S&P Global
Market Intelligence

Markel Corporation NYSE:MKL

FQ3 2013 Earnings Call Transcripts

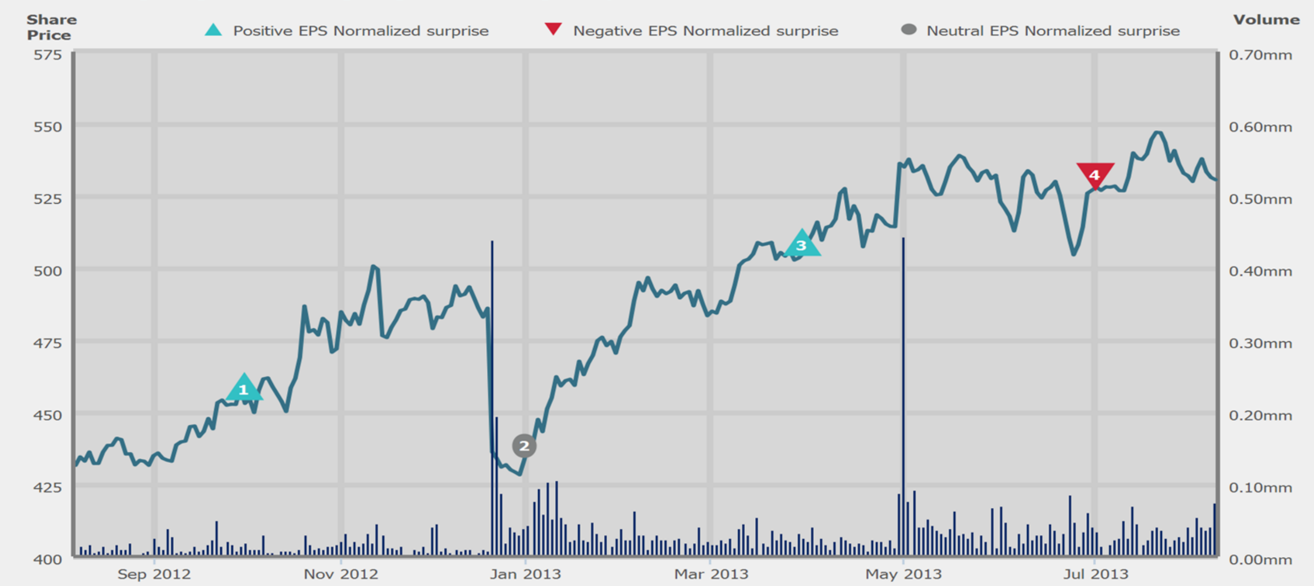
Thursday, November 07, 2013 3:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2013-			-FQ4 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	6.14	4.67	▲(23.94 %)	5.54	19.78	25.62
Revenue (mm)	1192.90	1191.66	▲(0.10 %)	1213.79	4564.53	5084.89

Currency: USD
Consensus as of Nov-07-2013 5:20 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2012	4.27	4.88	▲1 14.29 %
FQ4 2012	(2.81)	5.63	NM
FQ1 2013	5.47	9.50	▲2 73.67 %
FQ2 2013	5.83	5.13	▼3 (12.01 %)

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Call Participants

EXECUTIVES

Anne Galbraith Waleski
Executive VP & CFO

Francis Michael Crowley
Vice Chairman

Richard Reeves Whitt
Co-CEO & Director

Thomas S. Gayner
Co-CEO & Director

ANALYSTS

Douglas Robert Mewhirter
SunTrust Robinson Humphrey, Inc., Research Division

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Matthew Berry
Lane Five Capital Management, LP

Presentation

Operator

Greetings, and welcome to the Markel Corp. Third Quarter 2013 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Tom Gayner, President and Chief Investment Officer. Thank you. Mr. Gayner, you may now begin.

Thomas S. Gayner
Co-CEO & Director

Thank you, Rob. Good morning, and welcome to the Markel Corporation's 2013 third quarter conference call. My name is Tom Gayner, and it is my privilege to greet you this morning and, in a few minutes, turn things over to our Chief Financial Officer, Anne Waleski; and my co-Presidents, Mike Crowley and Richie Whitt, to give you a brief update on how things are going at Markel these days.

