S&P Global
Market Intelligence

American Financial Group, Inc. NYSE:AFG

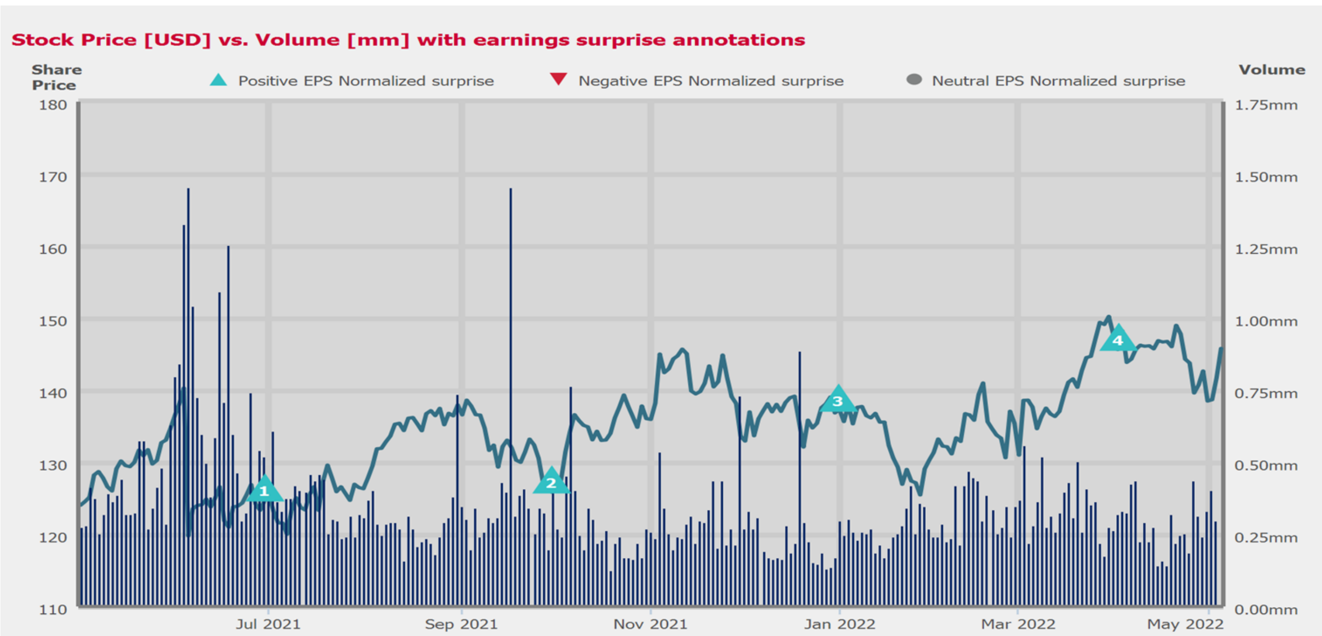
FQ1 2022 Earnings Call Transcripts

Thursday, May 05, 2022 3:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-			-FQ2 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.71	3.56	▲31.37	2.22	10.20	NA
Revenue (mm)	1412.50	1302.00	▼(7.82 %)	1450.50	5913.00	NA

Currency: USD
Consensus as of May-05-2022 1:46 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2021	1.65	2.39	▲1 44.85 %
FQ3 2021	1.95	2.71	▲2 38.97 %
FQ4 2021	2.98	4.12	▲3 38.26 %
FQ1 2022	2.71	3.56	▲4 31.37 %

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Call Participants

EXECUTIVES

Brian S. Hertzman
Senior VP & CFO

Carl Henry Lindner
Co-President, Co-CEO & Director

Diane P. Weidner
Vice President of Investor Relations

Stephen Craig Lindner
Co-President, Co-CEO & Director

ANALYSTS

James Paul Bach
Keefe, Bruyette, & Woods, Inc., Research Division

Paul Newsome
Piper Sandler & Co., Research Division

Sidney Schultz
Raymond James & Associates, Inc., Research Division

SHAREHOLDERS

Rudy R. Miller
The Miller Group

ATTENDEES

John Hanson

Presentation

Operator

Good day, and thank you for standing by. Welcome to the American Financial Group 2022 First Quarter Results Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I will now hand the conference over to your first speaker today, Diane Weidner, Vice President of Investor Relations. Ma'am, you may begin.

