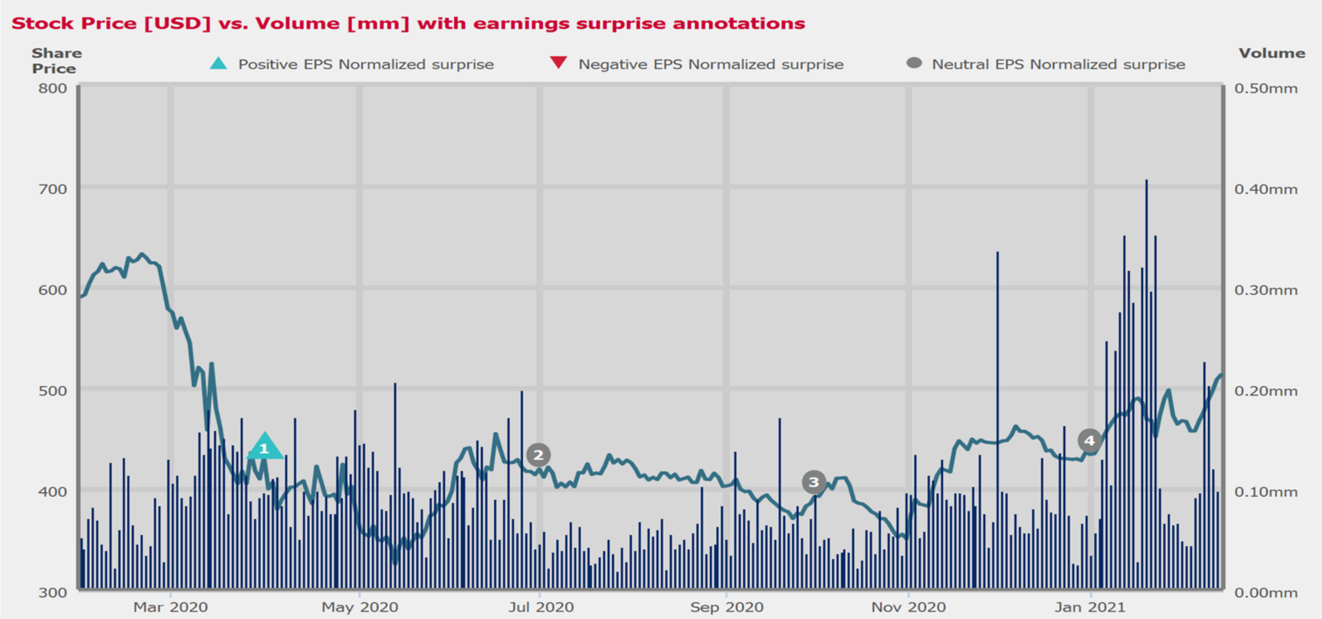
S&P Global
Market Intelligence

Fairfax Financial Holdings Limited TSX:FFH
FY 2020 Earnings Call Transcripts
Friday, February 12, 2021 1:30 PM GMT
S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FQ1 2021-	-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	4.36	(1.84)	NM	NA	1.56	6.44	312.82	24.64
Revenue (mm)	5407.90	6578.10	21.64	5310.95	18621.30	19794.90	6.30	21817.03

Currency: USD
Consensus as of Feb-12-2021 6:48 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2020	1.56	6.44	1 312.82 %

Table of Contents

Call Participants

EXECUTIVES

Derek Bulas
Associate Vice President of Legal

Jennifer J.S Allen
VP & CFO

V. Prem Watsa
Founder, Chairman & CEO

ANALYSTS

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Mark Alan Dwelle
RBC Capital Markets, Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Unknown Analyst

ATTENDEES

Unknown Attendee

Presentation

Operator

Good morning, and welcome to Fairfax 2020 Year-End Results Conference Call. [Operator Instructions] Today's conference is being recorded. If you have any objection, you may disconnect at this time.

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

Derek Bulas
Associate Vice President of Legal

Good morning, and welcome to our call to discuss Fairfax's 2020 year-end 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, and which now include the risk of adverse consequences to Fairfax's business, investments and personnel resulting from or related to the COVID-19 pandemic. Fairfax disclaims any intention or obligation to update or revise any forward-looking statements, except as required by applicable securities law.

I'll now turn the call over to our Chair and CEO, Prem Watsa.

V. Prem Watsa
Founder, Chairman & CEO

Thank you, Derek. Good morning, ladies and gentlemen. Welcome to Fairfax's 2020 year-end conference call. I'm trying to give you some of the highlights and then pass the call to Jen Allen, our Chief Financial Officer for additional financial and accounting details.

2020, as all of you know, was an unprecedented year. I'm not sure many of us would believe when we left our offices last March, and almost a year later, we would still be dealing with this pandemic to this degree. But we can see the light at the end of the tunnel as multiple vaccines now exist and testing has improved significantly.

The majority of our employees worldwide have worked from home for most of 2020, not missing a beat. I wanted to again thank all our employees, all over the world who have been fully committed over this period to provide outstanding service to our customers. I am very grateful to all of them. With vaccines being given now all over the world, we expect this to come to an end, and we expect to return to normalcy soon.

Now, coming to our results. Fairfax's net earnings were $218 million in 2020 versus $2 billion in 2019, which equates to net earnings per diluted share of $6.29 in 2020 versus $69.79 in 2019. Under the circumstances, we are very pleased about our performance in 2020, which was a real-life stress test.

Fairfax's book value per share in 2020 increased 0.6%, basically flat, adjusted for the $10 per share common dividend paid in the first quarter of 2020 to $478 per share. We had earnings in 2020 of $218 million, as I've said, reflecting the effects of the pandemic on both our underwriting and investment results.

