Q3 2018 Earnings Call

Company Participants

- Dave Bonham, Chief Financial Officer
- David J. Bonham, Chief Financial Officer
- Derek Bulas, Legal Counsel
- Paul Rivett, President

Other Participants

- Analyst
- Andrew Hollingworth
- George Smith, Investment Policy Committee Senior Vice President
- Jamie Gloyn, Analyst
- Jeff Fenwick, Managing Director, Head of Institutional Equity Research
- Luis Hernandez, Franklin Mutual Advisers
- Mark Dwelle, Analyst
- Paul Holden, Equity Analyst, CIBC World Markets
- Unidentified Participant

Presentation

Operator

Good morning and welcome to Fairfax 2018 Third Quarter Results Conference Call. Your lines have been placed in a listen-only mode. After the presentation, we will conduct a question-and-answer session. (Operator Instructions) Today's conference is being recorded. If you have any objections, you may disconnect at this time.

Your host for today's call is Paul Rivett, with opening remarks from Mr. Derek Bulas. Mr. Bulas, please begin.

Derek Bulas

Good morning and welcome to our call to discuss Fairfax's 2018 third quarter results. This call may include forward-looking statements. Actual results may differ perhaps materially from those contained in such forward-looking statements as a result of a variety of uncertainties and risk factors, the most foreseeable of which are set out under risk factors in our Base Shelf Prospectus, which has been filed with Canadian Securities regulators and is available on SEDAR.

I'll now turn the call over to our President, Paul Rivett.

Paul Rivett {BIO 15243791 <GO>}

Thank you, Derek. Good morning, Fairfax shareholders. Welcome to your company's third quarter conference call. I plan to give you some of the highlights and then pass it on to Dave Bonham, our Chief Financial Officer for additional financial and accounting details.

Over the first three quarters of 2018, Fairfax's book value per share increased by 2.7%, adjusted for the $10 per share common dividend paid in the first quarter of 2018. Despite the catastrophe losses in the quarter, our insurance companies continue to have good results, with combined ratio of 97.6% with strong reserves and producing an underwriting profit of $74 million in the quarter.

All of our major insurance companies with the exception of Brit, had combined ratios of less than 100%, with Zenith at 80.3%, Northbridge at 89.5%, Odyssey Group at 97.5% and Allied World at 96.7%. Third quarter operating income was again very strong at $250 million, while net gains on investments in the quarter were $41 million.

As shown on page 42 of our quarterly report, our net investment gain of $41 million in the quarter consisted of realized gains on our investment portfolio of $74 million, offset by unrealized losses of $33 million. As we have mentioned in our annual meetings, annual reports and quarterly calls, with IFRS accounting where stocks and bonds are recorded at market and subject to market gains, or losses, quarterly and annual income will fluctuate and investment results will only make sense over the long term.

All in, we had net earnings in the quarter of $106 million. Our insurance and reinsurance businesses' net premium volume decreased -- sorry increased in the third quarter of 2018 versus 2017 by an aggregate of 6.5%, primarily due to premium growth at Northbridge of 10.8%, Odyssey of 6.6%, Crum & Forster at 7.8% and Brit at 10.2% as well as the acquisition of our Latin American operations. This was offset by lower premiums written at Allied World and Zenith and the sale of First Capital.

As you can see on page 72 of our quarterly report, the fair value of our investment in non-insurance associates and listed consolidated companies, such as Recipe, formerly Cara, Grivalia, Thomas Cook, Fairfax India and Fairfax Africa is $5.2 billion versus a carrying value of $4.8 billion and unrealized gain of approximately $400 million or $15 per share pre-tax not on our balance sheet.

When you review our statements, please remember that when we own more than 20% of a company, we equity account and when we own about 50%, we consolidate. So that mark-to-market gains in these companies are not reflected in our results. Of note in the third quarter were the following items. In July, we purchased a 11.2% ownership interest in Brit from our minority partner OMERS for $252 million. Subsequent to this transaction, Fairfax's ownership in Brit is now 88%.

In September, Fairfax Africa entered into a $90 million credit facility. The facility matures in September 2019 with an extension option for an additional year. There were no amounts drawn on this facility at the end of September. Subsequent to the third quarter, early in October, October RiverStone purchase a run-off portfolio written by a UK insurer prior to 2001. RiverStone assumes net insurance liabilities of approximately $562 million and return for the cash payment to RiverStone of approximately $645 million.

Also in October, Fairfax India invested $60 million in common shares and warrants of the Catholic Syrian Bank. Fairfax India has committed to a further invest approximately $104 million in common shares and warrants of the bank over the next 12 to 18 months. Once completed, Fairfax India will have a 51% equity interest in the bank on a fully diluted basis.

The Bank was established in 1920 and is a private company headquartered in Thrissur, India offering banking services through over 420 branches across the country. In recent months, we have seen a general decline in the Indian markets and the Indian rupee. This decline is likely attributable to several factors including rising commodity costs and liquidity concerns at certain non-bank financial companies. However, all of our investments continue to perform well and we believe this current correction will be short-lived.

In the first nine months, we also put more of our cash to work, approximately $6.6 billion in short-term, which is less than two years United States treasuries. Given the continued strength in the US economy and the bias towards higher interest rates, we continue to be focused on the short end of the treasury curve for the time being.