Prior to this call, I was speaking with one of your long-term shareholders about the conference call process. He told me that he has owned the stock for about 20 years and that our call was boring. He said that he really couldn’t imagine us saying anything in the call that would change his mind about Markel and his long-term ownership of the stock. I thank him for his honesty, and actually, I agreed with him.

Our #1 goal is actually to still be here 20 years from now and delivering a report just as boring as this one. I suspect what he told me was true for our loyal and long-term owners, who provide us with the capital we need to run this business. I also suspect that it’s true for shorter-term followers of the stock that usually issue a sell recommendation immediately following this call.

As the character Inigo Montoya said in The Princess Bride, "You keep using that word. I don't think it means what you think it does." I will leave it to those of you with access to the long-term target of Markel to decide which unchanging point of view you wish to embrace. The force that propelled the 27-year line on the chart up and to the right cannot be found within the sales or the spreadsheet.

Boring works for me when it comes to talking about our financial results. We shouldn’t be that excited. I am all in favor of grinding it out along the same lines that we have through our 27 years as a public company. We’ve looked after the capital that you entrusted to us, and we've produced wonderful returns for the owners of this company.

Roughly speaking, the longer you've been with Markel, the more money you've made. And by the way, while it may look and sound boring, I can promise you that we’re having a lot of fun doing this. There is not a day that goes by when I don’t hear laughter in this office. In addition, they are some days when we are simply stunned by what happens. I promise you that we are not bored.

With that prelude, let me we share with you what I do consider to be the most boring part of our call. I mean the Safe Harbor statement, but our General Counsel advises me to share with you.

During our call today, we may make 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 Statements 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 on our website at www.markelcorp.com and our quarterly reports on Form 10-Q. Anne?

Anne Galbraith Waleski
Executive VP & CFO

Thank you, Tom, for always starting us out with a smile. Good morning, everyone. I'm pleased to be able to report as for the first 9 months of 2013, we have produced strong underwriting results and profitable growth in each of our legacy operating segments.

The Alterra segment has performed within our expectations, and we continue to make significant progress with the integration efforts. Our total operating revenues grew 39% to $3 billion in 2013 from $2.2 billion in 2012. The increase is due to 42% increase in revenues from our insurance operations, which include $531 million from the Alterra segment; and a 41% increase in revenues from our non-insurance operations, which we refer to as Markel Ventures.

Moving into the underwriting results. For the 9 months of 2013, gross written premiums were $2.9 billion, which is an increase of 53% compared to 2012. The increase in 2013 was primarily due to $715 million of premiums from the Alterra segment since our acquisition on May 1, 2013, as well as higher gross premium volume in the Specialty Admitted and Excess and Surplus Lines segments. The increase in Specialty Admitted is driven by premiums from the Hagerty and THOMCO businesses. Within the Excess and Surplus Lines segment, the increase is due in part to the impact of more favorable rates and improving economic conditions.

Net written premiums for 2013 were approximately $2.4 billion, up 44% to the prior year, for the same reasons I just mentioned. Net retention was down in the first 9 months of 2013 at 83%, compare to 89% in 2012. The decrease in net retention is due to the inclusion of premiums written by Alterra from May 1 to September 30, 2013. Net retention in the Alterra segment for the 5-month period was 66%. Net retention for the legacy Markel segments was flat at 89% for both periods.

Earned premium increased 44%. The increase in 2013 was primarily due to $530 million of earned premium from the Alterra segment for the 5 months ended September 30, 2013, as well as higher earned premium volume in the Specialty Admitted and Excess and Surplus Lines segment. The increase in Specialty Admitted is due to earned premiums from the Hagerty and THOMCO businesses.

Our combined ratio was 97% for the first 9 months of 2013, compared to 96% in 2012. The increase in the combined ratio was due to a lower prior year loss ratio, partially offset by a lower expense ratio compared to the same period in 2012.

During 2013, the benefit of the favorable development of prior year's loss reserve had less of an impact on the combined ratio when compared to same period of 2012 due to higher earned premiums in the current year.

