S&P Capital IQ

CONTENTS

Markel Corporation NYSE:MKL

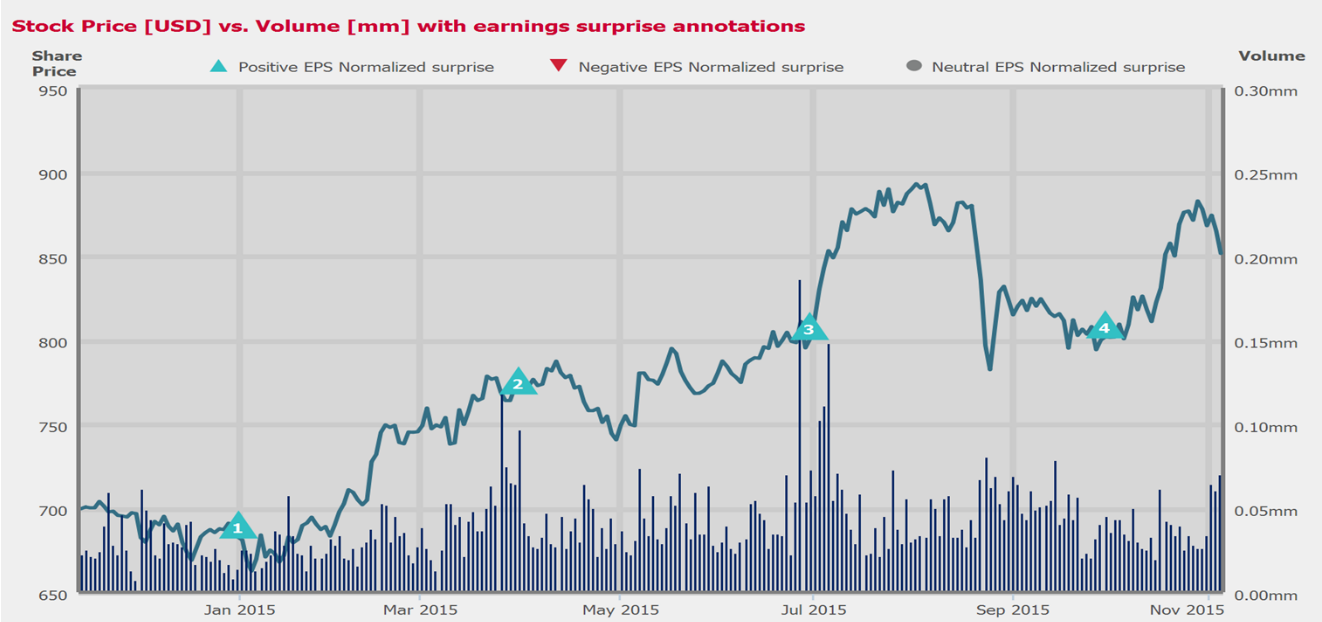
FQ4 2015 Earnings Call Transcripts

Thursday, February 11, 2016 2:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2015-			-FQ1 2016-	-FY 2015-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	6.96	8.72	▲25.29	6.53	34.84	36.28	
Revenue (mm)	1327.98	1420.46	▲6.96	1335.54	5270.82	5369.98	

Currency: USD
Consensus as of Dec-08-2015 7:39 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2014	5.52	8.18	▲1 48.19 %
FQ1 2015	5.85	13.17	▲2 125.13 %
FQ2 2015	6.04	6.10	▲3 0.99 %
FQ3 2015	6.51	7.21	▲4 10.75 %

Call Participants

EXECUTIVES

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Francis Michael Crowley
Vice Chairman

Richard R. Whitt
Co-Chief Executive Officer and Director

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

ANALYSTS

David McKinley West
Davenport & Company LLC

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Mark M. Hughes
Lafayette Investments, Inc.

Presentation

Operator

Good morning, and welcome to the Markel Corporation's Fourth Quarter 2015 Conference Call. [Operator Instructions] During the call today, we may make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They are based on current assumptions and opinions concerning a variety of known and unknown risks. Actual results may differ materially from those contained in or suggested by such forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included under the captions Risk Factors and Safe Harbor and Cautionary Statement in our most recent annual report on Form 10-K and quarterly report on Form 10-Q. We may also discuss certain non-GAAP financial measures in the call today. You may find a reconciliation to GAAP of these measures in the press release, which can be found on our website at www.markelcorp.com in the investor information section. Please note, this event is being recorded.

