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AXIS Capital Holdings Limited NYSE:AXS

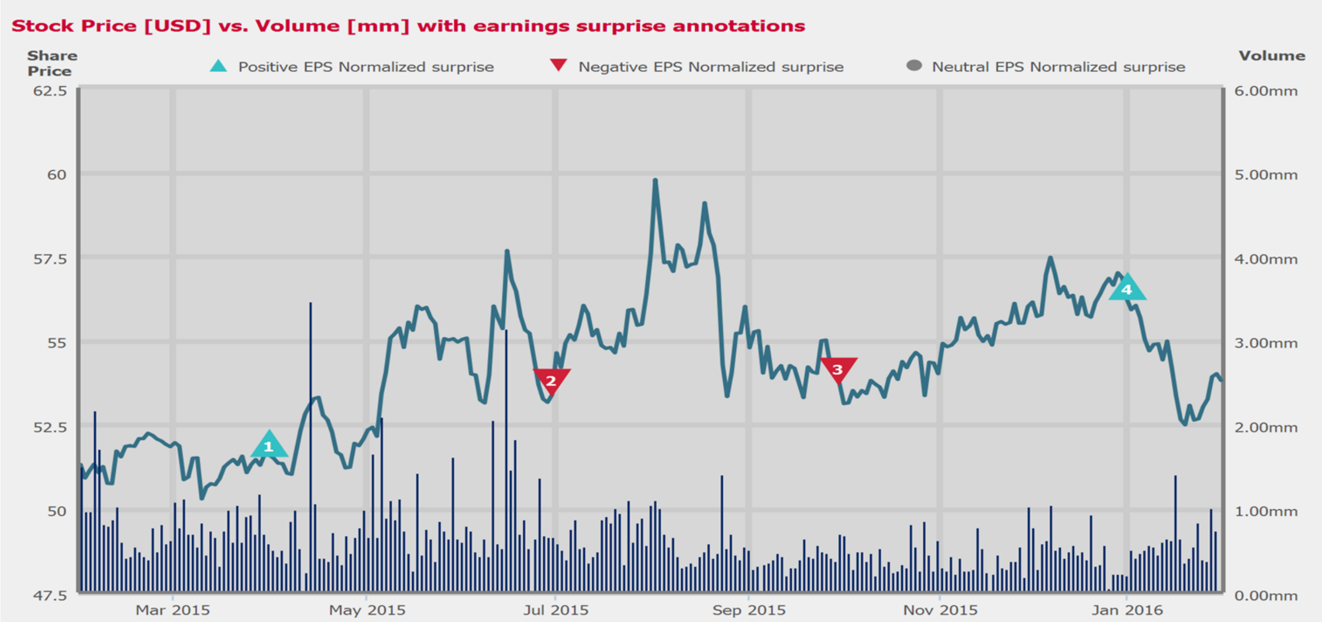
FQ1 2016 Earnings Call Transcripts

Wednesday, April 27, 2016 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.08	1.07	▼(0.93 %)	1.04	4.19	4.42
Revenue (mm)	1469.20	1685.81	▲14.74	932.50	3727.25	3715.98

Currency: USD
Consensus as of Apr-27-2016 11:03 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	1.23	1.35	▲9.76 %
FQ2 2015	0.94	0.93	▼(1.06 %)
FQ3 2015	0.72	0.51	▼(29.17 %)
FQ4 2015	1.13	1.23	▲8.85 %

Call Participants

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Presentation

Operator

Hello, and welcome to the Q1 2016 AXIS Capital Earnings Conference Call and Webcast. [Operator Instructions] Please note, this event is being recorded. I would now like to turn the conference over to Ms. Linda Ventresca, Executive Vice President. Please go ahead.

Linda A. Ventresca
Corporate Development Officer

Thank you, Keith, and good morning, ladies and gentlemen. I'm happy to welcome you to our conference call to discuss the financial results for AXIS Capital for the first quarter ended March 31, 2016.

Our earnings press release and financial supplement were issued yesterday evening after the market closed. If you would like copies, please visit the Investor Information section of our website, www.axiscapital.com.

We set aside 1 hour for today's call, which is also available as an audio webcast through the investor information section of our website. A replay of the teleconference will be available by dialing (877) 344-7529 in the United States and the international number (412) 317-0088. The conference code for both replay dial-in numbers is 10083257.

With me on today's call are Albert Benchimol, our President and CEO; and Joe Henry, our CFO.

Before I turn the call over to Albert, I will remind everyone that the statements made during this call including the question-and-answer session, which are not historical facts, may be forward-looking statements within the meaning of the U.S. federal securities laws. Forward-looking statements contained in this presentation include, but are not limited to, information regarding our estimate of losses related to catastrophes, policies and other loss events; general economic capital and credit market conditions; future growth prospects, financial results and capital management initiatives, evaluation of losses and loss reserves, investment strategies, investment portfolio and market performance; impact to the marketplace with respect to changes in pricing model; and our expectations regarding pricing and other market conditions.

These are important factors that could cause actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements as are further described in the risk factors set forth in AXIS's most recent report on Form 10-K and our other documents on file with the SEC.

We undertake no obligation to update or revise publicly any forward-looking statements whether as a result of new information, future events or otherwise.

In addition, this presentation contains information regarding operating income, our consolidated underwriting income and adjusted group and segment results, which are non-GAAP financial measures within the meaning of the U.S. federal securities laws. For a reconciliation of these items to the most directly comparable GAAP financial measures, please refer to our press release and financial supplement, which can be found on our website.

With that, I'd like to turn the call over to Albert.

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you, Linda, and good morning, ladies and gentlemen, and thank you for joining our call.

We're pleased to report growth in diluted book value per share adjusted for dividends of 4% for the quarter and 10% for the last 12 months. In the quarter, we were able to generate operating income of $101 million, notwithstanding negative performance of our hedge fund portfolio. Importantly, our underwriting operations generated strong combined ratio of 91.9%.

The strategic and tactical actions we have implemented are positively impacting our overall results, notwithstanding a competitive marketplace. We continue to improve our overall portfolio, pursuing more attractive and lower volatility business while at the same time shedding business where we do not feel we're getting adequately compensated for risk or volatility. This was particularly evident in our reinsurance segment where we are reaping the benefits of our increased investment in customer-centric business initiatives.