The 2013 results were also impacted by the Alterra segment, which added 6 points to the combined ratio, driven by $70 million of merger and acquisition costs and $33 million of catastrophe losses.

Favorable development on prior year loss reserves increased to $281 million, or 12 points, compared to $260 million, or 17 points, in 2012. These amounts are net of $28 million in 2013 and $31 million in 2012 of unfavorable loss reserve development on asbestos and environmental exposures within our Discontinued Lines segment. We completed our annual review of these exposures during the third quarter of each year. During this year's review, our expectation of the severity of the outcome for known claims increased, and we increased our prior year loss reserves accordingly.

The decrease in the expense ratio for the first 9 months of 2013 is driven by higher earned premiums in our legacy Markel segments compared to 2012, partially offset by the impact of the merger and acquisition costs incurred by Alterra. Excluding the merger and acquisition costs incurred in 2013, the inclusion of Alterra had a favorable impact on the expense ratio.

Alterra has had a lower expense ratio than we have had historically. The expense ratio for 2012 was unfavorably impacted by the prospective adoptions of the new tax standard, which increased our expenses by $41 million or 3 points on the 2012 combined ratio.

Next, I will discuss the results of Markel Ventures. In the first 9 months of 2013, revenues from Markel Ventures were $486 million, compared to $345 million in 2012. Net income to shareholders from Markel

Ventures was $18 million in 2013, compared to $9 million in 2012. EBITDA was $64 million in 2013, as compared to $41 million in 2012.

Revenues, net income to shareholders and EBITDA from Markel Ventures increased in the first 9 months of 2013 compared to the same period of 2012 primarily as a result of more favorable results at AMF Bakery Systems and our acquisitions in 2012 of Havco and Reading Bakery Systems.

Next, we will turn to the investment results. Investment income was up in 2013 to just under $229 million. Net investment income for 2013 included $44 million of investment income attributable to Alterra, which was net of $39 million in amortization expense from adjusting Alterra's fixed maturity securities to a new amortized cost basis at the acquisition date.

Net investment income also included favorable changes in the fair value of our credit default swaps of $9 million as compared to $14 million for 2012. Excluding the impact of Alterra and the credit default swaps, net investment income for the first 9 months of 2013 decreased compared to 2012, due in part to a decrease in our fixed maturities and an increase in cash and cash equivalents.

Net realized investment gains for 2013 were $41 million, compared to $25 million in 2012. Included in net realized gains were $4.6 million of other-than-temporary impairments, as compared to $4.2 million in 2012.

Tom will discuss investments further in his comments.

Looking at our total results for the 9 months. Our effective tax rate was 28% in 2013, compared to an effective tax rate of 19% in 2012. The increase is primarily due to higher estimated earnings tax at a 35% rate and due to anticipating a smaller tax benefit related to tax-exempt investment income as a result of projecting higher pretax income for 2013 than in 2012.

We reported net income to shareholders of $182 million, compared to $197 million in 2012. Book value per share increased approximately 14% to $462 per share at September 30, 2013, from $404 per share at year end. The increase is primarily due to equity issued in connection with the acquisition of Alterra and $253 million of comprehensive income to shareholders.

Finally, I'll make few comments about cash flow and the balance sheet. Net cash provided by operating activities was $542 million for the 9 months ended September 30, 2013, compared to $240 million for the same period of 2012. The increase was driven by higher cash flows from underwriting activities and investment activities.

The increase in cash flows from underwriting activities is primarily a result of the acquisition of Alterra and higher premium volumes, primarily in our Specialty Admitted and Excess and Surplus Lines segments.

Invested assets at the holding company were $1.1 billion at September 30 compared to $1.4 billion at year end. The decrease in invested assets is primary the result of cash paid for the Alterra acquisition, partially offset by a net increase in debt.

I'd like to close with a quick mention of the announcement we made on October 9, 2013, regarding our offer to acquire Abbey Protection, a U.K.-based integrated specialist insurance and consultancy group. Subject to shareholder and regulatory approval, we expect this to close in January of 2014.