I would now like to turn the conference over the Tom Gayner, Co-Chief Executive Officer. Please go ahead, sir.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you, Denise, and good morning. Welcome to the fourth quarter of 2015 conference call for the Markel Corporation. My name is Tom Gayner, and I'm joined by my colleagues, Anne Waleski, Mike Crowley and Richie Whitt. Anne will brief you on the financial results, Mike and Richie will discuss our insurance operations, and then I'll return with some comments on our investment results for Markel Ventures. As always, we thank you for your interest and support of Markel, and we look forward to your questions.

With that, Anne?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Thank you, Tom, and good morning, everyone. I'm happy to report that 2015 was an outstanding year for our underwriting operations, which contributed more than $400 million to pretax profit. We saw improved combined ratios in all 3 of our ongoing insurance segments. The favorable impact from underwriting was muted by our investing results, which were adversely affected by volatility in the equity market. We celebrated the 10-year anniversary of our Markel Ventures operation this year, which surpassed $1 billion in revenues for the first time. We continue to pursue growth opportunities in both our insurance and Markel Ventures operations. We are excited about our recent acquisitions of CATCo, which expands our presence in the insurance-linked security markets; and CapTech, a leading management and IT consulting firm providing services to a wide array of customers. We are proud of our 2015 results and our record of building shareholder value over the last 30 years as a public company. I want to thank our associates for their contributions in achieving these results.

Our total operating revenues grew 4.6%, coming in at $5.4 billion in 2015 from $5.1 billion in 2014. The increase was driven by higher revenues from Markel Ventures. Other revenues, which include revenues from Markel Ventures, were up 23% to $1.1 billion from $884 million last year primarily due to our acquisition of Cottrell in July of 2014 and to higher revenues from other manufacturing affiliates.

Moving to the underwriting results. Gross written premiums were $4.6 billion for 2015 compared to $4.8 billion in 2014, a decrease of 4% driven by a decline within our Reinsurance segment. During 2014, we ceased writing auto reinsurance in the U.K., and we also decreased our nonstandard U.S. auto reinsurance business.

Foreign currency exchange rates also had an unfavorable impact on the year-over-year change in gross written premiums. However, even at a constant rate of exchange, gross premium volume declined 2%.

Market conditions continue to be very competitive, especially within the Property and Marine and Energy product lines. Consistent with our historical practices, we will not write business when we believe prevailing market rates will not support our underwriting profit targets.

Net written premiums were $3.8 billion, down 2% from the prior year, while our net retention was in line with prior year at an 82%. Earned premiums were $3.8 billion for 2015 and decreased slightly compared to prior year. At a constant rate of exchange, earned premiums for 2015 would have increased 2% compared to the same period a year ago.

During the period, we saw organic growth in several Specialty division product lines within our U.S. Insurance segment, which was offset by a decline in earned premiums for the Reinsurance segment. Our consolidated combined ratio for 2015 was an 89% compared to a 95% a year ago. The decrease in the consolidated combined ratio was driven by more favorable development on prior year's loss reserves in each of our underwriting segments in 2015 compared to 2014 as well as a lower current accident year loss ratio in 2015 compared to 2014. The 2015 combined ratio included $628 million of favorable development on prior year loss reserves compared to $436 million in 2014. The increase in prior year redundancies in 2015 compared to 2014 was due in part to a decrease in the estimated volatility of our consolidated net reserves for unpaid losses and loss adjustment expenses as a result of ceding a significant portion of our asbestos and environmental exposures to a third party during the first and fourth quarters of 2015. As a result of this decrease in the estimated volatility, our level of confidence in our net reserves for unpaid losses and loss adjustment expenses increased. As a result, we reduced prior year loss reserve by $83 million or approximately 2 points on a consolidated combined ratio in order to maintain a consolidated confidence level in a range consistent with our historical levels. This reduction in prior year loss reserves occurred across all 3 of our ongoing underwriting segments.

In addition to the impact of these reinsurance transactions, we experienced more favorable prior year loss reserve development driven by our U.S. and International Insurance segments. The more favorable development in the U.S. Insurance segment is primarily due to experiencing favorable development on our inland Marine product in our Global Insurance division for 2015 compared to adverse development in 2014. The more favorable development in the International segment in 2015 is driven by lower than expected claims activity on prior accident years and favorable claim settlements in our general liability and Marine and Energy lines of business.

