S&P Capital IQ

CONTENTS

Markel Corporation NYSE:MKL

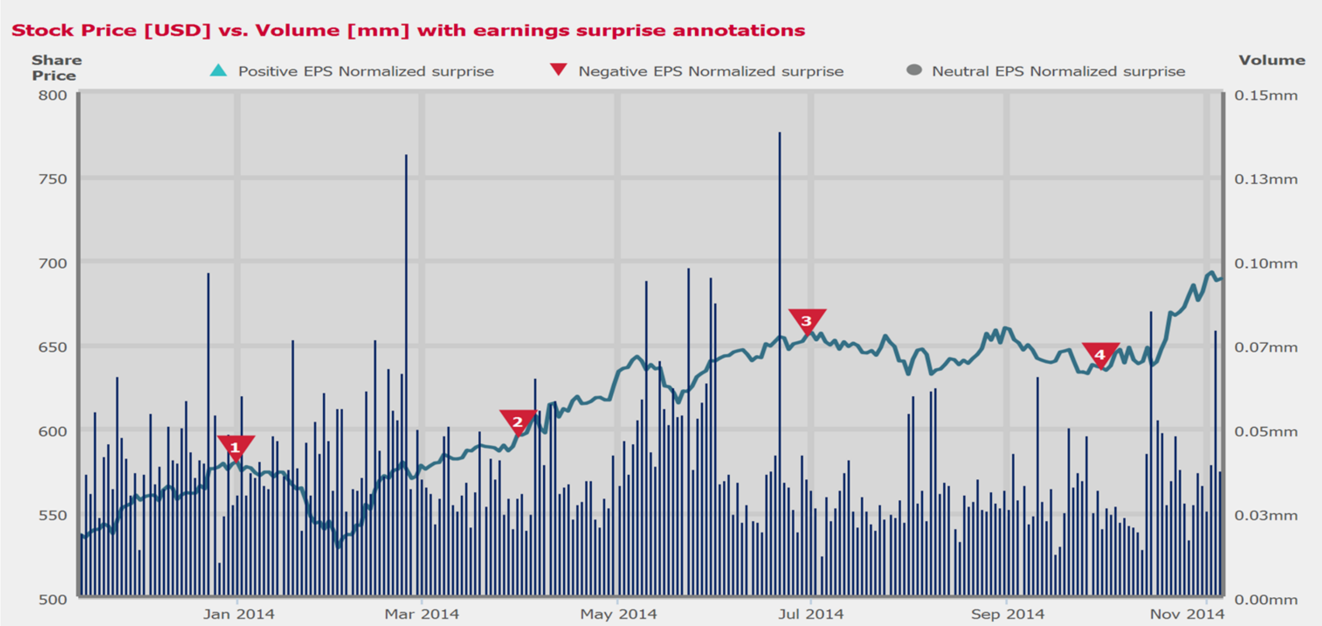
FQ4 2014 Earnings Call Transcripts

Thursday, February 12, 2015 3:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2014-			-FQ1 2015-	-FY 2014-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	5.52	8.18	▲48.19	6.23	19.06	21.16
Revenue (mm)	1313.95	1335.76	▲1.66	1313.22	5124.87	5133.67

Currency: USD
Consensus as of Feb-12-2015 3:11 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2013	5.77	5.54	▼1 (3.99 %)
FQ1 2014	5.74	5.32	▼2 (7.32 %)
FQ2 2014	5.75	2.47	▼3 (57.04 %)
FQ3 2014	5.44	5.30	▼4 (2.57 %)

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Call Participants

EXECUTIVES

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Chief Financial Officer and Executive Vice President

Francis Michael Crowley
Vice Chairman

Richard R. Whitt
Co-Chief Executive Officer and Director

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

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David McKinley West
Davenport & Company LLC

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Mark Alan Dwelle
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Keefe, Bruyette, & Woods, Inc., Research Division

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Presentation

Operator

Good morning, and welcome to the Markel Corporation Fourth Quarter 2014 Conference Call. [Operator Instructions] During the call today, we may make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They are based on current assumptions and opinions concerning a variety of known and unknown risks. Actual results may differ materially from those contained in or suggested by such forward-looking statements. Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included under the captions Risk Factors and Safe Harbor and Cautionary Statement in our most recent Annual Report on Form 10-K and quarterly report on Form 10-Q.

We may also discuss certain non-GAAP financial measures in the call today. You may find a reconciliation to GAAP of these measures in the press release, which can be found on our website at www.markelcorp.com in the Investor Information section. Please note this event is being recorded.

