S&P Global
Market Intelligence

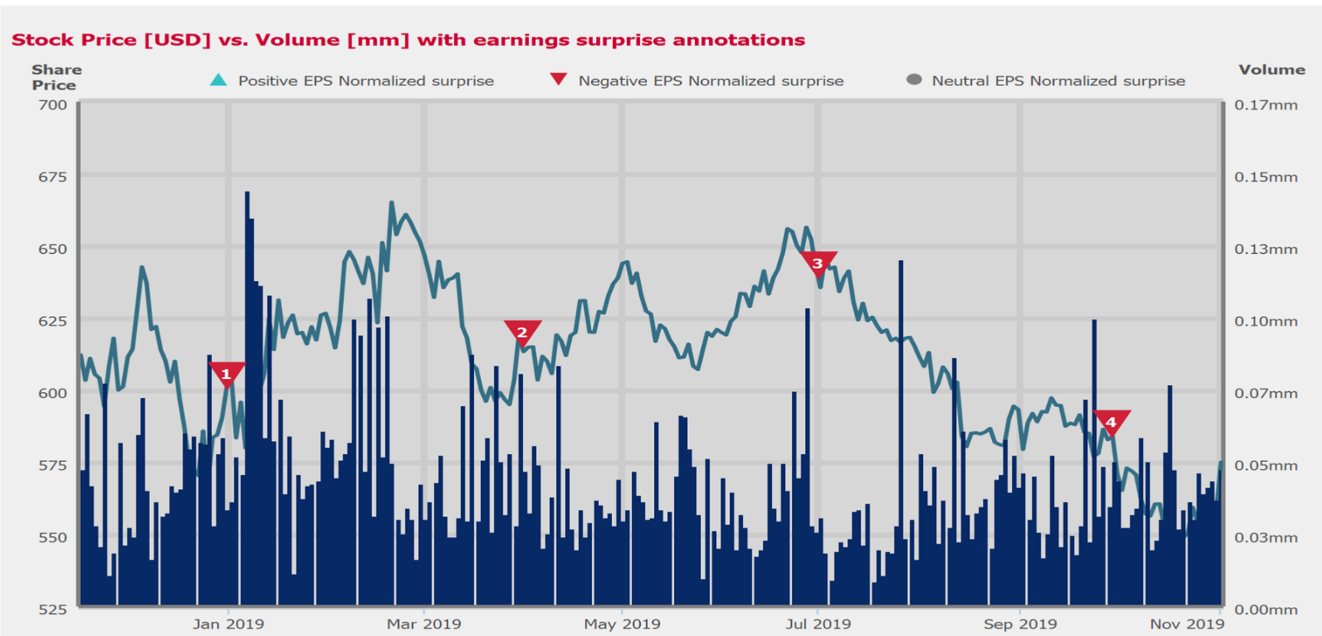
Fairfax Financial Holdings Limited
TSX:FFH
FQ3 2019 Earnings Call Transcripts

Friday, November 01, 2019 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2019-			-FQ4 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	5.59	4.92	(11.99 %)	11.11	37.46	41.85
Revenue (mm)	4922.05	4925.90	0.08	4975.80	20753.87	20589.10

Currency: USD
Consensus as of Nov-01-2019 10:50 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2018	4.01	2.60	1 (35.16 %)
FQ1 2019	8.82	6.59	2 (25.28 %)
FQ2 2019	9.12	8.22	3 (9.87 %)
FQ3 2019	5.59	4.92	4 (11.99 %)

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Call Participants

EXECUTIVES

Derek Bulas
Associate Vice President of Legal

Jennifer Allen
Chief Financial Officer

Paul C. Rivett
President

ANALYSTS

Andrew James Hollingworth
Holland Advisors LLP

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Mark Alan Dwelle
RBC Capital Markets, Research Division

Paul David Holden
CIBC Capital Markets, Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

ATTENDEES

Luis Hernandez

Unknown Attendee

Presentation

Operator

Good morning and welcome to Fairfax's 2019 Third Quarter Results Conference Call. [Operator Instructions] Today's conference is being recorded. If you have any objections, you may disconnect at this time. Your host for today's call is Paul Rivett with opening remarks from Mr. Derek Bulas. Mr. Bulas, please begin.

Derek Bulas
Associate Vice President of Legal

Good morning and welcome to our call to discuss Fairfax's 2019 third quarter results. This call may include forward-looking statements. Actual results may differ perhaps materially from those contained in such forward-looking statements as a result of a variety of uncertainties and risk factors, the most foreseeable of which are set out under risk factors in our Base Shelf Prospectus, which has been filed with Canadian securities regulators and is available on SEDAR.

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

Paul C. Rivett
President

Thank you, Derek. Good morning, Fairfax shareholders. Fairfax's net earnings for the third quarter were $69 million versus $106 million in the third quarter of 2018, which translates to net earnings per share of $2.04 versus $3.34 in 2018.