As of now, we have an annual run rate of approximately $800 million in interest and dividend income. Subsequent to the end of the quarter, there are three investment items to note. First, we sold our common share ownership in Arbor Memorial, Canada's largest funeral home business for a gain of $112 million, which is more than three times our cost. We want to thank David Scanlon and the entire Scanlon family for trusting us to help them take Arbor private in 2012 and for treating us very well as partners. We wish them the very best in the future as a leading Canadian private family company.

Another subsequent event, we would like to highlight is with Resolute Forest Products. After many patient years of shareholders, Yves Laflamme and the Resolute team with the guidance of our Brad Martin have provided shareholders with a $135 million special dividend, which is approximately $44 million payable to Fairfax. We think there may be more good things to come as Resolute is generating strong free cash flow and is keenly focused on shareholder-friendly capital allocation.

Sporting Life and Golf Town under the direction of our partners, David and Patty Russell and Chad McKinnon with the oversight of Bill Grigson have merged their companies. The two profitable operations will be even stronger together with cooperation on a number of fronts, but continuing to run their respective businesses on a decentralized basis.

We remain vigilant with holding company cash and marketable securities at over $1.7 billion. Always looking to be soundly financed first, we've begun to repurchase our partner's interest in our insurance companies as well as over the past 12 months, we have purchased 656,000 of our shares at an aggregate cost of $347 million.

As we have said in the past, we believe the US administration's policies of reducing corporate taxes to 21%, rolling back regulation on business and planned significant infrastructures spending has the potential of boosting economic growth significantly in US and prolonging the US business cycle. That said, our investment team at Hamblin Watsa is cautiously observing events such as the upcoming US election next week and ongoing negotiations on global tariffs, in particular with China.

The trade policies of the US could precipitate a collapse in world trade, but we see these risks potentially diminishing as US has recently announced that deal with Canada and Mexico as well as potential deals with Europe as well as China. These global trade barrier risks will continue to be very much monitored by Hamblin Watsa. With this backdrop, we will continue to focus on picking good companies, which provide significant downside protection and potential appreciation over the long term.

As of September 30, 2018, we have $9.2 billion in subsidiary cash and short-term investments in our portfolio. In total, including short-dated US treasuries, we have approximately 17.2 billion in cash and short-dated securities, which is approximately 50% of our portfolio investments. Our investment portfolios will be largely unimpacted by rising interest rates, as we have not reached for yield. With an annual run rate of approximately 16 billion in gross premiums, a singular focus on underwriting discipline and superior reserving, and investment portfolio of approximately $40 billion, over 50% of which is in cash and US Treasuries and the Hamblin Watsa, team constantly evaluating in the market, we continue to believe there is tremendous opportunity for Fairfax shareholders over the long term. I'll now pass the call over to David Bonham, our Chief Financial Officer.

David J. Bonham {BIO 15243784 <GO>}

Thank you, Paul. So in the third quarter of 2018, Fairfax's reported net earnings of $106 million or $3.34 per share on a fully diluted basis. And that compares to the third quarter of 2017 when we reported net earnings of $477 million or $16.42 per share on a fully diluted basis. For the first nine months of 2018, Fairfax's net earnings of $854 million or $28.83 per fully diluted share and in the same period in 2017, we had $871 million or $33.13 per diluted share.

Underwriting profits at our insurance and reinsurance operations in the third quarter and first nine months of 2018 improved to 74 million and 299 million with combined ratios of 98% and 97% in each of those respective periods, that's compared to underwriting losses of 833 million and 617 million combined ratios of 130% and 109% in those respective periods in 2017.

Higher underwriting profits in 2018 principally reflected lower current period catastrophe losses, comprised principally of Typhoon Jebi in Japan, Mangkhut in the Philippines, Hong Kong and Southern China and Hurricane Florence that affected the Carolinas and Cape Verde.

In the third quarter and first nine months of 2018, these events and some other attritional, totaled $215 million and $312 million and represented seven combined ratio points on the year-to-date, 4 combined ratio points on the quarter. Obviously, significantly lower than the current period catastrophe losses of about 1 billion and 1.1 billion in those periods in 2017, representing 37 points on the quarter, 16 points year-to-date in 2017, and principally the impact of hurricanes Harvey, Irma and Maria.

Our combined ratios also benefited from higher net favorable prior year reserve development in the third quarter and first nine months of 2018 at 174 million and 372 million translating into six and four combined ratio points in each of those periods that compared to net favorable development of 88 million and 299 million in those same periods in 2017. Turning to net premiums written and adjusting for the impact of certain 2017 acquisitions in the sale of First Capital, net premiums written by our insurance and reinsurance operations increased by 5% in the third quarter, 8% in the first nine months of 2018 and that primarily reflected growth at OdysseyRe, Northbridge, Crum & Forster and Brit.

So turning to the operating company results we'll start with Northbridge. Northbridge's underwriting profits increased to $31 million and $16 million in the third quarter and first nine months of 2018, combined ratios of 90% and 98% in those respective periods. Compared to underwriting profits of 2 million and 6 million and combined ratios of 99% in each of those same periods in 2017. The underwriting results in the third quarter and first nine months of 2018, included net favorable reserve development of 37 million and 72 million, translating into 13 and 9 combined ratio points.