Our net loss on investments of approximately $1.5 billion at the end of the first quarter completely reversed and we finished 2020 with net gains of $313 million, an increase of $1.8 billion. In 35 years, we've never experienced swingings in the stock prices like we did in 2020.

Our float increased by 8% in 2020 to $24.3 billion, and our float per share increased by 11% to $927 per share. Our insurance and reinsurance companies produced a consolidated combined ratio of 97.8% for the year, which included catastrophe losses of $644 million or 4.7 combined ratio points and COVID-19 losses of $669 million or 4.8 combined ratio points.

Excluding COVID-19 losses, the consolidated combined ratio was 93%, with 12.5% growth in gross premiums written on the back of a strong pricing environment. In the fourth quarter, total gross premiums were up 16%. We had some significant growth in gross premiums as Allied World was up 22% for the year, 26% for the fourth quarter, Odyssey 15% for the year, 24% for the fourth quarter, and Northbridge 14% for the year, 22% for fourth quarter.

All of our major insurance companies with the exception of Brit, generated combined ratios of less than 100%, that's despite unprecedented times and included a high-frequency of catastrophes and a global pandemic, more on this from Jen Allen.

In 2020, we booked net COVID losses, as I said, of $669 million across all of our companies. Of this approximately 35% comes from business interruption exposures, primarily outside the United States, and about 34% comes from event cancellation coverages. The balance comes from areas such as casualty, surety and travel lines.

On a gross basis, approximately 60% of our COVID provisions are in IBNR, paid losses are about 20% and case reserves make up the remaining 20%. As you can see, there's still considerable uncertainty as to the ultimate cost of the virus. The IBNR estimates may prove excessive in some of our companies, and they may not be enough in others.

In addition, as we are all well aware, pandemic is ongoing. As long as it persists and disrupts the economy, new losses may emerge. The size of the ultimate loss will also depend, to some extent, on various court outcomes as litigation has been filed in many jurisdictions. All-in-all, we remain comfortable with the provisions we have made to-date in the context of the current market environment.

Our reserves, of course, remain strong, with consolidated redundancies in our insurance and reinsurance operations in 2020 of $455 million or 3.3% of the premiums.

Our Insurance businesses in many parts of the world are seeing price increases anywhere from 10% to 30% and terms are tightening. The prospects of our insurance business are excellent as we think we are in a hard market and well positioned to expand significantly.

Last quarter, I mentioned our excitement about Ki, a standalone business began by Brit, the first fully digital follow-on syndicate at Lloyd's. It is doing very well.

I should also mention that Digit, our fully digital insurance company in India, run Kamesh Goyal had another year of exceptional growth. In 3 years, it has grown from a startup, providing in excess of $400 million and is expected to be profitable, including investment income for the year ended March 31, 2021.

Digit raised $25 million from private equity investors at $1.9 billion at year-end '20. That continuous to be valued on our books at $0.9 billion, and we don't expect any changes. Of course, that's on 100% basis. Also, the Indian budget allowed us to go to 74% from 49%.

For the year, operating income was strong at $916 million. Net gains on investments for the year were $313 million, with losses on net equity exposures of $137 million, offset by net gains on bonds. The net losses on equities included losses on our last remaining short position, which is finally closed at the end of the year.

Partially offset by net gains is telco, BlackBerry, convertible and the Asian value fund. As mentioned in our 2019 annual report, we will never short stock indices or individual companies again. Net gains on our bond portfolio was $562 million, primarily on our corporate bonds that were purchase in the first and second quarters of 2020.

As we have mentioned in our annual meetings, in our annual reports and quarterly calls with IFRS accounting, where stocks and bonds are recorded at market, subject to mark-to-market gains or losses, quarterly and annual income will fluctuate and investment results will only make sense over the longer term.

In the first quarter of 2020, we had a negative 3.6% return on our investment portfolio. And by the end of the year, our investment returns more than reversed, and we ended the year with a positive return of 2.7%.

I have previously highlighted this to you, and will do it once more if you look at Page 188 of our 2019 annual report. Last column shows the annual total return on our investment portfolio for the last 34 years. We updated, of course, for 2020.

There were 4 years when we had a negative investment return, in each case, we rebounded significantly. On that table, in the year 1990 we had a 4.4% negative return, 1991, the following year, up 14.6%. 1999, negative return, 2.7%, 2000 the following year, up 12.2%. 2013, negative 4.3%, 2014, up 8.6%. 2016, negative 2.2%, 2017, 6.8%. So that was only 4x in 34 years, each time investors worried about our investments, each time investment results were much better than they expected.

This time our investments have rebounded more quickly. Our history had shown that our returns are very lumpy. And this has worked for us over the last 35 years. We have never focused on steady quarterly earnings.

As I've said previously, long term value investing has gone through a very difficult time for many years now. Valuations of value oriented stocks versus growth stocks, particularly technology, have never been so extreme, exceeding even the extremes of the dotcom era in 2000. As the economy normalizes, we expect a reversion to the main with value-oriented stocks coming to the fore. After the Pfizer vaccine was announced in early November 2020, we started to see this taking pace.

2 examples very quickly may make it clearer for you. Fairfax India, we're sitting at $6.80 per share at the end of the third quarter, while its book value was more than $16 per share. Today, it's up to $12.40 per share. We think it's only a matter of time until Fairfax India exceeds its 2020 high and does exceptionally well as the Indian economy recovers from COVID-19. The Indian government came out with an exceptionally business friendly budget recently.

Atlas Corp.is another one that I've mentioned to you, run by David Sokol and Bing Chen closed 2019 at $14 per share, went down to $6.30 per share in March. Today is at $12.70 per share. Atlas is financially very strong, has great management, and we think it's only a matter of time before it exceeds its previous high. We expect a significant return on our stock portfolio as the economy continues to normalize.