Diane P. Weidner
Vice President of Investor Relations

Thank you. Good morning, and welcome to American Financial Group's First Quarter 2022 Earnings Results Conference Call. We released our 2022 first quarter results yesterday afternoon. Our press release, investor supplement and webcast presentation are posted on AFG's website under the Investor Relations section. These materials will be referenced during portions of today's call.

I'm joined this morning by Carl Lindner III and Craig Lindner, Co-CEOs of American Financial Group; and Brian Hertzman, AFG's CFO.

Before I turn the discussion over to Carl, I would like to draw your attention to the notes on Slide 2 of our webcast. Some of the matters to be discussed today are forward-looking. These forward-looking statements involve certain risks and uncertainties that could cause actual results and/or financial condition to differ materially from these statements. A detailed description of these risks and uncertainties can be found in AFG's filings with the Securities and Exchange Commission, which are also available on our website.

We may include references to core net operating earnings, a non-GAAP financial measure, in our remarks or responses to questions. A reconciliation of net earnings attributable to shareholders to core net operating earnings is included in our earnings release.

And finally, if you're reading a transcript of this call, please note that it may not be authorized or reviewed for accuracy. And as a result, it may contain factual or transcription errors that could materially alter the intent or meaning of our statements.

Now I'm pleased to turn the call over to Carl Lindner III to discuss our results.

Carl Henry Lindner
Co-President, Co-CEO & Director

Good morning. We're pleased to share highlights of AFG's 2022 first quarter results. After which, Craig, Brian and I will be glad to respond to your questions.

AFG's financial performance during the first quarter was outstanding. We're very pleased with the underwriting margins produced by our Specialty Property and Casualty businesses and strong investment income. Our entrepreneurial, opportunistic culture and disciplined operating philosophy have positioned us well in a favorable property and casualty market and a dynamic economic environment. Craig and I thank god, our talented management team and our great employees for helping us to achieve these exceptionally strong results.

I now turn the discussion over to Craig to walk us through AFG's first quarter results, investment performance and our overall financial position at March 31.

Stephen Craig Lindner
Co-President, Co-CEO & Director

Thank you, Carl. Please turn to Slides 3 and 4 for summary earnings information for the quarter.

AFG reported core net operating earnings of $3.56 per share, an impressive 50% increase year-over-year. The increase was primarily the result of significantly higher underwriting profit at our Specialty Property and Casualty insurance operations and substantially higher P&C net investment income primarily due to the continued strong performance of AFG's $2 billion alternative investment portfolio. Annualized core operating return on equity in the first quarter was a strong 24.6%.

Now I'd like to turn to an overview of AFG's investment performance, financial position and share a few comments about AFG's capital and liquidity. The details surrounding our $15.7 billion investment portfolio are presented on Slides 5 and 6. Pretax unrealized losses on AFG's fixed maturity portfolio were $138 million at the end of the first quarter, reflecting the increase in market interest rates and widened credit spreads compared to year-end 2021. The yield on the 5-year Treasury nearly doubled from 1.26% at the beginning of the year to 2.42% at March 31, 2022.

As we entered 2022, our P&C fixed maturity portfolio duration, including cash and cash equivalents, was approximately 2 years, the lowest it has been in recent history. The strategic positioning of our portfolio reduced the impact of rising rates on the fair value of our existing fixed maturity portfolio and enabled us to invest approximately $2 billion in high-quality fixed maturities and mortgages in response to increasing interest rates and widening credit spreads. As a result, we lengthened our P&C fixed maturity portfolio duration, including cash and cash equivalents, to approximately 2.5 years at March 31, 2022.

Our current fixed maturity reinvestment rate is 4% to 4.5% and compares favorably to the fixed maturity portfolio book yield of 3% at the end of the first quarter. For the 3 months ended March 31, 2022, P&C net investment income was approximately 40% higher than the comparable 2021 period and included significantly higher earnings from alternative investments. The annualized return on alternative investments in the first quarter of 2022 was a very strong 29.1%. The $139 million in pretax earnings from our portfolio of alternative assets included $41 million in earnings from the sale of certain multifamily housing investments in a very favorable market.