Now I'll discuss the results of Markel Ventures. 2015 revenues from Markel Ventures were $1 billion compared to $838 million in the same period a year ago. Net income to shareholders from Markel Ventures for 2015 was $11 million compared to just under $10 million in 2014. EBITDA was $91 million in 2015 compared to $81 million in 2014. The increase in revenues from our Markel Ventures operations during 2015 was primarily due to our acquisition of Cottrell in July of 2014. Additionally, we have experienced higher revenues within our other manufacturing operations due in part to higher sales volume in 2015 compared to 2014.

Net income to shareholders and EBITDA from our Markel Ventures operations increased slightly in 2015 compared to 2014 due to more favorable results in our manufacturing operations in 2015, partially offset by less favorable results in our nonmanufacturing operations. The increase in net income to shareholders and EBITDA in our manufacturing operations in 2015 was due to increased revenues, partially offset by an increase in our estimate of the contingent consideration obligation related to the acquisition of Cottrell and to the write off of goodwill at Diamond Healthcare. A portion of the purchase consideration for Cottrell is based on Cottrell's post-acquisition earnings through 2015, as defined in the purchase agreement. During 2015, our estimate of Cottrell's 2015 earnings increased beyond our initial projection. As a result, our estimate of the contingent consideration increased by $31 million during 2015.

The decrease in net income to shareholders and EBITDA in our nonmanufacturing operations was primarily attributable to increased expenses at certain of our nonmanufacturing operations. Net income to shareholders and EBITDA in our nonmanufacturing operations was net of a goodwill impairment charge of $15 million in the fourth quarter of 2015 related to Diamond Healthcare. There was a similar goodwill impairment charge in 2014. There is no remaining goodwill on our books for Diamond Healthcare.

Turning to our investment results. Net investment income for 2015 was down slightly coming in at $353 million as compared to $363 million in 2014. Net realized investment gains for 2015 were $106 million compared to $46 million in 2014. Net realized investment gains for 2015 include $44 million of write-downs for other-than-temporary declines in the estimated fair value of investments compared to $5 million of write-downs in 2014. The 2015 write-downs were all attributable to equity securities. Net realized gains from the sale of equity securities in 2015 were $156 million compared to $51 million in 2014. During 2015, we liquidated certain equity securities in our portfolio in line of our outlook on the competitive environment facing those companies.

Net unrealized investment gains decreased $320 million for 2015 compared to an increase of $662 million for the same period last year. The decline in net unrealized investment gains this year was attributable to decreases in the fair value of our equity and fixed maturity portfolios compared to prior year-end. Given our long-term focus, variability, and the timing of realized and unrealized gains and losses is to be expected.

Our effective tax rate was 21% in 2015 compared to 26% a year ago. The decrease in the tax rate in 2015 was driven by foreign tax credits for foreign taxes paid. Prior to this year, taxes paid in foreign jurisdictions were not available for use as tax credits against our U.S. provision for income taxes. In 2015, a sufficient amount of earnings from our foreign operations will be taxable in the U.S., allowing us to recognize the benefit of these foreign tax credits against our U.S. provision for income taxes. A similar benefit may not be available in future years.

Net income to shareholders was $583 million in 2015 and set a record for us. This compares to $321 million a year ago. Comprehensive income for the year, however, was down to $233 million from $936 million a year ago due to the decline in the fair value of the investment portfolio. Book value per share as of the end of 2015 was $561, an increase of 3% since the end of 2014 due primarily to our 2015 comprehensive income.

Net cash provided by operating activities was $651 million in 2015 compared to $717 million in 2014. Net cash provided by operating activities in 2015 include tax payments totaling $156 million made in connection with 2 reinsurance transactions completed in 2015, in which we ceded 2 portfolios of liabilities arising from asbestos and environmental exposures to a third party. Net cash provided by operating activities in 2015 also includes a $29 million cash payment made to transfer our obligations under our reinsurance contract for life and annuity benefits to a third party. Also in 2015, higher cash flows attributable to our Markel Ventures operations were partially offset by higher payments for income taxes compared to the same period of 2014. Finally, invested assets at the holding company were $1.6 billion at the end of 2015 compared to $1.5 billion at the end of 2014.