At this point, I will turn it over to Mike to further discuss operations.

Francis Michael Crowley
Vice Chairman

Thanks, Anne. Good morning. The results for legacy Markel North American operations were very good and continue the positive trend we have seen during the year. Gross written premiums increased 20% over prior year in the third quarter and 23% over prior year for 9 months. The E&S segment performed well again, with all 5 regions again showing growth.

Gross written premiums increased 8% over prior year in the quarter and 12% over prior year for 9 months. The combined ratio of 87.8% for the quarter was 1 point better than the prior year. The year-to-date combined ratio was 80.9% compared to 90.6% for the same period last year.

The segment continues to improve operating efficiency and the service to our agents and brokers. Confirmation of this comes from the fact that annualized premiums per underwriter is up over 8%, and the upgrades to our Wholesale broker portal continue to receive very positive reviews from our agents.

During the quarter, we announced that John Latham, President of the E&S division, will be stepping down from that position on January 1, 2014. John has begun his plans for retirement in 2016 and has elected to spent his final 3 years with Markel focusing on our customers and assisting me with special projects. John has done an exceptional job leading the E&S division over the past few years, and he is to be commended for the excellence results that we are realizing today. I want to emphasize that this is John’s decision, and he will remain fully engaged at Markel over the next couple of years.

Bryan Sanders, who joined Markel with the Alterra acquisition, will assume the position of President of the E&S division effective January 1, 2014. Bryan has a long and outstanding background in the wholesale world, having been in the industry for 32 years. He has served in leadership positions with Alterra, Max Specialty and HRH, where we worked together. We have great confidence that Bryan will continue the success achieved under John’s leadership.

The Specialty Admitted segment also had a very good quarter. Gross written premiums increased 37% over prior year in the quarter and are up 39% year-to-date. The combined ratio in the quarter was 90.3%, or 18.9 points lower than prior year, due to lower calendar year loss ratio and higher prior year takedowns. Year-to-date combined ratio is 100.8%, or 7.4 points lower than prior year.

As Anne said, the increase in gross written premiums in the Specialty division continues to be driven by the Hagerty and THOMCO business. In the segment, we’re continuing to execute on our plans, which we talked about in the last call, to exit unprofitable lines and non-renew certain specific accounts in order to improve our underwriting results for this segment.

With regards to our product line leadership, headed by Gerry Albanese, the quarter was very active. We are continuing to execute plans integrating the Alterra professionals within the product line leadership group. They have successfully combined brokerage property teams and have adopted the Alterra property integration tools and pricing for the book.

Mike Miller, who led the Marine practice at Alterra, has expanded his responsibilities and has both Commercial Ocean Marine and Inland Marine reporting to him. We continue to hold joint product line meetings across the organization, bringing professionals from Alterra, Wholesale, Specialty and Markel International to foster closer working relationships among these professionals. Meetings have been held with the marine, property, professional liability and energy teams.

We’ve also now consolidated all of our homeowners business into our Personal Lines division, under Audrey Hanken’s leadership. Previously this business resided in Alterra, Wholesale and our Personal Lines operations. The only comment that I will make with regarding to the rate environment is that we are still getting modest rate increases, although down slightly from earlier end of year.

In summary, a very good quarter for North American operations. I’ll now turn the call over to Richie Whitt.

Richard Reeves Whitt
Co-CEO & Director

Thanks, Mike, and good morning, everyone. I’ll start my comments with Markel International’s 9-month results and then give an update on the Alterra integration. Markel International had amazingly consistent and, sticking with Tom's theme, somewhat boring results for the first 9 months of 2013. When I say boring, I mean that in the absolute best of ways. Boring is good in insurance.

International produced consistently strong results driven by solid prior accident year reserve releases and light catastrophe losses. Gross written premiums increased 3% to $725 million. Areas of growth included a specialty book, as well as our Singapore and Netherlands branches.

Pricing trends have been very consistent throughout the year with modest single-digit price increases. However, in many areas of the market, things remain competitive, particularly in CAT-exposed property, both insurance and reinsurance; professional liability; retail; and equine lines.