Excluding the impact of alternative investments, P&C net investment income for the 3 months ended March 31, 2022 increased 2% year-over-year. This increase was driven primarily by a higher balance of invested assets, with rising interest rates contributing to a lesser extent. The impact of rising rates will have a more significant impact beginning in the second quarter of 2022. Our guidance for 2022 assumes continued interest rate increases throughout the year and an overall annual yield of approximately 12% on alternative investments with an average annualized yield of 6% achieved over the remaining 3 quarters of 2022.

Please turn to Slide 7, where you'll find a summary of AFG's financial position at March 31, 2022. Our excess capital was approximately $2 billion at March 31, 2022. The number included parent company cash and investments of approximately $1.7 billion. During the quarter, we returned $222 million to our shareholders through the payment of our regular $0.56 per share quarterly dividend, a $2 per share special dividend and $5 million in share repurchases.

Growth in book value per share plus dividends was 0.6% in the first quarter. Excluding unrealized losses related to fixed maturities, growth in adjusted book value per share plus dividends was a strong 5.7% during the quarter.

Yesterday, we announced our plan to redeem all of AFG's approximately $375 million in outstanding 3.5% senior notes due in 2026 under a make-whole call. Based on today's rates, the call price is approximately 101% of the principal amount plus accrued interest and unpaid interest to the redemption date. It's expected that the early redemption of the senior notes will result in an after-tax noncore loss in the second quarter of approximately $5 million or a $0.06 per share loss related to the make-whole premium and other related expenses. Redemption of these senior notes creates additional capacity within our debt-to-cap ratio commitments for the return of capital to our shareholders.

In conjunction with our first quarter earnings release, we announced a special cash dividend of $8 per share payable on May 27, 2022 to shareholders of record on May 20, 2022. Year-to-date, AFG has declared $10 per share in special dividends and has declared $36 per share in special dividends since the sale of its annuity operations in May of 2021. Through a combination of these special dividends, share repurchases and the redemption of debt, we've deployed almost all of the $3.57 billion in cash proceeds from the sale of our annuity business while continuing to be in a strong excess capital position.

After adjusting for the debt redemption and the special dividend, pro forma excess capital at March 31, 2022 was approximately $1 billion. While all of AFG's excess capital is available for internal growth and acquisitions, based upon assumptions underlying AFG's current guidance and with consideration to capital management actions announced yesterday, we still expect to have at least $400 million to $500 million of excess capital available for share repurchases and additional special dividends through the end of 2022 while staying within our most restrictive debt-to-cap guideline.

I'll now turn the call back to Carl to discuss the results of our P&C operations and to discuss our expectations for 2022.

Carl Henry Lindner
Co-President, Co-CEO & Director

Thank you, Craig. Please turn to Slides 8 and 9 of the webcast, which include an overview of first quarter results.

As you'll see on Slide 8, the Specialty Property and Casualty insurance operations generated an underwriting profit of $208 million compared to $134 million in the first quarter of 2021, an impressive 55% increase year-over-year. And these results set a new record for first quarter underwriting profit. While each of our Specialty Property and Casualty Groups produced higher year-over-year underwriting profit and combined ratios in the 80s, the most significant increase was in our Specialty Casualty Group.

The first quarter 2022 combined ratio was a very strong 84%, improving 4.5 points from prior year period. Results from the 2022 first quarter include 0.7 points in catastrophe losses and 6.8 points of favorable prior year reserve development. Catastrophe losses, net of reinsurance and including reinstatement premiums, were $9 million in the first quarter of 2022 compared to $31 million in the prior year period.

Gross and net written premiums increased 20% and 14%, respectively, in the 2022 first quarter compared to the prior year quarter. Now premiums reported in the first quarter were favorably impacted by timing differences in the recording of premiums in our Property and Transportation Group between the fourth quarter of '21 and the first quarter of '22. When adjusting for those items, gross and net written premiums were up 9% and 10%, respectively, for the first quarter of 2022. The drivers of growth vary considerably across our portfolio of Specialty Property and Casualty businesses. In the aggregate, year-over-year growth in gross written premium for the first quarter of 2022, excluding crop insurance, was about 2/3 attributed to growth and change in exposures and about 1/3 attributable to rate increases.