In November, Fairfax and Allied World entered into an agreement with Cornell Capital and Hudson Structured Capital to sell its majority interests in Vault Insurance. We will continue to own a 10% stake in Vault following the sale.

Scott Carmilani was instrumental in creating and growing Vault and has pivoted from his role with Fairfax to the Chairman of the Board of Vault. Closing of this transaction is subject to various regulatory approvals expected to occur in the first quarter of 2021. We are very grateful to Scott for all his contribution to Fairfax, especially at Allied World, a company which he led from being a startup, becoming an industry-leading and highly successful worldwide insurance and reinsurance business.

In December Fairfax Africa completed its previously announced transaction with Helios Holdings. It was renamed Helios Fairfax Partners and continues to be listed on the Toronto Stock Exchange. Helios Holdings has been investing successfully in Africa for over 15 years. We are very excited about this transaction and look forward to our partnership by Tope and Baba, the Co-Founders of Helios Holdings.

Also in December, we entered into an agreement with CVC Capital Partners, whereby CVC will acquire 100% of RiverStone Barbados, a European run-off operation. OMERS, our partner will also sell its 40% interest as part of the transaction.

On closing, we expect to receive proceeds of approximately $730 million for our 60% interest in RiverStone Barbados and a contingent value note for potential future proceeds of up to $236 million should certain returns be met.

As part of the agreement, the company entered into an agreement with RiverStone Barbados to purchase, unless sold earlier, certain investments in the equity investments owned by RiverStone Barbados at a fixed price of approximately $1.2 billion prior to December 22. So, we have 2 years to buy this portion. Closing of this transaction is subject to various regulatory approvals. We would like to thank Luke Tanzer, and all the employees of -- at RiverStone Barbados and wish them the very best in the future.

Subsequent to 2020, Fairfax entered into an agreement with OMERS, pursuant to which OMERS will acquire a 14% interest in Brit Limited. The cash purchase price for this investment is approximately $375 million. The transaction is subject to customary closing conditions, and is expected to close in the second quarter of 2021.

We have said for some time that we wanted to monetize many of our investments, including particularly many of our private investments. Here is what we've done in 2020. We merged Dexterra with Horizon North for a 49% ownership in the public company. We now have a company which we expect will have a $1 billion in revenue and $100 million in EBITDA for few years -- in a few years.

We sold Davos for $59 million with an additional earn-out over time, which should result in a 100% return on our capital invested. Peak Performance, agreed to sell its Easton baseball operation to Rawlings for shares and cash at a significant profit for us and our partners, [Power Corp].

As just mentioned, we completed the merger of Fairfax Africa with Helios Holdings for a 32% ownership in the combined entity.

This is just the beginning. Various initiatives are underway including taking some of our other private investments public. Farmers Edge recently announced that it was going public in the first quarter of 2021.

We continue to have approximately $1.3 billion at the holding company, predominantly in cash and short-term securities. Please note that our cash in the holding company is to meet any and every contingency that Fairfax might face in this uncertain time period. We're not making any long term investments with this cash other than to support our insurance and reinsurance operations.

The closing of the RiverStone Barbados transaction, which is expected to be in the first quarter, we expect to have $1 billion of cash and investments at the holding company with our credit facility fully paid up.

In December 2020, the company's insurance and reinsurance companies held approximately $16 billion in cash and short term securities, representing approximately 38% of our portfolio investments, comprising of $13 billion of subsidiary cash and short term investments and $2.9 billion of short-dated U.S. treasuries.

Our investment portfolios will be largely unimpacted by rising interest rates as we have not reached the yield. In fact, we would benefit from rising investment income. We have reached significant investing, as you know, with Kennedy Wilson in first mortgages blockages with the term less than 5 years.

With the run rate at the end of 2020 of approximately $19 billion in gross premiums, and our insurance subsidiaries expected to grow significantly in the next few years, a huge focus on underwriting discipline, a portfolio of over $40 billion and HWIC, operating in a stock pickers market, all grounded on our fair and friendly culture built over 34 years, we expect to be firing on all cylinders in 2021 and beyond.

In the past 35 years, we've had years when our book value has grown by 40% to 50%, and our stock price has increased by 150%. We expect to reward you, our shareholders, for your patience. We feel the best is yet to come.

I will now pass the call over to Jen Allen, our Chief Financial Officer. Jen?

Jennifer J.S Allen
VP & CFO

Thank you, Prem. We wanted to let you know that in addition to the press release that was issued yesterday on our year-end results, Fairfax's 2020 annual report will be posted on the company's website on March 5, 2021.

I wanted to also take a moment and thank all of our employees globally. We've been faced with many challenges throughout 2020, but each finance team showed their resilience and commitment to Fairfax. A huge thank you for all your efforts, you should all be very proud of your accomplishments.

Now looking to our results. In the fourth quarter of 2020, the effects from the COVID-19 pandemic on the global financial markets started to reverse with significant improvements noted in the equity markets, which benefited Fairfax's fourth quarter results.

Our core underwriting performance continued to be very strong despite higher catastrophe losses in 2020 and the reported COVID-19 losses. I'll start with a few key highlights from our 2020 results.

We reported strong underwriting performance with an underwriting profit of $309 million. That represented a combined ratio of 97.8%, which was achieved despite COVID-19 losses and higher catastrophe losses. Our net gains on investments were $313 million for 2020 with over $1.2 billion in net gains on investments being recorded in the fourth quarter.

And finally, we ended the year with a consolidated balance sheet position for our investments and associates with fair values exceeding the carrying values by $712 million. That represented on a pretax and non-controlling interest basis, appreciation of approximately $1.1 billion since March 31, 2020, which is not reflected in our book value per share as these investments are equity accounted.