With that, I will turn it over to Mike to talk about our U.S. Insurance segment.

Francis Michael Crowley
Vice Chairman

Thanks, Anne. Good morning. As we stated in the past, the U.S. Insurance segment comprises all direct business written on our U.S. Insurance companies and includes all of the underwriting results of our Wholesale and Specialty divisions as well as certain products written by our Global Insurance team. Gross written premiums for the U.S. Insurance segment were flat compared to prior year at $614 million for the quarter and $2.5 billion for the year. Throughout 2015, we experienced continued growth in our Hagerty classic car program and our workers' comp product lines, both within our Specialty division as well as in our Wholesale division Casualty lines. Growth in these product lines was almost entirely offset by declines in our Wholesale, excess and umbrella, environmental and Property lines. These trends continued in the fourth quarter as well.

The combined ratio for the fourth quarter was 87% compared to 90% for the same period a year ago. The combined ratio for the year was 89% compared to 95% for 2014. The decrease in the combined ratio for both the year and the quarter is primarily driven by more favorable development of prior accident year's loss reserves as well as a lower expense ratio. Prior year losses were favorable by over 2 points for the quarter and nearly 4 points for the year compared to 2014. As Anne discussed, this was driven by higher prior year takedowns across the segment due to the reduction and the estimated volatility of our net loss reserves, which accounted for 3 points of the favorable movement in the quarter and 2 points for the year.

Additionally, on a year-to-date basis, we experienced favorable prior year development in our Global Insurance division in 2015, primarily on our inland Marine product line compared to adverse development in 2014. The decrease in our expense ratio was primarily due to higher earned premiums driven by premium growth in the Specialty division, which I mentioned earlier, as well as lower general expenses.

Operationally, with regards to the Specialty division, we announced a new organizational structure in the fourth quarter. This new structure combines the management and operations of Markel FirstComp and our Markel specialty program business and will allow for better strategic decision-making across the combined unit, which will increase efficiencies.

Our E&S operation capped off an excellent year with a strong fourth quarter performance. Gross written premium was slightly below prior year due to the exiting of certain lines of business and the reunderwriting of other lines. The Markel online portal remains a game changer for us and for our producers. We had 3,400 unique users utilize the system and we look to grow that number as we expand the portal's capabilities. Because of this portal, we experienced significant growth in our binding business.

In the Global division, despite very soft market conditions, which depressed top line growth, we had a successful year for all product lines due to improving loss picks and prior-year development that was better than originally expected. Our product line leadership under the leadership of Gerry Albanese is committed to maintaining our pricing integrity in the face of the soft market and steady competition. Large accounts in any CAT-exposed property are under a very high level of competition. For the year, on smaller accounts, we continue to achieve modest single digit increases.

Looking back, it was a very successful underwriting year for all of our divisions. Our focus in 2016 is on profitable growth, and the divisions have very detailed initiatives underway with our key agents and producers to achieve our goals. We clearly recognize the challenges that market conditions present, and we're prepared to meet those challenges. Like Anne, I want to take this opportunity to thank all of our Markel associates for their outstanding efforts in making 2015 a success.

I'll now turn the call over to Richie.

Richard R. Whitt
Co-Chief Executive Officer and Director

Thanks, Mike. Good morning, everybody. Today, I'm going to focus my comments on our underwriting results for both -- for the year for both International Insurance and Reinsurance segments. Both segments finished the year strong and produced outstanding underwriting results in 2015. First, I'll start with the International Insurance segment, which includes business written by our Markel International division as well as certain products written by our Global Insurance division. Gross written premiums decreased 8% in the quarter and 3% for the year as compared to 2014. We finished the year just under $1.2 billion of gross written premium. As we've been discussing for the past few quarters, the decrease in premium writings is primarily due to the continued impact of the strong U.S. dollar. Excluding currency impacts, gross written premium volume only decreased 3% for the quarter and actually increased 2% for the year. The increase on a year-to-date basis is due to continued growth in our Professional Liability product lines in both divisions as well as growth across multiple product lines in the Markel International division. The decrease in the fourth quarter was primarily due to the continued decline in our Global Insurance Property book, which is also impacting our year-to-date results.