Our brand continues to improve and we are seeing more opportunities than we have in a long time. Not all business presented to us meets our requirements, but there are still reasonable deals to be had even in this market. Our growth primarily emanated from our accident and health and our reinsurance lines. Multiyear premiums and timing differences in our reinsurance segment contributed significantly to increase in gross premiums. Excluding these, we still grew our reinsurance segment with discrete, new business opportunities accretive to our portfolio, which more than offset business we've not renewed.

I'll discuss market conditions in more detail following Joe's remarks. Joe?

Joseph C. Henry
CFO & Executive VP

Thank you, Albert, and good morning, everyone.

During the quarter, we generated good results, which included operating income of $101 million and an annualized operating ROE of 7.7%. Our net income for the quarter was $38 million. We also reported strong growth in diluted book value per common share, which grew to $56.04, an increase of 4% compared to last quarter and an 8% increase over the last 12 months. Adjusting for common dividends declared, the increase in book value per share was 10% over the last 12 months.

Our results this quarter benefited from an increase in favorable prior year reserve development, a low level of catastrophe and weather-related losses, a decrease in our ex-cat and weather, current accident year loss ratio and lower general and administrative expenses.

These positive factors were partially offset by a decrease in our net investment income, which was impacted by significant volatility in the equity markets during the quarter, which resulted in the poor performance of certain of our hedge fund investments in our other investments portfolio.

In addition, we also recorded a reduction in other insurance-related income, which primarily reflects the results of our weather and commodities derivative business.

The strong growth in our book value per share was driven by an increase in unrealized gains on our available-for-sale investment portfolio, which reflected the downward shift in sovereign yield curves, the tightening of credit spreads and the strengthening of certain foreign currencies against the U.S. dollar.

Moving into the details of our income statement. Our total first quarter gross premiums written increased 17%, or 20% after adjusting for foreign exchange movements, with growth reported by both of our reporting segments. For the first quarter of 2016, our reinsurance segment top line was up $230 million or 21% compared to the same period in 2015. Treaties written on a multiyear basis had a significant impact on our written premiums with close to $90 million of the increase related to the quarter-over-quarter variance in premiums related to future underwriting years.

We reported a net increase in new business of approximately $80 million, which was primarily driven by certain large quota share treaties and reflects our focus on building long-term relationships with our customers. The new business primarily impacted our marine, liability and motor lines of business. This customer-centric approach also resulted in growth in renewal premiums of approximately $65 million, which included taking larger shares of certain treaties that we believe will provide more attractive returns, primarily in our motor line business.

Timing differences of approximately $45 million also had a favorable impact on our premium growth this quarter, primarily in the liability and professional lines. These increases were partially offset by the impact of foreign exchange movements of approximately $50 million as the strength of the U.S. dollar drove comparative premium decreases in treaties denominated in foreign currencies.

Our insurance segment reported an increase in gross premiums written of $51 million or 8% in Q1 2016 compared to the same period in 2015. Increased premiums written were reported in our accident and health and property lines, which reported strong new business growth and aviation lines, which were primarily impacted by timing differences. 1/1 is the predominant renewal period for A&H reinsurance quota share business.

These increases were partially offset by a decrease in the marine lines, driven by lower rates and timing differences.

In addition, certain strategic actions we took during the third quarter of 2015, which were aimed at exiting certain lines of business, resulted in the comparative reduction in premiums written primarily relating to our Australian professional lines business.

Our group net premiums written were up 16%, 20% adjusted for FX, in the quarter compared to Q1 2015 and primarily reflect growth in the level of gross premiums written, which was slightly offset by an increase in our ceded premium ratio, driven by the reinsurance segment's increased sessions in the property and catastrophe lines.

Our net premiums earned were flat in Q1 2015 or up 3% on a constant currency basis compared to the same period last year. An increase in the reinsurance segment, driven by increased business in the marine and other liability lines in recent periods, were partially offset by increased reinsurance retrocessions in the property and catastrophe lines.

Our insurance segment reported a decrease in net earned premiums, primarily driven by a reduction in the professional lines due to an increase in ceded premiums and the marine lines, which were largely offset by an increase in business written in the accident and health lines in recent periods.

Our first quarter consolidated current accident year loss ratio increased slightly by 0.2 point to 63.1% compared to the same period of last year. During the quarter, we reported $14 million in losses related to weather events, which compared to $8 million of such losses reported in the same period of last year.

Our ex-cat and weather current year loss ratio decreased by 0.5 point to 61.5% with a decrease in the insurance segment partially offset by an increase in the reinsurance segment.

The insurance segment current accident year loss ratio ex-cat and weather was lower by 2.8 points at 60.7% compared to the same period in 2015 due to a decrease in midsized loss experience in the marine and property lines, which was partially offset by the impact of rate decreases and loss trends.

Our reinsurance segment current accident year loss ratio ex-cat and weather increased by 1.7 points to 62.1% compared to Q1 2015, primarily due to changes in the business mix, reflecting a shift in our book towards longer-tail lines and the impact of rate and lost trends.

Turning to loss reserves established in prior years. Our results continued to benefit from net favorable loss development, which aggregated $70 million during the first quarter. Short-tail lines in both segments contributed $48 million of this balance, primarily reflecting better-than-expected loss emergence. Favorable prior year loss development of $16 million was also reported in our motor reinsurance lines where we continued to see lower-than-expected loss development across most prior years.

In addition, we continued to give weight to actuarial methods that reflect our favorable experience for our liability and professional reinsurance business, which contributed a further $8 million to favorable loss development during the quarter.

During the first quarter of 2016, our acquisition cost ratio increased by 1% compared to the same period of 2015, driven by increases in the reinsurance segment.

Our reinsurance segment acquisition cost ratio was 25.7%. However, after adjusting for the impact of commissions paid due to favorable prior year loss development reported in the quarter, the ratio would be 23%. It is important to understand trends in our results when it comes to the treatment of prior year business that includes adjustable sliding scale commissions based upon loss experience. In the periods that this loss experience is favorable, our results will show an increase in favorable prior year development and this will also have an impact on increasing the current year acquisition cost ratio. This primarily relates to our European credit and bond and motor business.