I would now like to turn the conference over to Tom Gayner, President and Chief Investment officer. Please go ahead, sir.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Good morning, and thank you. Welcome to the 2014 Year-End Conference Call for the Markel Corporation. My name is Tom Gayner, and I'm joined by Anne Waleski, Mike Crowley and Richie Whitt today. We've got some good and fun results to share with you this morning, and Anne will jump in with the numbers in just a second. Before we get into the details, though, there's one thought I'd like to share with you, namely this: a year ago when we had this call, we and you would've been concerned about competitive conditions in the insurance markets with new capital providers continuing to enter the business. We would've all been concerned about interest rates being low and the struggle to earn investment income. We would've been concerned about the lack of premium leverage. We would've been concerned about an equity market that was at an all-time high and seemingly bereft of good values. We would've all been concerned about the integration of the Alterra acquisition, and we would've all been concerned about global geopolitical issues. We probably would've had a similar list the year before that and a year before that and so on and so on. Sometimes, it seems like the issues we face at any given point in time sound like a long list of side effects that you hear at the drug commercials on TV. There is always something to be concerned about, but some of those issues left us a model and outcome that suggested that the Markel Corporation will have a tough time earning more than a single-digit return in equity on a comprehensive basis. Despite what the models said, the very good news is that we are reporting a double-digit return of 14% in our book value per share this year. Those results came about because of the hard work, creativity and dedication of the people of Markel. We'll also acknowledge and be grateful for the good luck involving things like the lack of major catastrophes in 2014.

All those concerns I just mentioned at the beginning were valid a year ago, and most, if not all of them, remains relevant today. When we look back at each year, there always seems to be some reason why things are going to get worse. Fortunately, the people in this organization always seem to find a way to meet the challenges and keep building the value and values of this company. I expect that to continue being the case over time.

With that, it is my pleasure to turn the call over to our Chief Financial Officer, Anne Waleski, to review the numbers; and then to Mike Crowley and Richie Whitt, who will give you some commentary on our insurance operations. I will then return to briefly discuss Markel Ventures and our investment operations, then we will open the floor for Q&A. Anne?

Anne G. Waleski
Chief Financial Officer and Executive Vice President

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Thank you, Tom, and good morning, everyone. I, too, am happy to report that 2014 has been both an exciting and profitable year here at Markel. We had an excellent finish to the year with our investing, underwriting and Markel Ventures operations all contributing to our success. Our total operating revenues grew 19% and closing $5 billion for the first time, coming in at $5.1 billion in 2014 from $4.3 billion in 2013. The most significant drivers of this increase continue to be the inclusion of a full year of underwriting revenue from legacy Alterra product offerings in 2014, higher revenue from the Hagerty business and higher investment income due to our larger investment portfolio. Also contributing to the increase, Other revenues were up 24% to $883 million from $711 million last year, primarily due to revenue growth within Markel Ventures.

Moving into the underwriting results. In 2014, growth rate in premiums were $4.8 billion, which is an increase of 23% compared to 2013. The increase was driven by the inclusion of a full year's premium from legacy Alterra products in 2014 compared to 8 months in 2013, which impacted all 3 of our ongoing underwriting segments. We also experienced growth in our U.S. Insurance segment within the wholesale division, primarily in our casualty product lines, and in our Specialty division across various product lines. Net written premiums for 2014 were approximately $3.9 billion, up 21% from the prior year for the same reasons I just discussed. Net retention of gross premium volume was 82% for 2014 and 83% for 2013. The decrease in net retention was due to 12 months of premium contribution from Alterra in 2014 compared to 8 months in 2013. The slight decrease, which is in line with our expectations, is primarily due to higher use of reinsurance on certain insurance products previously underwritten by Alterra. Earned premiums were 2014 increased 19% compared to 2013. The increase was primarily driven by the increase in gross written premiums that I just mentioned. Also contributing to the increase in earned premiums was higher earned premiums from our Hagerty business, which we began writing in the first quarter of 2013. The U.S. Insurance segment included $203 million of earned premium from Hagerty in 2014 compared to $98 million in 2013. The consolidated combined ratio was 95% in 2014 compared to 97% in 2013. In 2014, a lower expense ratio was partially offset by a less favorable prior accident years' loss ratio compared to 2013. Underwriting acquisition and insurance expenses in 2013 included transaction and other acquisition-related costs of $75 million attributable to the acquisition of Alterra or 2 points on the combined ratio. Excluding transaction and other acquisition-related costs in 2013, the 2014 expense ratio was comparable to 2013. The 2014 combined ratio included $436 million of favorable development on prior years' loss reserves compared to $411 million from 2013. The benefit of the favorable development on prior year loss reserves had less of an impact on the combined ratio in 2014 compared to 2013 due to higher earned premium volume in 2014.

Now we'll talk about the results of Markel Ventures. In 2014, revenues from Markel Ventures were $838 million compared to $686 million in 2013. Revenues from our Markel Ventures operations increased in 2014 compared to 2013 primarily due to the acquisition of Cottrell in July 2014 and the acquisition of Eagle Construction in August 2013. We also experienced higher revenues in our manufacturing operations in 2014, primarily driven by cyclical changes in industry demand for transportation equipment, partially offset by lower revenues in our other manufacturing operations due to fewer orders and shipments in 2014 as compared to 2013. Net income to shareholders from Markel Ventures was slightly less than $10 million in 2014 compared to $24 million in 2013. Net income from our Markel Ventures operations decreased in 2014 as compared to 2013 due to less favorable results in our manufacturing and nonmanufacturing operations in 2014, which were partially offset by net income attributable to acquisitions. The decrease in net income in our manufacturing operations in 2014 was due in part to our lower revenues I just mentioned. The decrease in net income in our nonmanufacturing operations was primarily attributable to less favorable results at Diamond Healthcare, driven by a $13.7 million goodwill impairment charge taken by Markel Ventures in the fourth quarter of 2014. Markel Ventures adjusted EBITDA, which excludes this charge, was $95 million in 2014 compared to $84 million in 2013. The increase in adjusted EBITDA in 2014 is due to acquisitions.