The underwriting results also in the third quarter and first nine months included 3 million and 17 million of current period catastrophe losses and that principally related to several storms in Ontario and Quebec. In Canadian dollar terms, net premiums written by Northbridge in the third quarter and first nine months of '18 increased by 16% and 10% and that reflected increased renewal business and price increases across the group.

Looking at Odyssey Group, it reported underwriting profits of 19 million and a 134 million with combined ratios of 98% and 94% in the third quarter and first nine months of 2018. That compared to underwriting losses of 168 million and 64 million combined ratios of 126% and 104% in the third quarter and first nine months of 2017. Current period catastrophe losses of 77 million and 142 million represented 10 and 7 combined ratio points the third quarter and first nine months of '18, principally related to Typhoon Jebi and other attritional current period catastrophe losses.

Certainly lower than the losses of 262 million and 316 million, which represented 41 and 18 combined ratio points in the third quarter, first nine months of 2017 principally related to HIM. Odyssey Group's combined ratio reflected the benefit of higher net favorable development 66 million and 152 million and that principally related to property catastrophe loss reserves, compared to net favorable reserve development of 43 million and a 110 million in the third quarter and first nine months of 2017.

Odyssey Re Group wrote 706 million and 2.2 billion of net premiums in the third quarter and first nine months, increases of 7% in the quarter, 16% in the year to date, reflecting growth across all of its divisions. Moving on to Crum & Forster, Crum & Forster's underwriting profits improved to 10 million and 18 million in the third quarter and first nine months combined ratios of 98% and 99% in those respective periods, that was compared to underwriting losses of 18 million and 12 million, combined ratios of 104% and 101% in the third quarter and the first nine months last year.

Net prior year reserve development was nominal, in the third quarters and first nine months of both 2018 and 2017. Crum & Forster's net premiums written increased by 8% in both the third quarter and first nine months of 2018, again growth across several of its lines of business. Zenith National reported underwriting profits in the third quarter and first nine months of 41 million and 91 million combined ratios of 80% and 85%, compared to underwriting profit of 34 million and 92 million with combined ratios of 84% and 85% in those same periods in 2017.

The combined ratios in the third quarter and first nine months of 2018, included 11 and 10 combined ratio points of net favorable prior year reserve development compared to 8 and 10 combined ratio points in the third quarter and first nine months of 2017. Zenith wrote 167 million and 638 million of net premiums in the third quarter and first nine months of 2018, which was somewhat lower than the 175 million and 677 million of net premiums in those respective periods in 2017. Decreases in net premiums written in 2018 primarily reflected price decreases. Looking at Brit in the third quarter and first nine months, Brit produced underwriting losses of 33 million, 15 million and combined ratios of 108% and 101%, that compared to underwriting losses of 222 million and 199 million in 2017, combined ratios there was 158 in the quarter 118 year to date.

Current period catastrophe losses at Brit of 66 million and 70 million represented 17 and 6 combined ratio points in the third quarter and first nine months, principally related to Typhoon Jebi and Hurricane Florence and that was lower than current period catastrophe losses of 244 million and 245 million that represented 64 and 22 combined ratio points in the third quarter and first nine months of 2017 again principally related to HIM.

Brit's net premium written increased by 10% and 6% in the third quarter and first nine months of 2018. That reflected the contribution from initiatives that they've launched in prior years, price increases, favorable impact of foreign currency translation, partially offset by reductions in their non-core lines of business through active portfolio management.

Allied World contributed 519 million and 1.9 billion to net premiums written in the third quarter and first nine months of 2018. The underwriting profit improved to 20 million with a combined ratio of 97% in the third quarter of 2018 compared to an underwriting loss of 416 million and a combined ratio of 182% in the third quarter of 2017. The improvement in underwriting profitability principally reflected lower current period catastrophe losses, which were 62 million or 10 combined ratio points in the third quarter of 2018, principally related to Typhoon Jebi and Hurricane Florence compared to current period catastrophe losses of $412 million or 82 combined ratio points in the third quarter of 2017 related to HIM. Fairfax Asia recorded an underwriting profit of 1 million in an underwriting loss of 1 million in the third quarter and first nine months of 2018, lower than the underwriting profits of 15 million and 32 million in the same periods in 2017, which included the more favorable results of First Capital, which was sold in the fourth quarter of 2017.

Insurance and Reinsurance: Other. The segment produced underwriting losses of 13 million and 19 million And combined ratios of 105%, 102% in the third quarter and first nine months of 2018. Compared to underwriting losses of 60 million, 56 million, combined ratios of 131 and 100 to 11% in those same periods in 2017. The improved underwriting results in the third quarter and first nine months of 2018, again principally reflected the lower current period catastrophe losses. Run Off reported operating losses of 49 million and 102 million in the third quarter and first nine months of 2018 compared to operating losses of 15 million and 95 million in those same periods in 2017.

The increase in the operating loss in the third quarter of 2018 principally reflected higher net adverse prior year reserve development primarily related to asbestos exposures. On the consolidated front, interest and dividend income increased year-over-year from 152 million in the third quarter of 2017, to 194 million in the third quarter of 2018, principally reflecting higher interest earned on increased holdings of short-dated US Treasury bonds, partially offset by lower interest earned on US state and municipal bonds as a result of sales during 2017 and 2018. Fairfax recorded a provision for income taxes of 71 million at a 32% effective tax rate in the third quarter 2018 and a provision for income taxes of a 140 million at a 10% effective tax rate in the first nine months of 2018. The higher effective tax rate quarter-to-date primarily reflected losses at the holding company, which were not recognized as a deferred tax assets.

