in our K that gets filed later this month.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Great. Just because the earned premium part of that can make it a little complicated if you lump it all in. Thanks.

A - Kevin J. O'Donnell

Yeah.

Operator

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

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

Hi. Thank you. I guess, first, if I could just follow-up on the Fibonacci question. Will it – for financial reporting, will it look similar to Upsilon and that we'll see a sort of managed cat, if you will, gross and most of it comes out net other than – or will look different than Upsilon does and maybe look more like DaVinci?

A - Kevin J. O'Donnell

My understanding is Fibonacci is not consolidated.

A - Robert Qutub {BIO 15269353 <GO>}

No.

A - Kevin J. O'Donnell

I think it'll look a little different.

A - Robert Qutub {BIO 15269353 <GO>}

Yes, it's a variable interest, but we don't have a controlling interest, so it will not be consolidated.

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

So, therefore, like Upsilon, we'll see them in managed cat or not even there?

A - Robert Qutub {BIO 15269353 <GO>}

No, we won't be reflecting it as a managed cat.

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

Okay. So, it'll show up like other income, is it fee income or something? How will we see how you make money is, I guess, what I'm asking.

A - Kevin J. O'Donnell

Yeah.

A - Robert Qutub {BIO 15269353 <GO>}

Well, we're getting fees for servicing it and providing the management fee.

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

Okay. So, that'll be outside of underwriting income, then it'll be in the fee income line?

A - Robert Qutub {BIO 15269353 <GO>}

Yes, yes.

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

Okay. Got it. Okay. And then you mentioned you took a big share in the NFIP program. I was hoping you could talk a little bit more about that. I guess, the very little bit I read about that sounded like, frankly, the rate online wasn't that great because it was sort of the first time out. And it's maybe more about putting something down the road, but it didn't sound like the returns on that were so hot. Is there anything you can clarify on that?

A - Kevin J. O'Donnell

Yeah, I think, firstly, I'd like to just point out that I think it's thematically good for risk to reside in the private market because the conversation we're having now is a really important conversation, which is, is it priced appropriately for the risk being ceded. I think for that type of risk against the capital that we have, it was appropriately priced. I do believe it will grow over time, and I believe the input and the exchange between the private market, the FEMA and the NFIP will be extremely valuable in how to think about setting appropriate actuarial rates going forward.

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

Okay. Is it fair to say it's probably a higher combined ratio than typical cat?

A - Kevin J. O'Donnell

I think there's two pieces to that question, is what is the standalone return and what's the marginal return. Marginally, within our portfolio, I can say it was great.

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

Sure. That makes sense. Okay. And then my other one's on the tax. Hypothetically, as you said, there's a lot of different ways this can play out. But if there were an outcome that made it worth your while to write more business on your U.S. paper, how difficult is that? I mean, obviously, I assume a lot of it - you probably keep as little capital in the U.S. today as you can and keep more than in Bermuda. How easy would it be to restructure that to put more capital into the U.S. and are there any costs to doing that?

A - Kevin J. O'Donnell

I - so, there's a couple of questions there. Firstly, we've got a fully functioning platform in New York, and we're proud of the fact that we recently - we're upgraded with our U.S.-based balance sheet, so we have a lot of flexibility as to how to underwrite business there. Your second question is how do we put together, a capital structure that's optimal. I think a lot of that's going to need to be determined depending on what is changing within the tax codes in the U.S. over the next several months. I think we're in a very good spot to be able to think about it, and I'm delighted on the investments we've made over the last 12 months to 18 months of our building out the U.S. platform.

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

Got it. And do you have handy – or if not, will it be in the K, how much capital is in the U.S. at year-end?

A - Robert Qutub {BIO 15269353 <GO>}

Yeah. We don't tend to carve that out separately.

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

Okay.

A - Kevin J. O'Donnell

Yeah. It's in the Yellow Book. It's in our marketing materials. We've got about $500 million in our main balance sheet in the U.S.

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

Perfect. Okay. Thank you.

A - Kevin J. O'Donnell

Ian, sure. Thanks.

Operator

Your next question comes from Jay Cohen from Merrill Lynch. Your line is open.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Yeah. Most of my questions were answered. Just a follow-up on an earlier question on the rise in interest rates. Can you guys specify what new money yields look like relative to your portfolio yield right now?

A - Robert Qutub {BIO 15269353 <GO>}

Yeah. Thanks. Thanks, Jay. I think that's something I can get back to you on. I've seen that written up before, and just given the newness, I want to get comfortable before I say anything. But let me get back to you on that one. I do feel good about where the portfolio is positioned to take advantage of rates and where they're at right now.

We're short duration, 2.4 years. We got very liquid, short-maturity portfolios. So, I see it as a pretty good ability to adapt into 2017.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Great. I'd love those numbers if you can get a chance later. Thank you.

A - Kevin J. O'Donnell

Sure.

Operator

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

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

Hi. Good morning.

A - Kevin J. O'Donnell

Good morning.

A - Robert Qutub {BIO 15269353 <GO>}

Good morning.

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

I wanted to ask you a question about the demand for reinsurance longer term. If U.S. corporate tax rates were cut, the spread between the prime reinsurers' tax rate and the Bermuda reinsurers' tax rate would be more narrow. Would that make reinsurance a relatively less efficient vehicle and less attractive on the margin?

A - Kevin J. O'Donnell

I think there's a lot of speculation that we'd have to make to kind of map out a full scenario. In general, I don't think that's the case. I think one – reinsurance provides a lot of advantages beyond just tax and earnings. I think the way I would look at it is something we're going to have to solve over time, but it's not – I don't look at the tax rate between insurance and reinsurance as gating issues to whether the demand will rise or fall.

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

Okay. So, you wouldn't expect then, incrementally less demand on the margin?

A - Kevin J. O'Donnell

I think a lot of it is going to depend really on what happens, but I don't think tax rate, when people are looking at their top five reasons to buy, I'm not sure that they're looking at the relative spread between the tax rates as one of the important elements of it. I do think there's potentially, if there's more tax generally in the system, there's more expense in the system, but that will be uniformly applied whether it's insurance or reinsurance.

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

Right. Okay. Great. Thank you.

A - Kevin J. O'Donnell

Sure. Thanks.

Operator

And this concludes today's Q&A portion of the call. I now turn it back over to Mr. O'Donnell for some brief closing remarks.

A - Kevin J. O'Donnell

Thank you, everybody, for participating in today's call. Before I close, I'm sure many of you have seen the news that Todd Fonner will be leaving us on March 31. Todd joined us shortly before these September 11 terrorist attacks, and he's been a great contributor from the very beginning. He's advanced our thinking beyond just investments and the treasury function, where he's mostly dedicated his time. And he's always been willing to help in areas around the company. I will miss Todd, and I wish him nothing but continued success and future happiness. And with that, I'd like to say thanks again and look forward to speaking to you in a couple of months.

Operator

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