Moving on to our investment results. Net investment income for 2014 was $363 million compared to $317 million in 2013. The increase in net investment income in 2014 is primarily due to a larger investment portfolio in 2014 as a result of the acquisition of Alterra in 2013. Net realized investment gains for 2014 were $46 million compared to $63 million in 2013. Variability and the timing of realized and unrealized investment gains and losses is to be expected.

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Looking at our total results for the year. We reported net income to shareholders of $321 million compared to $281 million in 2013. The effective tax rate of 26% in 2014 compared to an effective tax rate of 22% in 2013. The increase in the effective tax rate was driven by higher earnings taxed at 35% in 2014 and a smaller benefit from our foreign operations in 2014, which are taxed at a lower rate. Comprehensive income was $936 million for 2014. I think that's worth repeating. Comprehensive income was $936 million for 2014. That compares to $459 million a year ago. The increase is primarily attributed to net unrealized gains on our investments during the period. As a result of our investing, underwriting and Markel Ventures operations, book value per share increased approximately 14%, as Tom said, to $544 per share at December 31, 2014 from $477 per share at the end of 2013.

Finally, I'll make a couple of comments on cash flows in the balance sheet. Net cash provided by operating activities was $717 million for 2014 compared to $746 million for 2013. In 2014, we made higher payments for income taxes compared to 2013. These payments were partially offset by higher cash flows from investment income during 2014, primarily due to having a larger portfolio in 2014, as I previously mentioned. Invested assets at the holding company were $1.5 billion at December 31, 2014 compared to $1.3 billion at the end of 2013. The increase in invested assets is primarily the result of dividends received from our subsidiaries and an increase in unrealized gains on our investment.

With that, I'll turn it over to Mike to discuss operations.

Francis Michael Crowley
Vice Chairman

Thanks, Anne. Good morning. As stated in previous quarters, U.S. Insurance segment comprises all direct business written on our U.S. Insurance company and includes all of the underwriting results of our wholesale, specialty divisions as well as certain products written by our global insurance team. For the fourth quarter, gross written premium was up 4% over the prior year. Year-to-date, gross written premiums have increased 11% over the prior year. This increase was due in large part to the Alterra lines of business that are now included in this segment. Excluding these lines, premium volume is up 6%. Keep in mind that we have been exiting our re-underwriting some lines in our Specialty wholesale division, and this is impacting growth. The U.S. Insurance segment combined ratio for the quarter was 90% compared to 87% last year. The combined ratio for the year was 95% compared to 92% in 2013. As discussed in previous quarters, the higher U.S. Insurance segment combined ratio was driven by less favorable development of prior year losses, due in part to adverse development in the architects' and engineers' line of business earlier in 2014. While we continued to see favorable development on our casualty lines of business in 2014, these redundancies were less than in 2013. Partially offsetting this impact was a lower year-over-year expense ratio. The improvement in the expense ratio was primarily due to nonrecurring transaction costs recorded in 2013 associated with the Alterra acquisition. The rate environment remained unchanged in the fourth quarter. We continued to achieve modest single-digit rate increases on our small- and medium-sized accounts, consistent with previous quarters. The market for larger global accounts remain very competitive, and the rate for most lines remained under pressure.

During the fourth quarter of 2014 and the first part of 2015, we announced several management promotions in the U.S. segment. Britt Glisson was appointed President of Global Insurance. Britt has been with Markel since 1990, serving in a number of management role, including President of Markel Insurance Company, and most recently, Chief Administrative Officer of Markel, a position he retained along with this newly delegated responsibilities. Britt has been working closely with the global team for the past year, having spent most of the year in Bermuda.

Steve Letak was named Chief Operating Officer for Global Insurance and Chief Administrative Officer for Bermuda. Steve has been with Markel since 2010, joining us as part of Markel's acquisition of FirstComp and was most recently controller for the specialty division. He has 30 years' experience in the industry and has both the CPA and CPCU designations.

Jim Arnold was appointed Chief Administrative Officer for the Wholesale division. Jim also joined Markel in 2010. He has significant experience in strategic planning and business analytics. Previously served as Chief Administrative Officer of FirstComp, where he was responsible for operations, customer service, legal and compliance teams.

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When Markel acquired THOMCO in 2012, Greg Thompson, who built and led THOMCO for 33 years, stayed with Markel. And soon after the acquisition assumed the position of President of the Specialty division. Greg did so with enthusiasm and a great sense of urgency and commitment. Recently, Greg expressed a desire to step down from his position but remain with Markel and focused his energy on building programs, which is a real passion of his. Effective April 1, 2015, Matt Parker will take over from Greg as President of the Specialty division. Matt most recently served as Managing Executive for Markel FirstComp, where he and his team have consistently improved results every year. Matt has a very strong management background, having spent 15 years with Gillette and Procter & Gamble, managing businesses out of London and Germany. Since joining Markel, Matt's track record is excellent, and we look forward to his leadership with this position.

