

# Everest Re Group, Ltd. NYSE:RE

## FQ1 2016 Earnings Call Transcripts

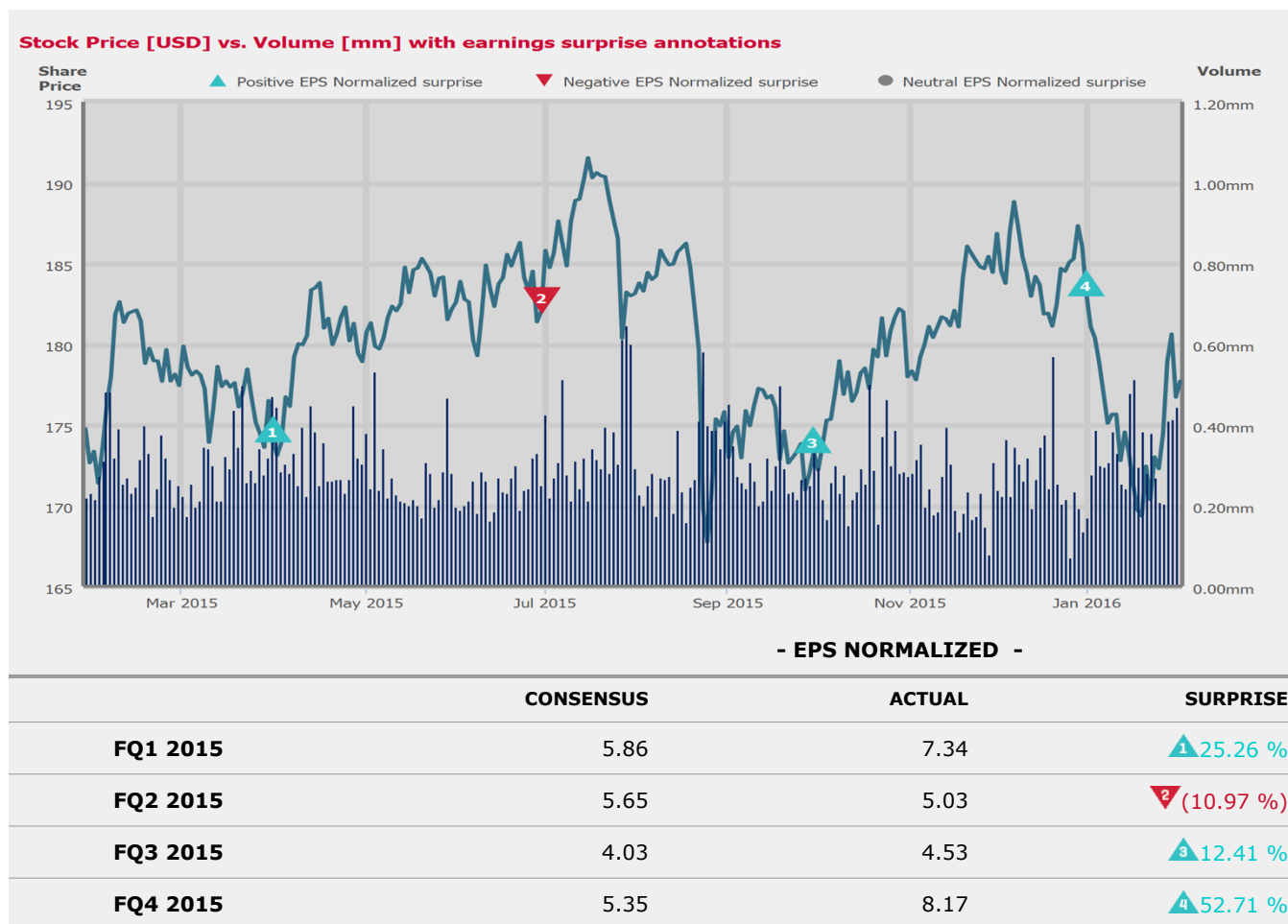
Tuesday, April 26, 2016 2:30 PM GMT

### S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
<b>EPS Normalized</b>	5.54	5.19	▼ (6.32 %)	4.81	19.01	18.93
<b>Revenue (mm)</b>	1330.80	-	▼ (11.22 %)	1179.70	-	5688.68

Currency: USD

Consensus as of Apr-26-2016 10:36 AM GMT



# Call Participants

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## EXECUTIVES

**Craig W. Howie**  
*Chief Financial Officer and  
Executive Vice President*

**Dominic James Addesso**  
*Chief Executive Officer, President  
and Non-Independent Director*

**Elizabeth B. Farrell**  
*Vice President of Investor  
Relations*

**John P. Doucette**  
*CEO & President of the  
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**Jonathan M. Zaffino**  
*Senior Vice President and  
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*JP Morgan Chase & Co, Research  
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## ANALYSTS

**Amit Kumar**  
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*Keefe, Bruyette, & Woods, Inc.,  
Research Division*

**Michael Steven Nannizzi**  
*Goldman Sachs Group Inc.,  
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# Presentation

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## Operator

Good day, everyone. Welcome to the First Quarter 2016 Earnings Call of Everest Re Group Limited. Today's conference is being recorded. At this time, for opening remarks and introductions, I'd like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead.

## Elizabeth B. Farrell

*Vice President of Investor Relations*

Thank you, Roxanne. Good morning, and welcome to Everest Re Group's First Quarter 2016 Earnings Conference Call. Dom Addesso, the company's President and Chief Executive Officer; Craig Howie, Chief Financial Officer; John Doucette, President and CEO of Reinsurance operations; and Jon Zaffino, President of North America Insurance operations.

Before we begin, I will preface our comments by noting that our SEC filings include extensive disclosures with respect to forward-looking statements. In that regard, I note that statements made during today's call, which are forward-looking in nature, such as statements about projections, estimates, expectations and the like, are subject to various risks. As you know, actual results could differ materially from current projections or expectations. Our SEC filings have a full listing of the risk that investors should consider in connection with such statements.

Now let me turn the call over to Dom.

## Dominic James Addesso

*Chief Executive Officer, President and Non-Independent Director*

Thanks, Beth. Good morning. For the opening quarter of 2016, Everest had another solid underwriting performance with a combined ratio of 86%. This is slightly higher than where the full year 2015 ended, which was due to an uptick in the expense ratio. The loss ratio in the first quarter is, in fact, slightly better than where the year 2015 ended. In comparison to the first quarter of last year, the loss ratio was higher due to some level of cat activity in the first quarter of 2016.

The growth in our expense ratio in the first quarter was fully anticipated due to the expansion efforts in our Insurance operation. The more modest change was in our Reinsurance operation, and the slight increase there is reflective of the reduction in premium as competitive pressures continue.

Our group gross written premium for the first quarter was \$1.4 billion, down 5% from the first quarter in 2015, with reductions in Reinsurance but growth in Insurance. The rate environment and foreign currency is driving the Reinsurance premium reduction. Offsetting this is continued growth in our Insurance operation as we build out our capabilities. You will hear more on this in the operation reports.

Despite premium pressures in the reinsurance sector, these segments overall had a combined ratio of 81.3%. The year-over-year difference, as mentioned, is mainly due to cats and a small uptick in the expense ratio driven by premium volume. This is an outstanding result in this market and will likely compare very favorably to the industry results.

The insurance operations first quarter attritional combined ratio of 98.7 came in higher than last year, solely due to the expense ratio. As I mentioned, this was fully anticipated. But as our platform expands and premium earned grows, we expect that the abnormally for us, high expense ratio, will moderate throughout the year. Nevertheless, our current expense ratio remains better than the industry average. More important is that the attritional loss ratio continues to improve. The calendar year loss ratio was up due to some late-reported crop-hail claims. Overall, however, our insurance operation continues on a very positive trend as each of our business initiatives continues to show accelerating growth into the second quarter.

Beyond the underwriting results, there were some headwinds. First, investment income was down \$20 million compared to last year's first quarter. Lower limited partnership income was the major cause. Based on what we see to-date in the second quarter, we expect that to be more positive in the second quarter. Nevertheless, low yields generally continue to have a slightly depressing impact on income. And while this will moderate over time, there is limited upside that we see over the next several quarters.

The other item working against this quarter's earnings was foreign exchange. However, this was largely offset in shareholders' equity through unrealized gains due to the positive impact of holding foreign assets. Overall for the quarter, the company had a very positive result, generating a 12% annualized operating ROE and book value per share that rose 4% in the quarter. With the right mix of underwriting discipline and our continued investment in the insurance franchise, we will be able to continue to outperform the industry, even with the second quarter events on the horizon.

As you know, there have been earthquakes in Ecuador and Japan as well as hail and flood events in Texas. But for all of these events combined, we currently expect them to be well below our expected cat load for the second quarter.

Finally, I want to touch on our recently announced reorganization, which changes this morning's presentations from prior quarters. Consolidating some of our departments into distinct operating units with the superb leadership of John Doucette in Reinsurance and Jonathan Zaffino in North American Insurance will improve the brand for each as well as allow us to focus more intensely on each of these separate markets.

I'll now ask Craig to review with you the financial detail, followed by John Doucette for Reinsurance operations and John Zaffino for Insurance. Craig?

**Craig W. Howie**

*Chief Financial Officer and Executive Vice President*

Thank you, Dom, and good morning, everyone. Before I provide an overview of our quarterly results, I'd like to point out a change in our segment reporting and our consolidation presentation. Effective this quarter, we no longer consolidate the segregated accounts of Mt. Logan Re into the Everest Re financial statements. This follows amended consolidation accounting guidance and is consistent with how Mt. Logan Re operates with third-party investors. This is a retrospective application of an amended accounting guidance and all periods have been adjusted to present on a comparative basis. This change had no impact to prior reported net income, operating income, earnings per share or retained earnings of Everest. The Mt. Logan Re earnings and fees will now be shown in the other income line of the Everest financials.

Now for the quarterly results. Everest had another solid quarter of earnings with after-tax operating income of \$223 million or \$5.19 per diluted common share for the first quarter of 2016. This compares to operating income of \$330 million or \$7.34 per share for the first quarter of 2015. The 2016 result represents an annualized operating return on equity of 12%.

Net income for the first quarter was \$172 million or \$4 per diluted share compared to \$323 million or \$7.19 per share in 2015. Net income included \$51 million of net after-tax realized capital losses compared to \$7 million of capital losses in the first quarter last year. The 2016 capital losses were primarily attributable to fair value adjustments on the equity portfolio and impairments on the fixed income portfolio. The impairments mainly related to credit write-downs on energy investments. A majority of the equity portfolio adjustments have improved since the end of the quarter.

The overall underwriting gain for the group was \$171 million for the quarter compared to an underwriting gain of \$215 million in the same period last year. In the first quarter of 2016, Everest saw \$10 million of current year catastrophe losses related to the earthquake in Taiwan. There were no catastrophe losses during the first quarter last year. The overall current year attritional combined ratio was 85.3%, up from 83.1% at the first quarter of 2015 but only 0.5 point higher compared to the full year of 2015, primarily due to the increase in the expense ratio that Dom mentioned.

Our expense ratio was up to 5.9%, as we anticipated, with the build-out of our insurance platform and our Lloyds syndicate. For investments, pretax investment income was \$103 million for the quarter on our

\$17.1 billion investment portfolio. Investment income was below last year as expected. This result was primarily driven by the low interest rate environment and by the decline in limited partnership income. Limited partnership income was down \$13 million from the first quarter of last year, primarily due to energy-related investments. The pretax yield on the overall portfolio was 2.8% with a duration of just over 3 years.