For the 9 months of 2019, our net earnings were $1.33 billion versus $854 million for the first 9 months of 2018. Fairfax's book value per share increased to $462.98 at September 30, 2019, compared to $432.46 at December 31, 2018, an increase of 9.5% adjusted for the $10 dividend in the first quarter.

Our operating company has generated another good quarter with an aggregate combined ratio below 100% with a combined ratio of 97.5%, and strong reserves across the group while producing an underwriting profit of $81 million in the third quarter.

All of our major insurance companies, with the exception of Brit, generated combined ratios less than 100%, with Zenith at 87.1%; Odyssey Group at 97.6%; Northbridge at 97.5%; Crum & Forster at 97.9%; and Allied World at 96.2%. Brit generally recognized higher losses relative to net premiums earned in the third quarter, and we expect this to reverse in the fourth quarter with Brit being closer to its plan of 97% for the year, excluding any major catastrophes. Allied World deserves a call-out for the 96.2% combined ratio in the quarter. Lou and team are hitting stride. I should also mention that Scott Carmilani in his new role as President of Distribution and Strategic Operations at Fairfax is continuing to make good progress, growing new business with our companies and building out our data and Fairfax worldwide platforms.

For the third quarter, Fairfax's operating income was strong at $280 million versus $250 million in the third quarter of 2018 reflecting primarily higher interest and dividends. Net losses on investments for the third quarter were

$97 million, consisting of realized gains of $48 million and unrealized losses of $145 million principally from BlackBerry. The realized gains included a gain of $150 million on the sale of 5% of the company's 9.9% equity interest in ICICI Lombard. In the fourth quarter, we sold our remaining interest in ICICI Lombard.

Total cash proceeds from the third and fourth quarter sales of ICICI Lombard were $729 million. In total, we invested $347 million to establish ICICI Lombard, and we raised $1.64 billion from the sale of ICICI Lombard, a return of $1.3 billion. We continue to be very good friends with the teams at ICICI Lombard and ICICI Bank, and we wish them well in the future.

We have shifted our focus to Digit, our new digital insurance company in India under the leadership of Kamesh Goyal, which was just awarded the prestigious General Insurer of the Year award in Asia after only 2 years of operation.

Now for some key highlights for the third quarter to bring to your attention. First, our companies are continuing to see firming pricing across most lines of business in North America with the exception of workers' compensations. This was demonstrated again in the third quarter as our insurance and reinsurance businesses' net written premium increased year-over-year by 13.7%. Principal areas of growth were at Northbridge, Odyssey Group, Crum & Forster and Allied World.

By company, the change in net premiums written for the third quarter were as follows: Odyssey Group, up 21%; Allied World, up 18%; Northbridge, up 18%; Crum & Forster, up 16%; Zenith, down 9%; and Brit, down 3%. As we have said on prior calls, Kari and the team at Zenith continue taking the long-term view and are prudently letting go of workers' compensation business that is inadequately priced.

With Brit, they're seeing price increases but have reduced net premiums written in some low-margin business and have purchased increased reinsurance protection. In total, gross premiums written across the group is up 12% in the quarter versus last year, and the first 9 months are up 13% versus last year.

Growth in total investments, our float has followed suit and is now at $41.5 billion versus approximately $39 billion at the beginning of the year. We have approximately $10 billion invested in short-term U.S. treasuries and short-term investment-grade corporate bonds. Given the continued strength of the U.S. economy, we feel it is prudent to remain positioned on the shorter end of the treasury curve for the time being. And we continue to be focused on growing interest and dividend income, which was $215 million in this third quarter versus $194 million in the third quarter of 2018.

Hamblin Watsa is diligently observing and monitoring global events and economic indicators. We remain skeptical that the U.S. economy is heading for a recession just yet. On the contrary, we believe the U.S. economy is growing. The U.S. job market continues to be firm, financial conditions remain relatively loose, the U.S. consumer is indebted less today than a decade ago and the U.S. savings rate is higher today than at any time in the last 10 years.

Despite all these, the Fed has cut rates again this week. Recent global developments have led to some positive upward momentum in rates. A Phase 1 trade deal between the U.S. and China, followed by a potential Brexit deal between the U.K. and the EU have removed some fear for now and volatility from the markets. All these said, if we are wrong and a U.S. recession is drawing near, we would expect to have plenty of opportunities to take advantage of, given our large cash and short-duration, sovereign holdings at approximately 45% of the portfolio.

I will now pass the call over to Jennifer Allen, our new Chief Financial Officer, for additional financial and accounting details. But before I do, let me give you some background on Jen.

We have the good fortune at Fairfax of having a number of talented, young executives in our organization that allow us to recruit internally. Jennifer Allen epitomizes that group. While at Fairfax over the last 13 years, Jen has worked at various roles on numerous projects with 3 of our former CFOs. Jen has previously excelled as our Assistant Vice President, Finance and Global Controller, the CFO of Fairfax India and the CFO of Fairfax Africa. During her tenure as the Chief Financial Officer at Fairfax India and Africa, Jen played key roles in many initiatives for these publicly listed companies, including capital raising, mergers and acquisitions, negotiating credit facilities, liaising with regulators and of course, overseeing the accounting team.