Turning to pricing. Renewal rate momentum continues. We achieved meaningful broad-based pricing increases across the vast majority of our businesses, with strong renewal pricing in our longer-tailed liability businesses outside of workers' comp. Average renewal pricing across our Property and Casualty Group, excluding workers' comp, was up approximately 8% for the quarter. That was consistent with the fourth quarter of 2021. Overall renewal rates were up 5% in the quarter.

Renewal rate increases continue to be meaningfully in excess of estimated prospective loss ratio trends, which are approximately 5% for our Specialty Property and Casualty businesses, excluding workers' comp, and approximately 3% overall. By focusing on our prospective loss ratio trend, we're looking at loss costs adjusted for changes in the underlying premium exposure base that moves with inflation and incorporating our views on loss costs going forward in light of the current economic and legal environment. All things considered, we feel very good about the level of rate increases that we continue to achieve and that we've achieved over the last few years, which were meaningfully in excess of loss ratio trends and are expected to have a favorable impact on our results for the remainder of 2022 and into 2023.

Now I'd like to turn to Slide 9 to review a few highlights from each of our Specialty Property and Casualty Groups. The Property and Transportation Group reported an underwriting profit of $62 million in the first quarter of 2022 compared to $56 million in the first quarter of '21. Higher underwriting profit in our property and inland marine and crop businesses more than offset lower earnings in our transportation businesses primarily as a result of lower favorable prior year reserve development. Catastrophe losses in this group, net of reinsurance and inclusive of reinstatement premiums, were $6 million in the first quarter of 2022 compared to $22 million in the comparable '21 period.

The businesses in the Property and Transportation Group achieved a strong 85.8% calendar year combined ratio overall in the first quarter, 0.2 points higher than the comparable period in '21. Lower frequency in our transportation businesses related to the pandemic resulted in favorable prior year development and a lower-than-usual accident year loss ratio during the first quarter of 2021. The accident year loss ratio, excluding cats, increased slightly year-over-year in the first quarter of 2022.

First quarter 2022 gross and net written premiums in this group were 46% and 24% higher, respectively, when compared to the 2021 first quarter. Both gross and net written premiums were impacted by the timing of premium recognition in our crop business and the timing of the renewal of a large account in our transportation businesses. Though excluding the impact of these items, first quarter gross and net written premiums in this group grew 14% and 12% year-over-year, respectively. Overall, renewal rates in this group increased 6% on average for the first quarter of 2022, consistent with the rate increases reported in the fourth quarter of 2021.

Now as for crop insurance, industry estimates for 2022 planted acreage are unchanged to up slightly from last year's levels. Planting progress is running slightly behind historical averages. Generally speaking, for the vast majority of our insured crops, the corn planting window runs from mid-April through the end of May, and the soybean planting window runs from late April to the end of June. With current technology and equipment, a majority of our insureds can complete planting within a 7- to 10-day window. So it's early in the growing season, and we're hopeful growers will be successful getting their crops in the ground within these time frames.

Current commodity futures for corn and soybeans are trading approximately 25% and 3% higher, respectively, than the 2022 spring discovery prices. While the year-over-year increase in spring discovery pricing will favorably impact premiums written, our crop results for 2022 will depend on the harvest in the second half of the year.

Now the Specialty Casualty Group reported an underwriting profit of $124 million in the 2022 first quarter compared to $56 million in the comparable 2021 period. Higher year-over-year underwriting profit in our workers' compensation, excess and surplus lines and executive liability businesses were the drivers of these results. The businesses in the Specialty Casualty Group achieved an exceptionally strong 80.6% calendar year combined ratio overall in the first quarter, an improvement of 9.6 points from the comparable period in 2021.

Underwriting profitability in our workers' compensation businesses overall continues to be excellent. We have 3 stand-alone workers' compensation businesses with varying appetites and different niche focus areas. This strategy has served us very well in achieving very strong results in our workers' comp book. First quarter 2022 gross and net written premiums increased 8% and 11%, respectively, when compared to the same prior year period. Renewal pricing for this group, excluding our workers' comp businesses, was up 10% in the first quarter. Renewal rates in this group overall were up approximately 5%.

Specialty Financial Group reported an underwriting profit of $29 million in the first quarter of 2022 compared to an underwriting profit of $25 million in the first quarter of 2021. Higher year-over-year underwriting profitability in our trade credit and surety businesses were the drivers of the increase. And this group continued to achieve excellent underwriting margins and reported an 82% combined ratio for the first quarter of 2022. Gross written premiums were up 4% in this group, and net written premiums were down by 1% when compared to the prior year period due primarily to a shift in business mix and a change to a reinsurance program in a newer business in this group. Renewal pricing in this group was up 6% in the first quarter 2022.