Chad Bertucci has been promoted to Managing Executive for Markel FirstComp, effective April 1, 2015, replacing Matt Parker. Chad joined FirstComp in 2006 and has served in several capacities, including Vice President of Strategic Planning, Vice President of Underwriting Loss and Control and Audit.

At the beginning of the fourth quarter, we announced the combining of Markel and Alterra claims units into one organization for Markel North America and Bermuda. Nick Conca was appointed Chief Claims Officer and be will -- and will be responsible for the strategic vision and performance of this department. Nick joined Markel with the Alterra acquisition and has more than 25 years' experience in the insurance industry, including senior leadership positions with several international brokerage, insurance and claims organizations.

All of these management promotions clearly illustrate the depth of talent that exists at Markel. Our ability to attract, retain and promote top performers from within this organization supports our belief that we are well positioned for success in the future.

I'll now turn the call over to Richie Whitt.

Richard R. Whitt
Co-Chief Executive Officer and Director

Thanks, Mike. Good morning, everybody. Today, I'll focus my comments on our 2014 underwriting results for both the International Insurance and Reinsurance segments. You may recall that last quarter, I used terms like solid and business as usual to describe the first 9 months of the year. Those words equally apply to our full year results for both segments. We had a strong finish to 2014 in both the International Insurance and Reinsurance segments and reported improved 2014 combined ratios in both segments compared to 2013. The International Insurance segment, which includes Direct business and facultative placements written by our Markel International division as well as that written by our Global Insurance division, performed extremely well in 2014. Gross written premiums in the International Insurance segment increased 9% to $1.2 billion for the year. The combined ratio was 93% compared to 94% the prior year. The increase in premium writings in 2014 was primarily due to the Global Insurance division, which was created after the acquisition of Alterra on May 1, 2013. Consequently, it only contributed 8 months of business in 2013. The lower segment combined ratio was driven by more favorable prior year takedowns that was partially offset by a higher current accident year loss ratio. The increase in the current accident year loss ratio was primarily driven by favorable development on prior accident years for the Global Insurance division, which were included in the current accident year for reporting purposes in 2013. I know that makes a lot of sense, but Anne will explain it if you need it.

Now I'd like to discuss the 2014 results of the Reinsurance segment, which includes reinsurance programs written by our Global Reinsurance division as well as those written by the Markel International Division. Gross premiums written for this segment were $1.1 billion for 2014, up from $566 million a year ago. The increase in premium writings was primarily due to -- including a full year of writings for our products previously written by Alterra in 2014 compared to 8 months of writing in 2013. Obviously, a much bigger difference than in the International Insurance segment. Keep in mind, Reinsurance big dates for renewals on reinsurance are January 1 and April 1, so obviously, those were not included in 2013. The combined ratio for the Reinsurance segment was 96% compared to 109% last year. The reduction in the 2014 combined ratio was driven by more favorable prior year takedowns and the lower expense ratio. The lower expense ratio in 2014 was driven by Alterra acquisition-related cost included in '13. Included in the 2013

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current accident year loss ratio was favorable movement on pre-acquisition accident year related to the Alterra Company. These takedowns totaled approximately $23 million, excluding these takedowns, and about $25 million of cap losses in '13. The current accident year loss ratio was flat period-over-period. As Mike said, market conditions remain competitive in the Reinsurance segment. We continue to see great pressure and saw rate decreases during the January 1 renewal process.

The International Insurance segment also continues to experience rate pressure with property and marine and energy being the most heavily impacted at this point.

We've stated it many times, we're not going to chase premium when we feel rates are inadequate. We continue to reinforce this message with our underwriters and underwriting teams every day. As a result of current market conditions and our underwriting discipline, organic growth in these segments will be challenging in 2015.

So to quickly sum it up and hand it over to Tom, 2014 was a great year for our International Insurance and Reinsurance segments. Given current market conditions, 2015 will be challenging, but sort of similar to Tom's earlier comments. When have we not said that about markets? But we're very confident in our team's ability to navigate tough markets and deliver solid results.

Now I'd like to turn it over to Tom to discuss investments in Markel Ventures.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you, Richie. With all what everyone here has reported to you, Frank Sinatra might have sung It Was a Very Good Year. For Markel Ventures, we grew in 2014 both organically and by acquisition. As Anne said, total revenues grew 22% from $686 million to $838 million, and our adjusted EBITDA grew from $83.8 million to $95 million. The ventures group include some businesses that are performing better than we expected and some that are not. I think this will almost always be the case from a diverse group of companies. In aggregate, I am very pleased with the economic value being created from these operations, and I'm optimistic about 2015 from the group. Several of our companies are cyclical and tied at overall levels of economic activity. So far, our order books continue to look good, and I expect 2015 to be a good year for Markel Ventures.