Taking the above key highlights into account, Fairfax reported net earnings of $218 million or $6.29 per share on a fully diluted basis in 2020. Compared to 2019, when we reported net earnings of $2 billion or $69.79 per share on a fully diluted basis.

Looking in more detail to the results of our underlying reporting segments, starting with our ongoing insurance and reinsurance operations. As noted, our core underwriting performance continued to be very strong with underwriting profit at our insurance and reinsurance operations in 2020 of $309 million and a combined ratio below 100% at 97.8%, which compared to an underwriting profit of $395 million and a combined ratio of 96.9% in 2019.

Underwriting performance in 2020 remained strong despite COVID-19 losses of $669 million, and catastrophe losses of $644 million, which were higher than 2019 by $147 million. Despite those COVID-19 losses and additional catastrophe losses, in aggregate that were $815 million, Fairfax still achieved an underwriting profit of $309 million and a combined ratio of 97.8% or 93.0% adjusted for those COVID-19 losses.

All of our insurance and reinsurance companies achieved combined ratios below 100% in 2020, with the exception of Brit, primarily as a result of the impact of COVID-19 losses.

Overview of our core underwriting results for 2020 are as follows. Northbridge reported a combined ratio of 92.4% and underwriting profits of $109 million, which was an underwriting improvement of $62 million from 2019.

Odyssey Group reported an underwriting profit of $190 million with a combined ratio of 94.7% and underwriting improvement over 2019 of $100 million. Crum & Forster reported an underwriting profit of $60 million and a combined ratio of 97.5%, which was relatively consistent with their 2019 results.

Zenith National reported lower underwriting profits of $52 million and a combined ratio of 91.9%, which reflected price decreases and lower payroll exposure due to the economic impacts of COVID-19 in their Worker Compensation business. This was partially offset by price increases in growth in other property and casualty lines.

Brit reported underwriting losses of $240 million and a combined ratio of 114%, which principally reflected COVID-19 losses of $270 million or 15.8 combined ratio points and higher catastrophe losses.

Allied World reported an underwriting profit of $126 million, combined ratio of 95.4% and underwriting improvement over 2019 of $68 million. Fairfax Asia reported an underwriting profit of $7 million and a combined ratio of 96.8%, which is relatively consistent with their 2019 results.

And finally, our Insurance and Reinsurance - Other segment produced an underwriting profit of $6 million and a combined ratio of 99.5% in 2020, which compared to an underwriting loss of $18 million and a combined ratio of $101.7 million.

Key components of our combined ratio in 2020 of 97.8% included the following: COVID-19 losses of $669 million or 4.8 combined ratio points, increase in frequency of current period cat loss events that resulted in higher losses at $644 million or 4.7 combined ratio points, primarily related to Hurricane Laura, Sally and the Midwest Derecho.

Benefit of strong reserving reflected continued in net favorable prior year reserve development of $455 million or 3.3 combined ratio points and improved underwriting expense ratios, reflecting the growth in our net premiums earned relative to increases in the underlying expenses.

Additional details on the catastrophe, COVID-19 losses, net favorable prior year reserve development and our combined ratios that impact each of the respective insurance and reinsurance segments will be disclosed in Fairfax's 2020 Annual Report in the MD&A.

As noted in 2020, we reported COVID-19 losses of $669 million, which were comprised primarily of business interruption exposure, approximately 35%, primarily from our international businesses and event cancellation coverage of approximately 34%.

The COVID-19 losses principally comprised of incurred but not reported, that represented 51% of the net loss. And the net losses were primarily recorded at Brit $270 million, Odyssey Group $140 million and Allied World at $113 million.

Our catastrophe losses in 2020 of $644 million or 4.7 combined ratio points were primarily comprised and reported by the following segments. Northbridge reported CAD 39 million or 2 combined ratio points, primarily relating to Fort McMurray floods and the Calgary hailstorms.

Odyssey Group, $190 million or 5.3 combined ratio points, primarily related to Hurricane Laura and the Midwest Derecho. Allied world, $165 million or 6.1 combined ratio points related to Hurricane Laura, the U.S. Western Wildfires and Midwest Derecho.

Crum & Forster, $95 million or 3.9 combined ratio points, primarily related to Hurricanes Laura and Sally. And finally, Brit, $157 million or 9.2 combined ratio points, primarily related to Hurricanes Laura and Sally.

Our combined ratios benefited from net favorable prior year reserve development of $455 million, which translated into 3.3 combined ratio points compared to net favorable prior year reserve development of $480 million, which represented 3.8 combined ratio points in 2019.

Looking at the growth in our net premiums written by the insurance and reinsurance operations in the fourth quarter and full year 2020. In our fourth quarter 2020, the net premiums written increased by 16.1% to $3.7 billion from $3.2 billion in the fourth quarter of 2019, and for the full year 2020, it increased by 11% to $14.7 billion from $13.3 billion in 2019. That full year increase in 2020 of approximately $1.5 billion is almost equivalent to all of Northbridge's net premiums written in 2020.

And a few comments on our runoff operations. As noted in prior quarters, subsequent to the contribution of European runoff to RiverStone Barbados on March 31, 2020, starting from April 1, 2020, the operating results of runoff only include our U.S. operations.

Excluding the significant reinsurance transactions and Part VII transfer at European runoff in 2020 and 2019, one-off reported an operating loss of $204 million in 2020 compared to an operating loss of $219 million in 2019, with runoff reporting an operating loss of $147 million in the fourth quarter of 2020, principally reflecting net adverse prior year development on asbestos reserves of $126 million.