So now please turn to Slide 10, where you'll see a full page summary of our 2022 outlook. Overall, we continue to expect an ongoing favorable property and casualty market with opportunities for growth arising from both continued rate increases and exposure growth as well as margin expansion as compounded rates well in excess of loss costs are earned through.

Based on the strong results reported through the first quarter, we now expect AFG's core net operating earnings in 2022 to be in the range of $10.50 to $11.50 per share, an increase of $0.75 per share at the midpoint of our previous guidance of $9.75 to $10.75 per share. Our revised guidance reflects higher than previously estimated net investment income and specifically the impact of deployment of cash in a rising interest rate environment, a higher return on AFG's cash and floating rate securities, and the strong performance of our alternative asset portfolio during the first quarter.

Our updated 2022 guidance includes the impact of the capital management actions Craig spoke about earlier and reflects an average crop year. We continue to expect the 2022 combined ratio for the Specialty Property and Casualty Group overall between 85% and 87%. Our guidance for growth in net written premiums is also unchanged and in the range of 8% to 12% higher than the $5.6 billion reported in 2021.

Looking at each subsegment. We continue to estimate a combined ratio in the range of 87% to 91% in the Property and Transportation Group. Again, guidance assumes average crop earnings for the year. We now expect growth in net written premiums for this group to be in the range of 11% to 15%, an improvement from the range of 8% to 12% estimated previously due to higher than originally expected spring discovery pricing in our crop insurance business.

We continue to expect our Specialty Casualty Group to produce a combined ratio in the range of 80% to 84%. Our guidance assume continued strong renewal pricing in our E&S, excess liability and several of our other longer-tail liability businesses and continued calendar year profitability in our workers' compensation businesses overall. We expect net written premiums to be 6% to 10% higher than 2021 results, consistent with our initial guidance. Premium growth will be tempered by rate decreases in our workers' compensation book, which are the result of favorable loss experience in this line of business. Excluding workers' comp, we continue to expect 2022 premiums in this group to grow in the range of 7% to 11%.

We continue to expect the Specialty Financial Group combined ratio to be in the range of 84% to 88%. And net written premiums for this group are now expected to be between 4% and 8%, a decrease from previous expectations of growth in the range of 8% to 12%, primarily as a result of lower projected premiums in our financial institutions business.

We continue to expect renewal rates to increase between 5% and 7% in our Specialty P&C operations overall. And excluding workers' comp, we expect renewal rate increases to be in the range of 6% to 8%, which is unchanged from our previous estimate.

Craig and I are very pleased to report these exceptionally strong results for the first quarter. We're proud of our proven record of long-term value creation. We believe that our entrepreneurial, opportunistic culture, combined with our strong balance sheet and financial flexibility, position us very well for the remainder of 2022.
I will now open the lines for the Q&A portion of today's call. And Craig and Brian and I would be happy to respond to your questions. Thank you.

Question and Answer

Operator

[Operator Instructions] Your first question will come from Paul Newsome with Piper Sandler.

Paul Newsome
Piper Sandler & Co., Research Division

Congratulations on the remarkable quarter, I think. I want to ask a little bit more on the investment portfolio. Maybe you could give us just a little bit more as to what you're investing in and if you think that prospectively that duration could be extended out even more given the current situation. I think you were incorporating just, I want to say, four 25 basis point rate hikes. I don't know if that has changed in your view as well. So some thoughts on investments would be great.

Stephen Craig Lindner
Co-President, Co-CEO & Director

Sure, Paul. This is Craig. I can give you a little more color on that. So in the first quarter, we put cash to work, bought paper that was a little longer duration than investments over the last couple of years. We invested principally in high-quality fixed maturities and mortgages kind of similar to the existing portfolio, but we did buy some paper that was a little bit longer in duration than the last couple of years. We're continuing to do that. At the end of the first quarter, we still had about $2.7 billion in cash and floating rate securities in the P&C group. And so we are going to continue to be a significant beneficiary of this higher interest rate environment and also spreads that have widened fairly significantly.