Amy Sherk has now moved into the CFO role at Fairfax India from Fairfax Africa. We are very thankful to have such a talented, experienced and humble executive as Jennifer Allen to take over Fairfax's Chief Financial Officer role, and we have every expectation that she will do a tremendous job for our company and our shareholders.

Okay. Over to you, Jen, for the first conference call.

Jennifer Allen

Chief Financial Officer

Thank you, Paul. Before I discuss Fairfax's third quarter results, I would like to take the opportunity to first thank you, Paul, for your kind words and support over these past few months, and to acknowledge and say thank you to the management team at Fairfax, all of our operating subsidies globally, and a special thanks to the dedicated and talented people that I work with daily at Fairfax. Their hard work and dedication is unparalleled. I'm so fortunate to have been provided this support throughout this transition. So thank you to everyone.

Now turning to Fairfax's results for the quarter. In the third quarter of 2019, Fairfax reported net earnings of $69 million or $2.04 per share on a fully diluted basis. That compared to the third quarter of 2018 when we reported net earnings of $106 million or $3.34 per share on a fully diluted basis. For the first 9 months of 2019, Fairfax reported net earnings of $1.3 billion or $46.23 per share on a fully diluted basis compared to the first 9 months of 2018 when we reported net earnings of $854 million or $28.83 per share on a fully diluted basis.

Underwriting profit at our insurance and reinsurance operations in the third quarter of 2019, increased to $81 million with a combined ratio of 97.5% compared to underwriting profit of $74 million and a combined ratio of 96.7% (sic) [97.6%] in the third quarter of 2018. Underwriting profit in the first 9 months of 2019 decreased to $271 million with a combined ratio of 97.1% compared to underwriting profit of $299 million with a combined ratio of 96.6% in the first 9 months of 2018.

Our combined ratios benefited from favorable prior year reserve development in the third quarter and first 9 months of 2019 of $94 million and $185 million that translated into 2.9 and 2.0 combined ratio points in each of those periods, compared to net favorable prior year reserve development of $174 million and $372 million that represented 5.7 and 4.2 combined ratio points in both those respective periods in 2018.

Looking to our operating company results starting with Northbridge. Northbridge's underwriting profit was $8 million in the third quarter and $12 million in the first 9 months of 2019 and had combined ratios of 97.5% and 98.7% in each of those respective periods. That compared to underwriting profit of $31 million and $16 million and combined ratios of 89.5% and 98.1% in each of those same periods in 2018.

Northbridge's underwriting results in the first 9 months of 2019 included net favorable prior year reserve development of $32 million, representing 3.5 combined ratio points, reflecting better-than-expected loss emergence across all major business lines. This compared to net favorable prior year reserve development of $37 million and $72 million representing 12.7 and 8.6 combined ratio points in the third quarter and first 9 months of 2018, reflecting better-than-expected loss emergence on automobile and casualty business lines.

The underwriting results in the first 9 months of 2019 included $10 million of current period cat losses compared to $17 million of current period catastrophe losses in the first 9 months of 2018. Both periods related primarily to storms in Ontario and Québec.

In Canadian dollar terms, net premiums written by Northbridge in the third quarter and first 9 months of '19 increased by 19.1% and 16.9% in each of those respective periods, reflecting strong retention of renewal business, growth in new business and price increases across the group.

Moving to Odyssey Group. Odyssey Group reported underwriting profit of $20 million and $88 million with combined ratios of 97.6% and 96.3% in the third quarter and first 9 months of 2019 compared to underwriting profit of $19 million and $134 million on combined ratios of 97.5% and 93.5% in the third quarter and first 9 months of 2018. Current period catastrophe losses of $67 million and $135 million represented 7.9 and 5.7 combined ratio points in the third quarter and first 9 months of 2019. Those principally related to Hurricane Dorian and Typhoon Faxai, smaller losses on various catastrophes. Though lower than the current period catastrophe losses of $77 million and $142 million, that represented 10.4 and 6.9 combined ratio points in the third quarter and first 9 months of 2018, that principally related to Typhoon Jebi, Hurricane Florence, Typhoon Mangkhut and smaller losses on various catastrophes.

Odyssey Group's combined ratios in the third quarter and first 9 months of 2019 also benefited from net favorable prior year reserve development of $46 million and $86 million, which represented 5.6 and 3.6

combined ratio points, respectively. That compared to net favorable prior year reserve development of $66 million and $152 million, which equated to 8.9 and 7.5 -- and 7.4 combined ratio points, respectively, in the third quarter and first 9 months of 2018. The net favorable prior year reserve development of both years principally related to casualty and property catastrophe loss reserves.

Odyssey group wrote $855 million and $2.5 billion of net premiums in the third quarter and first 9 months of 2019 that represented increases of 21.2% in the third quarter of '19 and 14.9% in the first 9 months of 2019. The increase principally reflected higher net premiums written within our U.S. insurance, North America and the London market divisions.

Moving on to Crum & Forster. Crum & Forster's underwriting profit improved to $12 million and $36 million in the third quarter and first 9 months of 2019 with combined ratios at 97.9% and 97.7% in both those respective periods. That compared to underwriting profit of $10 million and $18 million with combined ratios of 98.1% and 98.8% in the third quarter and first 9 months of 2018. Attritional current period catastrophe losses were $5 million and $13 million in the third quarter and first 9 months of '19, about 1 point -- 1 combined ratio point in each of those respective periods. That was in line with the 2018 third quarter current period catastrophe losses of $5 million and slightly lower than the $17 million of current period catastrophe losses in the first 9 months of 2018.

Crum & Forster's net premiums written increased by 16.4% in the third quarter and 15.1% in the first 9 months of 2019 primarily reflecting business volume growth in surplus and specialty, accident and health and surety and program lines of business.

Looking to Zenith National. Zenith National reported underwriting profit in the third quarter and first 9 months of 2019 of $24 million and $92 million with combined ratios of 87.1% and 83.3%, which compared to underwriting profits of $41 million and $91 million with combined ratios of 80.3% and 84.9% in each of those respective periods in 2018.

The underwriting profit in the third quarter and the first 9 months of 2019 included $17 million and $75 million or 8.9 and 13.7 combined ratio points of net favorable prior year reserve development, which compared to $23 million and $59 million or 11 and 9.9 combined ratio points in the third quarter and first 9 months of 2018. The net favorable prior year reserve development of both years principally reflected net favorable emergence related to accident years 2013 through 2018.

Zenith wrote $152 million and $580 million of net premiums in the third quarter and first 9 months of 2019, which was lower than the $167 million and the $638 million of net premiums in those respective periods in 2018. The decrease in net premiums written in '19 primarily reflected price decreases.

Looking to Brit, Brit in the third quarter and first 9 months of 2019. Brit reported underwriting loss of $16 million and an underwriting profit of $13 million and combined ratios of 104.1% and 98.9% compared to underwriting losses of $33 million and $50 million with combined ratios of 108.3% and 101.3% in each of those same periods in 2018. Current period catastrophe losses of $40 million and $43 million, that represented 10.3 and 3.6 combined ratio points in the third quarter and first 9 months of 2019 principally related to Hurricane Dorian and Typhoon Faxai, which were lower than current period catastrophe losses of $66 million and $70 million that represented 16.8 and 6.0 combined ratio points in the third quarter and first 9 months of 2018 that related to Typhoon Jebi, Hurricane Florence and Typhoon Mangkhut.

Net favorable prior year reserve development was lower in the third quarter and first 9 months of 2019 at $8 million and $10 million or 2.1 and 0.8 combined ratio points principally reflecting better-than-expected claims experience in various lines of business. That compared to $19 million and $28 million or 4.8 and 2.4 combined ratio points in the third quarter and first 9 months of 2018 principally reflecting better-than-expected emergence in the 2017 catastrophe losses in the third quarter, and on energy and U.S. property business line in the first 9 months.

Brit's net premiums written decreased by 2.5% and increased by 1.6% in the third quarter and first 9 months of 2019, respectively. The decrease in the third quarter primarily reflected increased use of proportional treaty reinsurance and the purchase of increased catastrophe protection. The increase in the first 9 months primarily reflected growth in their core book of business generated by increased contribution from initiatives launched in recent years and price increases. That was partially offset by reductions in noncore lines of business and increased use of proportional treaty reinsurance and the purchase of increased catastrophe protection.

Moving on to Allied World. Allied World reported underwriting profit of $23 million in both the third quarter and first 9 months of 2019 with combined ratios of 96.2% and 98.7% in each of the respective period. This compared to an underwriting profit of $20 million and $75 million with combined ratios of 96.7% and 95.5% in the same period in 2018.

Current period catastrophe losses of $23 million in both the third quarter and 9 months of '19 represented 3.9 and 1.3 combined ratio points, also principally related to Hurricane Dorian and Typhoon Faxai, which compared to higher current catastrophe losses of $62 million that represented 10.3 and 3.7 combined ratio points in the third quarter and first 9 months of 2018 that also related to Typhoon Jebi, Hurricane Florence and Typhoon Mangkhut.

Allied World's underwriting profit in the first 9 months of 2019 was impacted by $79 million or 4.4 combined ratio points of net adverse prior year reserve development, reflecting deterioration in the insurance segment of $47 million principally related to North American casualty and the reinsurance segment for $33 million that related to Typhoon Jebi.

In the third quarter and first 9 months of 2018, Allied World benefited from $13 million or 2.2 combined ratio points and $28 million or 1.7 combined ratio points reflecting favorable emergence on the 2017 catastrophe losses.

Allied World contributed $613 million or $2 billion in net premiums written in the third quarter and first 9 months of 2019, representing year-over-year increases of 18.2% and 6.1%, respectively, relating to higher renewal rates and new business growth across the entire organization.

Moving to Fairfax Asia. Fairfax Asia recorded underwriting profit of $2 million and $3 million with combined ratios of 96.9% and 97.8% in the third quarter and first 9 months of 2019. This was better than the underwriting profit of $1 million and an underwriting loss of $1 million with combined ratios of 98.5% and 109 -- 100.9% in the same periods in 2018. Combined ratios in the third quarter and first 9 months of 2019 included $8 million and $21 million or 14.6 and 14.4 combined ratio points of net favorable prior year reserve development, which compared to $6 million and $16 million or 12 points and 11.4 combined ratio points in each of the respective periods of net favorable prior year reserve development in the third quarter and first 9 months of 2018. The net favorable prior year reserve development of both years principally related to automobile, property and workers' compensation.

Moving on to insurance and reinsurance - other segment. They produced underwriting profits of $8 million and $4 million with combined ratios of 97.1% and 99.5% in the third quarter and first 9 months of 2019. That compared to underwriting losses of $13 million and $19 million with combined ratios of 104.7% and 102.2% in those same periods in 2018.

And finally, looking to runoff. Runoff reported operating losses of $14 million and $45 million in the third quarter and first 9 months of 2019 compared to operating losses of $49 million and $102 million in those same periods in 2018. The improvement in the underwriting loss year-over-year principally reflected improvement in the underwriting results and higher investment income.

And now looking at the consolidated results of Fairfax. The consolidated interest and dividend income increased year-over-year from $194 million and $583 million in the third quarter and first 9 months of 2018 to $215 million and $672 million in the third quarter and first 9 months of 2019 primarily reflecting higher interest income earned on our increased holdings of high-quality corporate bonds, short-dated U.S. treasury bonds and Canadian government bonds. That was partially offset by the lower interest income earned on a decreased holdings of our U.S. municipal bond.

Fairfax recorded a recovery of income taxes of $5 million in the quarter. That represented a 6.4% effective income tax rate and a provision for income taxes of $325 million and an 18.1% effective income tax rate in the first 9 months of 2019 principally reflecting the impact of nontaxable investment income and a tax differential on income and losses outside of Canada.

Our total debt to total tax ratio, excluding the noninsurance operations, increased to 27.1% at September 30, 2019, from 25.0% at December 31, 2018, primarily as a result of the increased holdings company debt that was partially offset by our increase in common shareholders equity.

We ended the third quarter of 2019 with an investment portfolio, which included the holding company cash and investments of $41.5 billion that compared to the $38.8 billion investment portfolio at December 31, 2018.

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

Paul C. Rivett
President
Thank you very much, Jen. We now look forward to answering your questions. [Operator Instructions] Okay, Eunice, we are ready for questions.

Question and Answer

Operator

[Operator Instructions] Our first question came from the line of Paul Holden of CIBC.

Paul David Holden
CIBC Capital Markets, Research Division

So I have 2 questions for you. First one is on the investment portfolio. So even at the Q4 '18 call, you mentioned striving for better investment performance in 2019. And certainly, to some extent, you have achieved that. More specifically, you referred to monetizations and process. I was wondering if we can kind of get a status update on that monetization and process and just a characterization of how far you think you're along in that process. Is there still a lot to potentially do there?

Paul C. Rivett
President

Yes. No. good question, Paul. So we're quite far along in the process. There -- we've got the whole Hamblin Watsa team from Prem right through working with us. A number of these things are close to fruition. A few that are more at the earlier stages. But as you can imagine, we can't give you specifics on it, but we're very happy that we're close to being able to get a few things across the line in the fourth quarter. ICICI Lombard was part of that. So you saw that we can act fairly quickly. But also, it's a -- we want to get best price and best execution, right? So we're working to -- we're getting -- we're working to do that for our shareholders.

And as you said, we have done fairly well this year. We're on target for that 15% ROE and that's a result of hitting that 6% return target in the portfolio. And we're excited because we've got a bigger float now and it keeps coming in, thanks to our operating companies. So that gives us a little bit more leverage as we go into the end of the year. But we're quite close on a few of the things we've been working on, and we look forward to announcing them when they come across the line.

Paul David Holden
CIBC Capital Markets, Research Division

Great. Second question is on the underwriting performance, specifically premium growth. Wondering if you can give us a sense of how much of that is coming from volume versus price. And I guess what I'm really trying to get to here is sustainability of sort of, let's call it, a low-teen type growth rate.

Paul C. Rivett
President

Yes. So it's always hard to tell because you don't want to get too excited. But I have to tell you that in my career here, 16 years, we're starting to get quite excited. I haven't seen anything quite like this. It's firming. No one's calling it a hard market yet. No one's ringing the bell but it's firming. And I would say, and I'd look to Jen, but we're roughly -- of that 13%, we're roughly 50% premium, 50% price. So that's a good mix. And we're quite excited, and I don't want to predict where it can go from here but we think it might have legs.

Jen, I don't know if you want to add anything to that.

Jennifer Allen
Chief Financial Officer

No. I think that's a fair statement.