Foreign exchange is reported in other income. For the first quarter of 2016, foreign exchange losses were \$4 million compared to an unusually high \$47 million of foreign exchange gains in the first quarter of 2015. This \$51 million pretax swing reflects the relative weakening of the U.S. dollar during the first quarter of 2016. Other income also includes \$3 million of earnings and fees from Mt. Logan Re compared to \$5 million of income in the first quarter of last year. The decline essentially represents the impact of the catastrophe losses during the first quarter of 2016.

On income taxes, the 11.4% effective tax rate on operating income is on the low end of our expected range for the year. This rate is slightly lower than the 12% tax rate at this time last year. Stable cash flow continues with operating cash flows of \$367 million for the quarter compared to \$351 million in the first quarter of 2015.

Shareholders' equity for the group was \$7.8 billion at the end of the first quarter, up \$232 million from year-end 2015. This is after taking into account capital return for the \$86 million of share buybacks and the \$49 million of dividends paid in the first quarter of 2016. Our strong capital position leaves us with capacity to maximize our business opportunities as well as continue share repurchases.

Thank you. And now John Doucette will provide a review of our Reinsurance operations.

**John P. Doucette**

*CEO & President of the Reinsurance Division*

Thank you, Craig. Good morning. For our total Reinsurance segment, gross written premium for the first quarter was \$977 million, down about \$100 million or 9% compared to Q1 2015. Adjusted for exchange rates, it is down 8%.

Net premiums were \$858 million, down 7%. On a constant currency basis, it is down approximately 5%. Roughly 60% of the decrease in gross written premiums in the quarter compared to last Q1 is due to timing issues. This relates to the timing of when accounts were received and a one-off adjustment in last year's first quarter that did not repeat this Q1. The remaining 40% of the decrease in the insurance premium is due to 4 items. First, foreign exchange rate. With the strengthening of the U.S. dollar impacting some of our segments' top line, particularly our international Reinsurance segment. Second, rate decreases. Third, migration to higher attachment points with inherently lower premiums but better risk-adjusted pricing. And fourth, nonrenewals, declarations [ph] Or reduced shares on underpriced treaties.

Our reinsurance book generated \$174 million of underwriting profit in Q1 2016, down \$30 million compared to Q1 2015. This decrease is driven by 2 main causes: a reduction in earned premium, which was down 8% quarter-over-quarter and a \$10 million increase in catastrophe losses in this Q1 compared with the prior Q1. This relates to the Taiwan earthquake that occurred in 2016.

The attritional loss ratio is 53%, which is essentially flat compared to Q1 last year as well as the full year 2015. The attritional combined ratio is 81.1%, down slightly from the 2015 full year 81.8% but up 1.3 points when compared to Q1 2015, largely due to business mix quarter-over-quarter. This is predominantly due to the U.S. Reinsurance segment, which is up 1 point compared to Q1 2015.

Now some color on the April 1 reinsurance renewals, which reflects approximately 10% of our full year reinsurance gross written premium. April 1 is a key renewal date for Japanese and other Asian business and for some Latin America and U.S. regional property business. The market remains challenging with reinsurance rates down but not as significant as rate declines at 1/1. For core accounts, we successfully gained preferential signings on desirable layers and programs in many different areas. Despite increased pressure from multi-year deals in Japan, we generally secured the annual findings which we wanted.

In loss-affected areas, such as Korea, India and Guam, we were able to achieve improved pricing terms and conditions. With our key global reinsurance clients in Asia, the USA and other places around the world, we mutually benefit from our broad strategic relationships. As part of our hedging strategy, we maintain outward ceding relationships with some of these large global players, providing them high-quality ceded premium. In turn, this improves our reinsurance signings as a select core trading partner, thereby solidifying our long-term strategic relationships.

While several areas remain challenged, we are seeing robust submission flow, reflected increased demand including the following: Solvency II surplus relief treaties; facultative casualty, particularly in loss-affected auto parts; increased lines on existing treaties with several global clients; and new layers for global clients, some of whom are reversing the trend of holding larger net retentions. We scaled down our non-renewed treaties, which do not compensate us adequately for putting our capital at risk. This results in significant churn in our renewals. This, combined with a nimble reallocation of capital to the best-priced business, has resulted in the outperformance of our reinsurance portfolio relative to the broader market.

As of 4/1, Mt. Logan grew again with AUM now over \$900 million, a growth of 33% in AUM from Q1 last year. Logan remains one of the fastest-growing capital markets convergence vehicle and continues to be a core part of Everest Re's long-term capital management and business strategy. 100% of Logan's capacity was fully deployed at 4/1 renewals, allowing for efficient and timely hedging of the Everest portfolio. This also benefits Logan's investors as their capital is deployed immediately rather than being uninvested earning no return, a common problem for investors in other convergence vehicles.

With the suite of hedges, including Mt. Logan, Kilimanjaro cat bonds, traditional reinsurance, retrocessional program and ILWs, we manage our catastrophe risk well within our long-standing group risk appetite.

As of April 1, we reorganized the worldwide reinsurance operation under one division, streamlining the reporting lines while maintaining local market presence and controlled underwriting autonomy. We have added to our reinsurance bench strength, hiring a deputy CEO along with recent additional hires throughout the operation to complement our best-in-class global reinsurance team. This reorganization and increased bench strength will provide for expanded product offerings and capabilities, allowing us to grow and diversify our reinsurance book profitably.

We are pleased with the overall outcome of both our 1/1 and 4/1 renewals despite the current market conditions, and believe that we are off to another strong start this year for our reinsurance book.

Thank you. And now I'll turn it over to Jon Zaffino to review our Insurance operation.

**Jonathan M. Zaffino**

*Senior Vice President and President of the North America Insurance Division*

Thanks, John, and good morning. Everest Insurance performed well in the first quarter. The transformation into a vibrant and diversified specialty insurer is gaining momentum. As a result, we remain encouraged about our ability to pursue profitable growth.

Our global insurance operations, inclusive of the North America division and Lloyds, gross written premium increased 11% quarter-over-quarter to \$376 million. Net written premiums grew to \$324 million, representing an increase of 7%. The net written premium growth lagged GWP growth, primarily due to a marginally more conservative reinsurance strategy in our U.S. operations to support the various new business launches.

The Insurance segment GAAP combined ratio for the quarter was 101%, impacted by prior year development of about \$7 million mostly related to the late-reported crop-hail losses in Heartland. On an attritional basis, the calendar year combined for the quarter was 98.7%, slightly above last year due to a higher expense ratio. Excluding Heartland, the attritional calendar year result improves further to 96%.

The attritional loss ratio remained essentially flat and, in fact, showed 40 basis points of improvement quarter-over-quarter coming in at 69.1% versus 69.5% for 1Q '15. As previously noted, the operating expense ratio increased 2.8 points quarter-over-quarter, reflecting both seasonality and net earned



premium, particularly within Heartland, and our continued investment in our global insurance capabilities, both in the U.S. and at Lloyds.

To highlight this, our expense ratio is reduced by 80 basis points or 29%, if we adjust for the organic Lloyd's expansion. As Dom mentioned earlier, this was fully anticipated and is also something we expect to normalize as the year progresses.

Let me offer some commentary on the performance of our major Insurance segments and provide an update on market conditions and also on the build-out of the Everest Insurance platform. Our U.S. and Canadian operations demonstrated growth and profitability in the quarter although growth was not linear across all product areas. We continue to build capabilities across both of these platforms, enhance our underwriting sophistication and selectively launch new product lines. These efforts are supported by additional talent, which should translate into meaningful growth and profitability over time. To be clear, the rate environment is not favorable everywhere nor is it the same as prior years. That stated, opportunities continue to exist, and we will pick our spots accordingly.

Notably in the quarter, we began benefiting from our increased product diversification. For example, in the U.S., the California work comp market came under further pressure as favorable fundamentals attracted increased competition. Despite these favorable underlying dynamics, we underwrote selectively amidst a mid-single-digit rate reduction environment. That stated, we did find several opportunities within our specialty casualty portfolio, both in the U.S. and Canada and also within Everest's specialty underwriters, our D&O, E&O and related lines platform. Additionally, we continue to find opportunities for diversified growth across our property portfolio, again despite rating pressure. Further, our A&H segment continued its strong performance with meaningful year-over-year growth within the medical stop loss and sports disability markets.

It's important to note that the strong premium growth experienced over the last several quarters, largely as a result of our strategic growth in diversification efforts, has not yet been fully reflected through earnings, and therefore, we would expect a continued building of earnings from the insurance platform throughout the year.

Let me now turn to market conditions. The market is exhibiting similar trends to those experienced in the fourth quarter of 2015. Headwinds continue to exist, and negative rating pressure remains. That stated, we are operating within a defined trading range across many lines of business, with further rate pressure somewhat abating or, in certain cases, stabilizing across lines.

In the U.S. market property lines, particularly in cat zones, remain competitive. Rate reductions are, on average, high single to low double digit. These reductions often widen in peak cat zones where competition is more intense. Third-party casualty lines are mixed with some softness or flattening for the general liability lines, offset by positive rates in the commercial auto segment.

Professional lines continue to experience mid-single-digit decreases overall, less so in primary layers. Work comp is mixed, depending on state and class of business. And within the A&H market, the medical stop loss segment remains competitive other than for accounts with challenging loss experience. So again, a mixed market landscape depending on the many factors influencing various lines of business. As a result and due to our increased product depth, we are able to adjust our underwriting appetite towards lines of more favorable underlying dynamics.

Finally, a quick update on the status of our operational build-out within the insurance operations. We are capitalizing on the dislocation within the specialty commercial market to grow and diversify our platform, notably by adding leading talent in several geographies across the company. Our robust and diversified footprint in the North American market empowers this talent to drive improved operational performance. In fact, every one of our new and selected business launches in 2015 contributed to growth in the first quarter of 2016. We expect these investments to further materialize as the year progresses and as we continue to execute on this plan into the balance of 2016 and beyond.

With that, let me turn it back over to Beth for a Q&A.

**Elizabeth B. Farrell**

**WWW.SPCAPITALIQ.COM**

*Vice President of Investor Relations*

Thank you. Joanne, we are ready for questions.



## Question and Answer

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### Operator

[Operator Instructions] And we'll take our first question from Kai Pan.

### Kai Pan

*Morgan Stanley, Research Division*

First, a quick question on the second quarter cat. You said well below your second quarter budget. What's that budget?

### Dominic James Addesso

*Chief Executive Officer, President and Non-Independent Director*

As we've mentioned previously, our annual cat load is approximately 10 points of migrational points, 10%.

### Kai Pan

*Morgan Stanley, Research Division*

Okay, but that seasonality in the second, third quarter, I would imagine, will be higher.

### Dominic James Addesso

*Chief Executive Officer, President and Non-Independent Director*

Everyone deals with that differently. We actually treat that -- for calculating our effective tax rate, we maintain a flat budget for each quarter, but people do it differently.

### Kai Pan

*Morgan Stanley, Research Division*

Okay, that's great. Then back to your expense ratio. You guys have been sort of the competitive advantage one of the competitive advantage is the low expense ratio. I just wondered, given the build-out and also given the premium decline in your Reinsurance segments, what's the near-term implication on the expense ratio? Do you expect to -- because you're still building out teams and it could [ph] to be higher in the near term and what's the long term, like were you back to where you were last few years? Or it will be settled down to a rate which is higher -- lower than current now but could be still higher than what you have been?