In our equity portfolio, we are 18.1% in 2014 compared to the 13.7% return on the S&P 500. I simply could not be happier with this. More important than the returns of any one year, though, is the fact that over the last 25 years, we've earned over 200 basis points more than the S&P 500. I would sign up for that sort of outperformance for the next 25 years in a New York minute. Our commitment to equities has added immense value to Markel over the decades. We'll do our best and continue to follow our tried-and-tested approach and try to keep that going into the future.

In our fixed income operations, we earned 6.5% and fulfilled our goals from fixed income investing of earning a positive spread on the insurance funds we hold and protecting the balance sheet against credit losses as well as the possibility of rising interest rates. We continue to keep our duration a bit shorter than our estimates of the duration of our insurance liabilities. The actual foregone investment income for maintaining this approach is small compared to the risk of what will happen if interest rates rose dramatically. We will continue to be defensive as long as rates are low.

Again, thank you for your long-term interest in Markel. We love what we do here, and we love the people we get to work with. 2014 was an intense and fun year, and we look forward to meeting the challenges in 2015 and beyond.
And with that, we'd now love to take your questions. Thank you. If you could open it up for questions, please.

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Question and Answer

Operator

[Operator Instructions] Our first question will come from Vincent DeAugustino of KBW.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Just to start out with a question, I guess, for the team, no one in particular. But with Tom's opening comments about just modeling out a tougher environment, and so here particularly thinking about the comments around Alterra. And so what I'm wondering is that might imply that you might have baked in some additional margin of safety or excess margin of safety beyond what was kind of needed, and if that implies that we might begin to see some initial accident year picks coming in and then might also see some favorable development on some of those kind of realignment actions that were kind of taken over the last year.

Richard R. Whitt
Co-Chief Executive Officer and Director

Vincent, this is Richie. I'll give it a shot. We're incredibly consistent in terms of our approaches of trying to build reserves that are more likely redundant than deficient and building a margin of safety in our reserves. This is something we've done after every single one of our historical acquisitions, and so I think this is a case where past history is probably pretty good indicator of what future performance might look like. We're doing very consistent with Alterra -- as what we did with Alterra, [indiscernible], or FirstComp or any other acquisition building that margin of safety. And once we believe that margin of safety is established, you'll have that ongoing roll on with safety in the first year and roll off with the margin of safety in the back years. I would hate to try to tell you when exactly I think that will happen, but I think we're on track to accomplish that just like we've done in other acquisitions.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, very good to hear. And then Tom, just on Diamond Health Care. Maybe not a good assumption, but I guess, I would've thought that just with the health care environment, that would've been a favorable kind of tailwind for Diamond. So maybe that's not the case where -- I mean, was there anything from a company standpoint that kind of: a, from a revenue side that's impacting it; and then b, from the goodwill side that had an impact as well?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Right. I've alluded to some of the Markel Ventures companies are doing better than what we have hoped at first, some are more challenged. In health care, the truth is, we have not covered ourselves in glory. That is a changing industry, and while there are tailwinds, as you speak of, from increasing demand, the change and just the swirl of regulation has caused challenge -- challenges. Additionally, our health care operations were in rapid growth mode, so we're figuring things out. We are also conservative in our accounting for the way that we would report and describe that to you, so we're -- we work hard at it, and I look forward to ultimately reporting better results to you someday on the health care arena. But we don't have a full year right now. And one thing I want to tie into some of Mike's comments earlier, when he mentioned the list of people who receive promotions and have grown in the organization, every single one of those, I think, except Britt, were folks who joined Markel as a result of acquisitions. And every single one of those acquisitions that we spoke of had some J curve associated with it. For the first quarter or 2, you might have been concerned of why would we do that. But ultimately, the culture, the values, the system, the process that we embrace here at Markel works. So we think that works in health care just like we think it works in different forms of insurance at different parts of the world. So I look forward to reporting better news in the future to you, but I don't know -- in the next quarter or 2.

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Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Sounds like it's going back to the benefits of all the diversification there, so not too concerned. So I guess, the last question would be maybe in the workers comp side. So just seems like we're hearing that we may be kind of nearing an inflection point where rate increases are still available. But clearly, it seems like things are getting a little bit more competitive. And so I'm just curious if you're seeing some of that same type of activity and if there's -- I guess, the same comments on your small, mid versus large on the accounts side also applies here.

Francis Michael Crowley
Vice Chairman

Well -- it's Mike. We only write small workers comp in FirstComp and that -- the results of that organization have improved every year since we acquired FirstComp in 2010, and that was the case in 2014. That -- there -- they have changed their business, and I think I talked about it on the prior calls. They have moved in and out of geographies depending on the advantage of being in certain states and out of certain other states. They have dramatically re-underwritten and changed their position in California, particularly in Southern California. And they have tiered their business based on the quality of the business in terms of A, B and C type accounts. So they have managed that book of business extremely well in what isn’t a necessarily a favorable Worker's Compensation environment. I don't see that changing going forward. I can't say anything other than they've just done an excellent job outperforming the overall Worker's Compensation market in the last few years.

Operator

Our next question will come from John Fox of Fenimore Asset Management.

John D. Fox
Fenimore Asset Management, Inc.