The fourth quarter combined ratio was an 83% compared to 86% in 2014. The year-to-date combined ratio was 86% compared to 93% last year. The lower segment combined ratio for both the fourth quarter and the year was primarily driven by more favorable prior year takedowns, partially offset by a higher expense ratio. Prior year losses were favorable by 4 points for the quarter and 10 points for the year as compared to 2014. This favorability is driven by higher redundancies in both divisions across multiple product lines. The segment also saw a benefit related to the increase -- the decrease, excuse me, in the estimated volatility of our loss reserves, which Anne and Mike talked about. This contributed 7 points of favorability in the quarter and 4 points of the overall decrease for the year.

Finally, the year-to-date expense ratio increased 3 points due to higher profit-sharing cost, higher general expenses and lower earned premium this year compared to '14. For the fourth quarter, the expense ratio was 1 point higher than last year due primarily to higher commission rates in both divisions driven by mix of business.

Next, I'll discuss the results of the Reinsurance segment, which includes treaty reinsurance programs written by our Global Reinsurance division as well as those written by our Markel International division. For the fourth quarter, gross written premiums for this segment are down 21% to $90 million compared to 2014. I will point out, fourth quarter is our slowest quarter in terms of premium writings for reinsurance. For the year, writings were down 13% to $965 million, down from $1.1 billion a year ago. Although this segment is also seeing the effects of the strong U.S. dollar, even at a constant rate of exchange, gross written premium volume declined 9% for the year. As Anne said, we made the decision at the end of 2014 to cease writing U.K. motor business and to take much smaller line sizes on our U.S. nonstandard auto book. This is now impacting our year-over-year comparison of gross written premium volume, and it's the primary driver of the decrease in 2015.

For the quarter, we also saw a meaningful decrease in our general liability book due to the nonrenewal for pricing reasons of a large excess Casualty reinsurance program. The combined ratio for the Reinsurance segment was 83% for the fourth quarter as compared to 93% in 2014. The combined ratio for the year was 90% compared to 96% last year. The reduction in the combined ratio for both periods of 2015 was driven by a decrease in our loss ratio. The decline in the loss ratio is comprised of both a lower current accident year loss ratio due to lower attritional losses across most product lines as well as more favorable development on prior year loss reserves across both divisions. The prior year loss ratio includes 8 points of favorable movement in the quarter and 2 points for the year due to the decrease in estimated volatility mentioned earlier.

We continue to write a well-balanced book of reinsurance. Casualty business continues to be our largest line by gross written premium, but the profits from Property and Specialty Reinsurance continue to drive earnings as the frequency and severity of reinsurance losses remained unusually low yet another year.

In regards to pricing, during the fourth quarter and at the 1/1 renewals, quite honestly, nothing terribly surprising or different happened. The International Insurance market was generally very competitive with a few positive signs in Professional Liability where for lines like financial advisers and construction-related professions, we're seeing rate increases of 5-plus percent. That being said, these areas have experienced losses and need rate increases. The pricing of our national market business, the term we use for our international retail operations, is patchy depending on territory and product, but is overall relatively flat. These policies tend to be smaller and are slightly less price-sensitive. Reinsurance pricing was off 5% to 10% plus, and conditions continue to be very challenging. However, the rate of price decrease slowed significantly during 2015 and at the January 1 renewals.

In all areas of our business, we're maintaining our underwriting discipline and committing to our core clients. At the same time, we've try to deemphasize our exposure to noncore clients and poorly priced risk. We want to steer clear of situations, where it's just a trade and low price wins. Finally, in December, we closed the acquisition of CATCo, a Bermuda-based insurance-linked security and asset manager that generates management and performance fee income on its assets under management. In 2015, CATCo managed approximately $2.7 billion of retrocession and traditional reinsurance portfolios for clients around the world. For 2016, trading under the name Markel CATCo, we expect assets under management to comfortably exceed $3 billion as we've seen continued strong interest from both investors and seeds. CATCo's pricing for its January 1 renewals was relatively flat.

I'd like to add my thanks to all the Markel associates. It was an absolutely fabulous year. And with that, I'd like to turn it over to Tom.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you, Richie. Last Sunday, during the Super Bowl, we got to witness the importance of a great defense. And I don't profess to be a football expert, but I think it is fair to say that the defense of the Denver Broncos was spectacular and that they wouldn't have won the game without it. In 2015, we emphasize defense in our investment operations as well. We did so through the following specific actions: First, we maintained our high credit quality profile in our fixed income operations; secondly, we kept our equity exposure at the low end of our range for equity investments over the last 25 years; thirdly, we maintained a strong and highly liquid balance sheet in order to be ready to actively deploy the funds when conditions warrant doing so. These primary actions, along with other decisions, allow us to be in a great position to play first-class defense and make sure that we are fully prepared to take advantage of investment opportunities and Markel Ventures additions as available.