### Dominic James Addesso

*Chief Executive Officer, President and Non-Independent Director*

Let me take the 2 pieces of that. On the reinsurance side, the rise in the expense ratio is predominantly driven by the top line, and we're going to maintain our discipline on top line, and that will return to more normal levels once the market returns to a more normal level, unless there's other segments or pockets of business that we can find to offset the premium decline. And that's -- we obviously have the bandwidth or the room to tolerate that expense movement because we're already starting from a very, very low base. On the insurance side, that's elevated primarily because of the investment we made there. And the premium earned is not caught up yet to the investments we've made. That will moderate throughout the year. And I think over the longer term, we would expect our expense ratio to be consistent with where we historically have been.

### Kai Pan

*Morgan Stanley, Research Division*

Okay. My last question is really stepping back looking at your ROE profile. Over the last few years, [indiscernible] catastrophe years, you've been able to achieve like mid-teen to high-teen ROE. This quarter, the cats is relatively low and -- but the ROE is much lower. I just wonder besides expense ratio what are the key drivers? What do you think is that one-off? And what are those that will be possessed [ph]?

**Dominic James Adesso***Chief Executive Officer, President and Non-Independent Director*

I understand, Kai. I think first of all, the annualized ROE is, frankly, a little bit understated. And realizing that as 1 quarter, we've had some onetime impacts in the first quarter, and of course, that gets multiplied out for the 4 years on an annualized basis. The most notable of which is investment income, which we also have foreign exchange, which as I mentioned in my script though, you've got an offset to that flowing through the other comprehensive income because we've got the investment in foreign assets, which offsets what's coming through the P&L. So you have to recognize that. You also had the reserve charges in the first quarter as well. So I think if you kind of adjust for those things however you see fit, then you'd see that our ROE on an annualized basis, on a pro forma annualized basis, is higher. I should also add to that. Excuse me, Kai. I should also add to that. Some of the things I mentioned is reflected in the book value per share growth, the 4%, right? That doesn't quite align with the 12% ROE, but it's due to some of the factors that I mentioned.

**Operator**

And we'll take our next question from Michael Nannizzi.

**Michael Steven Nannizzi***Goldman Sachs Group Inc., Research Division*

I think you addressed most of our questions in your prepared comments. But on investment income just -- that ticked down in the fixed income component, like the core fixed income component of the portfolio. So I was just wondering if that was impacted by the carve-out of some of the Mt. Logan assets potentially? Or should we be looking at that sort of down drift year-over-year? Is that something that we should anticipate will continue at this level during the foreseeable future?

**Dominic James Adesso***Chief Executive Officer, President and Non-Independent Director*

Mt. Logan does not impact that number at all. And I think essentially what you're seeing is just the long-term decrease in interest rates and the impact on our fixed income portfolio, also driven by the fact that some of our limited growth in invested assets were limited by the amount of share repurchases we've made and dividends we pay. So that also -- so not as much of an increase in invested assets. So the combination of those things is pointing to a drift downward, as I mentioned in my remarks. We do anticipate, though, that's going to be flattening out here in the not-too-distant future. So...

**Michael Steven Nannizzi***Goldman Sachs Group Inc., Research Division*

Okay, great. And then just in terms of the insurance business, when we think about the expense side, should we be looking at notional dollars in the other underwriting expenses category? Or should we be looking at that as like a notional dollar and then -- amount and then the ratio for the more likely variable cost on the commission side as you're building out? And that if we do, should we be thinking that underwriting expense dollar amount should rise from here? Or how to think about the pieces? Because obviously, I mean insurance, there's been a lot of movement of premium dollars and changes and now some investments. Just trying to get a better hand on how to think about that segment.

**Dominic James Adesso***Chief Executive Officer, President and Non-Independent Director*

Well, I think a straight ratio approach would be difficult. As I mentioned, we expect the expense ratio to moderate throughout the year and even more so in the longer term. And that's exactly, to your point of, it's better to look at the increasing expenses in a notional dollar amount because that'll give you a sense of the build and the additional expense year-over-year. And then, of course, if you project, depending on the projection of the premium earned, that will produce the resulting expense ratio. And again to our point earlier, we would expect that expense ratio to moderate through time as well as the increase in notional amounts year-over-year. Essentially, we've had a pretty rapid build here over the last 6 months. Into the

fourth quarter of last year and the first quarter of this year, we've made a significant number of new hires. So that's what's impacting the notional amount as well.

**Michael Steven Nannizzi**

*Goldman Sachs Group Inc., Research Division*

Got it. Okay, great. And then just one last one, if I could. Just on the 2Q events so far, I realize, Dom, you mentioned that you don't expect that to have a material impact on Everest. Have you guys given some thought in terms of how large you think these events might be just for the industry, I mean when you look at like whether, it's the San Antonio hailstorms or the Houston floods or maybe the Japan quake? Just some idea in terms of how you're thinking about what that total industry loss exposure might look like.

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

We don't have, at this point, any better information than what you've been reading in the trade presses about the ranges. And if we did, we frankly, we'd have a more precise estimate that we could give you relative to each of those events. So given the ranges that have been spoken about, we obviously feel very comfortable that it's well below our annual expected cat load or our quarterly expected cat load, if you will. And now, whether or not you say it's not material, that's your judgment, but it's still well below our annual expected cat load. But I don't have a better sense of what those events are. It's early days. We're getting reports. And we have losses that will come to us from, obviously, our insurance book, which are coming in slow, although we do reach out to potentially affected accounts. Same thing happens on our Facultative side. And then the biggest piece -- and I'm talking about Texas now in particular, the biggest piece would be Treaty Property. In Ecuador, we would only be affected by our reinsurance book.

**Operator**

And we'll take our next question from Amit Kumar.