I did have a question on area where it wasn't terrific, which is the old Alterra life and annuity. And I'm doing this from memory, but I recall when you closed the deal, you put up a rather large, I guess, charge of reserve against the -- I think it was $300 million, but I may not remember that correctly. And it's continuing to be a drag with about $30 million a year roughly. So is that something that we're going to live with going forward? Or is that a -- as kind of Richie was commenting on building a margin on safety, realizing it's a discontinued business at this point?

Richard R. Whitt
Co-Chief Executive Officer and Director

Hey, John, Richie. You're going to continue to see that $30-ish million or whatever the number is every year. That's just simply the amortization of the discount on the reserves because you established those reserves at a discounted rate. What you're not seeing is the other side, which is what we're earning on the assets that we hold against those liabilities. You don't see that because that's sitting in the investment portfolio. We're very comfortable with where we are on the life and annuity reserves today. They're doing basically what we expected, and the discount rate we used when we acquired Alterra to set that reserve up was very conservative, even with the rather puny returns that you can get right now in terms of your investments on fixed income. So it's a little -- and we can get off the phone with you and talk about it, but you'll continue to see that number, and what you're not seeing is the return on the portfolio on the other side.

John D. Fox
Fenimore Asset Management, Inc.

Right. Of course, that's coming through investment income and unrealized gains and realized gains, so...

Richard R. Whitt
Co-Chief Executive Officer and Director

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Yes.

Anne G. Waleski
Chief Financial Officer and Executive Vice President

Right.

Richard R. Whitt
Co-Chief Executive Officer and Director

]Yes, so I mean, nothing untoward or different than what our expectations at the beginning has happened, quite honestly.

John D. Fox
Fenimore Asset Management, Inc.

Right. But Tom was talking about modeling at the beginning of the call, and I should think about that in the other line as continuing going forward.

Anne G. Waleski
Chief Financial Officer and Executive Vice President

That's right.

Richard R. Whitt
Co-Chief Executive Officer and Director

Yes, absolutely, absolutely.

John D. Fox
Fenimore Asset Management, Inc.

Okay. And for Tom Gayner. I'm looking back 3 years ago, you had less than $2 billion in equities and now it's $4 billion, and that of course has come from a terrific stock market and additional investments that you've made over time. Going forward from here, the market's done fantastically. Valuations are higher than they were. What do you see going forward, Tom? Do you continue the dollar cost average? Do you take your foot off the gas a little bit? What are your thoughts on equity investing going forward from here?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

So really, the same that it's always been. And to your answer if that dollar cost average -- you should know that's one of the beauty of being part of Markel is that my insurance colleagues keep making deposits or doing account all the time, which facilitates that sort of approach. And they very kindly never ask for any money back to make an underwriting profit, so it doesn't get any better than that. There's always uncertainty in the investor market. And while we're talking about new highs, as an example, people in the oil patch might not be feeling that way right now. I mean, that price has been cut in half and also does implications and big fallout from that in ways that people didn't foresee, and I hope you don't hold me to a forecast. I hope you don't hold anybody to a forecast because of some of the things about the oil market that has struck me is something that is the biggest, the most liquid, the most important commodity that's traded in the world. And the fact that it sells for over $100 and then less than half that was in 6 months. It tells me that nobody knows anything about anything when it comes to the future. So that being said, that was the case 3 years ago, the case 30 years ago. It's fun to come to work every day because there's something you did not expect to happen that creates an opportunity.

John D. Fox
Fenimore Asset Management, Inc.

Right, yes. I'm certainly not asking for a forecast of the future. I guess, just when you look at your investment opportunities, the future returns on equities will not be what they've been over the last 3 years, although they're going to be -- my prediction is they're going to be better than fixed income, so

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I was just curious maybe just -- for the incremental dollar coming from your friends in the insurance business, is the same proportion going in equities less? Or it sounds like it's going to be the same going forward, if I hear you correctly?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Yes, and what has happened over the last 3 years is we sort of incrementally have continued to invest in equity, and I've been inappropriately cautious about the equity market. But quite frankly, we satisfied returns, but we didn't optimize them. But that's okay because that leaves us margin of safety, which is an important part of the culture here. And we'll continue to just plod along. If the markets cheer up or have some big reaction, we have to drive power in the capital to invest more aggressively, and we will.

Operator

The next question will come from David West of Davenport & Company.

David McKinley West
Davenport & Company LLC

Mike, I guess, first, a question for you, on the more recent acquisition. Hagerty doubled their own premium this year. Could you talk about that relationship and how you see -- do you see -- do you expect it to continue to expand at a pretty healthy rate?

Francis Michael Crowley
Vice Chairman

Well, one, David, we didn't acquire Hagerty. We are simply the underwriter on their book of business. They are privately held, independent agent and broker that specializes in the collector car business. They grew significantly this year. That marketplace, we were just out with them recently. There's a big marketplace. They obviously are a dominant player and a highly recognized player in that marketplace. I certainly don't expect their premium volume to double in 2015, and I think they'll see steady growth as they have in the past. So our relationship with them is very good. We have a long-term focus with them, and I think that the relationship today is about as solid as it could be.

David McKinley West
Davenport & Company LLC

Okay. Great. And I guess, turning to the international side, Richie, maybe do you have a quick update on the Abbey Protection deal?