Turning to the results of our non-insurance companies reporting segment. In 2020, the restaurant and retail reporting segment reported an operating loss of $70 million, but in the fourth quarter of 2020, the company benefited from favorable results from this segment that reported operating income of $12 million.

This segment's revenues benefited from expanded e-commerce platforms and strong brand awareness that helped partially offset the decline in the in-store revenues throughout 2020 as a result of the impact of COVID-19 lockdown restrictions.

The operating losses in the other non-insurance reporting segment of $54 million in 2020 principally reflected Fairfax Africa's operating losses of $110 million predeconsolidation on December 8, 2020, partially offset by operating income at Dexterra and AGT.

On December 8, 2020, Fairfax Africa completed the transaction with Helios Holdings Limited and was remained Helios Fairfax Partners or HFP. Fairfax deconsolidated Fairfax Africa and commenced accounting for its interest in HFP as an investment in associates, resulting in a net loss of $62 million that included recycled foreign currency translation losses of $27 million, and those foreign currency translation losses have no impact on common shareholders' equity as a reclassification in the financial statements.

Also, that included the $62 million, a partial reversal of the initial impairment loss of $164 million that was recorded in the third quarter of 2020 related to an increase in the market traded share price at Fairfax Africa between then and closing.

Now looking at our results, for investment results for Fairfax, our consolidated interest and dividend income decreased year-over-year from $880 million in 2019 to $769 million in 2020. That primarily reflected lower interest income earned, principally on the U.S. treasury bonds and cash short-term positions that was partially offset by higher interest income earned on our high-quality U.S. corporate bonds.

Our consolidated share of loss of associates of $113, principally reflected impairment losses of $240 million that were recorded primarily in the first quarter of 2020, and were related to the company's investments in Quess, Resolute, Atlas Mara and Astarta. The share of losses -- it also included our share of losses of Sanmar of $49 million and Bangalore

Airport of $31 million, which was partially offset by profits at Atlas Corp. of $116 million and RiverStone Barbados of $113 million.

At December 31, 2020, our investments in associate had an aggregate fair value that exceeded the carrying values by $712 million. And due to the equity method of accounting for these investments, this excess of fair value over the carrying value is not included in our book value per share.

This is a significant positive change from the March 31, 2020, when the aggregate carrying value exceeded the fair values of the investments and associates by approximately $400 million. That represents on a pretax and non-controlling interest basis, appreciation of approximately $1.1 billion of these investments.

In terms of our net gains on investments, I'll highlight the fourth quarter and 2020 results. In the fourth quarter, our consolidated net gain on investments was over $1.2 billion compared to net gains on investments of $640 million in the fourth quarter of 2019.

The fourth quarter of 2020 principally reflected net gains on our long equity exposures, just under $1.2 billion and net gains on our bonds of $112 million. That was partially offset by $138 million on our short equity exposures, which resulted from the closing of the company's remaining short equity total return swaps.

Let me remind you that in the first quarter of 2020, we reported net losses on investments of just over $1.5 billion. And for fiscal year 2020, Fairfax's consolidated net gains on investments was $313 million, a $1.8 billion swing within a year.

Our consolidated net gains on investments was $313 million, reflecting our net gains on bonds of $562 million, primarily as a result of unrealized depreciation of high-quality corporate bonds. And our net gains on long equity exposures was $372 million, which was partially offset by our short equity exposure of $529 million that was fully closed out of the company's remaining short equity total return swap position.

And in closing, a few comments on our financial position. Our total debt to total cap ratio, excluding the company's consolidated non-insurance companies increased to 29.7% at December 31, 2020, from 24.5% at December 31, 2019, primarily reflecting increased total debt and decreased common shareholders' equity, principally related to the common share dividend paid in Q1 and unrealized foreign currency translation losses, which was partially offset by net earnings.

At December 31, 2020, our book value per share was $478 compared to $486 at December 31, 2019. [Technical Difficulty] in the first 2020 and an increase from the third quarter of 2020 of 8.2%. The increase in book value per share in the fourth -- of 8.2% in the fourth quarter of 2020 reflected Fairfax's core underwriting performance continuing to be very strong with excellent investment returns.

And now, Prem, I'll pass it back over to you.

V. Prem Watsa
Founder, Chairman & CEO
-- [Technical Difficulty] name and your company name, and try to limit your questions to only one, so that it is fair to everyone on the call. Okay, then we're ready for your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Jeff Fenwick of Cormark Securities.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

So as you say, an interesting time in the markets and good opportunities for stock pickers. So my first question really is just around your general thoughts on investment rotation. And are you being very active here and maybe selectively trending some positions and looking for some new opportunities?

And, I guess, the one I certainly get a lot of questions on off late, not surprisingly is BlackBerry. So any comments on, I guess, the allocation and perhaps BlackBerry specifically?

V. Prem Watsa
Founder, Chairman & CEO

Yes. Jeff, just on BlackBerry, it's gone up and down, so just a couple of points. First of all, we don't comment on our securities purchase of sales you know that. I would just say 2 points. One, they're insiders and have insider obligations on BlackBerry. And two, BlackBerry closed on December 2020 -- closed the year December '20 as 6.625%.

Having said that, in 2019, the technology stocks were doing very well and have been doing very well for some time, as you know Jeff, and the shift to value investing had begun. And then COVID came at us in 2020 in March and it was significant. 180 countries closed down their economies. We didn't know what was going to happen. And stocks, particularly valued oriented stock or stocks, companies sensitive to the economy crashed.

Since that time we've come back, and now we've got vaccines coming in, we've got testing. We just think the shift of value investing will take place over time. And that's already begun in November with the announcement of the Pfizer vaccine. Many, many vaccines have come to play. Countries are getting back to normalization. You don't know exactly when, but that will happen. And the economies will come back.