The insurance segment acquisition ratio decreased this quarter by 0.4/10 of 1% compared to prior year's first quarter, driven by higher ceding commissions received following the expansion of our reinsurance protection programs, which was partially offset by the higher commission costs in certain lines of business.

Our expense ratio in Q1 2016 was 16.6% versus 18% a year ago. The key drivers of the decrease included lower personnel expenses due to a reduced headcount as well as certain nonrecurring costs we incurred in Q1 2015 including PartnerRe merger-related expenses as well as certain lease cancellation costs.

Overall, the company reported underwriting income of $99 million and a combined ratio of 91.9% for the first quarter.

Net investment income was $49 million for the quarter, a decrease of $30 million from the previous quarter and a decrease of $43 million from the first quarter of 2015. The variances were probably due -- were primarily due, excuse me, to the lower contribution to net investment income from our hedge funds with the poor performance of 2 hedge funds, in particular, accounting for the majority of the decrease.

In aggregate, the total return on our cash and investment portfolio for the quarter was 1.3%, including and -- excluding the impact of foreign exchange. The total return in the current quarter was favorably impacted by the improvement in pricing of our fixed maturities, primarily as a result of the decline in sovereign yields.

As previously discussed with you during August 2015, we entered into an accelerated share repurchase agreement, an ASR, to repurchase an aggregate of $300 million of ordinary shares. We initially repurchased 4.1 million of our shares under this agreement. This ASR agreement was formally terminated on January 15, 2016, with 1.4 million of additional common shares delivered to the company, which are now fully reflected in our earnings per share calculation.

Following the expiry of the ASR agreement, we have reinitiated our share repurchase program and repurchased an additional $136 million worth of common shares comprised of $125 million purchase pursuant to our board-authorized share repurchase program and $11 million related to shares purchased in connection with the vesting of restricted stock awards. We expect to maintain our goal of returning at least 100% of our annual operating earnings to our shareholders in the form of common dividends and share repurchases, provided the market and financial conditions remain the same and we do not identify any attractive investment or growth opportunities.

At April 26, 2016, the remaining board authorization under the repurchase program approved by our Board of Directors was $625 million.

We continue to make strong progress on the strategic goals and expansion opportunities we have discussed with you in prior quarters. The strategic actions initiated during the third quarter of 2015, which included the runoff of our Australian branch, are already making a contribution to our results. However, as a reminder, we do not expect the full benefits of these initiatives to be reflected on our results until later into 2016 and into 2017.

Our Lloyd's unit continues to make good progress in the London market. And during the quarter, we started the operations of our underwriting division in China, which will focus on treaty reinsurance business on the Lloyd's China platform. During the quarter, we have also continued the expansion of the capabilities of AXIS Ventures, our third-party capital vehicle.

And with that, I'll turn the call back over to Albert.

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you, Joe. Before opening up the call to questions, I'll provide an update on market pricing and reinsurance renewals.

As with the rest of the market, we experienced continued pricing pressures in most markets. The overall rate change for our insurance book was minus 3%, which was unchanged from both the fourth quarter last year and the first quarter the prior year. Consistent with prior quarters, the greatest pressure is in the catastrophe-exposed property and London-based global specialty lines. Large accounts remain more competitive than smaller risks.

In our U.S. division, the overall average rate of decline was 2%, continuing of the moderation of rate declines experienced in the fourth quarter of last year and certainly much better than the minus 4% experienced in the first 3 quarters of 2015. The improvement continues to be driven by rate increases in U.S. Casualty, which averaged 3%. Within that, Excess Casualty was up 5% in the quarter as corrective actions with respect to low-attaching policies are driving sometimes meaningful rate increases. U.S. Property was down 7% overall due to an abundance of capacity and a lack of catastrophe events.

In response to these challenging market conditions, we continue to shift our property business mix toward smaller accounts in order to achieve a better, more stable attritional experience with lower severity.

In our international insurance division. Overall rate change was minus 5% for the quarter, better than the minus 7% last quarter and generally in line with the same quarter last year. The most challenging conditions remain in Global Property and Onshore Energy with double-digit reductions. Offshore renewable energy and marine liability lines are coming under more pressure. International professional lines are a bit of a mixed bag with primary financial institution business under the greatest pressure and U.K. professional indemnity, on the other hand, experiencing rate increases following industry loss experience.

We took a number of actions in 2015 in an effort to address challenges in the international marketplace including winding down our retail insurance operations in Australia, reducing our business volume and increasing our writings of smaller, less volatile risks. Our Lloyd's platform is serving as a key enabler to access new business opportunities in this market and we continue to focus on expanding strategic distribution partnerships.

In our professional lines division, overall rate was flat in the quarter, consistent with the first quarter of last year and up from the minus 1% last quarter. There was a fairly wide spread of conditions. Aggregate E&O rate change was positive 2% for the quarter with higher rate increases again driven largely by cyber coverages. D&O lines were down 2.5% with primary layers down 1% while excess and Side-A experienced greater declines.

We continue to focus on further diversifying our book into ancillary professional lines and the middle market and small account spaces and also introducing new coverages and products including cyber as well as our newly announced health care pandemic product.

Importantly, we believe we are diligently managing our insurance underwriting portfolio to preserve and enhance profitability. We continue to voluntarily reduce business where our profitability requirements are no longer met and we are actively pursuing more attractive business.

Moving on to reinsurance. We are in the process of completing April 1 renewals. Premiums renewing on or around April 1 represent approximately 9% of annual total renewable premiums with the main renewing market being the U.S. and the Asia markets, mostly Japan. There, the market remained competitive, but there was resistance to irrational rate reductions. Reinsurance demand has increased with a number of cedents buying more cover. Our strategy of strong relationship management and a coordinated product offering resulted in increases in existing and new sidelines across various products. At the end of the day, Japanese XOL rates came off 5% to 10% and commissions of proportional treaties increased by 2% to 3%. Despite this, technical margin for earthquake business remained healthy.

Elsewhere, pricing pressure moderated a bit as the reinsurance market pushed back on demands for more generous commissions, terms and conditions. The greatest pressure was experienced on excess of loss business outside the U.S., typically catastrophe-exposed business.