So in the latest guidance, Paul, we're assuming 9 total 25 basis point rate hikes. Or to be specific, it's the 25 basis points that already happened in March, 50 basis point hikes in both May and June, and then 25 basis point hikes for the remaining 4 meetings of July, September, November and December. So if you want to look at it as how many 25 basis, equivalent of 25 basis point hikes, it would be an assumption of 9 for the total year.

Paul Newsome
Piper Sandler & Co., Research Division

Great. That's helpful. And the second question, I'd like to ask you about the crop business. I've gotten quite a few questions about it. It sounds like you've already incorporated a little bit of the higher prices that we have for crop commodities, but are you still essentially assuming an average kind of crop return year or has that changed? And if things stay as they are, would you wait until the sort of third quarter to make the changes in guidance or would that come potentially earlier than that?

Carl Henry Lindner
Co-President, Co-CEO & Director

Yes. It's really kind of into the third quarter before we really have a good fix on how the crop year is kind of playing out as you kind of see what the crop conditions were and how the harvest is kind of coming in. We clearly know that we're going to have, our premiums are going to be up double digit again this year just based off of the spring discovery pricing that's already happened in that as well as writing some rainfall business, rainfall index business in that. So premium, we already know the premium is going to be very strong.

The big premium booking quarters are really the second and third quarter. And it's really the third and fourth quarter and even into the first, more fourth quarter and probably first quarter of the following year where most of the crop profit is booked. And if things really are, generally, if things are really playing out really well with very little risk, we might report some of the profit in the third quarter. Right now, way too early. As I mentioned, the planting progress is running a little bit, some behind the historical averages. Though there's plenty of time with the technology that's out there, still a big window for farmers to get their crops in. And so our perspective right now continues to be an average crop year.

Operator

Your next question will come from Greg Peters with Raymond James.

Sidney Schultz

Raymond James & Associates, Inc., Research Division

This is actually Sid Schultz calling in for Greg. Just looking at the Specialty Property and Casualty expense ratio, it looks like it improved another 80 basis points year-over-year this quarter after 200 basis points in last year's quarter. And so I'm just curious of outside the increase in premiums, is there anything driving the improvement in this?

Brian S. Hertzman
Senior VP & CFO

So one of the things that happens in some of our businesses is the ceding commissions that we receive from reinsurers can vary with the profitability of the business ceded. So in the first quarter of 2022 relative to the first quarter of 2021, we had higher ceding commissions received from reinsurers related to our environmental business. So those higher ceding commissions have the effect of lowering the expense ratio.

Operator

[Operator Instructions] Our next question will come from James Bach with KBW.

James Paul Bach
Keefe, Bruyette, & Woods, Inc., Research Division

My first question, net to gross is down pretty significantly in Property and Transportation. It's also down in Specialty Financial. You mentioned some changes in reinsurance, but I was wondering if you can kind of comment on what's driving the increased cessions. And kind of moving forward, how you expect that to impact expense ratios?

Brian S. Hertzman
Senior VP & CFO

For the most part, it's a mix of business change there in the Property and Transportation business. Some of it has to do with the timing differences and then where we, so like in crop, for example, the timing difference that Carl mentioned between the fourth quarter and the first quarter, and the crop business is reinsured at a much higher rate than the overall segment. So with that shift from the fourth quarter to the first quarter, that had a bigger impact on gross written premiums than it did on net written premiums because of the reinsurance structure there. In the Casualty segment, the difference there is really just lower cessions in our environmental and also in our excess and surplus and excess liability businesses in the 2022 quarter compared to 2021.

James Paul Bach
Keefe, Bruyette, & Woods, Inc., Research Division

All right. That makes sense. And then moving back to investments. You talked about buying some longer-duration paper, and I just kind of want to get a sense of what the new money allocation priorities are moving forward.

Stephen Craig Lindner
Co-President, Co-CEO & Director

Yes. So if I understand your question, what are we looking to invest in going forward? I'd say, today, we're going to continue to invest in high-quality fixed maturity investments at maturities of 5 to 10 years. We don't think that the spreads are wide enough yet on noninvestment-grade paper to make a significant commitment there. I don't know if that answers your question. Did that?

James Paul Bach
Keefe, Bruyette, & Woods, Inc., Research Division

Yes. That covers it.