**Amit Kumar**

*Macquarie Research*

Just a few follow-ups, I guess, on the previous questions. Maybe starting on the insurance side, Dom, you talked about the rapid build, the new hires. I think what a lot of us are trying to figure out, is there some way to sort of talk about how big the books were of these people whom you've hired? Are we talking about a materially large number of premium coming in down the road? I guess that's what we're sort of struggling with, how to ballpark that number.

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

Well, there's no way that I can give you our specific plans nor would I want to. We certainly would expect some meaningful percentage growth year-over-year. We have hired resources in the inland marine space and workers' comp area, in the professional lines, in D&O and E&O areas, political risk, trade credit, surety. What have I left out? Excess casualty. So all those sectors, we have added talent to. And they come to us with many years of experience from, in many cases, large global entities. And so we would expect year-over-year some meaningful percentage increases. However, just like we do on the reinsurance side, it is a difficult time to be growing because of the rate environment. So my comments have to be tempered by some degree of prudence that we're going to take on the premium that we put on the books, and that's the challenging part in terms of giving you some sense of what the actual dollar projections are.

**Amit Kumar**

*Macquarie Research*

And are these new hires sort of sitting back and waiting for the market to turn with a specific ROE target in mind? Or is there a combination of premiums plus ROE target for them as they are -- as they've been joining you over the past several months?

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

As people in this room can attest to, no one around here sits around waiting for anything. So we're not doing that. There are opportunities in each of these segments, to put business on the books. I'm not saying that there aren't opportunities. What I'm saying, though, is that perhaps what the market will give us will dictate how quickly we add to those ranks and how patient we are with the marketplace. So it's really more about what the additional expense numbers are in terms of what the marketplace will give us. But we do think there's opportunities for the staff that we have here today, and they're busy not only building relationships with our distribution partners, also building out infrastructure needs, underwriting guidelines, all the things that it takes to run an insurance, an effective insurance operation.

**Amit Kumar**

*Macquarie Research*

Got it. And then switching to the reinsurance side, would it be fair to say that, in your opening remarks when you talked about it, were there more pluses than minuses? So net-net, it was a positive on 401 renewals? Or did I overread into those comments?

**Craig W. Howie**

*Chief Financial Officer and Executive Vice President*

I'll ask John to...

**John P. Doucette**

*CEO & President of the Reinsurance Division*

Good morning, Amit. This is John. I think, overall, again tough market, but we were pleased with our ability to execute in that market. I think rates were down about 5% or so in Japan, which is the major part of the 401 renewal. We saw some combining of winds and quake programs into combined layers. We really did see a lot though, and we talked about this in prior quarters. We really did see a lot of our ability to get signings that we want, signings by layer, increases on deals and layers that we liked. Moving up when we wanted to move up, the clients let us do that. And also leveraging some of the strategic relationships that we've been building over the last several years. So again, tough market, but we felt pretty good about how 4/1 went for us.

**Amit Kumar**

*Macquarie Research*

And last question. Is there any way to sort of draw that arc from 4/1 to 6/1 renewals? And how do you feel about that?

**John P. Doucette**

*CEO & President of the Reinsurance Division*

We don't know what's going to happen at 6/1. There's a lot of moving parts. There's obviously a lot of supply of capital that's out there. There's potential demand shifts variations on what Citizens and Florida cat fund will do. Some of the -- there's talk of less buying that's happening for Citizens, for example, but that may in fact mean more limit being purchased by some of our long-standing clients. So some ways it might be more of a reallocation. So we're not sure what's going to happen at 6/1, but we are confident we'll be able to successfully execute our plan about, both writing a gross footprint that we're comfortable with and then combining that with our ability to match the risk to the capital, the appropriate capital, as we talked about earlier. So our ability to build a portfolio that we're pleased with and feel has a strong profit potential in it.

**Operator**

And we'll take our next question from Vinay Misquith.

**Vinay Gerard Misquith**

*CRT Capital Group LLC, Research Division*

So the first question, just wanted to follow up on the expenses, the other underwriting expenses for U.S. insurance. So that was about \$42 million this quarter. Curious whether the hiring is largely done and whether we should be using this as the base for the future? Or should we see an uptick in those expenses near term?

**Dominic James Adesso**

*Chief Executive Officer, President and Non-Independent Director*

I think you'll see a continued addition as we continue to build up the insurance platform, as I mentioned before, but that will be consistent with what our expectations for growth are. So we don't -- we're not done, given on what our premium plans are for the longer term. No, of course, we're not done adding resources.

**Vinay Gerard Misquith**

*CRT Capital Group LLC, Research Division*

Okay. The second question is on the reinsurance premiums. So this quarter, I believe, 60% of the decline was because of onetime items. So the core decline in reinsurance premiums, is that on 3-ish percent? Should we think of this as a normalized number for the near-term future? Or based on your renewals, do you think it's going to be less or more?

**Dominic James Adesso**

*Chief Executive Officer, President and Non-Independent Director*

It's somewhat of a derivative of the question that John just answered, right? I mean, some of that is dependent upon what the 6/1 and 7/1s will be, which we really have no idea yet. But certainly, we're not anticipating any strong premium growth in the reinsurance sector through the balance of the year, if that helps at all, just given what generally the rate environment has been over the most recent quarters. Now having said that, there's always new opportunities that we might see that could change the answer to that. So it's an extremely difficult answer to give you, Vinay, when we really don't know what all the other opportunities that will be presented to us. But on a like-for-like basis, we're just looking at a renewal book and then maybe some normal -- what I call normal, maybe, new submissions that we would see. Then I would expect certainly a more -- a very flattish premium expectation -- premium momentum.

**Vinay Gerard Misquith**

*CRT Capital Group LLC, Research Division*

And then just one last thing. This quarter, we saw not much in terms of share repurchases. Can you talk about capital management for the future, please?

**Dominic James Adesso**

*Chief Executive Officer, President and Non-Independent Director*

I would like to answer that with just a brief no. But because, obviously, it does get asked every quarter, and that's fine, I understand that. We think we did have, obviously, some level of repurchases this quarter, and it's what we do each and every quarter. We look at what the opportunities are ahead of us and what the price of the stock is in the marketplace, and we make decisions accordingly. We don't give any guidance on what our level of share repurchases are going to be other than to say that we will continue to repurchase shares at the appropriate prices in the market. And we will look forward -- when making that evaluation, we do look forward a couple of quarters in terms of what we would anticipate vis-à-vis our book value.

**Operator**

And we'll take our next question from Sarah DeWitt.

**Sarah Elizabeth DeWitt**

*JP Morgan Chase & Co, Research Division*

On the insurance premium volume, I think you said previously that you hope you could grow 20% or more annually, given some of the new hires you were making. Do you still think that's achievable, given the first quarter results?

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

Well, I think the part of that is going to be tempered back a little bit by the rate environment that we're seeing. But keep in mind that, as I mentioned earlier, some of the recent hires were just made into the late fourth quarter of last year and into the first quarter this year, and it's going to take some time for them to have their impact. But I think we can get a higher level of growth than what we experienced in the first quarter. Whether or not we can get up to that 20% number, we'll see. But I think it will be higher than -- percentage growth, I believe it will be higher than what we saw in the first quarter.

**Sarah Elizabeth DeWitt**

*JP Morgan Chase & Co, Research Division*

Okay, great. And then just on the net investment income, I know you have the loss on the limited partnership, but overall, for that line item, what's the right run rate to be thinking about?

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

Well, I think the -- I would say, generally, our expectation, if it wasn't for the energy-related issue in our LP, limited partnership income, which was solely due to price of oil, and now that that's kind of seemingly, at least for now, stabilized, we would've otherwise expected our investment income to be kind of flattish. So that's what I would expect as a run rate.

**Sarah Elizabeth DeWitt**

*JP Morgan Chase & Co, Research Division*

You mean flat quarter-over-quarter or year-over-year?

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

Well, because we've already had the first quarter down, so quarter-over-quarter.

**Operator**

And we'll take our next question from Josh Shanker.

**Joshua David Shanker**

*Deutsche Bank AG, Research Division*

Yes. So I guess I'm a little confused following up on Vinay's expense question. It seems like some of the guidances that expenses are elevated in this quarter and trickled down. And there's also -- there's also new hires and there might be a few more hires going forward. I'm trying to understand the directionality. I guess, there's a few moving pieces I need to zero in on I guess.

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

Okay.

**Joshua David Shanker**

*Deutsche Bank AG, Research Division*

Can you sort of walk through how both those things work? It should trickle down, but also the hiring is sort of -- obviously, you're going to have to pay those people for the next 2, 3 quarters as well?

**Dominic James Addesso**



*Chief Executive Officer, President and Non-Independent Director*

I'm not quite sure I understood your question, but let me try...

**Joshua David Shanker**

*Deutsche Bank AG, Research Division*

Why should we expect expense ratio to decline, I guess, is the question.

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

Because the pace of hiring that we have in the fourth quarter and the first quarter will not be as robust in the remaining quarters, and we'll start to begin to see the premium earned take hold.

**Joshua David Shanker**

*Deutsche Bank AG, Research Division*

Okay, so the premium what is -- and there were large onetime procurement fees in sort of getting those people on board?

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

No, no, no. I mean, you're basically looking at an expense number year-over-year that's elevated because we have a group of people on staff that are here this year that weren't here last year. And at the same time, the premium earned this year compared to last year hasn't yet earned in for the business that these folks are now beginning to write. So that's why the expense ratio is going to moderate over time.

**Joshua David Shanker**

*Deutsche Bank AG, Research Division*

All right. That makes sense. And although, obviously, to Sarah's question, the growth, we'll have to see where the growth comes in, I guess, overall. And then in terms of the sort of assets under management, when you think about Mt. Logan this year versus last year, did you have more interest than you're willing to put capital to work in the third-party vehicle?

**John P. Doucette**

*CEO & President of the Reinsurance Division*

Josh, it's John. We have continued interest from a lot of people that have been looking at this for a long time. And one of our goals is to continue to diversify the investor base and the types of investors that are in there. And so we have a lot of people. A lot of this -- the ramp-up from somebody who expresses initial interest to making an investment sometimes is measured in 12, 18, 24 months. So we take money in that we think we can deploy, and we would expect that we continue to grow that over time. And it's a balancing act between the 2, our opportunity set and the investor appetite.

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

If what you're asking, Josh, is -- and forgive me if I'm reading too much into your question, but certainly, I think overall demand in this space seems to have quieted a bit because of where rates are or rates are headed. So I think that's in part maybe perhaps what you were getting at. We still have an increased interest in Logan, but it doesn't mean that it's at the same pace that it might have been a year or 2 ago.

**Joshua David Shanker**

*Deutsche Bank AG, Research Division*

Okay, I'm trying to figure out what the -- I guess the supply-demand equation on that, which is a little loosey-goosey, but that definitely helps. And then finally, when we look at the -- thinking about it going forward or trailing 12 months combined ratio in the Insurance segment, how big do you think the



Insurance segment needs to be on a dollar basis for you to be confident that this is a business that runs at a consistent combined ratio below 100%?

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

I don't think the answer to that is a function of size. I think we had \$1.5 billion of premium. I think we are of sufficient size. I think what's been challenging for us, as you know, has been some of the legacy issues that we've had to deal with. But I do think that, at our size, we can produce very profitably the kind of insurance bottom line we'd all like to see. So I don't think that it's a function of size. What will happen, though, if this is in part the answer to your question, I'm just measuring -- my answer to you is in part driven by just focusing on the loss ratio. But we will have, during this ramp-up period, obviously the pressure on profitability just driven by the expense ratio. So that -- but that's not a function of nominal size. That's a function of how we have chosen to invest in the business and how we've chosen to grow it. So there will be some short-term pressure until we get the premium earned catching up to the expenses that we put on the books.

**Joshua David Shanker**

*Deutsche Bank AG, Research Division*

Do you believe the rigor and conservatism of the reserving habits in the Insurance segment is equal to that of the Reinsurance segment?

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

You bet. It's the same management team. It's the same approach. It's the same diligence that, frankly, I started when I came here several years ago. I mean, it doesn't mean we've always gotten it right in sector by sector, but we are just as diligent in every one of our reserve buckets that we have.

**Operator**

And we'll take our next question from Meyer Shields.

**Meyer Shields**

*Keefe, Bruyette, & Woods, Inc., Research Division*

One brief question just to make sure I didn't misunderstand. I think, Dom, you said that the cat load overall was 10%. Wasn't it 12% not too long ago?

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

I'm sorry, which rate?

**John P. Doucette**

*CEO & President of the Reinsurance Division*

Cat load.

**Jonathan M. Zaffino**

*Senior Vice President and President of the North America Insurance Division*

Cat load.

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

That's the difference between with and without Logan. When you include Logan premium, that was 12% on all of that. But if it's just on the premiums without Logan, it's 10 points.

**Meyer Shields**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay, then that makes perfect sense. On a year-over-year basis, I guess, besides the Insurance segment, and I think you've explained that well, corporate expenses also rose by about \$2.5 million. Is there anything unusual there?

**Craig W. Howie**

*Chief Financial Officer and Executive Vice President*

Meyer, this is Craig. That was partially the start-up of our Lloyd's operation, the start-up costs associated with that, and then also some other share-based compensation that comes through there as well.

**Meyer Shields**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay, will this -- I guess, both those, are those...

**Craig W. Howie**

*Chief Financial Officer and Executive Vice President*

So one-off type item.

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

Yes, accrual-type items.

**Meyer Shields**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay, got it. Okay. And then last, you mentioned early that there's been some disruption in the marketplace, as competitors [indiscernible]. Are the margins in that sort of freed-up business different from what you see in the overall marketplace?

**Jonathan M. Zaffino**

*Senior Vice President and President of the North America Insurance Division*

Yes, this is Jon Zaffino. I think it depends on sort of what pocket you're referring to or what we're seeing in the business. I would say as a sort of a sweeping comment, no, I don't think the margins are materially moving yet beyond some of the fundamental drivers of the business. So in other words, they're not dislocation change premium or premium rate for that matter. So we are seeing different pockets react differently to this cycle in the market, but the biggest dislocation impact, obviously, is in the form of human capital, and that's been significant and severe, and we've taken full advantage of that but not quite seeing that translate into a broad-based different rating environment.

**Meyer Shields**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay, fantastic. And then just one final, if I can. Is there any way we can, I guess, as part of reporting, split off FX and earnings from Mt. Logan?

**Craig W. Howie**

*Chief Financial Officer and Executive Vice President*

Meaning split them out separately out of other income?

**Meyer Shields**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Yes.

**Craig W. Howie**

*Chief Financial Officer and Executive Vice President*

We'll take that under advisement. Thank you.

**Operator**

And we'll take our last question from Jay Gelb.

**Jay H. Gelb**

*Barclays PLC, Research Division*

I believe second quarter is a pretty large seasonal quarter for crop insurance. Can you give us some perspective on what you're seeing so far in terms of overall trends that would affect Everest in the crop insurance market, things like yield and price activity?

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

I think at this point, it's a little early to be doing that. I think the weather conditions that we've noted have kind of hit early. So there doesn't seem to be any impact on -- we're not expecting any impact, adverse impact, on yield. Of course, price has been down this year on some -- many of the commodities. So that's affected the premium. But in many ways, that's not such a terrible thing given that it did provide some floor, if you will, on the price protection. So we're not expecting -- we're expecting a normal crop season, nothing -- and hopefully profitable. We're not anticipating any adverse -- at this point any adverse outcome. This is the best I can give you on that.

**Jay H. Gelb**

*Barclays PLC, Research Division*

That's helpful, Dom. That usually means like a low 90s combined on that business?

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

Correct.

**Jay H. Gelb**

*Barclays PLC, Research Division*

Now what are -- if you could just remind us what are the commodity prices we should track to kind of keep on top of this stuff?

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

The main one is corn followed by soybean basically. That accounts for most of the revenue products within the crop space.

**Operator**

And I'd like to turn the call over to our presenters for any additional or closing remarks.

**Dominic James Addesso**

*Chief Executive Officer, President and Non-Independent Director*

Yes, let me just close out with a few thoughts, and thank you, everybody, for participating and your interest and your questions this morning.

In closing, I think it's worth emphasizing again that 12% ROE and a 4% growth in book value per share we think is an outstanding result in this market, and we'd like to see [indiscernible] in the industry. And again as I -- said the answer to one of the questions, that the ROE for the quarter is slightly understated due to onetime items in the first quarter. And as planned, we will continue to make investments in the Insurance segment in the short term. This has resulted in an increased expense ratio, but again, we believe that will be normalized over time. And as mentioned on previous calls, this is a result of our build-

out, not by strategy, which is producing an improvement in the loss ratio. In the Reinsurance business, we continue to do what we said we would do all along, that is to be disciplined and manage through the cycle, not being bound by the top line. While this does have short-term implications, it is still resulting in superior returns. So those are my thoughts for you for today. And again, thank you all for participating. Have a great day.

**Operator**

This does conclude today's conference. We appreciate your participation. You may disconnect at any time.

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