We saw opportunities and new business coming to the market. We estimate our reinsurance premiums written at April 1 will grow between 25% and 30% over a small base of about $150 million. There remains a significant amount of premiums renewing during the quarter and our volume there will depend on the attractiveness of the terms available to us.

We grew our portfolio with quota shares and liability, professional and motor lines at terms we consider reasonable for the risk and volatility we are assuming. While we're always happy to write volatile lines and excess of loss treaties, it appears to us that, for the moment at least, this is a market which is underpricing volatility in most lines, and we did not expand our book meaningfully in business introducing volatility to our portfolio

There was, however, good opportunity to work closely with cedents to bring more frequency-exposed liability and professional lines business to the market and to write business, which enhances our existing portfolio.

We also grew in the motor line where Solvency II constraints increased the opportunity set. We are already recognized as a leader in European motor, serving cedents seeking knowledgeable technical partners. There were a number of occasions where we declined to offer terms and proposed instead what we consider to be more reasonable alternatives. Encouragingly, a number of programs could not be completed and deals could then be concluded at better terms to us. Our position as a long-term, stable, credible and relevant market in our lines of business served us well.

Looking forward to the June 1 Florida renewals, activity is a few weeks ahead of schedule as cedents attempt to avoid the minor capacity shortage observed last June 1. Early indications are positive and there are signs the market is bottoming out in Florida as reinsurers draw a line in the sand following 4 straight renewals of price cuts.

So while, overall, it is still a challenging market, given what we see both in insurance and reinsurance markets, we are optimistic that in 2016, we may approach a floor in pricing for many lines of market with some disruptions creating opportunities for better-positioned carriers. We will be ready to respond and make the most of the opportunities ahead of us.
And with that, I'd like to open the call for questions. Operator?

Question and Answer

Operator

[Operator Instructions] And the first question comes from Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Can you maybe talk a little bit about the A&H business? I mean, obviously that grew a lot. What's sort of combined ratio -- what's sort of profitability or ROE, however that is, that you feel comfortable discussing that? How is that running right now?

Albert A. Benchimol
President, Chief Executive Officer & Director

So our A&H business has done very well this quarter, 38% growth. A lot of that is driven by the reinsurance business, which obviously tends to be focused in the first quarter. We continued to have very attractive technical ratios in the mid-80s in our A&H book, which is always what we intended to have. The issue with our A&H business is that we've been investing in a platform to generate that business, and so for the moment, while we are very satisfied with our technical ratio, our operating expense ratio is still more than we wanted to be. Ideally, we would like a G&A ratio that's 10%, low double digits, and we're not there yet. And so right now, it's essentially break-even business for us as we continue to grow and enhance the returns. But I see this as a business that will provide mid-90s combined ratio with very little volatility, very little capital requirements as it continues to grow currently from a base of close to $400 million to a level that's closer to $500 million.

Joseph C. Henry
CFO & Executive VP

And Mike, it's Joe. I'll just add to that, that we opened an office in the Middle East in Dubai and we've had very good reception to that. We've written 5 new treaties right off the bat, so it's been a good start.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it, okay. And so maybe, focus on reinsurance again a little bit. I mean, clearly, reinsurance conditions are challenging. The insurance business, just relative to my own estimates, has continued to sort of run below expectations. Just I would expect that over time that, that business is going to have to gather the lion's share of your profitability for you to feel comfortable that you're generating sustainable margins. Where -- when should that start to really come in? Or is that right? Or do you expect to continue to rely on reinsurance for -- disproportionately to generate results?

Albert A. Benchimol
President, Chief Executive Officer & Director

Actually, Michael, the data that I have would indicate that for many companies in our peer group, the insurance operations are performing in the mid- to high 90s. So when I look at the performance of our insurance operation, given what we've done in terms of shifting the book of business towards more long-tail lines, looking at what we've done in terms of improving the composition of the individual portfolios, seeing the reductions in the loss ratios, I'm actually quite pleased with the progress that we are achieving. If you look at a number of companies in our peer group, I believe that what you will find is that, for the moment at least, the majority of their profits are actually coming from the reinsurance operation and our insurance operations are performing very well compared to that peer group. That doesn't mean that we are stopping where we are. We continue to be committed to the improvements that we've started to put in place in our insurance operation. And I think the results that we've seen this quarter, to be able to demonstrate reductions in loss ratios even as we naturally embed automatic increases to the loss ratios coming from rate and trend, speak very well to the progress and really want to shout out to our insurance people, I'm really pleased with the work they're doing. With regard to the reinsurance area, there is no doubt that the reinsurance margins are declining. I mean, we've been, in the last 3, 4 years, seeing significant price declines. And there, the issue for us is making sure that we continue to serve our core clients, all the while making sure that our risk-adjusted returns remain as strong as they can be in the market. And that's why you've seen a change in the shift of business for us, to make sure that increasingly we are taking on business that has less volatility, so that while we are admittedly writing business at a higher technical ratio, given both the shift in the mix of business as well as the market conditions, the return on risk is holding up much better. Overall, we believe that we will continue to make progress in terms of the client service, in terms of the client-centric approach to marketing our products and services to our clients, in terms of improving the portfolio construction subject -- and that, I think will continue in both insurance and reinsurance to provide improvements, subject, of course, to the fact that we are facing pricing headwinds in the reinsurance market.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. I mean, I guess, just sort of looking, just that underwriting income looks like in first quarter and just on a GAAP basis, 80% of your underwriting income coming from insurance in the first quarter and your improvements noted as far as the underlying in insurance. But you're still tilted particularly heavily towards development in reinsurance and reinsurance specifically. So I guess, my question is, at some point, do you expect that balance to tilt back towards insurance because you're going to earn more in insurance or because you going to earn less in reinsurance? Or do you just not look at it that way?

Albert A. Benchimol
President, Chief Executive Officer & Director

No, no, no. We obviously look at that and I think, Michael, the short answer is we are continuing to invest in improving our underwriting results in insurance. That's the short answer. And as we continue to grow in insurance, the marginal return on growth in insurance is very high. And so we will continue to improve the quality of our portfolio. We will continue to grow the insurance business. And we expect our underwriting profits from insurance to increase subject, of course, to reasonable, both market conditions and reasonable loss experience. Over time, given what's happening in terms of the trend on insurance and the pricing pressures that we face in reinsurance, I expect that the percentage of profits coming from insurance will increase, but we're not giving up under any market our ability or our intent to improve the profitability of both insurance and reinsurance.

Joseph C. Henry
CFO & Executive VP

And Mike, it's Joe. Just going to add one more data point for you. So we talked about new initiatives in the past in terms of the fact that they dragged, if you will, on our results. I'm very happy to say that, in this quarter, we have grown premium in new initiatives 30% from a year ago and we've had a 1.1 point -- I'm sorry, 1.1% drag on our results. That's actually a profit from those new initiatives this quarter of $2.3 million. So when I say a drag, it's not a drag being a loss. It's just that the combined ratio for that business is slightly higher than the combined ratio for our insurance and reinsurance operations. So the point I'm trying to get across is that we're seeing gradual improvement from a number of the new initiatives we put in place several years ago.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. And then just, if I could, maybe Joe. You mentioned the buyback and buying back in excess of earnings. So if earnings is not the governor for your buyback, what is? And is there something that we can look at as far as the bank of capital that you feel like you can kind of burn down in tandem with earnings over the next period of time, a year, 2 years, whatever? Just to give us some idea of order of magnitude that we're talking about in terms of your capacity.

Joseph C. Henry
CFO & Executive VP

Yes. Mike, we're not going to predict what we're going to buy back in shares. We're sticking with the guidelines that we've given you before. We've said at least operating earnings. You can see, this quarter, we bought back stock and dividends significantly in excess of operating earnings. So we take this a quarter at a time. We look at the opportunities ahead of us. You've seen some growth coming out of both of our operations this quarter. I really just don't want to get into a run rate expectation because I'd rather not disappoint people.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Yes. Just to be clear, I wasn't asking for that. I was saying just what other aspects of your capitalization are relevant when thinking about the buyback? Essentially, I wasn't asking for guidance on what you're going to buy back each quarter. That's okay.

Operator

And the next question comes from Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

First question, do you have any early reads into the second quarter events from the earthquake as well as Texas events?

Joseph C. Henry
CFO & Executive VP

Yes. Kai, very early days really on all 3, Japan, Ecuador and the Texas hail and floods. We, at this point, we don't expect it to have a material impact on us, but we do think, at this point, it's contained within our normal cat load for the second quarter.

Kai Pan
Morgan Stanley, Research Division

Okay, that's great. And then the second question is on the reinsurance growth. So the growth is very strong despite the pricing pressure in overall market. I guess you find optimistic opportunities there. I just wonder, does this growth in the reinsurance in specific lines, are they accretive to your overall portfolio loss ratio or combined ratio, I should say?

Albert A. Benchimol
President, Chief Executive Officer & Director

The answer is that it's highly accretive to our risk-adjusted returns. So obviously, the terms of market pricing, as we indicated to you in January 1 renewals, is that we believe that the technical pricing that we're getting in 2016, and certainly held through the first quarter, is about 1 point -- it's a little over 1 point of technical ratio deterioration versus the business that we had last year. So clearly, the portfolio in the market today is being written at a technical ratio that's a little bit higher than the prior year. Obviously, the price declines and trends are higher than that, but we try and offset that with a portfolio construction. So we're not seeing anything different in the book of business including the new business that we wrote in the first quarter, which is inconsistent with that. However, what we are seeing is that the additional business that we've put on is highly accretive to the stability and diversification of the portfolio such that the risk-adjusted return on the portfolio has been advanced materially through the addition of those. So what we are saying is that for a technical ratio, which is equivalent to what we had before writing this new business, we are getting, A, positive dollar contribution to the bottom-line; and B, lower volatility to the overall results. So we think that this new business is accretive to our overall risk-adjusted returns.

Kai Pan
Morgan Stanley, Research Division

But internal report sort of core loss ratio, accident year loss ratio ex-cat, well, that's still shifting higher given the mix?

Albert A. Benchimol
President, Chief Executive Officer & Director

But it's consistent with the overall book that we wrote. So as I mentioned to you, in January 1, we told you that the January 1 renewals were a little bit more than 1 point worse and when -- than the expiring business. And then we compared that at the end of the quarter to the entire portfolio written at the end of the quarter, we continued to have exactly the same trend. So we were not writing additional business at terms that were worse than we indicated to you in January 1. We wrote the business on terms that are consistent with what we told you in January 1, but with better stability and diversification in our portfolio.

Kai Pan
Morgan Stanley, Research Division

Okay, that's great. Then my last question, shifting to the -- on the investment side, the hedge fund return for the quarter like a loss of $27 million. If there's no loss there, I think you're already probably approaching the double digits. So I just wonder, from your perspective, looking at this portfolio, which is less than 6% overall investment portfolio, but it has introduced sort of high level of volatilities, it's more like 3 points cat for the quarter. So I just wonder how do you think about that? You have managed on volatilities on the underwriting side. I'm wondering if you're thinking about applying the same sort of approach on the investment side as well.

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you, Kai, for raising that and you're absolutely correct. And let me put this in perspective, if I may. When we came onboard, Joe and I, substantially all of the risk assets of this company were in hedge funds. And the rationale at the time were that they had behaved well during the financial crisis and provided returns that were acceptable for risk assets. We took a different view. And frankly, we had determined that we wanted more diversification in our risk assets including more illiquid assets, private debt, mortgages, private equity and so on. And in fact, since 2013, we have been diligently reducing our exposures to head hedge funds. In fact, Joe, what were the numbers?

Joseph C. Henry
CFO & Executive VP

Yes. So Kai, in 2013, our hedge funds were $895 million; at the end of '14, $781 million; '15, $600 million; end of Q1 $470 million; and we expected to be about $430 million at the end of Q2. So we basically have halved the hedge fund portfolio in the last 3 years.

Albert A. Benchimol
President, Chief Executive Officer & Director

And so we are continuing to -- thank you, Joe. And so we're continuing to shift the portfolio away from hedge funds. But as you know, Kai, a lot of these new developments, new investment classes that we're in require a fair amount of time to ramp up. And so we've been ramping up these new risk assets and funding those risk assets through liquidations of our hedge funds. So we agree with your observation around hedge funds, which is why we've been reducing our exposure to hedge funds. Obviously, it would have been better to have less in this quarter, but we are continuing to reposition our portfolio to one which I believe is better suited for our liability mix and for the conditions that we expect in capital markets going forward.