As to the specific numbers, despite the challenges presented by very low interest rates and investment returns, we reported an overall return in local currency of 0.5%. In our equity portfolio, we were down 2.9%; in our fixed income portfolio, we were up 1.6%. After a 1.2% drag from the foreign currency effects, the net return is a negative 0.7%. As a reminder, we do our best to match our foreign currency insurance liabilities to foreign currency-denominated assets. As such, the explicit costs you see in the investment returns is largely offset by an equal amount of the benefit in the underwriting results.

2015's equity markets featured a very small list of stocks that went up massively and a very long list of stocks that declined to greater and lesser degrees. In general, I think the direction of those moves got it right in terms of long-term business prospects, but the magnitude in both directions was perhaps a bit overdone. In response, we maintained a higher-than-normal percentage of the investment portfolio in fixed income and cash with equities, as I mentioned, at the low end of our historical range. I anticipate that as is usually the case, the extreme dispersions of outcomes that we witnessed in 2015 will moderate over time, and we are well prepared with cash on hand to take advantage of that circumstance as it unfolds.

I'm also pleased with the aggregate results of Markel Ventures. We enjoyed particularly strong results in our cyclical transportation-related businesses and satisfactory results for most of the rest of our operations. We continue to face challenges in our health care-related businesses, and we continue to change and adapt in those areas for improved results. Overall, for Markel Ventures, we reported revenues of a little over $1 billion compared to $838 million a year ago and EBITDA of $91 million compared to $81 million a year ago. This year's EBITDA includes a charge of $31 million related to the earn-out provisions for the better-than-expected performance in our Cottrell acquisition. We reported on this to you for the last several quarters. It also includes goodwill impairment charge of $15 million related to Diamond Healthcare. Ironically, the good news at Cottrell and the challenging news of Diamond got reported the same way, as a reduction in EBITDA.

As we enter 2016, the slate is clean on both fronts. The earn out period at Cottrell is completed, and the goodwill balance of Diamond stands at 0. As such, 2016's results will not be affected by the same factors again.

Also, in December, we announced the acquisition of a minority -- of a majority interest in CapTech Consulting, a management consulting firm with an emphasis on information technology services. We've known many of the people and much about the work of CapTech for many years, and we are pleased that they are joining Markel Ventures. We expect ongoing excellent financial results at the firm, and we also believe that Markel will benefit from direct exposure to the technology skills within CapTech.

As we begin 2016, we remain optimistic at Markel. Our underwriting operations continue to produce underwriting profits and cash flow to be invested. Our fixed income portfolio is of the highest quality we can find. Our equity portfolio is comprised of a set of companies that meet our longstanding, 4-part test of profitable businesses run by honest and talented managers with reinvestment opportunities and capital discipline at fair prices. Our Markel Ventures companies represent a robust and diversified set of businesses with a decade-long record of producing cash. And finally, we have a strong and liquid balance sheet that anchors our position through marked turbulence and serves as the base for deploying capital as opportunities present themselves. That's a good position from which to operate in 2016 and beyond, and we look forward to making the most of it.

With that, we look forward to your questions. Denise, could you be so kind as to open up the floor?

Question and Answer

Operator

[Operator Instructions] And our first question will come from Mark Dwelle of RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

A few questions. Can I start with the asbestos reinsurance transaction? You commented in the press release that you recorded a $10 million charge in the quarter, which I think you told us about last quarter out. Then the release went on to say that there was a $15 million addition to loss reserves. Were those things one and the same? Or should I think of that as a $25 million impact in the quarter collectively?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Well, it's a $25 million impact in the quarter related to 2 separate entries, if you will, although they are related. Once we did the second transaction and the portfolio that we retained was smaller, we went back and looked at what was left in the portfolio and the actuary term that they needed to make an adjustment to the reserves.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

So just to clarify, there was a $10 million loss related specifically to the transaction itself, and then there was a $15 million add to reserves within that unit, but then you enjoyed reserve benefits in the other units related to reduced volatility?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