Richard R. Whitt
Co-Chief Executive Officer and Director

Sure, Dave. Sorry, I didn't mention that. Some of that was probably because -- it's sort of business as usual, that acquisition fell down nicely, did exactly -- pretty much exactly what we've wanted it to do this year in terms of premium volume and in terms of the fee income that it generates. The things that we're working on right now with the Abbey folks and our U.K. retail folks is how we can cross-sell some of that retail profit. Abbey's got some really unique products that we think we could sell some alongside some of our other commercial products for the retail market. And that is -- what has been the focus over the last couple of months is were coming up with plans on how we're going to start to take advantage of that in 2015. So hopefully, I'll have more to say about that as we go through '15, but things have gone very well at Abbey in 2014.

David McKinley West
Davenport & Company LLC

Great, great. And then lastly, for Tom, you just alluded to all the turmoil in the energy sector. Wonder could comment on what kind of exposure you had in energy in the fixed income portfolio?

Thomas Sinnickson Gayner

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Co-Chief Executive Officer and Director

I don't have any breakdowns, but nothing that concerns me. I mean, we have policy of 90% of our fixed income portfolio. By mandate, it's 8% or better. And we always stay at the top tier, anything we would do, energy included.

Operator

The next question will come from Mark Dwelle of RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

A few questions. Maybe start with -- on the international book of business in the fourth quarter. There's obviously some pretty significant reserve releases in there. Adding those back in to get an accident year combined ratio, it looks like the accident year combined ratio year-over-year was a little bit higher. I was wondering if there's anything unusual in there or a change in business mix. I realize obviously, these are always pretty conservatively stated. But I wouldn't have necessarily expected the accident year number to go up.

Richard R. Whitt
Co-Chief Executive Officer and Director

Mark, Richie -- we're sort of looking at each other here and nothing in particular stands out to us. Anne or Nora or somebody can give you a call. We'll look at it and let you know, but I guess, I'll say I don't know of anything in particular in the current accident year that's a problem. I'm thinking it's probably more of a mix issue, but we'll take a look at that and get back with you.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. Same question, also kind of related to combined ratios. It looked like it was based on my calculation that the expense ratio for the fourth quarter was back at about 40% relative to the kind of 37% to 38% you had been reporting. Was there anything that contributed to that?

Richard R. Whitt
Co-Chief Executive Officer and Director

Yes, Mark. That's one of the good expense ratio issues. What contributed to that was having so much in takedowns that increases our bonus accruals around Markel, so there's a lot of happy people looking at the fourth quarter expense ratio at Markel, and it's what you would expect. I mean, we really had a nice year in terms of the loss ratio. Some portion of that comes back on the expense ratio side through the bonus accruals.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Makes sense. The...

Richard R. Whitt
Co-Chief Executive Officer and Director

We accept.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Sure enough. Last question, I guess -- well, next-to-last question. The -- any comments on the January 1 reinsurance renewals? All the market commentary is that rates were fairly substantially down. You guys have normally been very disciplined about, as you say, not chasing those rates. Anything that you can share as far as what to expect about the January 1 renewal book?

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Richard R. Whitt
Co-Chief Executive Officer and Director

Sure. This is, again, Richie, Mark. Yes, it's tough. I mean, January 1 was tough. I think everybody expected it to be tough. We're still putting numbers together, but we'll probably be down a little bit on our January 1 renewals just simply because of pricing and the fact that when that starts to happen, some accounts get too close to where we think the line needs to be drawn, and we either have to reduce or we have to come off it. So yes, I would say that the news that you've probably been hearing from people, that 5% to 15% kind of on average, is a pretty good number. And we'll wait and see what happens to the rest of the year in Reinsurance. Part of the beauty of Markel, I love having reinsurance as part of our business. I also love only having it as about 20% of our business. Because of that diversification, we can be a bit more cavalier in terms of our approach to it and be more disciplined. So we'll see how the rest of the year goes.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. And then the last question I have is, you guys have had a buyback authorization in place for a little while now. You've not done a whole lot with it and I know, historically, Markel hasn't been overly aggressive in buybacks. But I look at the amount of capital that you're generating, the prospects for growth as described and the valuation of your shares, which really not that distinct from a lot of peers, kind of curious as to how you're thinking about buybacks and maybe why you're not being a little bit more aggressive at this stage.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Sure. Well, thanks, Mark. This is Tom. As we've written for the last several years that the 4-part list in the triage of how we would think of that capital that comes in the doors. And first off, let’s not understate the importance of capital coming in the door to start with. This a very high-class problem we're talking about here. The first thing we like to do is fund the organic growth, and the good news is that given the size and scale of this organization and the talent we see in certain pockets, whether that's insurance or noninsurance, people seem to be coming up with ideas to deploy capital in a thoughtful way. And the best evidence you have that, that works is the continuing sort of compound annual growth rate in the book value that we continue to report to you. So we see opportunities to invest organically with people who are already part of this organization and have done well, we're working to do that all day long. So we don't think we're exhausting that list at all. Second thing we look at is acquisitions, both insurance and noninsurance, and at this big stage, and I think that about covers the possibility. So given the fact that we have history and demonstrated the ability to do that. It's a big world out there, and we continue to seek deals and a lot of flow and a lot of conversations that I think will accrue in the long-term benefits with the Markel shareholders. The third thing is we have the option of publicly traded investments, and we look at them in the same way that we would look at any other capital allocation opportunity, have done pretty well on that over the years. So there's fourth and final, after we've exhausted those first 3 opportunities, if we still have money left over and our stock lists price is favorable, well then, yes, we'll repurchase. But the good news is that for as long as possible, to deploy capital offensively in these first 3 categories, we -- all of us as Markel shareholders are better off and we're looking to do that as much as possible, and share repurchases are item #4. That means we're very rational with the Markel shareholders. This is a source of our own personal net worth. And to make sense to being aggressive on that level, we would do so.