And so, we, of course, are stock pickers, we expect to make money on the things that we've invested in in the past, and we are constantly looking at better opportunities. So this is what we've done for 35 years. We've got a tremendous track record. We've got a very good investment team, led by Wade Burton and Lawrence Chin and very excited about -- yes, about what will happen in the next few years.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

And maybe my next question, I'd like to just focus on capital and uses of capital. Obviously, you highlighted how the balance sheet has strengthened after your RiverStone sale. As we look into this year with the insurance markets remaining hard, are you thinking about -- your first priority, I guess, is pushing more capital down into the operating units. Are we looking at a similar magnitude of investment down there? I think it was $1.4 billion. Or maybe you might look more at doing something like share buybacks here if the stock is still trading below book value.

V. Prem Watsa
Founder, Chairman & CEO

Yes, so the first thing to say is that, insurance is our business -- core business. As you said, we put a ton of money in 2020 into the insurance companies. We don't think they need any more money now. Of course, our investment portfolio is coming back up as additional plus. But we've made them self-financing at the end of the year.

And I'd be expected them to grow significantly. But they grow they grow over time, right. So when you write premiums, you earn it over -- more than a year, as the year comes forward. So the insurance business is well primed. It reminds me of 2001 and what happened in 2002, after September 11, some differences, of course, at all times. But as we said prices are going up, they're going up over -- all over the world. And the terms are going up.

We have capital. We purposely did the 14% on Brit so that we have another $375 million now, in case we need it. But at the moment we don't expect to need any money from the holding company, for our insurance companies. They're well capitalized and financed and ready. And most importantly, many companies are pulling back, Jeff, were our management team who run the companies are ready to expand and expanding significantly, as you saw in Allied and Northbridge and Odyssey already.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

And I guess, maybe a comment on share buybacks then if you have some capital available for that?

V. Prem Watsa
Founder, Chairman & CEO

Yes, yes. So share buybacks is always -- first, financial soundness, first, a good opportunity to support our insurance companies. Second, is share buybacks. And that's what we always look at. We had this opportunity, as we mentioned, on the total return swap. It's an investment that we made. I've said before many a times that our stock prices are incredibly cheap for the record that we've had. We go through phases, though. We're not looking at every 3 months, every quarter, we are up 10%, or 5%, that's not how we run our company. But our long term record is, perhaps one of the better ones you'll see.

And so, we think our stock is cheap. So we've had a total -- when we looked at the potential investments that were available to Fairfax, in our investment portfolios, we thought Fairfax was perhaps among the best, if not the best. And so we bought 1.4 million shares, as we said in a total return swap and -- as an investment -- we bought that as an investment. So we look at all possibilities, Jeff, and see what the future will bring.

Thank you, Jeff. And next question, Dale.

Operator

The next question comes from the line of [Junior Ross], private investor.

Unknown Attendee

I have 2 questions. So for the total credit swaps, when is the expiry date for that? And during the Reddit fiesta, did you guys take advantage by hedging any of your investments?

V. Prem Watsa
Founder, Chairman & CEO

Sorry, when you say the credit swaps, you mean these total --

Unknown Attendee

The Fairfax credit -- yes, yes, total ones. Yes, sorry.

V. Prem Watsa
Founder, Chairman & CEO

Yes. Total return swaps, yes. They are 1 year swaps. We've historically been able to extend it for as long as we like.

Unknown Attendee

And then on the Reddit question, were you guys able to lock in any of the gains by taking any kind of hedging or was there no opportunity, because it was just a short period of time?

V. Prem Watsa
Founder, Chairman & CEO

So as I said, right, I made the point that on BlackBerry we are insiders, and we have inside obligations and we never talk about purchase or the sales of our securities. Thank you very much. Next question, Dale?

Operator

Our next question comes from the line of Tom MacKinnon from BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

My question is about the selling off 14% of Brit to OMERS. I mean, in -- I think your reasoning was, we got $375 million as a result of that, and that's just in case we need it. I remember earlier in 2020, you went to the debt market sort of in case you need it. Why you're selling off a 14% of Brit like, in the height of some good hard markets here? Why wouldn't you use debt [crosstalk].

V. Prem Watsa
Founder, Chairman & CEO

Yes. So very good question, Tom. We just want to be financially sound and we've got a very good relationship with Brit, and with the OMERS. You know that we had 40% on RiverStone U.K. that we sold OMERS for $600 million. And so they're taking 225 million and they're reinvesting $375 million in Brit. And now, we just think we've got a very good relationship. We bought back [term]. I think we had about 89%. OMERS helped us in the past, and we had 89%, before we did 14%. We bought all of it, I think, back in 2020. And so we sold this 14% back. It's to keep $375 million possible -- potential. We're going to refinance sometime, which we've always done on debt issues, so that's coming in the next 3 years. We think it's just a good mix.

Tom MacKinnon
BMO Capital Markets Equity Research

And so if anybody said you're selling off an insurance -- part of an insurance company, in what would appear to be pretty good insurance markets, in order to improve liquidity, versus going to the debt market, how would you answer that question?

V. Prem Watsa
Founder, Chairman & CEO

I'd answer that by saying that we've done this before. And we have the ability to buy back that 14% from OMERS. We've got many targets that we can buy it in a year and 2 years or 3 years. So it gives us a lot of flexibility, Tom. And the debt markets are there, we understand that. Thank you very much Tom. And next question, Dale.

Operator

The next question comes from the line of Mark Dwelle from RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, Research Division

A couple of questions. On the Barbados -- the sale of the Barbados business, you'd mentioned briefly and it was mentioned in the press release about a planned buyback or part of the agreement requires the buyback of $1.2 billion of investment assets. Can you just elaborate on that a little bit? Why is that being left out there? It seems like $1.2 billion is not an insignificant amount that presumably, the holding company will need to come up within the next couple of years in order to fund that purchase?