That's correct.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Correct.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. I think that's got it. The second question, and I think, Tom, you probably addressed it generally. I just want to clarify my understanding. Within Markel Ventures, there was $15 million of goodwill impairment on Diamond Health. What portion, if any, of the Cottrell adjustment of the $35 million -- or $31 million, rather was within the fourth quarter as compared to the full year?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Fourth quarter, 4 or 5 [indiscernible] we started talking about it in the second quarter, so we've had -- of the $31 million, it was spread out for the second, third and the fourth quarter, 4-ish in the fourth.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

4-ish, okay. Okay. The second question that I have related to investments was you took a substantial realized gain in the quarter, probably the largest one I can ever recall. Was that spread out over a number of securities? Or was it just a particular 1 or 2 that you may have exited?

Thomas Sinnickson Gayner

Co-Chief Executive Officer and Director

Well, a, I was very happy to have that gain to be there, so that's a good thing. And we do indeed like to see the unrealized appreciation there. The timing of realized gains, as we've talked about, that is the largest one we've ever had. It was spread out over a number of securities. We'll be filing our 13-F, I think, on Friday, so you'll see it, but it's more than 1 name.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. That's -- I knew the filings should be along before too long. I'm not particularly worried about exactly which one, I was just concerned about whether it was 1 giant exit or whether it was, say, somewhat tactical in terms of trimming across a number of areas. Sounds like more of the latter. The last question I have relates to the expense ratio. For both the quarter and for the year, it was a little bit elevated. I think it was mostly in the International segment, but I was wondering if somebody could provide just a little more detail related to that?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

I think, probably the biggest driver across the board was incentive comp accrual. As you can see by the results, we had a very good year and we share that good result with all of our associates. And so the big driver in the increase in the expense ratio has been the incentive comp accrual.

Richard R. Whitt
Co-Chief Executive Officer and Director

And Mark, this is Richie. And maybe I'll help elaborate a little bit there. As you know, our underwriting pools, our underwriting bonus plans are paid out over a number of years so we could see how things develop to make sure we're fair to both the individual and to the company. Obviously, as you can see from our releases, we had a very large prior-year release this year. When that happens, we have to put up additional bonus accruals that sort of, to some extent, offset those releases. And so some of that wonderful news we have on the loss side, we need to put something up on the expense side for it. So when you look at the increase in the expense ratios, it is mostly related to that. So it's a good thing, if you can believe it or not.

Anne G. Waleski
Chief Financial Officer and Executive Vice President

I think the other items that you mentioned, the International segment was that due to the changes we made in the reinsurance portfolio, the International segment's earned premium came down some as well, so they sort of get it from both sides.

Richard R. Whitt
Co-Chief Executive Officer and Director

Yes.

Operator

And our next question will come from Mark Hughes of Lafayette Investments.

Mark M. Hughes
Lafayette Investments, Inc.

Probably for you, at least part of it, a 2-part question related to interest rates, if I might. You've been dealing with low interest rates for many years now, and interest rates have turned negative in parts of the world. Can you talk about how this affects how you invest your considerable cash and fixed income investments? Some of which must be in countries with negative rates. And while the math of rates moving, say, from positive 0.5% to 0, maybe similar to the math of moving from 0 to negative 0.5%, psychologically, it does feel different. Are you doing anything different? And related to this subject, are negative rates affecting the insurance side of the operation at all? With fixed income returns so abysmal, are you seeing any signs that insurers are changing pricing to try and make up for this lost investment income? I'm not seeing a lot of signs of that yet. Are you seeing anything different?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Well, I appreciate the question, and I think you asked a couple of different questions, which is the appropriate way to do it, because there are a lot of different strands and aspects to fulsomely answering the questions that you're asking about. So first off, given the overall low interest rate environment that exists no matter where you are, the need for underwriting profitability, to earn any sort of return at all, goes up. You saw excellent underwriting results around here last year. And the targets that would be set, the hurdle rates for people to earn the incentive compensation that they've earned, those have been coming down over the last several years to reflect the business environment that we operate in. So there is that need for increased underwriting profitability. And that's not a unique situation for Markel. That's any insurance mechanism at all. And while conditions are hypercompetitive in the insurance market as well as pretty much every other business I look at, there is a reasonably rational basis of competition out there. You're not seeing wild cowboys that are operating with huge underwriting losses, thinking they can make it up on investment income. Because nobody, I think, is under that delusion. And that is indeed different than what might have been the case 10, 20 years ago. I think those interest rates are a symptom of the excess capital that exists, again, not just in the insurance business, but in general, there's just a bunch of capital everywhere so the central banks may have opinions about what interest rates should be. But there's also the fundamental laws of supply and demand and interest rates are hugely influenced by market factors as much as what our central banks might do. Specifically, what we can do as a result of that, I spoke on the insurance side, we need to make sure that we're operating in a very disciplined fashion and make probably more rather than less in the realm of underwriting profits. And on the investment side, for a while, for a couple of years, we had been having a shorter maturity of the investment portfolio than our insurance liabilities, because I was worried about interest rates going up. About midyear last year, I decided that I was wrong, and that as the phrase goes, rates are likely lower for longer. And we started to extend the maturity of the bond portfolio of debt. And in this environment, until further notice, we'll operate in a more matched way than we were a couple of years before that. Now once you go up further on the curve, it's not like you make a lot of money, but you can at least chase away the negative interest rate going in. But it's not a whole lot of fun.