There is much discussion in the industry on where pricing trends are headed right now. At Markel, we're going to continue to push for price increases. Given the current interest rate environment, there really is no room to reduce rates and produce acceptable returns.

International's combined ratio for the 9 months of 2013 and 2012 was an 88% combined. As I've said previously, both years benefited from relatively light catastrophe losses and solid prior accident year reserve releases. While the 9-months results were delightfully boring at Markel International, the team was extremely busy and anything but bored, with the integration of Alterra going on and the announcement of the proposed acquisition of Abbey Protection.

As Anne said, if all goes as expected, this deal will close in January next year. We're extremely excited to add the Abbey team to Markel International. Abbey adds unique retail products and services to our international insurance portfolio, and we see opportunities to grow their already strong franchise in legal expense and professional fee protection.

Now I'd like to give a quick update on the acquisition of Alterra. It's been approximately 6 months since the deal closed on May 1. We've made excellent progress bringing the 2 organizations together and, with every day that passes, things feel more and more like business as usual. As Ann stated, Alterra's results have largely been in line with our expectations, and this is a really important statement, as our expectations for Alterra are very high.

Within the Alterra segment, premium volume in the global insurance and reinsurance divisions have met and, in some cases, exceeded expectations and are in line with prior year's volume. The lines of business that will ultimately become part of Markel International and Excess and Surplus have also performed well.

The Alterra segment results for the 9 months, which include $70 million of merger and acquisition costs, are, again, in line with our expectations, and we have begun the process of establishing a margin of safety on loss reserves. Obviously this is similar to what we have done with all past acquisitions. We're looking forward to the day in the not-too-distant future when we no longer talk about legacy Markel and legacy Alterra and simply discuss our Markel results. I believe we're well on our way at this point.

As I stated last quarter, we still have some work to do with our systems and our back office processes in order to fully integrate all elements of Alterra operations into our existing model. As such, we are managing and reporting the results of the legacy operations, which include U.S. insurance, Alterra at Lloyd's, global insurance and global reinsurance, as our Alterra segment and expect to continue to do this for the remainder of the year.

We have several initiatives in place to make the changes in systems and processes that are necessary in order to implement a new segment reporting structure by the first quarter of next year. You'll also note that we've included the legacy Alterra life and annuity book, which is in runoff, in our Other/Discontinued Lines segments.

With 1 quarter to go, we're on target for an excellent year with outstanding underwriting process and very nice book value growth.

Now I'd like to turn it over to Tom.

Thomas S. Gayner
Co-CEO & Director

Thank you, Richie. As we've alluded to earlier, we are delighted to report our year-to-date results figures. In our investment operations, we earned 23.2% on our equity portfolio for the first 9 months of 2013.

Amazingly enough, that's an outperformance of 350 basis points compared to the S&P 500 return of 19.7%. And we repeat, we're 350 basis points ahead. Normally, I would expect to underperform in a rip-roaring bull market, since we are conservative and defensive in nature. We won't complaint about it, though. More importantly, this continues the multi-decade record of superior investment returns.

I think it's fair to say that our 4-part investment discipline of investing in profitable businesses with good returns on unlevered capital, with honest and talented managers, capital discipline and reinvestment opportunity at fair prices worked. It is time tested, and we are sticking to it.

In our fixed-income operations, we earned a return of negative 0.6%. Interest rates are moving up and Detroit, among others, are going bankrupt. As such, we are keeping our durations short and credit quality is high as we know how to make it.

In total, we earned 4.5% on our investments, and I am very pleased with those results, as they contributed meaningfully to the comprehensive income of the Markel Corporation. We are methodically adding capital to our equity portfolio and expect to continue to do so.

At Markel Ventures, total revenues rose 40% to $486 million from $345 million a year ago. Our share of EBITDA from the companies rose 54% to $64.2 million, up from $41.5 million a year ago.

During the third quarter, we added Eagle Construction to the family. Eagle is the leading Richmond-based homebuilder, and we have known the principals of the company through 2 generations. We've formally worked with them together for several years in our Markel-Eagle joint venture, and we are delighted to welcome the homebuilding organization to Markel.

One data point that might help to understand our respect for Eagle is that in 2008 and 2009, when the construction industry collapsed and home building stood at the very epicenter of the financial crisis, Eagle remained profitable. These are our kind of people, and we couldn't be happier that they are with us now.

Finally, I would like to close with one thought that I think separates Markel from so many other companies, and even from Markel in its earlier days: namely, from where we sit today, we get to see opportunities to deploy capital in our existing insurance businesses, new insurance opportunities, publicly traded securities, privately held businesses, expansions and additions to businesses we already own and to an increasingly robust network of people we know and have done business with.

Some people would call this deal flow. I think a better name for it is idea flow because it creates a 360-degree view of the world. I believe this is highly unusual and incredibly valuable. Most companies are more constrained in their notions of what they can and will do and how they think about the allocation of capital.

We are a comprehensive company. We have a comprehensive idea flow that covers a lot of fronts [ph], and we have experience at successfully reinvesting our capital in all sorts of businesses all around the world. There is not a long list of organizations with those characteristics and a demonstrated track record for they're doing it reasonably well. Hang on to us. We are just getting started, and we look forward to your questions about the firm.
Rob, if you'd open up the floor for questions, please?

Question and Answer

Operator

[Operator Instructions] Our first question is from the line of Doug Mewhirter of SunTrust Robinson.

Douglas Robert Mewhirter
SunTrust Robinson Humphrey, Inc., Research Division

I just had really one question for Mike. I noticed the -- in the Specialty Admitted business, the reserve releases in this quarter actually accelerated. And I was just wondering what accident years or what sub-lines or segments did you see that? And I guess, related to that question, just how your efforts to, I guess, reprice or improve the worker's comp business is going?

Francis Michael Crowley
Vice Chairman

One, it's going very well. And two, FirstComp drove a lot of that -- Anne, what was it, the '11 to '12 years?

Anne Galbraith Waleski
Executive VP & CFO

Right.

Francis Michael Crowley
Vice Chairman

Yes, that -- where we had the releases. But that business is performing very well. And a lot of it also has to do with the move of premium from California to non-California business, and it's growing.

Douglas Robert Mewhirter
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And actually, it just reminded me of another question. There has been a couple of competitors in the worker's comp space who had some trouble. And I am not sure how much overlap you had with them, but has that triggered any positive disruption in the market for you where you're maybe seeing more submissions or you're getting a tiny bit more price leverage because of maybe less supply in the market?

Francis Michael Crowley
Vice Chairman

We are getting rate. I can't comment on where that business is coming from. We are growing, we are getting rate, we are moving into different geographic areas. And the business -- I have said for a number of quarters that FirstComp is performing and on the path that we had set out for them when we acquired them in November of 2010. And they're executing their business extremely well in a tough comp environment. We couldn't be more pleased with the direction of that business.

Operator

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Just a couple of questions. Richie, you had talked a little bit about Abbey Protection. Can you just give us a little sense of kind of what their historic level of premiums has been and where their combined ratios are and things like that, just to kind of frame the possibilities there?

Richard Reeves Whitt
Co-CEO & Director

Sure, sure. It's a bit of a hybrid business, Mark. And so you have to think of it in terms of revenues, really, quite honestly, because it's both an underwriting business and a service business. Historically, about GBP 40 million in revenue, so call that about $60 million. They've been able to drop about GBP 10 million, call it about $15 million, to the bottom line. And it's a combination of underwriting risk, where they take underwriting risk on legal protection or other professional services like -- or if a person is brought in on a tax audit or something like that by the internal revenue in the U.K., as well as they provide services such as legal advice and some of that tax advice. So it's an interesting business because it's a little bit insurance, it's a little bit service. It fits very nicely into our retail operations. It gives us additional product set to offer our small, medium-sized retail customers, and so we think it really kind of expands what we can do in the U.K. retail market.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

That's really helpful background. And a question, I guess, maybe for Anne or Tom. The level of cash on the balance sheet, not within the investment classification, but just the actual cash. It's probably the highest I've ever seen it. Is this just taking the opportunity to build cash resources with the debt markets the way they've been, or do you have some other kind of allocation in mind for some of that cash?

Thomas S. Gayner
Co-CEO & Director

Well, the #1 spectacular reason that it keeps growing is these are making a lot of money. So that's a good thing.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Good point.

Thomas S. Gayner
Co-CEO & Director

And the bottom portfolio, for instance, as I've said, it's not really much of a yield curve, it's a yield line. So the opportunity cost of staying short and staying in cash and preserving all of the optionally for what you want to do with it doesn't incur much in the way of opportunity cost, so those were some factors going on, the other factors being we did just do a major acquisition. We've got another one in the works right now. We are buying companies with Markel Ventures. We have a lot of opportunity to deploy that, but as always, you can expect us to be careful and methodical about the way we would go about it. And you can also expect, at some point, that, with higher interest rates, which I expect, we'll invest the bond portfolio in a longer-term fashion than what we do right now.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay, fair enough. And then one last thing, just a numbers question for Anne. When -- you were saying the portion of amortization related to the Alterra piece of investment income, that was $39 million, you had said?

Anne Galbraith Waleski
Executive VP & CFO

That's correct.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

So they earned $44 million, and the amortization was $39 million, so really almost no benefit value this quarter?

Anne Galbraith Waleski

Executive VP & CFO

No.

Francis Michael Crowley
Vice Chairman

No, that was -- the $44 million was net of the $39 million.

Anne Galbraith Waleski
Executive VP & CFO

Right.

Francis Michael Crowley
Vice Chairman

And also, that's sort of an interesting feature of our financials since we took over Alterra. You are not seeing a huge increase in investment income because of that amortization, but where you are seeing it is in the cash flow. $540 million of cash flow is a significant increase over what we had at this point in the last year. And that amortization sort of explains some of the difference between what are you seeing through the P&L and what you are seeing on the cash flow statement.

Operator

Our next question comes from the line of Jay Cohen, Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

A couple of questions. First is, in the third quarter, it looks like the Ventures business earnings were a bit -- quite a bit lower than the run rate of what we had been seeing. And I'm just thinking kind of other revenues minus other expenses. What's going on there?

Anne Galbraith Waleski
Executive VP & CFO

Jay, I don't actually think there is anything significant going on there. If you are comparing it to the prior period, it could just be timing of orders. But in looking through the quarterly results, there wasn't anything worthy of note.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Because it looked to me like the net of other revenues and expenses had been running $15 million to $20 million. This quarter, it looked like it was closer to $8 million. You're saying, even though that seems like a big drop, there's nothing unusual at all?

Anne Galbraith Waleski
Executive VP & CFO

No, there wasn't anything unusual in our analysis, but I'm happy to pick it up with you offline and kind of go through it. But nothing came up worthy of note. Like I said, there can be some timing and some seasonality in the numbers, but nothing worthy of comment.

Thomas S. Gayner
Co-CEO & Director

If I were -- this is a bit of guess on my part. What we look at, in terms of looking at the businesses and how they are doing, is the EBITDA and the cash generation of the business itself. And we talked about that earlier in the call with the numbers. The Markel Ventures portfolio companies are doing just fine. We had previously used, as a rough shortcut, the other revenues and other expenses as a pretty good proxy for what’s going on in the Markel Ventures. There are other things that go on in other revenues and other expenses that might distort that number a bit, but the directional information we gave you on the revenues and the EBITDA of Markel Ventures is a pretty good description of how things are going there, and they’re going pretty well.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. You said that it's becoming a bigger part of the income statement. It would be great to get better disclosure around that since it’s going to be growing as well. Just one quick request, that’s all. Second question, the amortization of the Alterra investment portfolio, which is obviously holding back GAAP investment income, can you talk about what that number looks like going forward?

Anne Galbraith Waleski
Executive VP & CFO

The amortization number for Alterra's investment portfolio will be taken across the duration of the portfolio, basically, so it’s going to run for, I would guess, 3 or 4 years. It probably looks close to the same, quarter-over-quarter, although it will come down some as we sell securities.

Francis Michael Crowley
Vice Chairman

Yes, so maybe a way to think about it, I think it’s roughly -- and help me out here, guys. $20 million a quarter right now? The duration of the portfolio is about, probably, 5 years.

Anne Galbraith Waleski
Executive VP & CFO

4 to 5, yes.

Francis Michael Crowley
Vice Chairman

And so that $20 million should sort of trail off over the next 4 years or so from that $20 million down to nothing as those securities mature. It’s a pretty big number. I mean, the day we bought Alterra was probably the -- close to probably the low for the rates, and they kind of backed up since then. So we marked the portfolio up pretty significantly on May 1, and that’s what we are amortizing through.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. That makes sense. I’m sure it’s in the Q, I just didn't see it yet. The unamortized portion, what does that equal right now?

Francis Michael Crowley
Vice Chairman

I don’t know, and I’m not sure it’s in the Q, but I’m sure that’s something we’d be willing to put in going forward if it’s not. We’ll get something to you, Jay.

Operator

[Operator Instructions] The next question is from Matthew Berry of Lane Five Capital.

Matthew Berry
Lane Five Capital Management, LP

A couple of questions, Richie you spoke about establishing a margin of safety for the Alterra book. I noticed that the current year loss ratio was improved quarter-over-quarter and there are no prior year developments in there in the Alterra segment. So could you describe how that process works, how it will evolve over time and how it will impact the financials?

Richard Reeves Whitt
Co-CEO & Director

Sure. Very consistent with what we've done in all past acquisitions, we have a policy or a philosophy at Markel of being more likely redundant than deficient. And when we buy a company, we sort of thread our way into that philosophy by adding a margin of safety to the current accident year. The reason for the decrease year-over-year was catastrophe losses in the prior year, primarily, but I can assure you, we did take the actuarial pick and did a very consistent methodology to add a margin of safety to the reserves in the quarter, and we'll be doing that as we go forward. Margin of safety that we've added depends on the type of business that it is. And in past acquisitions, it's been anywhere from 4 points to 10 points on the business on the current accident year as we earn that business. And what I guess I'd tell you here is that somewhere in that -- it's in that range of what we're adding to the Alterra current accident year as it's earned onto our books.

Matthew Berry
Lane Five Capital Management, LP

Okay. Good. And that's consistent with what I see over the long run in terms of reserve releases and how that cycle works, so that makes sense. And then one for Tom, which is -- I wouldn't, in my limited experience with homebuilders, describe the majority of them as profitable, high return on invested capital with solid management and great reinvestment opportunities. So could you describe what you see that's different at Eagle and how they run their business different from the typical homebuilder?

Thomas S. Gayner
Co-CEO & Director

Well, the great thing about Eagle, as demonstrated by the fact that they remained profitable in as miserable an environment as you can have, is that the intellectual capital of the organization is really what matters. And you have people who have outstanding relationships with subcontractors and a network of people who can get things done, so the size of the Eagle organization relative to what they do in terms of the people that are on their payroll is actually relatively small. And it's like an accordion, it can expand and shrink back depending on the set of opportunities that are out there. And they've successfully done it for 2 generations, so we have a lot of confidence in their ability to continue to do that. And that flexibility -- and part of why being part of Markel is a huge advantage for them is the sense that when it is the appropriate time to add capital and to try to seize opportunities and push ahead, we can support that growth. At the same time, when it's time to go and reverse a little bit and shrink and hunker down, that's okay because that can redistribute that capital back to us, and we'll find other ways to put it to use. If you're a standalone, mono-line company, you don't typically have that flexibility. The same sort of thing that we have happening in our insurance businesses where, as opposed to 1 line of insurance, we have 100. And at different times, some of them need capital and others are generating capital. And in the overall corporate environment, we can put capital to good use.

Operator

[Operator Instructions] As there are no further questions at this time, I would now like to turn the floor back to management for closing comments.

Thomas S. Gayner
Co-CEO & Director

Thank you very much. We look forward to speaking with you soon. Goodbye.

Operator
This concludes today's teleconference. You may now disconnect your lines at this time, and thank you for your participation.