V. Prem Watsa
Founder, Chairman & CEO

So Tom, basically, we had a stock portfolio in RiverStone U.K., and we kind of sold in December or whatever in 2020. Our feeling was that it was very undervalued. So we have the ability, $1.2 billion is based on 2019 prices -- year-end prices. For 2022, we've got the ability to sell it or buy back. It's just -- we think it will be -- right now, the $1.2 billion is a very much what's its worth in the stock market. Meaning, the stocks in that portfolio are very much worth $1.2 billion.

And we expect it to do it very well. And so we can sell it every one or we can hold it. And we just think value investing is coming to the fore. Companies that we own are going to be -- are exceptionally undervalued in our minds. So I take that with a pinch of salt. But we think they're exceptionally valued -- so exceptionally undervalued, and we think they're going to do very well. So we didn't want to sell that at these prices. That's basically it.

Mark Alan Dwelle

RBC Capital Markets, Research Division

These are primarily -- these are -- I'm sorry, these are common equities or these are private equity holdings?

V. Prem Watsa
Founder, Chairman & CEO

No these are predominant common stock position that we have. We can sell them as we like.

Mark Alan Dwelle
RBC Capital Markets, Research Division

My second question relates to executing the total return swap with respect to Fairfax shares. I guess, I was just curious why you pursue that structure rather than just buying back the stock if you felt like that was the good opportunity. I mean, is this a capital constraint that you couldn't really buy back that much?

V. Prem Watsa
Founder, Chairman & CEO

We'd have to be careful, right? So not so much -- yes, we had to be very careful in terms of how much we could buy back. When we looked at Fairfax as a stock price and looked at everything else that we could buy, we just got total return swap on Fairfax. Right now, we paid $344 per share, as you know, U.S. dollars. Our book value is $478. I mean if you look the math just on our book value basis, we have about $200 million gain. If Fairfax stock prices go to book value, it's worth another $200 million. We just think it's a terrific investment. And our total return swap structure was a very good way for us to do it, and so we did it.

Mark Alan Dwelle
RBC Capital Markets, Research Division

I don't disagree with you that it was a good strike price. I guess, it was really -- the form of the transaction rather than just actually buying the shares using a derivative instead is, it's just -- its little bit unusual. I haven't usually seen that with most of the companies that have followed. So that was really my main question.

V. Prem Watsa
Founder, Chairman & CEO

Yes, so Mark, our point is just that, we wanted to keep up -- we really have more than $1 billion in cash in the holding company. Once OMERS is done will have $375 million. We just wanted to be financially sound in all ways as opposed to use that cash at this point in time. Thank you, Mark. Next question, please Dale.

Operator

The next question comes from Jaeme Gloyn of National Bank Financial. I'm so sorry, Jaeme has disappeared. Would you like to entertain other question? [Operator Instructions]

V. Prem Watsa
Founder, Chairman & CEO

Dale you want to go on to the next question, please?

Operator

The next question comes from Mikael [indiscernible] Holdings. Mikael's lines got disconnected or his line has disappeared? Would you like to entertain Jaeme's line?

V. Prem Watsa
Founder, Chairman & CEO

Yes, Dale, you can then go on to the next question, please?

Operator

Jaeme Gloyn, your line is now open.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

So first question is just around the Farmers Edge IPO. That seems to be -- that will be coming out pretty soon here. Can you maybe talk about some of the other industries or companies that you're looking to maybe tack into this pretty robust IPO market as a way to realize on value in some of those holdings?

V. Prem Watsa
Founder, Chairman & CEO

Jaeme, we're not allowed to say too much until they file, and until they are done. So Farmers Edge, as you know, has filed. We'll be filing some more. You'll be able to guess them. And, and we'll be filing them in India -- in Fairfax India. Many of them there. And, we've got some really good companies and we've developed them over. And Dexterra is a classic where the old horizon -- this called Dexterra, we have 49%. And we expect that to be a very successful company over time. So, we have many of them. And when you look at our non-insurance companies, some of you analysts are worried about the fact that we don't make any money. We reflect the losses, but we don't show the gains. And the gains come over time.

So when you look at our investment portfolio, you know this Jaeme, we've got common shares. We have more than 20%, they become associates. If you have a 40% interest -- the numbers like that, in the case of Thomas Cook 65%, then you have to consolidate it. So in our Annual Report in 2020 -- for the 2020 Annual Report will come out in a few weeks, we're going to show it to you so that you can -- we're going to take another attempt to show you our common stock positions. And they -- some of them are just common stocks, some are associates, some are consolidated. It gets a little bit guy, but that's the accounting IFRS. We have to follow the accounting rules. But we're going to show that to you in a way that I think will be easier to understand.

And over time, all of these investments, some do very well in a short period of time, and some take longer. And we just -- we're patient, long term investors.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

And then just following up, looking into the insurance sector as we think about COVID-19 risks and losses and reserving there. Yes, I would expect that loss reserves would diminish as the vaccine rollout unfolds. But can you talk about maybe some of the exposures in event cancellation, and business interruption?

V. Prem Watsa
Founder, Chairman & CEO

So event cancellation, Jaeme, we've taken the next 6 months -- these event cancellation policies have very few, if any, we have been written after March 2020. And so we've looked at the -- Brit has looked forward and Allied World too, and we've basically written off the first 6 months where we think there'll be written. So we don't expect it to be of any significance.

But as I said in my comments, that there is that uncertainty, but we don't expect it to be very significant.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. And then on BI as well, do you have a quick comment to sort of frame that risk like you just did with event cancellation?