Operator

The next question is from the line of Jeff Fenwick of Cormark Securities.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

So Paul, just wanted to follow-up on the question around the positioning of the investment portfolio. And I guess one point of pushback I often get from investors is the -- Fairfax isn't afraid to take some bigger swings at stocks and have some larger positions like the BlackBerry and like the telco in there. It can create some quarter-by-quarter volatility. So is this -- when we talk about that monetization or reorientation of the portfolio, is that something that you're thinking about? Like how do you incorporate that type of approach that might help maybe reduce some of the volatility? Or sort of improve the performance where you're going through time.

Paul C. Rivett
President

Yes. No, listen, I think, we have heard that. We've heard that from our shareholders and you. But for us, we're always going to be value-focused and there may be larger positions from time to time. Generally speaking, we don't want to go any bigger than the current position sizing that we have. But we continue to be focused on the names we have, and we will always be value investors. And there may from time to time be larger positions as value investors.

But keeping in mind that even now with the $41.5 billion in float, even $1 billion position is relatively small in the portfolio. So it's -- but we are mindful of that and going forward, we don't want to have positions much bigger than $1 billion in any one name.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Yes. That's fair. And then maybe we could talk a little bit about capital and balance sheet positioning here. You're seeing units like Odyssey and Allied growing so much. So how are you feeling from a balance sheet leverage perspective? And are you confident that you're well-positioned to continue to go out and capture that opportunity that you see there?

Paul C. Rivett
President

Yes. No. We're really excited and confident where we are from a capital perspective. You know this but we always have been keeping and will, for the foreseeable future, keep more than $1 billion at the holding company level. And we don't get rating agency credit for that, but we keep it there just to make sure that we're there for our subs in the future and for our policyholders and shareholders. But we're very well capitalized. And as we said on prior calls, as we started to see this trend progressing, we are there for our operating companies to grow. Because there's an opportunity for a little bit maybe of a step change as far as getting that business and growing the float and being able to stay at that higher level.

And meanwhile, we're out there doing things like refinancing our debt. You saw that we did a -- recently a Canadian deal. And we've pushed out maturities until 2022 of any consequence. And we're continuing to look at ways to find cheap financing alternatives. Not much really we can do now between now and 2022, but look, we are looking for alternative sources of financing. And so we're -- to sum it up, we are very, very comfortable and very excited about where we are from a capital position there for our operating.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

And I guess just to follow on with that is around prioritization. Clearly, you want to support the growth of the operating units there. But what about buybacks? The stock continues to sort of languish here. And the discount to the group just seems to be probably at the highest I've seen at over the last 10 years or so. So how does that factor into the mix here for you?

Paul C. Rivett
President

Yes. No, we do watch it. And as Prem has said over the last 34 years, I mean a multiple goes up and goes down, and certainly, a discount, we see that. But in the third quarter, although we did about $30 million in buyback for treasury purposes, third quarter, we want to make sure that we're watching. That's the high cat. It's the high cat quarter, so we want to be extra careful there. But it is -- that's a priority for us. But first, as I mentioned in the prior question, we want to be there for our companies to make sure they grow and grab that great business while they can, increase our float. And we have already said we're going to looking to take our partners out in Brit and Eurolife in the coming months. But we're mindful on the stock. And at the right time, we'll obviously take advantage to the extent we can.

Operator

The next question is from the line of Jaeme Gloyn of National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

First question, just related to the shift of Allied World to a Bermuda-based company. Is there -- what are some of the impacts of that change?

Paul C. Rivett
President

No real impact, Jaeme.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Nothing from like a tax point of view or financially in that respect?

Paul C. Rivett
President

No. No. Not at all, no.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. And then one of the themes going on in U.S. insurance, big and the buzzword from other calls is social inflation. Can you provide us with any comments on the impacts to Fairfax's underlying business units as it relates to that theme?

Paul C. Rivett
President

Yes. No. So I mean the big impact is obviously that it -- think it's part of this increasing firming of pricing. And including the fact that there's also capacity seems to be coming out in lower limits. But we believe we've been proactive on this trend in our underwriting actions. We've seen higher losses in commercial auto, for example, but we believe we're ahead of that curve on this trend with our companies and our underwriting actions.

And the company, as a whole, benefits because we have a diversified mix of business, both by line of business and geography. And we generally have lower -- smaller business that we write with lower limit. So for us, on social inflation is, as we see it, is just part of what's giving us firming pricing. And should be, all things considered, a good thing for us going forward.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Great. And last one, real quick. Just with the growth in premiums. Is there a targeted leverage, either from an underwriting leverage or investment leverage that you're looking to achieve with the outsized growth in premiums at this stage?

Paul C. Rivett
President

No. No real target. Sky is the limit. I say that a little flippantly, but the reality is our decentralized structure, each of our CEOs is incentivized for 95% combined and they are, as you see, they're growing profitably with great reserving. So we're -- but no target.

Operator

The next question is from the line of Tom MacKinnon of BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

Just a question on your comments. You said if there was a U.S. recession, you'd see opportunities. Maybe elaborate as to what those opportunities are. I assume it would be deployment of the cash. But I don't want to assume it's buying anymore in terms of equities given you're kind of at your limit there, being totally -- being that these things, including your investments in associates and whatnot are equivalent to your book value. So would these opportunities really just be deploying the cash into more fixed income?

Paul C. Rivett
President

Yes. No. Good question, Tom. So we -- as we've done in the past, you saw in the financial crisis, we were able to be there to provide convertibles to folks who just couldn't get financing anywhere else. So that going to convertibles would be part of the change of mix. Being in very liquid, short-term, sovereign cash and sovereign debt, we can very quickly switch and deploy in areas like convertibles. Also take advantage of -- to the extent that spreads are widening, take advantage generally. So that's one area.

But the other is, I mentioned one of the prior questions. We are changing the mix on equities as we're executing on some of the disposition strategies. So there is -- there -- we'll be ready. To the extent that it changes, we'll be ready either way. So that's where we're positioning ourselves. We have not, despite pressure and you see it from our competitors, we're not reaching for yield. Staying patient, preserving capital, and we'll see which way it goes. We are leaning a little bit, as I said, towards thinking that the U.S. is strong. And we'll get a trade deal done, Phase 1, shortly. And we'll continue to follow that trend. Job numbers were good this morning.

And you know, we see a little bit of potentially wage inflation from that GM deal. So we think it might trend that way but if it goes -- either way it goes, we're ready to go with the portfolio as it's currently structured.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And just a follow-up with respect to your comments about the buyback. Now that we're kind of almost through the cat season, would you -- and given where your stock trades, would you be more -- what is your thinking in terms of buybacks now?

Paul C. Rivett
President

Yes. No. Let's -- we're definitely watching it. Don't want to give away our hand. But priority is making sure we're there as growth's accelerating. We're also obviously monitoring some of the cats that have happened in this quarter, too. As you said, it generally seems to be over but we're seeing things like California wildfire, which so far, hasn't been as serious as campfire was last year.

But we are watching the stock, rest assured. And -- but want to be there for what has been -- could be a generational shift in pricing. And so we'll weigh and balance the approach. But definitely, and always will be interested in our stock at the right price.

Operator

And the next question is from the line of [Junior Roth], private investor.

Unknown Attendee

Question. Toys "R" Us, can you guys give us an update on how that's performing? If it's performing as expected when you guys purchased it? And then the other question is what do you think about value investing? Because in the last 5 to 10 years, value investing hasn't really performed. Do you think that's going to change going forward? Or what's your perspective on that?

Paul C. Rivett
President

[Junior], you never can tell with these things. But you know, with Prem and the team, with decades of experience, these things have a way of turning. We might have seen that with what we've seen with WeWork and a movement among the growth group to focus a bit more on bottom line, free cash flow and earnings. So that maybe -- we may be seeing a shift back to value.

But listen, that's -- one way or the other, that doesn't matter. We are focused on capital preservation and the value approach. And we're going to stick with that. And we think over the long run, it has worked and will continue to work.

On Toys "R" Us, retail environment has been tough in Canada. You saw the news last night, this morning about Encana and particularly out west, lost jobs. So retail is off. Toys "R" Us continues to be producing good EBITDA. It's a critical season right now. But the downside protection, as you think about it from a value perspective, is that we bought it for the real estate value. And the business is all upside. We're very supportive there. And we will continue to be very supportive of the business, continue to believe in it. But it's upside. And it continues to perform not at expectations. But over the long term, we expect that it'll be a great cash generator for us.

Operator

And the next question is from the line of Mark Dwelle of RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, Research Division

A few of my questions have already been covered but kind of a numbers question. The -- I mean ICICI Lombard sale, I saw you commented in the interim report in terms of -- some of that were sold in the third quarter and some of it was in the fourth quarter. Where does the cash from that show up? Or maybe cash hasn't been received yet?

Paul C. Rivett
President

Yes. So Jen, maybe you want to take that one then, Jen.

Jennifer Allen
Chief Financial Officer

Yes. Sure. So on the ICICI Lombard sale, so it's up in the holding company cash. Subsequent to the quarter, 250 of that proceeds that came in was used to repay at the credit facility. And we are working on the residual to be paid off in the next coming weeks. But that is up in the holding company cash line.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. The second question, and you -- I was going to ask about it anyway but you've kind of mentioned it in your opening remarks, about Digits. Am I correct? That's not a consolidated entity. That's just a -- whatever you call it, affiliated holding or affiliated investment?

Jennifer Allen
Chief Financial Officer

That's correct. It's an investment associate, so it's equity accounted.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. And so any of the proportional proceeds of that are going to come through within that corresponding P&L line, is that about right?

Jennifer Allen
Chief Financial Officer

That's correct. It will come through in the share in profit and associate line in the income statement.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. And then the other question that I had, the losses related for -- to Typhoon Faxai were fairly low, I thought, relative to my expectations. Any early comments in terms of where the Hagibis losses may come? Higher than that? Lower than that? About the same?

Jennifer Allen
Chief Financial Officer

No. We have no indication at this time on those.

Operator

And the next question is from the line of Luis Hernandez, private investor.

Luis Hernandez

My question is basically on India and given the fact that both Fairfax itself, as you know, has a few direct investments that are pretty big and where the company has a big stake in. And there, obviously, is also the Fairfax India vehicle. So I just wanted to see your comments on how are you guys seeing the market and how -- what are the opportunities that you're looking at -- oh, I mean as a general comment, given the previous -- what I just said.

Paul C. Rivett
President

No. No. Thank you for the question. So we continue to be very excited about India under Prime Minister Modi. It's a little bit down now, the market. Emerging markets, generally are a little down. But that's an opportunity for us. We think long-term future of that country and that economy is one of the best places to invest on the planet. And so we continue to be very excited about opportunities, continue to be analyzing opportunities. And our investments there, we think, are very good and we'll continue to grow given it's just such a dynamic country and with what Prime Minister Modi is doing, being business-friendly, we just -- we continue to be very excited about that market.

Operator

And your next question is from Jeff Fenwick of Cormark Securities.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

I thought I might just sneak in one on India as well. And I'm not sure if you're positioned to comment, Paul, or maybe Jennifer can. But one of the notable -- most notable aspects that they recorded -- that they reported last night was the big uptick in value at the Bangalore Airport at BIAL. Looks like maybe plans for a third terminal being put in there. Can you offer any comment about just the extent of the swing there was pretty meaningful in percentage terms? And any color you can offer on how some of the assumptions changed in the model there to trigger that increase?

Jennifer Allen
Chief Financial Officer

Sure. No problem, Jeff. So if we look at the Bangalore Airport that's held through Fairfax India, they recently had the master plan approved by the underlying regulation authorities in India that allowed them to bring on that third terminal. So that's most of the lift that you're seeing in the third quarter. We didn't have it in the prior quarters because it is quite a robust process they have to go through to make sure they have that regulatory approval, and before we can actually factor that into the cash flow. So that is most of the lift that you see in the third quarter.

Maybe to note also on that asset is we've disclosed extensively in the past that the underlying real estate asset, we're still waiting on the master plan on that one. That value was not yet in the underlying value of Bangalore Airport. It's only at a lease value. So that is something hopefully, in the coming quarters, we'll start to see, hopefully, a benefit lift on that as well, which we've disclosed previously.

Operator

And our final question is from the line of Andrew Hollingworth of Holland Advisors.

Andrew James Hollingworth
Holland Advisors LLP

Can I just go back to one of the original questions that you had just regarding the redeployment of the equity portfolio. I mean you made the point, Paul, that $1 billion position is about as big as you want, and it's not a very big percentage of the $41 billion, but it is quite a big percentage of the equity portfolio of the business. So I think maybe the message that investors are sort of wanting to hear is that going forward, the equity portfolio will be just more diversified than it is today. And probably a bit more liquid than it is today because I'm not going to say which holdings you should or shouldn't own. That's not for us to do. But obviously, trying to liquidate the 32% position in Eurobank would be very difficult thing to do.

So is that the move of the company to try and end up with a sort of value or type of portfolio that still sticks with the sort of investment mentality of the organization? But one that's a little bit more suited to the task of being the equity -- core equity of this whole organization?

Paul C. Rivett
President

No. I think, Andrew, that's a fair comment. And I think it's correct -- that's a correct comment. We do want to be in, over time, in more liquid positions but always with a value end, but continuing to be opportunistic. So -- but I think you're right, our preference would be to be liquid and -- but we're -- we see and take the opportunities as they come. And as I said, we will want to stay below the billion and but -- even that is only for really good opportunities, like we've seen with Seaspan. It's done remarkably well, and we think there's just a ton of upside still on that. But we're mindful of that limit. And so we'll continue to be focused on it but be opportunistic and always with a value focus.

Andrew James Hollingworth
Holland Advisors LLP

Okay. Can I just ask one separate follow-up? And just in terms of the comments you made earlier on about the slightly stronger market in terms of premium and pricing and all the rest of it. I mean I'm really intrigued here as to, one, just why do you think this is taking place? The world doesn't feel like it's got less capital in it. And also maybe even the history the group has got, looking back at previous situations where you've seen a firmer market, is there ever a reason why it takes place? Or do you just look back in 5 years hence and say, "Oh, yes. No, we can solve it in hindsight, but at the time, we never knew it."

Paul C. Rivett
President

Yes. No. I think, listen, Andrew, it's the question right now in our industry. And I think in hindsight, everybody can kind of piece it together. But it's a number of factors. It's the low interest-rate environment. It's the social inflation that we talked about. It's the capacity coming out from some of our competitors, including capacity coming out in the Lloyd's market. It's catastrophes like what happened in 2017, worse catastrophe year on record that have really kind of shaken up the core and got a whole generation of underwriters focused on needing to get price again as opposed to the opposite. So it's a whole list of factors all kind of coming together. And I don't think anybody necessarily saw it coming. But it certainly seems like it's on its way now.

Well, if there's no further questions. Thank you, everyone, for joining this call. Thank you, Eunice.

Operator
Thank you. And this does conclude today's call. All parties may disconnect at this time. Thank you all for attending.