The lower effective tax rate year-to-date primarily reflected the gain on the deconsolidation of Quess which was not taxable. Our total debt to total capital ratio increased to 26.8% at September 30 2018 from 25% at December 31, 2017 that primarily was the result of a modest increase in total debt and decreased total capital. We ended the third quarter of 2018 with an investment portfolio which included holding company cash and investments of 39.1 billion, which was slightly lower than the 39.3 billion that we held at December 31, 2017. And with that I'll pass it back over to you,

Paul Rivett {BIO 15243791 <GO>}

Paul. Thanks, Dave. Now the team here looks forward to answering your questions. So, please give us your name your company name and try to limit your questions to only one. So it is fair to all on the call. Okay, [ph][Cal/ph] we're ready for your questions.

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions) we're the first question coming from Jeff Fenwick of Cormark Securities. Your line is open.

Questions And Answers

Q - Jeff Fenwick {BIO 15350794 <GO>}

Hi, good morning everyone. And Paul, nice to hear you on the call.

A - Paul Rivett {BIO 15243791 <GO>}

Hey Thanks very much Jeff. Hi, good morning.

Q - Jeff Fenwick {BIO 15350794 <GO>}

And so I guess the topic everyone's always interested in is the investment side of things there and continued evolution, this year of moving that cash into some of the shorter dated bonds. And I think at this point, exiting the quarter you were still around 25% in the in the cash position here. So what's the thinking in terms of that rebalancing? Do you feel like you've got it approximately where you want it to be? I know you don't want to reach for yield at the same time. I know you wanted to get some of that idle cash working for you.

A - Paul Rivett {BIO 15243791 <GO>}

Yeah, no, I think so, I think we've done that with, with the help of Brian Bradstreet in the Hamblin Watsa team, Jeff. We've moved as you said, into the shorter dated Treasuries to get our interest income up and so where we're at about 100, sorry 800 million now total of interest and dividend income and an annual run rate. And so we're going to continue to increase that. But we're not going to reach for yield and, but as we're watching the markets where you see some volatility. We're seeing opportunities we've got dry powder because we're roughly 50% in the short-dated US Treasuries and, and, and cash. So, and like, like we talked about and we will continue to harvest some of our investments like we just did with Arbor and and redeploy it and we're seeing some opportunities to redeploy it.

But, but we are not particularly in these volatile markets going to reach for yields. So, and you see the employment data coming out. Now we've got, we got some wage inflation. It looks like potentially and so interest rates will probably continue to rise. So we'll be ready for that as spreads widen and we can redeploy the short-term US Treasuries.

Q - Jeff Fenwick {BIO 15350794 <GO>}

And I guess the second part there is just on the equities side in terms of the mix in the total of the portfolio, I mean it any change in the, in the approach there at all? I mean, doesn't really seem like it. I guess the the Seaspan investments probably a great example of that you're willing to make some large bets where you see value. But what are you thinking there in terms of the mix of equity or equity related investments?

A - Paul Rivett {BIO 15243791 <GO>}

So we're still, we're still continuing to look for the debt and warrant type transactions, so, Jeff. So, and so we've got some opportunities there but, but there,there may be some shuffling some some selling in this quarter and moving into some other interesting interesting equity opportunities that -- and the team have been working on so. So we're going to be opportunistic always, but we've got some interesting things that that are close to being able to action on.

Q - Jeff Fenwick {BIO 15350794 <GO>}

Okay. And maybe just one quick one on the, on the insurance operations here, I just noticed the the RiverStone transaction that you mentioned here, a fairly sizable runoff book that you're taking in, it seems to be happening around the same time that you're putting Advent into run-off. So maybe a bit of context around the decision to take that on and how you're thinking about it from just for managing those moving parts.

A - Paul Rivett {BIO 15243791 <GO>}

Yeah, so on that, Jeff. Great question. So we, on the RiverStone team is always looking for good opportunities and this was one in particular that they've been working on for almost a year and there is already an embedded quite a substantial embedded gain in that and we're quite happy with it. We'll continue to look at other things, but, but we're always going to be opportunistic and this is just a really great deal that Riverstone's found in the got a good team. And so they're going to look, continue to look for other opportunities but as it stands now, there isn't any others.

Operator

All right. I'll let someone else ask a question, thanks for that.

A - Paul Rivett {BIO 15243791 <GO>}

Right. Thanks, Jeff.

Operator

Our next question is coming from Anthony Lai of Fairfax, India your line's open.

A - Paul Rivett {BIO 15243791 <GO>}

Hi, Anthony, -- it looks like Anthony might not be there.

Operator

Looks like Anthony has also dropped out from the question and answer session. Let's go ahead to the next one from Paul Holden of CIBC. Your line is open.

Q - Paul Holden {BIO 6328596 <GO>}

Thank you. Good morning.

A - Paul Rivett {BIO 15243791 <GO>}

Hi, good morning, Paul.

Q - Paul Holden {BIO 6328596 <GO>}

So I wanted to ask one question on the investment portfolio. And then one on the underwriting side. So starting with the investment portfolio. Paul, I heard your macro view, sounds like nothing's really changed. So I guess my question is there, what would need to changed -- or maybe it's more than one thing versus of more than one thing. What would need to change for you to become become either more defensively positioned or to look at sort of asset pricing dislocation opportunities things that Fairfax has done very well in the past to take advantage of?

A - Paul Rivett {BIO 15243791 <GO>}

Yes, what I think as it stands now, where as you know, Paul. We're very conservatively focused. So with that, over 50% in cash and short-term US Treasuries. We're conservative relative to our peers. We're always going to be opportunistic and we're seeing volatility and we'll watch as corporate spreads widen we might decide to go longer, but, but for now. You know it's looking like the US economy is continuing to do very well and the business cycle may may prolong, longer than people expect, and corporate earnings continue to come in strong but, but things can change. I mean next. We've got a pivotal US election could change things and obviously it's a crucial meeting coming up between China and the US on trade. So Hamblin Watsa team, [ph] Prem, Brian, Roger, Wade Lawrence all watching this stuff very carefully every, every day, but we feel very comfortable where we are very, very conservatively positioned right now.

Q - Paul Holden {BIO 6328596 <GO>}

Okay and then just to follow up on that. And I want to be clear on this, nothing philosophically has changed in terms of your appetite to express macro views through the use of derivatives, such as the CDS where you had a huge gain and '08 and '09, like both types of options are still on the table, as you see fit.

A - Paul Rivett {BIO 15243791 <GO>}

As you know Paul, we're continue to be opportunistic and but from a hedging perspective, very unlikely that we'll hedge again, and there's really no need to given we're already very conservative relative to our peers very comfortable where we are with the 50% of our portfolio nearly 20 billion in cash and US Treasuries.

Q - Paul Holden {BIO 6328596 <GO>}

Okay, fair enough. And then my question on the underwriting side, just wondering how all of the changes taking place at Lloyd's are impacting your Syndicate through Brit? My impression is we should probably expect premiums to shrink with a focus on margins, but maybe you can tell me more directly what should, we expect on Brit.

A - Paul Rivett {BIO 15243791 <GO>}

Yeah. So I think you can expect more of the same, probably Paul, you know we're are seeing net premium's increasing and we're seeing some price increasing, Lloyd's has said that they want to reduce volumes and so that's good, generally for pricing. So Brit's taking advantage of that and so we're again always focused on combined ratio of 95% or less and good reserving. But, we're seeing opportunities. Brit's seeing opportunities as Lloyd's shrinking a little bit here.

Q - Paul Holden {BIO 6328596 <GO>}

Okay, thank you.

A - Paul Rivett {BIO 15243791 <GO>}

Thanks, Paul.

Operator

Our next question is coming from Mark Dwelle of RBC Capital Market. Your line is open, Mark.

Q - Mark Dwelle {BIO 4211726 <GO>}

Yeah, good morning. Just a couple of fairly quick questions here. You mentioned the special dividend, that you'll be receiving from resolute when that gets booked, is that going to be booked as just regular dividend income or is that going to run through the capital gains and losses lines as you know, the way we normally mark affiliate earnings?

A - Paul Rivett {BIO 15243791 <GO>}

Hi, Mark. Yeah that resolute's in equity-accounted investment. So when we get that in there, it will actually reduce the carrying value of our equity method carrying value for Resolute will be in our income statement.

Q - Mark Dwelle {BIO 4211726 <GO>}

Got it. Okay, that's first question. The second one, you mentioned the asbestos charge in the Runoff segment was that pursuant to the normal kind of end of the year actuarial review or was that some specific one-off reserve ad.

A - Paul Rivett {BIO 15243791 <GO>}

So, in run off you're right, it tends to be, these are fairly lumpy claims. So there, they're larger kind of one-offs and that's what you're seeing coming through in the third quarter, our reserve review, we do as of September 30th, so we'll be reviewing all that in the fourth quarter, and in respect of the third quarter for our year-end reporting.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. That's what I thought. On the reserve review, I was just, I was curious it wasn't accelerated a quarter. Last question I have is, do you have any early sense of how your hurricane Michael claims might come out? Any type of suggestion of what the range a loss there might look like?

A - Paul Rivett {BIO 15243791 <GO>}

Yes. So, good question, Mark. They're coming in line with our expectations. So we're very comfortable and don't think it's going to be material.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. I'll stop there. Thanks.

A - Paul Rivett {BIO 15243791 <GO>}

Great. Thanks, Mark. Cal, next question please.

Operator

Our next question is coming from George Smith of Davenport. Your line is open, George.

Q - George Smith {BIO 3506966 <GO>}

Hey, good morning.

A - Paul Rivett {BIO 15243791 <GO>}

Good morning, George.

Q - George Smith {BIO 3506966 <GO>}

Buyback --buyback activity doesn't seem maybe as though it's as aggressive as it could be, since you guys articulated a strategy of being more aggressive, maybe 9 or 12 months ago, and it seems to have slowed a bit recently at a time when if anything and it may have been an opportunity to ramp it up a bit. Just wondering if you could rearticulate your thoughts there?

A - Paul Rivett {BIO 15243791 <GO>}

Yeah, so no-- great question, great question, George. So we always want to be soundly financed, that's, you know, that's the first priority. But we'll be opportunistic and we have been over the last 12 months, but our first priority is to buy in minority interest from our partners, which we did and you know it-- you're right, we would like to, to buy in more and the recent price movements during the blackout unfortunately we couldn't take advantage of, but 656,000 shares over the last 12 months is pretty good, you know $347 million deployed there, so we'll continue to do that opportunistically though, it is a focus.

Q - George Smith {BIO 3506966 <GO>}

Fair to assume we might pick the activity up in light of what we've seen with the stock?

A - Paul Rivett {BIO 15243791 <GO>}

You know, at these prices, it certainly could, we don't want to forecast, but certainly like the stock at this price.

Q - George Smith {BIO 3506966 <GO>}

And in terms of equity portfolio. I'm also trying to get this a better feel for direction, you know you guys just speaking towards opportunities just talking about minority stakes in very big liquid well known public companies or do you have your eye on some form of controlling positions and I guess, something a little less vanilla?

A - Paul Rivett {BIO 15243791 <GO>}

No. So we're always opportunistic, George. So we really are and continue to be focused on transactions like Seaspan, where we can get partnered, whether its minority or control, it doesn't matter, the more important thing, quite frankly, is really good management with a long-term track record and companies like Seaspan we've got that with Bing Chen and David Sokol, masterful capital allocators. So, so we'll do those types of transactions every day of the week.

Q - George Smith {BIO 3506966 <GO>}

We also I think a renewed emphasis, if you go back a year ago on achieving kind of a double-digit, let's say, low to mid teens annual compound return or return on equity, which I think would be awfully difficult to achieve with the cash balance, it's great that interest rates have moved up and are picking up a little bit more on the cash and such. I just, I don't get how we're going to get to that target with that, yeah, because of our portfolio, yielding 2%.

A - Paul Rivett {BIO 15243791 <GO>}

Yeah, no, no. You're absolutely right. That's a good question, George. So for us it's just taking a long-term focus and just being patient and opportunistic, and we've been cautious throughout and having 50% of our portfolio, roughly $20 billion in cash and US Treasury, short-term US Treasuries, we're just dry powder waiting --Brian Bradstreet and the team, to the extent that spreads really gap out will be ready for it. On the equity side, we continue to see really, really interesting opportunities things in this volatile market. Things are starting to pop out and you will be seeing hopefully if we can execute some interesting new buys in this quarter.

Q - George Smith {BIO 3506966 <GO>}

Any sectors you can speak towards? That, I mean, where you're talking to detail whether --it's building or energy or whatever it may be where you're, you think there is more opportunity?

A - Paul Rivett {BIO 15243791 <GO>}

No, we're quite agnostic. So, we are not, we don't really focus on particular industries we've, as you saw, we've monetized Arbor with the funeral home business, we've looked at things in the oil and gas, we're looking for. Again, we're looking for good value buying in less than intrinsic with good management with a long-term record and and we have really good deal flow in that, in that regard, George. So we're, if there is good value out there, we're seeing it, but we don't try and focus on any particular sector.

Q - George Smith {BIO 3506966 <GO>}

It sounds like we'll be hearing more soon on some of these deals.

A - Paul Rivett {BIO 15243791 <GO>}

Yeah. And hopefully, so.

Q - George Smith {BIO 3506966 <GO>}

Okay, thank you very much.

A - Paul Rivett {BIO 15243791 <GO>}

Thanks, George. Next call, please, Cal.

Operator

Next question is coming from Jamie Gloyn from National Bank Financial. Please go ahead.

Q - Jamie Gloyn

Yeah, hi, good morning.

A - Paul Rivett {BIO 15243791 <GO>}

Good morning, Jamie.

Q - Jamie Gloyn

First question is regarding the other reporting segments. I noticed that it looks like margins were coming down in pretty much all the segments: Restaurants, Retail, India, Thomas Cook. I'm wondering if you can just sort of give us a little bit more color as to what's going on in each of those segments that might of drove that.

A - Paul Rivett {BIO 15243791 <GO>}

That's, margins they haven't really been declining I don't think, necessarily, Jamie. So it's depending on the industry, if you look at Recipe for instance, they've got same restaurant sales increasing. I think over the quarter-to-quarter, we tend not to look at quarter-to-quarter fluctuations. But from a year-over-year perspective, all of the particularly the non-insurance investments continue to perform very well.

Our private company investments: Toys "R" Us, Sporting Life and Golf Town, doing very well, and Recipe, like I said, continues to do well from a same restaurant sales perspective, the fluctuations you might be seeing might be currency fluctuations in places like India and Africa where currency has has declined, but we think that's probably a temporary thing, if you take a long-term view.

Q - Jamie Gloyn

Okay, thank you. And then just in terms of the, the gains that you talked about the Arbor Memorial, are there any other monetizations that have occurred at quarter end?

A - Paul Rivett {BIO 15243791 <GO>}

No, not of any, not from any material perspective Jamie. but there's a lot that we have, that we are currently looking at potentially monetizing. Don't know when, because we obviously want to get a good price, but we are looking and that there may be a few in the next-- next few quarters.

Q - Jamie Gloyn

Okay, great. And couple more here. Just in terms of the global catastrophe experience, when we talk about like North American experience, usually sort of like 1.5% before government covers come into play. Is that the same when we sort of think about global CATs like in Japan for example, the two typhoons that were highlighted this quarter, is that sort of the same type of exposure that Fairfax expect, is that about that 1% to 1.5%?

A - Paul Rivett {BIO 15243791 <GO>}

Absolutely right Jamie, that continues to be our experience that's what we've just seen in the recent three catastrophes. We were around 170 million of losses there on an industry loss of somewhere in the neighborhood of 12 billion, so it's right in line exactly with that 1% to 1.5%.

Q - Jamie Gloyn

Okay, thanks. And given the -- given the still elevated CAT experience. I would say, though it's lower than 2017. Do you have any thoughts or comments on pricing heading into 2019 at this point or is it still too early?

A - Paul Rivett {BIO 15243791 <GO>}

No, from our perspective, it's probably still too early, but we are seeing it flat to slightly up. We're seeing pricing in some lines up, in some lines, a little bit down, like workers' comp pricing seems to be firming and going up a little bit. So, but it's early days here but-- but it does look like it could be positive.

Q - Jamie Gloyn

Okay. And if I could just a few quick questions on some of the insurance operating segments. Northbridge: really solid quarter from that entity. Can you-- can you sort of maybe go into some of the details of what we saw some improvement in personal lines Commercial Auto and then some net favorable reserve development. Are these sustainable performance numbers or is there something going on in the quarter that might have caused a little bit of performance?

A - Paul Rivett {BIO 15243791 <GO>}

No, I think these are sustainable for Northbridge. So what you're seeing is the benefit of price increases that Paul mentioned, so low single digits. And if you look back a few years Northbridge is taken some underwriting initiatives to move into other more profitable segments targeting small, mid-sized businesses and the like that are-- that are just inherently offering a little bit more profitability to us. So I think that's right. We've also, we've also seen better experience in the trucking segment as well in Northbridge. So I think you can expect to see that continue.

Q - Jamie Gloyn

Okay. So that's a declining trend of favorable developments. We would say that's kind of stunted at this point, it'll be back to sort of that sort of low double-digit levels on development and obviously pricing is going to help in the next three four quarters sort of thing. Is that fair?

A - Paul Rivett {BIO 15243791 <GO>}

Yeah. We'll have a look at the reserve development in Q3. Right now we think we're adequate with adequate with some conservatism, so we'll see how that plays out over time. And for the last 5 years, it's been roughly 3% to 5% year-over-year. So we expect that to continue obviously can't forecast, but that looks to be the trend.

Q - Jamie Gloyn

Okay and then in Crum, commentary around growing in the right businesses and then GBW is in Accident & Health, Commercial Transportation. Multi-Peril, some other ones that are highlighted here. What are you seeing in those business lines? What's good about those business lines today? Is there just firming markets are competitive dynamics are shifting what's going on there?

A - Paul Rivett {BIO 15243791 <GO>}

I think on these lines, these are the ones that Crum is just focused on growing. They've got in niche advantages in these segments. They've spent time in developing them through in some cases acquiring MGAs that specialize in that, so that they can just retain more of the profitable business and again, I think you're seeing the effects of some of the initiatives that they've taken in prior years and that's coming through, you know, in an improvement on the accident year loss ratio.

Q - Jamie Gloyn

Okay and maybe just to wrap it up with a more overall broad seam obviously targeting 95% combined ratios. We've been a little bit higher here for let's say, five or six quarters. Do you feel like you're on the path right now where you get back to that 95% run rate here in the next quarter or two or is that going to take a little bit longer?

A - Paul Rivett {BIO 15243791 <GO>}

No, no, I think obviously Jamie. We don't forecast, but we do continue to think that 95% is achievable. So that's our focus and we do think we'll be able to get there.

Q - Jamie Gloyn

Okay, thanks.

A - Paul Rivett {BIO 15243791 <GO>}

Thanks, Jim. Next question please, Cal.

Operator

Our next question is coming from Junior Raw[ph] , your line is open.

A - Paul Rivett {BIO 15243791 <GO>}

Good morning Junior.

Q - Unidentified Participant

Yeah. Very good. Quick question about Bangalore Airport. Are you guys planning to increase the stake there and who is going be funding the expansion? Is that going to be third parties or would that be between one of your companies?

A - Paul Rivett {BIO 15243791 <GO>}

Sorry, Junior. I missed the last part of your question, can you say it again, please.

Q - Unidentified Participant

For Bangalore Airport who would be funding the expansion. Would it be like external parties or would that be somewhere within lines of Fairfax?

A - Paul Rivett {BIO 15243791 <GO>}

Yes. So, we haven't determined what we're going to do, yet there but it could be either, but will obviously go with the best possible financing.

Q - Unidentified Participant

Okay, thanks.

A - Paul Rivett {BIO 15243791 <GO>}

Thanks, Junior. Next question, Please go.

Q - Andrew Hollingworth {BIO 1896571 <GO>}

Our next question is coming from Andrew Hollingworth of Holland Advisors. Please go ahead.

A - Paul Rivett {BIO 15243791 <GO>}

Good morning, Andrew.

Q - Andrew Hollingworth {BIO 1896571 <GO>}

Hi, good morning. Well, good afternoon here. Good morning to you. Yes, thank you for your presentation earlier on. I just got two very quick ones. The gentlemen, one before last, asked about the 95% combined ratio. Just following up on that, I think it was at the AGM, Prem gave us a very interesting insight as to one of the smaller insurance subsidiaries that came out of the group and said that we just don't think we can get to that, so they sort of volunteered, I think it was to be rolled into Brit, it was a very interesting sort of insight as to the deep dive that you're doing to try to make sure that you can deliver the 95%. So first question really is, it's just having done that across the group. And if it for some period of time. Now just-in-all, still bit that you think that you've got to do things ways to got to deliver the 95 or do you really think now that across a very, very large percentage of the sort of underwriting capacity you can do that without really any many sort of more major changes?

A - Paul Rivett {BIO 15243791 <GO>}

Yeah, and a great question, Andrew. We really don't think any changes are necessary. We're very happy with where we're positioned now on each of the companies and and we believer on, more on target and on plan. And yes or no, we're not expecting to do any anymore movements of any kind with the companies.

Q - Andrew Hollingworth {BIO 1896571 <GO>}

That's really clear, if I can just one very brief follow-up and that's obviously the discussion earlier on about the buyback in the use of capital and so. And I think you made it very clear that you obviously your priorities to really to buy out the minority stakes in the insurance subsidiaries that that you want to do and then obviously that competes with the capital for the buyback. I'm just help me out, I'm not an insurance analyst day to day. So roughly, what is the quantum of capital that you would ultimately, we want to deploy to buy out those minorities likely going to be offered to you are able to you to buyout that in the next 3 to 4 years?

A - Paul Rivett {BIO 15243791 <GO>}

You're asking, Andrew. The total capital over 3 to 5 years?

Q - Andrew Hollingworth {BIO 1896571 <GO>}

Yeah. If you were able to buyout everything that you want to be able to buy out rather than your own shares, what would that come to?

A - Paul Rivett {BIO 15243791 <GO>}

Yeah. So I think what we're certainly, we're going to, we're going to be buying out the remainder of the minority interest in Brit over the next couple of years and Eurolife as well, maybe even sooner. Maybe in the next year or so, those would be the focus. First, are Brit and Eurolife

Q - Andrew Hollingworth {BIO 1896571 <GO>}

Okay. I can do the math on those. That's great, thank you very much.

A - Paul Rivett {BIO 15243791 <GO>}

Thank you.

Operator

Our next question is coming from Luis Hernandez]. Your line is open, Luis.

A - Paul Rivett {BIO 15243791 <GO>}

Good morning, Luis.

Q - Luis Hernandez {BIO 6987647 <GO>}

Yes. Yes, hello, good morning. Thanks for taking the questions. All right. Well, the first one is I just want you was wondering, which is your biggest product non-insurance business right now we're not Cara and all that get public. I'm a little confused, which one is your biggest non-insurance operation in a wholly owned?

A - Paul Rivett {BIO 15243791 <GO>}

Wholly owned? From largest investments, that would would be probably BlackBerry and Seaspan. But but our largest wholly-owned I'm just looking at Dave here would probably be.

A - Dave Bonham {BIO 15243784 <GO>}

I don't know about wholly owned Thomas Cook is a fair size, one of our companies. I think the next one.

A - Paul Rivett {BIO 15243791 <GO>}

And in Toys "R" Us is quite large now, but but yeah and others there they're wholly owned. But certainly our investments. So from an investment perspective would be much larger in Seaspan.

Q - Luis Hernandez {BIO 6987647 <GO>}

Yeah. Just wanted to know the non-insurance, up like a private business. But, okay, that's okay. And then the second question is regarding, you just also published the Fairfax India results. And I just wanted to hear your comments on the revaluation on Sanmar and BIAL Airport? I wasn't sure if that was profit driven or simply a revaluation of the assets. So, yeah, that's --?

A - Paul Rivett {BIO 15243791 <GO>}

Yeah. So, no, good question. So, on the Sanmar transaction, as you know, that's not going to be completed until 2019 and we use the discount rate in that valuation, it's fairly significant due to these remaining market uncertainties. So, now Dave, you want to add anything to that?

A - Dave Bonham {BIO 15243784 <GO>}

Yeah, with the Sanmar investment, we made it a few years ago and there were some projects that they were undertaking and -- but we are was just conservative and waiting for the projects to unfold and become operational and we started to see that now. So that, that resulted in a review of the valuation and a bit of an increase.

Q - Luis Hernandez {BIO 6987647 <GO>}

Okay. And also on the BIAL?

A - Paul Rivett {BIO 15243791 <GO>}

Yes, on the Bangalore Airport? Yeah, so currently we own 54% now of the Bangalore Airport and with that particular revaluation, I think it was on discounted cash flow, is what we applied there. And so, we're currently building out the second runway, Luis. So, we're seeing traffic volume through that airport increase dramatically. Basically, the entire population of Canada roughly went through that airport in year, about 33 million people, and it's on its way to 50 million or thereabout once we build the second terminal.

So, doing quite well there. But, Dave, I don't know if you wanted to add anything on valuation?

A - Dave Bonham {BIO 15243784 <GO>}

No, I think that's right Paul on the Bangalore.

Q - Analyst

All right, great, thanks. Thanks for the questions.

A - Paul Rivett {BIO 15243791 <GO>}

Thanks. Thanks very much, Luis. Appreciate your questions. Cal, any other questions?

Operator

We show no more questions on queue at this time. (Operator Instructions)

A - Paul Rivett {BIO 15243791 <GO>}

Well, thanks. So, any -- doesn't sound like there's any further questions. If there's no further questions, we'd thank you all for joining us on this call and we look forward to presenting to you again after the end of the year. Thank you, Cal.

Operator

And that concludes today's conference. Thank you for your participation. You may now disconnect.