V. Prem Watsa
Founder, Chairman & CEO

Which risk again, Jaeme, sorry?

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Business interruption?

V. Prem Watsa

Founder, Chairman & CEO

Oh, business interruption. Yes, business interruption is an international risk that you have. So it's outside North America. We've taken most of the hit. You'll see that like 50%, 60% of the gross numbers that we've set up are IBNR, right? So that's a reserve that are not allocated. They're incurred but not reported. But we expect it to come. We've been conservative, as you -- all through our history we've been conservative. And so we expect that even in the case of business interruption, another there are some lawsuits and there's regulatory bodies making decisions, so you have to watch how they come through. But we think, all in all, right down were well deserved. Thank you, Jaeme. Yes, Dale, next question please.

Operator

The question comes from the line of [Michel] [indiscernible], a private investor.

Unknown Attendee

- long time, and I've followed you guys for long time. And I believe that it is time that you step down from having primary investment responsibilities. I know that [Jamie] manages some capital, Wade manages some capital. We all know that those are very small portions of the capital base. And I think you are always quoting your long term track record. But I can -- I know when the man is out of tune with the markets. And I also think that it was a huge mistake if you do not take the BlackBerry gift that was given to you by the market. And I also don't think that you're doing deep analysis on your holdings. I suspect that you probably don't do a lot of diving into the financials, the statements. You probably don't understand the microeconomics of the businesses you are buying. You probably are not talking to customers, suppliers, competitors, former employees.

The investment business is a very competitive business. It's not like it used to be. I'm not saying that you should go out and buy technology stocks. But I sense when the man is not competitive in the field and is not working hard. And I think it's time that you step down from primary investing. And I'm sure many of your associates agree with you, but -- because they are Canadian and tend to be nicer than Americans. They don't say anything. And the banks don't ask you any difficult questions, because there are so few good companies in Canada and they get financing fees from you. So they ask cowardly questions.

V. Prem Watsa
Founder, Chairman & CEO

Good points. You're entitled to your opinion, and we'll let time decide that, okay? So thank you very much for your comment. Next question, Dale.

Operator

The next question comes from the line of [Gursimran Singh], private investor.

Unknown Attendee

My question is regarding Fairfax India. Could you please provide an update on your investment in Bangalore Airport? Are you still bullish about the prospects of that investment given the situation with COVID and how it's going to evolve in the next 2, 3 years?

And also, could you provide an update regarding the deal you had with OMERS to sell our stake at $2.7 billion valuation? And can we expect to -- like has it closed? Or like, could you provide an update there?

And also, could you, right, whether we are still looking to do the IPO as it was written in the last Annual Report by the end of this year?

V. Prem Watsa
Founder, Chairman & CEO

So our Bangalore International Airport is a world-class airport, doing very well. They stopped, of course, during COVID. The business is coming back significantly. Passengers are -- it's running at about 60% of capacity. And so the terminal is delayed, but in 2022, the second terminal will be built. The second runway is already built. And we expect it to -- we're as excited about Bangalore International Airport as we always were. And we got our terrific guy running it, as you know, Hari Marar. And so this company will be on its way.

In terms of its -- in terms of Fairfax India itself, there's a tremendous opportunity. India is a land of opportunity. It's become very business friendly. And Mr. Modi has come up with a very good budget. And we expect that our anchorage over time will take it public. We think, $2.7 billion-$2.8 billion for Bangalore International Airport 100% basis now, is a very reasonable price, and so, that's very, very possible.

In terms of the anchorage approvals, there are still -- in India, there's a lot of approvals. There's one more approval that is necessary and we think it will come soon. And so, as excited [Gursimran] in terms of Fairfax India. India's got lots of possibilities. With that Dale let me take the last question, if you don't mind.

Operator

The next question comes from the line of [Alan Parcel] from Alcon Partners.

Unknown Analyst

I just need a little bit of clarification, if I can, on the questions regarding BlackBerry. I understand that you don't discuss changes in portfolio, et cetera, regarding any of your positions. But there were filings made, and this goes with regard to your insight comments -- insider comments and directorship.

There were some filings made in January, where 6 of the Hamblin Watsa Fairfax team sold their entire positions in BlackBerry. I understand that's a subsequent event to the end of the quarter. But can you explain how they're able to sell their shares and Fairfax may not be able to sell theirs? Or in the past, you've had -- you have 2 different positions in BlackBerry, one convertible bonds and common stock. Are you saying you have restrictions on both of those for clarification for me please?

V. Prem Watsa
Founder, Chairman & CEO

Yes. So -- yes, the securities, SEC, doesn't distinguish between the convertibles and common shares. And in the case here, we're an insider, I'm an insider and Fairfax is an insider. Some of the people may not be insiders. And I don't know who you're referring to, [Alan]. But some of them may not be insiders, and so they can do --

Unknown Analyst

As an example, Wade Burton, Roger Lace, I mean they were significant investor people?

V. Prem Watsa
Founder, Chairman & CEO

Yes. So -- no, that's right. But the company is an insider of this. So we follow all these rules very carefully. And no one can sell anything unless they go through our legal department. And so we're very, very careful, [Alan] in this type of situation. And we just -- we don't talk about individual securities till they're done. That is how we run over past 35 years [Alan]. So you'll have to bear with us, [Alan]. And I thank you for your question.

I thanks to all of you. Dale, I think we're ready to go on to end the call. And as we have announced previously for your safety and for the safety of all our employees from the global pandemic, our Annual Meeting will once again be held virtually on April 13. At which time, I look forward to answering again all your questions. Instructions on how to join that webcast that we published on our website soon.

So Dale, thank you very much. This will terminate the call. Thank you.

Operator
And that concludes today's conference. Thank you all for participating. You may now disconnect.