Operator

[Operator Instructions] The next question will come from Adam Klauber of William Blair.

Adam Klauber
William Blair & Company L.L.C., Research Division

A couple of different questions. Number one, acquisitions. You've done some acquisitions in the last couple of years. I guess, what's your appetite going forward? And particularly, would you consider another large deal again on the next couple of years?

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Richard R. Whitt
Co-Chief Executive Officer and Director

Adam, Richie and Tom might kick in on this one as well. We did the Alterra acquisition. It's coming up on almost 2 years ago now, which is -- it's really kind of hard to believe. But we're in a great position as a result of that. I mean, the Alterra acquisition has gone very well, I think. And in terms of integration, we really don't talk about it anymore. It's pretty much a done deal. So short answer, we're kind of open for business, really, in terms of looking at insurance acquisitions. In terms of size, we try not to get too hung up on size. We try to think about strategic fit and the opportunity. And of course, at the end of the day, is there market a clearing price we can get to? So there is -- to put it this way, given where we are today, there's quite a large number of opportunities that we could look at and potentially take advantage of. And then of course, on Tom's side, lots of opportunity there. And now Tom, if you want to talk about it.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

I have nothing to add.

Francis Michael Crowley
Vice Chairman

Well, just to add -- this is Mike -- the only thing I'll add to that is that I think the culture fit with the Alterra talent and Markel was very good, and I think that's the basis of why we retained most of that talent. And while there are opportunities that will come up -- and there have been opportunities that we've looked at since the Alterra deals in different sizes. You can't discount the fact that one of the important things we look at is the culture fit, which benefits us all for the long haul.

Richard R. Whitt
Co-Chief Executive Officer and Director

Yes, and maybe just one last thought on it, Adam, there's been a ton or slew of activity recently. And not to pick on any of those deals, I'm sure all of them had their reasons for moving forward. Strategic fit is critical. Culture is critical to us. There's been some discussions that maybe some of the deals recently have been big to get -- bigger -- big to bigger -- we're not interested in that. It's got to be a good strategic fit. It's got to be a good cultural fit.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And then as far as the excess in surplus market. There's always a give and take between the standard market and the E&S market. Which way is the pendulum going now? It's been going towards the E&S market. Is that continuing? Has that slowed down at all?

Richard R. Whitt
Co-Chief Executive Officer and Director

Well, looking back at 2014, all 5 of our regions in the E&S segment grew in 2015. And if we look at our top 10 or 15 relationships with the larger wholesale firms, brokers, almost all of those grew in 2014. We just had our wholesale producer council meeting in January down in Florida, and the attitude with our customers was very upbeat. And their attitude towards Markel was very upbeat, and we're doing some strategic things there. So right now, I see 2015 as more of the same like 2014.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And then last, more of a detail question. In U.S., with favorable development, could you just give, I guess, some idea which years the -- most of the development came from? Is it more recent? More older? Just any ballpark would be helpful.

Anne G. Waleski
Chief Financial Officer and Executive Vice President

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Adam, I don't think we have that level of detail with us, but I'm happy to call you after the call.

Operator

[Operator Instructions] The next question will be a follow-up from Vincent DeAugustino of KBW.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

I have just one. Tom, it's a bit of a curveball, but from your investment standpoint and going to your point about diving into what no one can possibly know here. I'm kind of curious if you see any situation where a strong dollar can create inflation outside of commodities and imports. So really just U.S. services and domestic goods, where that also simultaneously produces pressure on treasury yields as you have some of that foreign money coming here. Now the way I see that is if that is a possibility of being negative for both the reinsurance and reserves and investment portfolio? I mean, can anyone have a sense of that? Or do you have an opinion there?

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

I have an opinion that you should be thoughtful about exactly that sort of risk, so it is in the mix of things that we think about. We try consciously to make sure that no matter what sort of curveballs are thrown at us, from that standpoint, we can answer the bell until the next round of the fight. And I'm confident that we have not locked ourselves into inflexible positions. That is the key problem, and being able to answer the bell for the next round.

Operator

And I'm showing no additional questions at this time. This will conclude the question-and-answer session. I would like to hand the conference back over to Tom Gayner for any closing remarks.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you very much. We look forward to chatting with you next quarter call. Take care.

Operator
Ladies and gentlemen, the conference has now concluded. We thank you for attending today's presentation. You may now disconnect your lines.

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