Kai Pan
Morgan Stanley, Research Division

Okay. To be clear, you're not reducing overall allocation to other investment? Just shifting allocation within the bucket from hedge fund to sort of like longer-term investments?

Joseph C. Henry
CFO & Executive VP

That is correct. And actually, the performance of the, I'll call it, the new other alternatives has actually performed very well.

Operator

And the next question comes from Charles Sebaski with BMO Capital Markets.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Like to just go back for a second and I know you've been speaking about it a lot, Albert, on the reinsurance change and the portfolio mix. I guess, I'm just trying to understand something. You said in your comments that pricing for volatility is not adequate, but I see that the PMLs for you guys have gone up in the quarter. I guess, how do we square the growth and the increase in PMLs relative to the idea that volatility is not getting priced appropriately?

Albert A. Benchimol
President, Chief Executive Officer & Director

That's a fair question. I think what we're doing here is we are responding to our clients' needs. As you know, a number of people, due to either Solvency II or changes in business models, are buying more at the top end, and in fact, I believe that if you look at it, there's a reduction in the 1 in 50-year losses, so we continue to be reducing there and trying to help our clients with more of the -- with the upper end. But where we are right now is also very consistent with what we told you in the first quarter, which is that the we are in the midst of renewing and reworking our cat program. There was one cover that expired at 12/31, which is what caused the increase in the first quarter versus the 1/1 level versus the prior level. And as we indicated to you then, it is our intention to renew and modify our cat program to realign the protection that we've had before. So where we are right now, if you would, is in between the expiry of one reinsurance treaty and the replacement of that treaty. As we replace and restructure our cat program in the second quarter, I believe that you will find that the PMLs will come back in line with where they were during 2015.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay. I guess, on an overall basis on the reinsurance book, if I look back a year ago, 1Q '15, there was a substantial contraction in the book, in the fourth quarter '14, first quarter '15 and now after we get to the end of last year and this quarter, we've seen a reversal and a pretty significant one. I guess, it's hard to know, and from the outside on all the things that go into the portfolio mix besides the lines of business. But I mean, is there a general difference for your guys viewpoint on how you're operating in 1Q '16 than what you were doing in 1Q '15? I guess, the expectation from the market side is that the pricing dynamic is the same, that a year ago we would have been looking at the same kind of headwinds, challenges in the market. And as you said, the pricing is down this quarter, maybe a 1-point deterioration. I guess, if you were a year ago versus this year, what's the difference in what you guys are thinking on how you're running that book?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, that's a very good question and thank you for asking it. I think that there are 2 issues. One is the first point that I made earlier, which is we look at the availabilities in front of us. We compare it to our portfolio. We do marginal analysis of risk and return. And the question is, does this new piece of business at the current price improve the overall portfolio or not? And I think that those opportunities are, in fact, coming. The second issue, I think, is that in the first quarter of 2016, we saw a number of new programs come to market from core clients, people who we've been doing business with for a very long time and very profitably. And I have to say, I look at this growth that we've had in the first quarter as an affirmation of the work that we've been doing in terms of relationship management and our customer-centric approach. And let me take a step back, if I could. We've been telling you for quite some time that we are observing in the market that clients are, in fact, reducing the size of their panels. They're concentrating their business with a small number of very highly rated core reinsurers who can provide support across a number of lines and across the globe. And what I can tell you is that not every new treaty that came to market was offered to us and not every treaty that was offered to us was acceptable to us. But we feel very pleased that for some of our core clients, as they are exploring new treaties to the market, they are offering it to a limited number of reinsurers. And I think the fact that we were on those treaties -- and by the way, we have very reasonable market shares of those treaties, so this is not something that AXIS alone is writing. It is something that a small number of quality reinsurers are participating in. And so what it shows to us is that our customer-centric approach is working with our clients, that our clients are concentrating their books of business with a smaller number of core reinsurers, they are including AXIS Reinsurance in that panel. So I feel good about what this means with regard to the positioning of AXIS Re in terms of where the reinsurance industry is going. And certainly based on the analysis of the underwriting and of the marginal impact on the portfolio, I am absolutely confident that the business we are putting on is accretive to the risk-adjusted returns of our portfolio.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay. And just one follow-up. I know it's a small business for you, guys, aviation in the primary insurance sector. But a doubling of that book, all the things I understand, is that's fairly challenged from a pricing perspective line of business. Any color on that, I'd appreciate it.

Joseph C. Henry
CFO & Executive VP

Charles, it's Joe. Basically, it's some changes in some line slip percentages from prior years. Don't read into it that there's a significant increase in our business. We're also participating in a facility or 2, so there's a little growth in that line of business, but not substantial.

Albert A. Benchimol
President, Chief Executive Officer & Director

You should take comfort also that we have a very well-structured reinsurance program that, again, makes us comfortable on the risk-adjusted returns of that book of business under market conditions.

Operator

And the next question comes from Vinay Misquith with Sterne Agee, CRT.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

So I just wanted to follow up on the growth in the reinsurance segment. AXIS Re's growth seems to be higher than some peers and wondering what opportunities that you're seeing? Or what specifically are your underwriters doing that is helping you to gain those opportunities? And what risks do you think are attached to growing right now?

Albert A. Benchimol
President, Chief Executive Officer & Director

I'll go back and expand on the question -- on the answer that I just gave. I think that our customer-centric approach is working very well. One of the side products of our activities last year is we spent a lot of time with our customers, understanding what they want, what they need, demonstrating to them what it is that we can do for them, continuing to hone our service, to work with them. We spent a huge amount of time on the road, understanding our clients and engaging them on things that they can do to improve their books of business. We're sharing with them increasingly data and analytics that we're providing on our own books that can be -- that can provide them with insights. All of those things are increasing the number of opportunities that we see. Not every reinsurer sees every deal that comes to market, that's the simple fact. And as I mentioned earlier, not every deal that we've seen did we write. And I will also add that whereas with regard to reported premiums, it certainly is higher growth than we've seen in some of the reported amounts of this quarter, I can assure you that we are not alone on these treaties and that our share around these treaties is an absolutely reasonable share in line with our capital, our market share of the overall business and so on. So I view this as, again, I view this as an affirmation that the work that we are doing with our clients is bearing fruit. I view this as an affirmation that clients are reducing the size of their panels and showing business to a small number of select reinsurers. And I take this as a compliment that AXIS Re is included in that smaller group. Is there a risk to that? There is risk in every business that we write. But the analysis that we have on those portfolio indicates to us that these are low-volatility portfolios, that they add diversification to our overall portfolio. And on a risk-adjusted basis, we are significantly enhancing the risk-adjusted returns or the returns on volatility of the lines that we are writing and the overall reinsurance portfolio that we are writing.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

Okay. And on the reported profitability within reinsurance, the accident, the loss ratio ex-cat was about 63.1% in that segment. Looking at the full year number for last year, that was 63.3%, so it seems to be flat this quarter versus full year last year. And my sense was that price profitability has actually going down, so it was up a point. So just wondering why reported numbers are flat this quarter versus full year and whether we should use this quarter's number as a trend for the rest of this year.

Albert A. Benchimol
President, Chief Executive Officer & Director

Again, I think that one of the things that we do, Vinay, again is we all try to reposition our portfolio in every year to try and optimize the portfolio based on the opportunities available to us and market conditions available to us. I think with regard to the portfolio of this quarter, frankly, we had very low cat losses, so certainly that was helpful. There will always be some volatility in the reinsurance results since that's what we do. We provide capital and absorb volatility on behalf of our clients. But I don't see anything unusual in this quarterly result that would say is a one-off that you need to adjust up or down. However, I will say that as we earn more of the business that we wrote in January 1, which we indicated to you, had a technical ratio that was a little bit more than 1 point higher than the expiring business, I would expect that as that premium comes through the income statement, absent any other impact, you would expect a modest increase in the technical ratio of the reinsurance business.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

Okay, that's fair. And then one last point, if I may. Just wanted to follow up on the capital management. I mean, I want to follow up on Mike's question. Do you -- is AXIS sitting on an excess capital position given that not all of the breakup fee was used to repurchase stock for last year? And can we sort of look at that part of cash as a potential for share repurchases for the future?

Albert A. Benchimol
President, Chief Executive Officer & Director

Again, I think the profits that we have and the breakup fee all contribute, if you would, to the capital of the organization. Now we are growing some and we are looking for opportunities so we would, of course, want to use some of that capital to fund growth that is accretive to our returns and that is accretive to our portfolio. If we do not need that capital, then we are happy to give it back to you. And again, I think that our performance to date would indicate that we've done that. So just to give you a sense, over the last 5 years, even including the breakup fee, we have returned to our shareholders in dividends and share repurchase in excess of 110% of the operating income plus the breakup fee. So whereas while we may not have given back the breakup fee between up to August of last year and March of this year, certainly, over any extended period of time, we have demonstrated a strong willingness to return to the shareholders capital that we don't use. And again, in the first quarter, as Joe mentioned earlier, we have returned to our shareholders well in excess of the operating income. So we continue to return as much capital as we think is reasonable and prudent to our shareholders, but we are not prepared to say that we have X dollars of excess capital that we will run through over the next 12 months.

Operator

And the next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple questions here for you, Albert. Just quickly on the reinsurance, is any of the growth associated with maybe getting some lines back that may have gone away with the PartnerRe situation?

Albert A. Benchimol
President, Chief Executive Officer & Director

Not really. As I mentioned, most of the growth that we had actually came from new treaties that came to market where we were invited to participate. The good news, of course, is that we actually did not lose a lot. We lost a very small amount of business during the period when we were exploring a merger with PartnerRe. The amount of business lost was de minimis then, so that really was not a factor.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And my next question, Albert, I've asked this before, I'm just going to ask it again. Increasing kind of multiyear reinsurance deals, what is the risk here that you're actually entering into these deals with, call them, building returns that could potentially be better a couple years from now? Do the agreements have clauses where you can actually get out of them if pricing terms and conditions actually improve?

Albert A. Benchimol
President, Chief Executive Officer & Director

That's a very fair question. So let me give you a couple of examples. We are very focused on making sure that we provide multiyear deals to clients who've got the right motivations for those multiyear deals and who have historically been strong relationship accounts of ours and that we believe will continue to be strong relationship accounts. One of the interesting things that has come about to prove that, if you would, is that a number of the multiyear deals that we did in '14 and '15 actually were helpful to us because the renewals that came out in '15 were lower priced than the renewals in '14. The renewals that came in '16 were lower priced than the renewals of '15 and yet we actually had the benefit of those better terms coming out of the multiyear treaties. So I know that people focus on the opportunity lost with regards to multiyear treaties, but in our case, we can actually demonstrate that the multiyear treaties that we wrote in '14 and '15 were an opportunity gained. Now with regards to some of the deals that we are doing, we look to do these multiyear deals mostly -- when we talk multiyear, we talk 2 years, right? So it's not like we're giving up optionality. And number 2, we do these in many cases where we have opportunities for greater stability. So a very large deal that we did in the first quarter has a sliding scale to it. And therefore, the stability of the result in that treaty is very strong because if the loss ratio happens to increase, the commission, we would pay would decline. So there are embedded protections in many of these treaties such that they increase the attractiveness of those multiyear treaties to us. And again, we will only do a multiyear treaty if we believe that it is helpful to both our clients and to ourselves.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then last question, more on the primary side. Albert, given your commentary on pricing and what's going on, it doesn't appear that some of the dislocation we're seeing with a couple large carriers having much an impact on the market. But is it creating any opportunities for you either on the primary or the reinsurance side?

Albert A. Benchimol
President, Chief Executive Officer & Director

I think that dislocations, without getting too specific, I think dislocations in the market are a very good thing for AXIS because it continues to highlight to our clients and to our distribution partners the stability of our balance sheet, the stability of our marketing approach and our client-centric approach and that's working well. We are, in fact, seeing opportunities. Now not all opportunities that are coming to market are attractive to us, but I would expect that as we continue in the year, we will see more benefit coming out of that, coming out of those opportunities.

Operator

And the next question comes from Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

A question on the timing differences in the reinsurance premiums. Will that make for a more difficult comparison a year from now?

Joseph C. Henry
CFO & Executive VP

Yes, Jay, it will. We did about 10 more deals on a multiyear basis this year than we did last year. And if those are multiyear, you'll have a drop in premium next year. So it does make the comparison a little bit more difficult. But if you look back over the last couple of years, it hasn't had a huge impact, if you will, on the trajectory of the growth in the reinsurance segment.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

In addition to the multiyear, though, I thought you mentioned some timing issues, which made a difference?

Joseph C. Henry
CFO & Executive VP

Yes. I'm sorry, Jay. Yes. So a couple of these deals, without getting into specifics, a few of them, the way that we are recording them, we're recording them a quarter at a time. So from that perspective, it won't have an impact, if you will, on comparability going forward, but there are certain other transactions that fall into this quarter, which would have gone into, say, the next quarter in 2016. So there is a little bit of lumpiness because of some of those timing differences, yes.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay. But I guess, not big enough where you would call out, gee, look out for the 2Q, there's a significant headwind. There's not -- not that sort of impact?

Joseph C. Henry
CFO & Executive VP

That's correct.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay. Next, can you give us an update on Harrington Re? What the general thought process is around this venture?

Albert A. Benchimol
President, Chief Executive Officer & Director

Well, look, we can't speak to Harrington Re, but what I can tell you is that we've been very consistent for a long time in saying that we believe that successful insurers and reinsurers in the 21st century are going to need multiple sources of capital and also the ability to align risk with the capital that is best suited for it. And so, we continue to work with our partners at Blackstone to explore ways to create more capacity for our clients and to create multiple sources of capital for us. That has been a goal of ours that we've communicated to you for a long time. And until anything is done, I think it's best that we don't say much on that.

Operator

And the next question comes from Ryan Byrnes with Janney Capital.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Just wanted to see if I could get back into the midsized losses in the insurance segment. Last year, we noted that they were elevated and the press release said that they were decreased this year. I just want to see, were they average or abnormally low. Just wanted to see what the impact was there.

Joseph C. Henry
CFO & Executive VP

Slightly below average.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Okay. And then just one more numbers question. It looks like there's a tax benefit in the quarter. Just wanted to see what that was and see if that's going to impact anything going forward?

Joseph C. Henry
CFO & Executive VP

Yes, we really had an unusual thing going on there, Ryan. It's related to favorable tax ruling that we got from the Swiss government. It actually benefited us by about $4 million. In addition to that, we actually had some losses, if you will, in high-tax jurisdictions. So that was really the second reason why we had an unusual, if you will, tax benefit.

Operator

And the next question comes from Meyer Shields with KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Albert, you mentioned when you were discussing 6/1 renewals, client concerns about a shortage of capacity. It's a phrase we haven't heard in a while. I was hoping you could elaborate on that a little?

Albert A. Benchimol
President, Chief Executive Officer & Director

Well, it's really talking to last year. So last year, there was a bit of a last-minute rush and there were a couple of deals that weren't completed, and that's why I think anybody is reading the same thing that we are, which is that reinsurers are kind of pushing back and they just want to make sure that they have the capacity they need to avoid the experience from last year.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. No, that helps. So you're anticipating, I guess, a bottoming. You're not actually talking about rates going up for 6/1 exposed accounts?

Albert A. Benchimol
President, Chief Executive Officer & Director

No, no. I think -- because I think -- I want to be very careful to give you my best view, but not excessive optimism. I think we're hitting a floor. I think we're seeing resistance. And certainly, I can tell that, in the first quarter, not just on the cat, we've seen a lot of deals where brokers and clients try to push the market and the reinsurers just said no, but no thanks. And so we're certainly seeing a greater percentage of deals that don't get done on offered terms. We're seeing a number of short-placed covers. Those are all indications that there is an increasing level of discipline coming through the market. And so, I would expect that what we will see in Florida, certainly what we've seen to date, a couple actually have some risk-adjusted increases but very small, some have a couple of reductions, by and large, it's looking flattish to me. And so what I'm saying is I'm hoping that we start to see a leveling off of pricing, not so much that we will see increases, but that we will see a slowing of reductions. That's really what we're looking at right now.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, that's helpful. I mean, would have been great, but not realistic. Really small nitpicky questions, I guess, for Joe. One, should we look at $4 million as being weather-related losses in the reinsurance segment?

Joseph C. Henry
CFO & Executive VP

No, it wasn't $4 million. It was actually a breakeven, so a slight loss. That was compared to about an $8 million gain last year.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Because I think somebody mentioned $14 million for the consolidated company and we saw $10 million in insurance?

Joseph C. Henry
CFO & Executive VP

No.

Albert A. Benchimol
President, Chief Executive Officer & Director

Well, hang on. Weather-related losses, you're talking, okay, I think the issue here is cat and weather-related, which is $14 million for the underwriting. When we think about weather, we also think about our weather and commodities derivative unit, which is separate. So the weather -- and the weather and commodities unit is a unit within our reinsurance group that had a breakeven this quarter versus $7 million of gains last first quarter. The $14 million that we're speaking with -- to is basically losses relating to PCS events, weather events, of which $10 million were in the insurance division and $4 million were in the reinsurance division. That could be the differences in the numbers.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, so that's not in the derivatives number. That's in the underwriting?

Albert A. Benchimol
President, Chief Executive Officer & Director

No, the derivative number is actually a very, very minor profit.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, perfect. I appreciate the clarification. And last, we saw investment expenses up about 9% year-over-year. Is there anything unusual in that? Or is this a good run rate?

Joseph C. Henry
CFO & Executive VP

No, this is a pretty good run rate. We did have some compensation-related inflation in that, Meyer, so that's a little bit higher than normal.

Operator

Thank you. And that does conclude the question-and-answer session, so I would like to turn the call back over to management for any closing comments.

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you very much for your interest and your questions. We are proud of the progress that we have achieved in the first quarter of 2016, and we look forward to continuing to deliver on our progress in the second quarter and beyond. Thank you, and goodbye.

Operator
Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.