Operator

Your next question will come from Rudy Miller with Miller Capital.

Rudy R. Miller
The Miller Group

Gentlemen, once again, as a shareholder, great return of your capital results to your shareholders. We appreciate it very much. You guys have, I've said before, you just keep doing it. And we're very pleased. A couple of my questions I have. What would you say your biggest challenge is over the next 3 quarters with the company?

Carl Henry Lindner
Co-President, Co-CEO & Director

I think probably on the property and casualty side, I'm encouraging our management group to take advantage, full advantage of the opportunities to grow our business. We think that we're in a very, we've been in a sweet spot in the property and casualty marketplace in that. So I think the good news is, I don't see too many huge hurdles in that. I guess you could say changes in the continued increase in social inflation as it impacts the loss costs and loss ratio trends in an unexpected way. Though our trends have been pretty stable, though, slowly moving up in the more liability exposed lines of business. Those might be a few things around the property and casualty side. But again, I can't be more excited about the leadership that we have in our group and the talent and how we're postured for great results and good growth this year.

Rudy R. Miller
The Miller Group

A follow-up question, if I could, please. How about your staff? Are you back now to full-time with most people? Are you running a partial hybrid schedule? If so, how you feel that is working out thus far?

Carl Henry Lindner
Co-President, Co-CEO & Director

I think we're doing really well. Pre-pandemic, I think we always had some people on a hybrid work schedule. I think maybe 65%, 70%, not exactly sure what that number was, people were in the office in that. And I think we're back to where we have a substantial number of majority of people back in the office. But clearly, there's going to be a larger number today and moving forward than in the past that will be in a hybrid mode. We're still kind of working our way through that and trying to figure out what the right strategy is. In a company like ours, our culture and our values are really important to us long term. So our group values teamwork, values relationships. And we want to be very careful to continue to encourage that in our workplace.

Rudy R. Miller
The Miller Group

Last follow-up question, and I appreciate your comments. But regarding your most recent new technological acquisition and insurance-related, how do you see that developing? Could you give me a little more updated color on that since you've made that acquisition recently? And what's your feeling about future opportunities?

Carl Henry Lindner
Co-President, Co-CEO & Director

Yes. I think you're talking about Verikai.

Rudy R. Miller
The Miller Group

Yes.

Carl Henry Lindner
Co-President, Co-CEO & Director

Yes. It's a little early to comment much on that. We just acquired the business. We like the AI space. We really like the management team that's there and developing their core business that they're doing. And then it's going to take us a good part of this year using Verikai technology to launch our newest product in the medical stop-loss area. So I think probably more towards the end of the year and early next year before we'll have much to report on with regards to the development of our medical stop-loss business in that.

Rudy R. Miller
The Miller Group

That gives me what I was looking for, and that is how it was coming along development-wise from that aspect and kind of what you saw out there in the near future on their development. And I appreciate the updates, gentlemen. And great job and just keep the tornadoes away from your building and your clients and god bless America.

Operator

Your next question will come from John Hanson.

John Hanson

I'm an individual investor. First, I would like to thank the Lindners for how they handled the sale of the Annuity Group to MassMutual. The employees appreciate it, and the City of Cincinnati appreciates it. Two quick questions. I was a little bit surprised at how low the unrealized gain change was this year or this quarter. Was that due to the short duration or was that due to the runoff of the annuity business?

Stephen Craig Lindner
Co-President, Co-CEO & Director

No. Certainly, the sale of the annuity business would have changed the unrealized numbers because, gosh, I think some 75% of the assets were in the annuity business. But the reason it was such a small percentage change is just the positioning of the portfolio in very short duration investments and a very large amount of cash and floating rate notes as a percent of the portfolio.

John Hanson

Okay. And a follow-up. You did make a call on the 3.5% senior notes. Are you looking at doing anything with the junior debentures that are at 4.5% to 5 7/8%?

Stephen Craig Lindner
Co-President, Co-CEO & Director

Yes. At this time, we are not.

Operator

And I'm showing no further questions at this time. I will now hand it back over to Diane Weidner for closing remarks.

Diane P. Weidner
Vice President of Investor Relations

Thank you all for joining us this morning as we shared our first quarter results with you, and we look forward to talking with you again next quarter. Hope you all have a great day.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect.