S&P Capital IQ

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Fairfax Financial Holdings Limited TSX:FFH

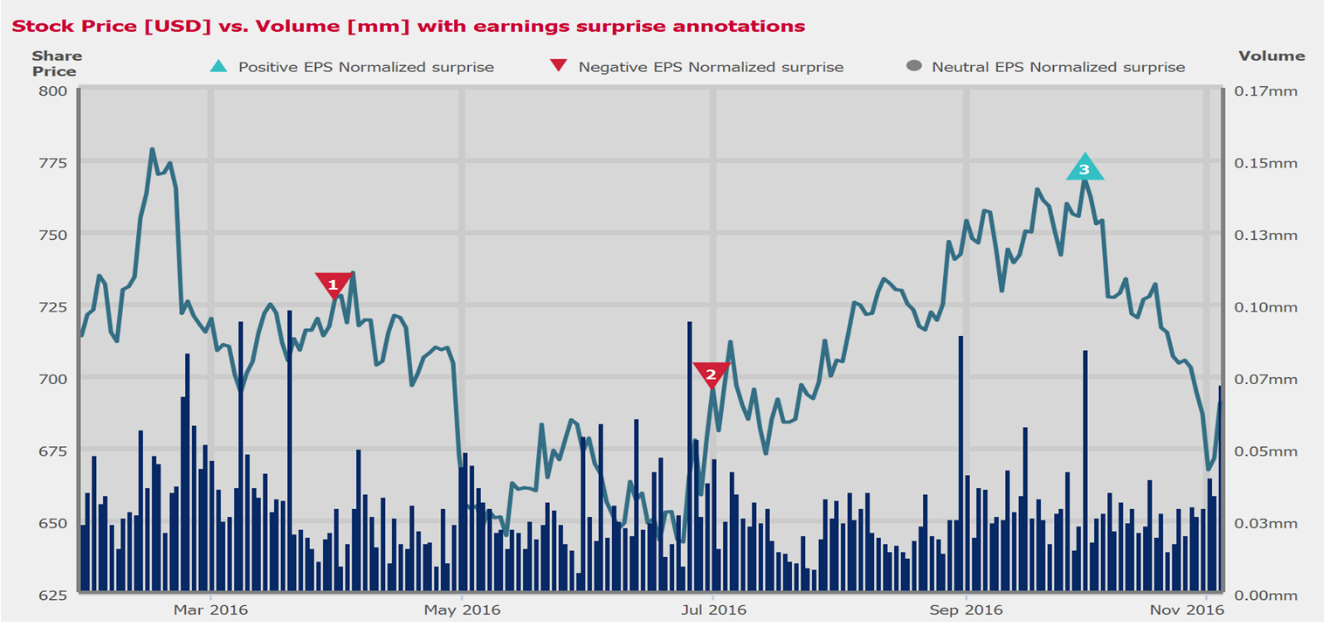
FQ1 2017 Earnings Call Transcripts

Friday, April 28, 2017 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2017-			-FQ2 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.36	4.18	▲24.40	2.30	16.32	25.83
Revenue (mm)	2873.45	2737.60	▼(4.73 %)	3233.05	12815.13	13652.13

Currency: USD
Consensus as of Apr-28-2017 5:55 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2016	13.57	4.82	▼1 (64.48 %)
FQ2 2016	4.09	3.11	▼2 (23.96 %)
FQ3 2016	4.06	8.66	▲3 112.78 %
FQ4 2016	-	-	-

Call Participants

EXECUTIVES

David J. Bonham
Chief Financial Officer and Vice President

Eric P. Salsberg
Vice President of Corporate Affairs and Corporate Secretary

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

ANALYSTS

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Markus Homor

Mikel Abasolo

Paul David Holden
CIBC World Markets Inc., Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

SHAREHOLDERS

Luis Hernandez

ATTENDEES

Unknown Attendee

Presentation

Operator

Good morning, and welcome to Fairfax's 2017 First 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 Prem Watsa, with opening remarks from Mr. Eric Salsberg. Mr. Salsberg, please begin.

Eric P. Salsberg
Vice President of Corporate Affairs and Corporate Secretary

Yes, thank you. Good morning, and welcome to our call to discuss Fairfax's 2017 first 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 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 Chairman and CEO, Prem Watsa.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Good morning, ladies and gentlemen. Welcome to Fairfax's first quarter conference call. I plan to give you some of the highlights and then pass it on to Dave Bonham, our CFO, for additional financial details. In the first quarter of 2017, book value per share increased 1.1% adjusted for the $10 per share, common dividend, paid in the first quarter of 2017.

Our insurance companies continued to have an excellent first quarter with a combined ratio of 94.6%, with excellent reserving and significant underwriting profits of $107 million. All of our major insurance companies, again, had combined ratios of less than 100%. Zenith at 80.2%, OdysseyRe at 90.4%, Fairfax Asia at 93.6%. First quarter operating income was very strong at $209 million, offset by net investment losses in the quarter of $18 million, which arose primarily as a result of net gains on equities of $39 million, more than offset by losses on bonds due to the negative effect of credit spreads and fluctuations on CPI-linked derivatives.

As shown on Page 31 of our quarterly report, we have realized gains on our investment portfolio of $230 million, offset by unrealized losses of $248 million.

All in all, we had net earnings of approximately $83 million. Insurance and reinsurance business premium volume was up in the first quarter by 12%, primarily due to Northbridge and Odyssey and the acquisition of Wright Insurance, AMAG and Fairfirst Insurance. While the combined ratio, as I said earlier, for our insurance and reinsurance operations was 94.6%. Excluding these acquisitions, our premium was up 6.8%. At the subsidiary level, very quickly the change in net premium written in the combined ratios of the first quarter was as follows: OdysseyRe with a combined ratio of 90.4%, premiums up 14.8%; Crum & Forster 99.5%, premiums up 2.3%; Northbridge in Canadian dollars 98.9% with premiums up 14.1%; Zenith 80.2% with premiums up 1.3%; Fairfax Asia, because of the AMAG and Fairfirst acquisition, premiums were up 54% with a combined ratio of 93.6%; and Brit combined ratio of 96.8%, premiums were down slightly at 2.7%.

Net investment losses of $18 million in the first quarter consisted of the following. Please refer to Page 2 of our press release. Net gains on equity exposures of $39 million resulted from net gains of $222 million on long equities and a $183 million net loss on individual short positions. We have realized losses of $26 million on equities, principally from unwinding of short equity holdings in the first quarter of 2017, partially offset by the realized gains in our loan equity of $76 million.

Also, we had losses of $16 million on our bond portfolio, primarily due to the negative impact of credit spreads and losses on our CPI-linked derivatives of $15 million. The loss in the other category consisted of losses on our treasury locks, offset by favorable foreign exchange movements. As we have mentioned in our annual meetings, annual reports, quarterly calls, and I mentioned again, with IFRS accounting where stocks and bonds are recorded at market and subject to mark-to-market gains or losses, quarterly and annual income will fluctuate, and investment results will only make sense over the long term.

As I said at our eighth Annual Meeting, we just had last week, we continue to hold our CPI-linked derivatives with a notional value of $111 billion, which produced unrealized losses of $15 million in the first quarter. If some of the unexpected risks come to pass, the CPI-linked derivatives could become very valuable. So we will hold them for some time. When you review our statements, please remember that when we own more than 20% of a company, we equity account. And we -- when we own above 50%, we consolidate. So that mark-to-market gains in these companies are not reflected in our results.

As you will see on Page 11 of our quarterly report, the fair values of our investment in associates is $4.4 billion versus a carrying value of $3.4 billion, an unrealized gain of approximately $1 billion not on our balance sheet.

In January, the company purchased 12.3 million subordinate voting shares of Fairfax India for $145 million at $11.75 per share in a private placement. Through that private placement and a public-bought deal, Fairfax India raised proceeds of approximately $494 million, net of commissions and expenses.

As we said at our AGM, we are very excited about the long-term opportunity in India. In February, the company purchased 30 million multiple voting shares of newly incorporated Fairfax Africa in a private placement and 2.5 million subordinate voting shares of Fairfax Africa as part of the company's IPO for our total consideration of $325 million at $10 a share. Through private placement and the IPO, Fairfax Africa raised gross proceeds of $506 million, net proceeds after commissions of $493 million. Fairfax's multiple voting shares and subordinate voting shares represent 98.8% of the voting rights and 64.2% of the equity interest in Fairfax Africa at the close of the private placement and the IPO. Fairfax Africa was established with the support of Fairfax to invest in public and private equity and debt instruments of African businesses or other businesses with customers, suppliers or business primarily conducted in or dependent on Africa.

Also, in March, Fairfax exercised this option to increase the cash consideration component of its offer to Allied World shareholders by $18 out of a possible interest of $30 per share. As a result, the $54 per share offer for Allied World will consist of $23 of cash per share payable by Fairfax, a $5 per share cash special dividend payable by Allied World. So that's total cash of $23 plus $5, $28, and $26 per share payable in Fairfax stock.

As I said at our annual meeting and on our fourth quarter conference call, we believe the new U.S. administration's proposed policies of reducing corporate taxes to 15%, rolling back regulation and business like ObamaCare, Dodd-Frank and myriad other regulations and significant infrastructure spending, has the potential of boosting economic growth significantly in the United States. Already, sentiment among small businesses has improved dramatically, and animal spirits in the United States are being revived.

When the U.S. economy, which is approximately $20 trillion, does well, much of the world does well. To us, this means our concerns of China or Europe precipitating a worldwide recession depression have been significantly reduced but not eliminated. Also, the trade policies of the U.S. could precipitate a collapse in world trade, though these risks will be very much monitored by us, but we think the new administration's policies may make this a stock picker's market and one in which we have thrived over the past 31 years.

In the past few years, as I have said earlier, we have played defense. We are expecting to play offense, but always, always with a long-term value-oriented investment philosophy. We will continue to pick good companies, which provide significant downside protection and potential appreciation over the long term. As you know, we have invested about $500 million in bonds with warrants, recently in Chorus, Mosaic Capital, Altius and Westaim. We get about 5% to 6% from the bonds, plus upside through the warrants. As of March 31, 2017, we have $12 billion in cash and short-term investments in our portfolios, which is 42% of our total investment portfolios, to take advantage of opportunities that come our way.

As a result, in the short term, our investment income will be reduced.

Now I'd like to turn it to Dave, our CFO, so he can give you some more information on the underlying financials. Dave?

David J. Bonham
Chief Financial Officer and Vice President

Thank you, Prem. For the first quarter of 2017, Fairfax has reported net earnings of $83 million, that's $3.03 per share on a fully diluted basis and that compared to the first quarter of 2016 when we reported a net loss of $51 million or $2 [Audio Gap]. Profit on our insurance and reinsurance operations decreased slightly to $107 million at a 95% combined ratio compared to underwriting profit of $122 million at a 93% combined ratio in the first quarter of 2016.

Our combined ratio benefited from net favorable prior year reserve development in the first quarter of $103 million, translating into 5.2 combined ratio points. And that was an increase compared to net favorable development of $86 million in the first quarter of 2016, which represented 4.8 combined ratio points.

Current period catastrophe losses in the first quarter, all of which were attritional, totaled $39 million or 2 combined ratio points and that was just slightly higher than cat losses in the first quarter of 2016, which totaled $31 million or 1.8 combined ratio points.

Now turning to our operating company results, and we can start with OdysseyRe. In the first quarter of 2017, OdysseyRe reported an underwriting profit of $48 million in a combined ratio of 90.4%, slightly higher than underwriting profit of $45 million and a combined ratio of 90.3% in the same period last year.

Cat losses in the first quarter of 2017, again all attritional, totaled $29 million translated into 5.9 combined ratio points that was quite comparable to $27 million of cat losses last year that translated into 5.8 combined ratio points.

Net favorable prior year reserve development, principally related to property, cat loss reserves, was $36 million or 7 combined ratio points in the first quarter of 2017, and again, about the same as the first quarter of 2016, when OdysseyRe reported $35 million or 8 combined ratio points of net favorable development.

OdysseyRe's net premium written increased 14.8% to $555 million in the first quarter, principally reflecting increases in the North America division related to property and casualty reinsurance writings; in the Eurasian division, across multiple lines of business; and in its U.S. insurance and London market divisions, partially offset by some decreases in the Latin America division.

Moving onto Crum & Forster. Crum & Forster reported somewhat lower underwriting profit of $2 million at a combined ratio of 99.5% in the first quarter that compared to underwriting profit of $10 million at a combined ratio of 98% in the first quarter of 2016.

There was nominal net prior year reserve development and no significant current period catastrophe losses in the first quarters of 2017 or '16 at Crum & Forster.

Crum & Forster's net premiums written increased by 2% in the first quarter and that principally reflected growth in accident and health, construction and contracting, and commercial transportation lines of business.

Zenith reported an underwriting profit in the first quarter of $37 million at a combined ratio of 80% compared to underwriting profit of $31 million and a combined ratio of 83% in the first quarter of 2016. The change in 2017 reflected a higher net favorable prior-year reserve development, $34 million in the first quarter of 2017 or '18 combined ratio points that reflected a net favorable emergence on accident years at 2014 through 2016. So that net favorable development of this year compared to $24 million of net favorable last year, which was 13 combined ratio points.

Net premiums written by Zenith of $332 million in the first quarter increased 1% year-over-year, reflecting an increase in exposure, partially offset by modest price decreases.

Brit reported an underwriting profit of $11 million and a combined ratio of 97% in the first quarter of 2017 compared to an underwriting profit of $14 million and a combined ratio of 96% in the first quarter of 2016. There was no net favorable prior year reserve development and nominal current period catastrophe losses in the first quarters of 2017 and '16.

Net premiums written of $394 million decreased by 2.7% year-over-year, reflecting the unfavorable impact of foreign exchange, rate reductions, partially offset by the positive impact of underwriting initiatives that they have launched in prior years.

Northbridge reported an underwriting profit of $3 million and a combined ratio of 99% in both the first quarters of 2017 and '16. Stable underwriting profit reflected the impact of an increase in non-cat loss experience related to the current accident year, particularly in commercial property and personal lines, that was mostly offset by higher net premiums earned and increased favorable prior-year reserve development.

Net favorable prior reserve development at Northbridge in the first quarter was $10 million or 4.3 combined ratio points and that reflected better-than-expected emergence on personnel and commercial automobile and casualty lines in business.

Northbridge reported a nominal amount of net adverse development last year in 2016 and that was related to their mandatory participation in the Canadian Motor Pool. In Canadian dollar terms, net premiums written by Northbridge increased by 14% in the first quarter of 2017 and that reflected increased renewals and new business and modest price increases across the group.

Fairfax Asia reported an underwriting profit of $5 million and a higher combined ratio of 94% in the first quarter of 2017. And that underwriting profit was somewhat lower than the $12 million and the combined ratio of 77% that was reported in the first quarter of 2016.

Net premiums written at Fairfax Asia increased by 54% in the first quarter, but that primarily reflected the consolidation of AMAG in Indonesia and Fairfirst Insurance in Sri Lanka, both of these acquired in October 2016, and the change in premium also reflected increased premium retention First Capital, partially offset by lower writings at First Capital in marine and hull property lines of business.

Moving to the insurance and reinsurance other segment. It produced an underwriting profit of $1 million and a combined ratio of 99.5% in the first quarter compared to an underwriting profit of $8 million and the combined ratio of 93% in the same period last year. Lower underwriting profit principally reflected slightly lower net favorable prior year reserve development, increased current period catastrophe losses and the consolidation of the underwriting loss of Brit Insurance.

Excluding the $86 million of net premiums written by Brit Insurance, which was acquired in December 2016, net premiums written by this segment increased by 10.7% in the first quarter, reflecting growth at ADVENT, primarily in its accident and health line of business; at Fairfax Brazil, primarily in its surety line of business and also reflecting favorable impact of foreign exchange.

At Runoff, Runoff had an operating loss of $40 million in the first quarter of 2017 and that was an increase when compared to the operating loss of $15 million in the same period last year, mostly attributable to losses on claims in the first quarter of 2017 and that principally reflected net unfavorable reserve development, related to other health hazards and asbestos loss reserves.

In terms of our consolidated interest and dividend income, it decreased from $153 million in the first quarter of 2016, $128 million in the first quarter of 2017, reflecting the impact of sales of municipal bonds late in 2016 in the first quarter of 2017. Fairfax recorded an income tax provision of $25 million at an effective tax rate of just under 25%.

And then moving to our financial position. Our debt-to-total capital -- our total debt-to-total capital ratio decreased to 27.7% at March 31, 2017, from 28.7% at December 31, 2016, that reflected the repayment of Fairfax India's term loan and repurchases of just under $18 million principal amount of our senior notes pursuant to our debt tender offer.

We ended the first quarter of 2017 with an investment portfolio, which included holding company cash and investments of $28.4 billion and that was comparable to where it was at the end of December 31, 2016.

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

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Thank you very much, Dave. Now we are happy to answer your questions. Please give us your name, your company name and try to limit your questions to only one, so that it's fair to everyone on the call.
So Laura, we are ready for the questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Paul Holden of CIBC.

Paul David Holden
CIBC World Markets Inc., Research Division

Two quick questions for you on the investment portfolio. First is, maybe you can provide a little more color for us on the short positions on individual securities, not necessarily asking to go on to each of the individual securities, but just giving us a general flavor of what kind of themes or securities you are going short on?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes -- no, Paul, we don't comment on individual securities, of course, as you know. And -- but frankly speaking, we've been reducing our short positions, but there are certain individual names where we think it's a good match for our long positions. And so we continue to maintain them, but we have refrained from mentioning any names in the past.

Paul David Holden
CIBC World Markets Inc., Research Division

Right. So these are more -- so you are suggesting they are more kind of fair trades against some long positions?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

No. They are not fair trades particularly, but they are ones where we think there is some potential for the stock prices coming down.

Paul David Holden
CIBC World Markets Inc., Research Division

Okay. Got it. And then second question with respect to the S&P 500 call options, is there any sense of expiry dates on those that you can give us?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes. I think, Dave, the expiry date is July on the options. These, we had bought -- Dave, how long ago was that?

David J. Bonham
Chief Financial Officer and Vice President

Yes, we bought those in July 2016, and they'll expire July 2017.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

So we bought it about 6 months ago, and it's sort of a 1-year call option.

Paul David Holden
CIBC World Markets Inc., Research Division

Okay. And is that typical, like, it's third Friday of the month or...

David J. Bonham

Chief Financial Officer and Vice President

I believe, it is.

Operator

Our next question is from Mark Dwelle of RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

A couple of questions. Related to each of the acquisitions, the Allied World and the AIG properties, I was just hoping you could provide a little update on what the timing looks like and the progress to date in getting all the necessarily closing arrangements and so forth?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

No. Thank you, Mark. Yes, so on the AIG acquisitions, they are taking place as we speak. And you got the -- you got the whole bunch of countries in Latin America and Eastern Europe, and so they go country by country, Mark. And I would say by the middle of the year, we'll have many of them done and then later on in the year for a few more. The big one for us, of course, is -- and the integration of those operations into Fairfax system is going very well. We are very happy with the way it's progressing. And we expect to continue and get done. And we are very excited about these operations in these 5 countries in Latin America, and I think about 6 in Eastern Europe that will be joining us. And we provided you a good disclosure on the operations in our annual report and elsewhere. On Allied World, of course, that's a transformative acquisition. We mentioned that before. We had Scott Carmilani at our AGM. Scott spoke to our shareholders. And we are very excited about closing that. And Mark, that's -- the date has yet to be fixed for the shareholder of our -- tender offer approval and that will be fixed soon. And then we'll go to close it. It's always, of course, subject to regulatory approval. And so we think by the end of June, early in the first -- third quarter, somewhere there, is when Allied will close. And we continue to be very excited to get that and then move forward with Scott and his management team.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. The second question I had, somewhat less related, was just related to the large cash holdings within the overall investment portfolio. I know you've described in the past about being patient in deploying that and so forth. I guess I would have thought though that we would have seen at least some of that cash back -- put back to work. Can you just provide some updated thoughts on what you're looking at there? And how you are thinking about putting that capital back or that cash back to work?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, so the cash position is significant, as you know. But we have sold our treasury bond positions, long bond positions. And we have sold -- predominantly sold our California bond positions that made a very large gain. And we've started reducing our muni position. So the cash comes from all of those activities. We think interest rates, broadly speaking, Mark, have bottomed. So we are not looking at having long bonds. And separately, we think credit spreads are still tight. So you have to be careful about reaching for yield. So given those constraints, we're investing the monies in fixed income. There's many -- through Allied World, we've accessed many fixed income managers that they have used in the past. We're reviewing them and seeing if it make sense for us to continue with them and which ones we should continue, what strategies we should use. Brian Bradstreet and others are looking at that. And so -- but we -- in this environment, where we think interest rates have bottomed and could go up and credit spreads are narrow, you have to be very careful about the way you invest the money. So we're taking our time and investing the monies appropriately. In the meantime, I mentioned the 4 investments, where we're getting 4 companies that we put -- invested USD 500 million approximately, 5% or 6% for 5 to 7 years in secured-type bonds, plus a warrant that provides equity exposure, so like a convertible, but spitting them into 2. And we are very excited about those investments. We have made many of them in Canada -- all 4 in Canada. We think in Canada, we get the first call. In the United States, we are working on that same happening in the middle market and the United States. And we are making progress on that front. So the idea -- the markets are not cheap, as you know, so the markets are quite high. We think the economic environment has changed and some of the things that we talked about corporate tax rate being reduced to 15%, it's already been mentioned couple of days ago, infrastructure spending, business regulation. If all of those things takes place, as I said in my prepared remarks, that -- the business environment could change pretty significantly in the United States. So in that environment, we are trying to identify good companies, good track records, which we have done all over the world, by the way. And we expect to invest that money in. But always looking at downside protection, that's why we like these bonds plus warrant structure. We have done that, of course, in many, many places. And so we expect to do that in the United States also. So that's how we are investing it, Mark, slowly but carefully.

Operator

Our next question is from Tom MacKinnon of BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

Question just with respect to the unrealized losses you had in your bond portfolio. Would you be able to highlight kind of which bucket was the contributor of that?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, just basically very simply the credit spreads widening a little, and we've sold now our California bonds. From costs, we have made a lot of money on it, a ton on a quarter-by-quarter basis. Of course, you have fluctuations. And we have some Indian bonds where the spreads widen some. And so it's also -- the way the accounting works, Tom, when you unwind realized gains -- when you have realized gains, when you unwind them, it -- in that table, it goes through the unrealized. Dave, you want to just expand on that maybe.

David J. Bonham
Chief Financial Officer and Vice President

Yes. So Tom, in that column, change is unrealized. When we sell a bond where we have an inception-to-date realized gain, that will go through the change in unrealized as a negative and then be a positive in the realized gain column. So sum of what you are seeing in that change in unrealized is just the reversing of the inception-to-date gain on positions that we've sold.

Tom MacKinnon
BMO Capital Markets Equity Research

Right. So the fact that there's no realized gains doesn't mean you held your position throughout the quarters. It's just the way the accounting would work?

David J. Bonham
Chief Financial Officer and Vice President

That's right, Tom.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

It's -- when you realize a gain, Tom, you are realizing a gain in a particular quarter, but the gain might have been in an unrealized position over the last few years. So the accounting for that is how the statement works in that table. Because you are realizing it in the first quarter, but of course, it's reflected in unrealized in '16 and '15. So you have to take that out, and that's how the table works. It's worth, Tom, spending a few minutes with Dave, later on, just to understand that. It's worth just understanding how the mechanics work.

Operator

Our next question is from Luis Hernandez, private investor.

Luis Hernandez

All right. My question is regarding Allied World. I know the deal was pretty much done and it's ready to execute, but I just wanted to understand a little better your thoughts on why issue so much equity to buy it? I mean, all you need is around $2.3 billion or something and even all the cash reserves that you currently have, I just wanted to understand why issue so much stock right now and -- especially given the price, et cetera?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, Luis, the cash that we have, significant cash positions, is all in our insurance companies. And in holding company, the cash position with marketable securities is approximately $1 billion plus or minus, and we always want to keep that there. And so the way to look at how we look at -- so if we bought Allied World, we would either have to pass on it, if we didn't want to issue stock, or buy it. And we bought it with the idea that everything -- all the metrics like premiums, investment portfolios, common shareholder's equity went up by 1/3 and our shares outstanding went up by 21%. And I said, specifically in this year's annual report, that we have now built a company that is very significant in the United States and a worldwide network. So as we produce income, operating income and investment gains over time, and I'll remind you that we cumulatively over our time period have produced gains of $10 billion plus, but as we do that in the future, we will look at reducing the shares outstanding. We've got a very good insurance operation. We're not expecting to add anything significant now, because we've already got that. We're writing about $13 billion, $14 billion of premium once Allied closes. We've got a network across the world. Of course, we'll add a little here and there in the network, but the network is already there built. And now it's going to be with a lot of advantages that will be harvested in the years to come. And we'll -- our first focus will be buying back our stocks, because we think the intrinsic value of our company is a lot higher than where it is.

Luis Hernandez

All right. And do you have a metric regarding the share repurchases on the price to book value or...

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes. We look at all of those things, Luis. And we bought stock in the past that -- you'll go and have a look at it, and you can see where we bought it. But we don't, of course, disclose where we're going to buy it and what we're going to pay and all of that. We might someday, but not at the moment.

Operator

Our next question is from Markus Homor of BCK Capital.

Markus Homor

Could you give us an update on the acquisition of Tower Limited in New Zealand?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Tower, yes. So we made an offer, as you know. You know there's a competitive offer that's come at a higher price than us. So we are waiting, Markus, for what the decision of the regulatory agencies will be before we go forward. So our offer stays. We haven't raised it. And we're waiting for regulatory agencies to come back.

Markus Homor

And when do you expect that by?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Sorry?

Markus Homor

And when do you expect that by?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

I'm not sure when -- you know how regulatory agencies work, Markus. I'd love to tell you when it comes, but we are just waiting. We really don't know.

Operator

Our next question is from [John Valentine], private investor.

Unknown Attendee

My question is on the noninsurance operation. From your disclosures, from 2010 to 2016 [indiscernible] and more recently in this most recent quarter, the ranks were fairly [indiscernible] unlike Europe. If you can -- sorry, if I missed this in your prepared remarks, but I was wondering if you could touch a little about on the noninsurance businesses, how much equity has been allocated through those businesses? And then what's your expectation as for a particularly large loan?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Well, [John], we are building it. We disclosed it for you. They're still small compared to our insurance operations. The engine of Fairfax is our insurance operations. The fact that we provide -- we've got, as I said, with Allied $13 billion, $14 billion of premium, that's US dollars, the fact that we've got an investment portfolio plus, minus $39 billion or $40 billion, and you get investment income from there, you got underwriting profits from the insurance operations, and the combination when they work well together with investment gains is how we've made an outstanding return, if I may add, over the long term for our investors. We have every interest and every focus to repeat that in the next 5 years. And we were careful recently. We were careful in terms of looking at downside protection. We now think the -- as I said previously, it's a stock-picker's market and that's where we are focused. Noninsurance operations continue whenever we see an opportunity. Cara is one -- in India, we are really excited that our AGM, I mentioned to you, we had our Fairfax India second annual meeting. We had all of the presidents of them attend. I think I've talked to many of our investors there. They are quite excited about the opportunity of Fairfax India investing in India. And that's going to be a very significant opportunity. I think we have said we've got approximately $5 billion in there. And that's all the money we control, little more than half is our own as direct Fairfax investment. So -- and Fairfax India, by the way -- as well, Fairfax Africa over time, will also provide revenues for a stream of fees and incentive fees for Fairfax. I think at the end of the first quarter, as a first time, Fairfax India had incentive fees accrued, not paid. The number will be paid, albeit, at the end of the year, and it will be likely paid in the Fairfax India shares. So it's not going to be encashed. But it's like $45 million, $50 million of accrued incentive fees, which, of course, will fluctuate, but it's a stream of income that comes to Fairfax. It's very good return for Fairfax India shareholders. And of course, our 30% interest in Fairfax India will also benefit. So these are widely diversified operations for Fairfax, but our call is still very much insurance and property-casualty insurance and reinsurance.

Unknown Attendee

I think that's very helpful. With respect to the payments and what caused the noninsurance versus LAI, and not to pass on the point. But I guess, what would be included in that? And then, how much equity is allocated to that? Fairfax India is an opportunity, as I said, portion of it that it might be still recording top quartile right now?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes. [John], it's all in our quarterly statement. But Dave, if you can highlight for [John]?

David J. Bonham
Chief Financial Officer and Vice President

Yes. So in terms of the amount of equity that we have invested, about midway through our annual report, we present a segmented balance sheet. And in there is a column for the other segment and that will show you how much equity we have invested in some of these other businesses. And in our interim report, on Page 42, we break it out in a little bit more detail for you between restaurants and retail, Fairfax India, Thomas Cook and other. And there's footnotes there. So it will tell you what's in there, the likes of Cara, St-Hubert, The Keg, Praktiker, William Ashley, various business like that.

Operator

Our next question is from Mikel Abasolo of Solo Capital Management.

Mikel Abasolo

This is only 1 question, very good one. I understand that last November, you changed the positioning and the strategy for the portfolio and you got rid of the economic-inspired equity hedges. Now your -- the shorts that you're running are more bottom-up rather than top-down. But I was wondering if -- on average, the effect might be somewhat similar. And I wanted to ask you about your next net equity long exposure or long minus short? Whether you intend to play short in individual names going forward, so that the final effect is probably not that you are not just playing so much offense, and perhaps, your offense is somewhat muted for the time being and until the valuations done moderate.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, thank you very for your questions. So yes, what we did say was that we are basically having a long exposure after we took our hedges, as you pointed out. And the new administration came in. For all the various reasons we've discussed, we are looking long. But you'll notice that we have 5% or 6% secured bond and the equity position is a warrant. So there's very little we can lose in a warrant, because we haven't paid anything for it. And so we get 5% or 6% on our money. And our -- we get the upside, and perhaps, we've eliminated the downside from a stock position point of view. And short positions, no. We will be reducing it. And we continue to move forward in terms of reducing it. We've done in the first quarter, and we'll continue to do it over time.

Operator

Our next question is from [Junior Raw] of private investor.

Unknown Attendee

Question for you, how does the Allied acquisition impact the dividend, because we're going to be issuing about 20% more shares, right? So what is that due to the dividend when it comes time to generate?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes -- no, we will keep our dividend. We'll maintain our dividend at Fairfax. And yes -- no, we'll maintain it, [Junior]. We don't intend to change that. And Allied is a very significant -- you've seen the record for Allied. You've seen what they have done in the last 10 years, I think, perhaps a little longer. They have -- 10 years, they've reduced the shares. As a public company, they've reduced their shares outstanding from about 180 million to 90 million, that's 50%, and they have increased their dividend. So it's something like, I think, $3.2 billion that they've given shareholders in a buyback plus dividend. So Allied is going to be a significant profit-income generator to us. And we don't see any change in our dividend.

Operator

Our last question at this time is from [Inderjeet Sidhu], private investor.

Unknown Attendee

My question is regarding the borrowings from the noninsurance companies.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Do me a little favor, [Inderjeet], speak a little loudly, please.

Unknown Attendee

So my question is just regarding the borrowings from the noninsurance companies. They've gone up quite significantly and the income has stayed relatively flat. I'm just wondering what the long-term prospects are of the borrowing? Are they long-term borrowings? Are they more towards short-term financings of small capital projects?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, your question is very good. And it is -- what we have to do, of course, when we consolidate these companies all of the -- whatever borrowings they have come in our balance sheet. But needless to say, we don't guarantee it. We don't -- we have no exposure to these borrowings. We just have to show it on our balance sheet, because that's the accounting convention. And so even Fairfax India, we've never guaranteed Fairfax India's debt or Fairfax Africa's got no debt, but Cara -- they're all separately financed, and they're financed in a very sound way, I may add, but they're separately financed, and they have no exposure to -- Fairfax has no exposure to this debt.

Unknown Attendee

Okay, I see. Okay. And quick question, is there anything in works for ICICI being sold off? Any chance? Is there any comment on that?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes -- no. I've said in the last conference call, there have been -- in the last few months, 4, 5 months, there have been many media and analyst reports with respect to a rumor of $1 billion sale of a portion of our 35% stake in ICICI Lombard. And to a rumored application by us with an Indian partner for a new insurance license in India. And these reports have noted the public that new license were issued. We would be required to no more than 10% of ICICI Lombard. At our AGM we recently, we've confirmed that we have applied for a new license entity, so I can confirm that. But other than that, we have nothing more to add.

Operator

At this time, speakers, there are no questions in queue.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Well, there are no more questions. Thank you all for joining us on this call. We look forward to presenting to you again after the next quarter. Thank you, Laura.

Operator

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