Operator

[Operator Instructions] And our next question will come from David West of Davenport & Company.

David McKinley West
Davenport & Company LLC

Anne, first 1 for you. In the commentary in the press release, you noted the tax rate benefit at about 8% from the use of foreign tax credits not likely to repeat itself to the same degree in '16. Could you maybe, I guess, the question gets to what are your expectations for an effective tax rate in 2016?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

I think our expectations for 2016 would be similar to where it had been the last few years in the mid-20s. Mid-to high 20s.

David McKinley West
Davenport & Company LLC

Okay, very good. So you may still get some benefit from foreign tax credits, just not to the same degree?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Well, it's not clear today whether we'll get that benefit or not. And given some of what's going on relative to potential changes in tax laws, it's also not entirely clear today what 2016 will look like. So taking our usual conservative stance, we're just reverting to what we know from history and assuming it'll be sort of mid-20s.

David McKinley West
Davenport & Company LLC

All right, great. Richie, can I turn to you on the reinsurance side? And the CATCo acquisition, I know they're not -- they're an asset management unit, not an underwriting unit, but I would certainly think their expertise could potentially benefit the reinsurance operations. Could you talk a little bit about the potential synergies with CATCo? And is that going to remain in the other reporting segment?

Richard R. Whitt
Co-Chief Executive Officer and Director

Sure, David. Yes, I think there clearly are synergies there. CATCo and our reinsurance operations share many of the same clients. And the clients have needs at times for traditional reinsurance. At other times, they may decide a capital market solution is a better fit for what they're trying to achieve. So having the ability to write both traditional products as well as the capital market-backed products, especially CATCo with its -- it has a rather unique product structure. I think that just helps us better serve the clients that are out there. Actually, since the acquisition or after the announcement of the acquisition, we've seen interest from people who were not previously clients of CATCo. So there's going to be opportunities for our guys on the reinsurance side and our CATCo guys to work together to make sure we're serving those client needs. It's been a busy -- both those teams are really consumed at 1/1 with renewals, that's a big time of the year for them. So as soon as the dust clears from that, we'll be getting together to talk about new product opportunities, and we do think there'll be some good new product opportunities. I guess, the last thing I would just say is we've been very pleased to see growth in assets under management right out of the gate. We -- quite honestly, we're not expecting that, but there's been quite a bit of investor interest as well as additional seeding demand. And that was good news for us as we get off to a start here in 2016.

David McKinley West
Davenport & Company LLC

Great, very helpful. Thank you. Tom, could -- maybe you talk a little bit about the nonmanufacturing activities at Ventures and your outlook for that in 2016?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Yes, I'd like to say the weak results on the nonmanufacturing side were dominated by health care and was written of the goodwill associated with Diamond, so the slate is clean. The rest of those operations in the nonmanufacturing had a nice steady year as expected. So I would -- at this point, expect a better year in 2016 than '15 when we report our results.

Operator

And at this time, ladies and gentlemen, we will conclude the question-and-answer session. I would like to hand the conference back over to Tom Gayner for his closing remarks.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you very much for joining us. We look forward to chatting with you again as the year goes on. Thank you. Bye-bye.

Operator
Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect.