

Markel Corporation NYSE:MKL

FQ1 2016 Earnings Call Transcripts

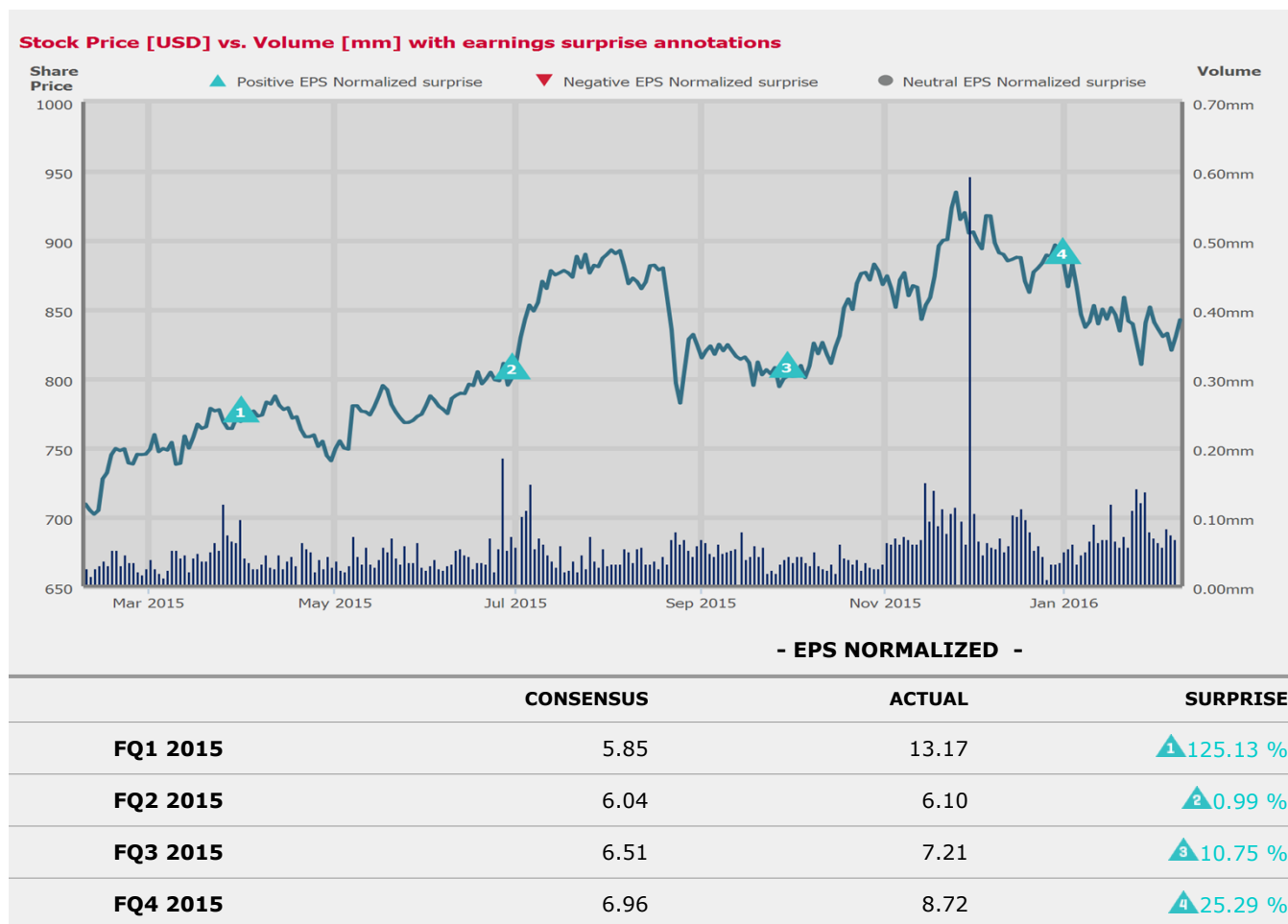
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S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	6.77	10.25	▲51.40	6.05	26.76	28.17
Revenue (mm)	1326.28	1376.18	▲3.76	1323.18	5393.84	5512.76

Currency: USD

Consensus as of Apr-13-2016 10:43 PM GMT



Call Participants

EXECUTIVES

Anne G. Waleski

*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*

ANALYSTS

Jeff Schmitt

John D. Fox

Fenimore Asset Management, Inc.

Kevin Alloway

*SunTrust Robinson Humphrey,
Inc., Research Division*

Mark Alan Dwelle

*RBC Capital Markets, LLC,
Research Division*

Robert Hobbs

Presentation

Operator

Good morning, and welcome to the Markel Corporation First Quarter 2016 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 Form 10-Q, 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, Co-Chief Executive Officer. Please go ahead.

Thomas Sinnickson Gayner

Co-Chief Executive Officer and Director

Thank you, Allison. Good morning, everyone, and welcome to the 2016 First Quarter Conference Call for the Markel Corporation. My name is Tom Gayner, and I'm joined by my colleagues, Anne Waleski, Mike Crowley and Richie Whitt. Anne will brief you on the financial results. Mike and Richie will discuss our insurance operations, and then I will return with comments on our investment results and Markel Ventures. As always, we thank you for your interest in support of Markel, and we look forward to your questions.

With that, Anne?

Anne G. Waleski

Chief Financial Officer and Executive Vice President

Thank you, Tom, and good morning, everyone. Our first quarter results were very strong and are in many ways a continuation of the trend that we saw in 2015 with our investing, underwriting and Markel Ventures operations all contributing to our success. I'm also pleased to report that we have substantially completed the integration of 2 acquisitions that were closed late last year, reporting our first results during the quarter for both Markel CATCo and CapTech.

Now let's talk about our first quarter 2016 results. Total operating revenues grew 6% to just under \$1.4 billion in 2016 from \$1.3 billion in 2015. The increase is driven by roughly 18% increase in revenue for Markel Ventures. This increase is primarily due to our acquisition of CapTech in the fourth quarter of 2015 and higher sales volume in our manufacturing operations.

Moving in to the underwriting results. Gross written premiums were \$1.4 billion for the first quarter of 2016 compared to \$1.3 billion in 2015, an increase of 11%, driven primarily by an increase within our Reinsurance segment. The increase in the Reinsurance segment was due to new business and renewals of multiyear policies and our general liability and product lines -- property lines. In the U.S. Insurance segment, there was increased volume due to a later closing of our underwriting systems in the first quarter of 2016 as compared to the same period a year ago. Excluding the impact of this timing difference, we experienced growth in our personal lines businesses as well as our general liability and property product lines. Foreign currency movements do not have a material impact on premiums in the quarter.

Market conditions remained very competitive. Consistent with our historical practices, we will not rate business when we believe prevailing market rates will not support our underwriting profit targets. Net written premiums for the first quarter of 2016 were \$1.2 billion, up 14% from the prior year for the same reasons I just discussed. Net retention increased 2 points to 85% in 2016 compared to 83% in 2015. The increase was due to higher retentions in our Reinsurance segment, primarily on our Property book. Earned premiums increased 1% to \$958 million for the first quarter of 2016. The timing difference I just mentioned had a negligible impact on earned premiums, and the growth was driven by the higher volumes generated by our personal lines business as well as our general liability and property product lines. Our consolidated combined ratio for the first quarter of 2016 was an 88% compared to an 83% last year. The increase in the combined ratio was driven by 5 points less favorable development in the prior accident year loss ratio in 2016 compared to 2015. For the first quarter of 2016, prior year redundancies were \$118 million compared to \$167 million for the same period a year ago. As you may recall, redundancies on prior year loss reserves in the first quarter of 2015 included \$36 million or 4 points attributable to a decrease in the estimated volatility of our consolidated net reserves for unpaid losses and loss adjustment expenses as a result of ceding a significant portion of our asbestos and environmental exposures to a third party. In our U.S. Insurance segment, we experienced more favorable development on our general liability product lines in 2016 compared to a year ago, which was more than offset by the adverse development on our specified medical and -- medical malpractice product lines. In response, we've increased our required rates for business written in the affected classes.

In our International Insurance segment, redundancies on our Marine and Energy product lines were lower in 2016 compared to 2015. The combined ratio for the first quarter of 2016 was favorably impacted by a 3-point improvement in the current accident year loss ratio, partially offset by a 2-point deterioration in the expense ratio. The improvement in the current accident year loss ratio was due to lower attritional losses and lower loss ratios across a number of products in all 3 of our underwriting segments. The higher expense ratio is primarily due to higher commission expense and higher incentive compensation cost in 2016 compared to 2015.

Now moving to the results of Markel Ventures. During the first quarter of 2016, revenues from Markel Ventures were \$287 million compared to \$245 million a year ago. This increase in revenue is primarily due to our acquisition of CapTech in the fourth quarter of 2015 and to higher sales volumes in our manufacturing operations. Net income to shareholders for Markel Ventures for the period was \$14 million compared to just under \$11 million for the first quarter of 2015. EBITDA was \$41 million in 2016 compared to \$34 million in 2015. Net income to shareholders and EBITDA reflect the contribution of earnings from CapTech and continued increased demand for transportation-related equipment within our manufacturing operation, the trend that we also saw in 2015.

Turning to our investment results. Investment income decreased slightly from \$93 million for the first quarter of 2015 to \$91 million this year. The decrease was primarily due to lower bond income on our fixed maturity portfolio due to the timing of maturities and purchases compared to the same period of 2015. During 2016, we continued to purchase equity securities and also allocated funds for purchases of fixed maturities. Net realized gains for the first quarter of 2016 were \$21 million compared to \$6 million a year ago. Given our long-term focus, variability and the timing of realized and unrealized gains and losses is to be expected.

Looking at total results for the year. Our effective tax rate was 24% in the first quarter of 2016 compared to 19% a year ago. The increase in the effective tax rate in 2016 was driven by a decrease in foreign tax credit for foreign taxes paid, partially offset by a decrease in the estimated earnings taxed at a 35% tax rate in 2016 compared to 2015. As you may recall, our anticipated recognition of foreign tax credits in 2015 had a favorable impact on our 2015 effective tax rate of approximately 8%. These foreign tax credits had not previously been available for use on our U.S. provision for income taxes, and foreign tax credits of this magnitude are not expected to be recognizable in future periods.

We reported net income to shareholders of \$160 million in the first quarter of 2016 compared to \$191 million a year ago. Comprehensive income for the period was \$397 million compared to \$282 million a year ago, and book value per share at the end of March 2016 was \$590, an increase of 5% since the end of 2015.

I'll make a few final comments about cash flows in the balance sheet. Net cash used by operating activities was \$105 million for the first 3 months of 2016 compared to net cash provided by operating activities of \$23 million for the same period of 2015. Net cash used by operating activities for the first quarter of 2016 included higher claim payments, higher payments for employee profit sharing and income taxes compared to the same period of 2015. Operating cash flows in 2015 were net of a roughly \$70 million payment made in connection with the asbestos and environmental transaction that I previously mentioned. Historically, first quarter is our lowest cash-generating quarter based on the timing associated with incentive compensation payments to our associates and to our brokers. Invested assets at the holding company were \$1.4 billion at March 31, 2016, compared to \$1.6 billion at December 31, 2015. The decrease is partially related to the timing of intercompany settlement.

With that, I will turn it over to Mike to talk about our U.S. Insurance segment.

Francis Michael Crowley

Vice Chairman

Thanks, Anne. Good morning. The U.S. segment is off to a very solid start in '16. As a reminder, this segment comprises all directives as written on our U.S. Insurance companies and includes all of the underwriting results for our wholesale and specialty divisions as well as certain products written by our Global Insurance team.

Gross written premiums for the U.S. segment were \$648 million, an increase of \$62 million or 11% compared to prior year. This increase was primarily due to the timing of closing of our underwriting systems for the quarter. However, excluding the additional booking time in the quarter, all divisions recorded modest growth. We continue to see growth in our Hagerty classic car program and our workers' comp product lines within our specialty division as well as our property and casualty lines in the wholesale division. Within the wholesale division, we saw growth from both our binding and brokerage distribution channels. Another encouraging factor for our wholesale division was the fact that 11 of our 12 largest relationships grew in the quarter.

The combined ratio for the first quarter of 2016 was 89% compared to 84% for the same period a year ago. The 5-point increase in the combined ratio is primarily driven by less favorable development of prior accident year's loss reserves and a slightly higher expense ratio, both of which were partly offset by lower current accident year loss ratio. The first quarter of 2016 had 6 points less favorable development on prior year loss reserves compared to 2015. Last year's results included \$19 million or 4 points of redundancy on prior accident years due to the reduction in the estimated volatility of our net loss reserves.

Additionally, during 2016, we saw adverse development within our medical malpractice and specified medical product lines due to increased claim frequencies on some classes of business. The current accident year was favorable to last year due to lower loss ratios across a number of product lines as Anne discussed in her comments. The rate environment continues to be very competitive. Rates for smaller accounts were flat in the quarter. Large accounts in our global business remained a battlefield with reductions in modest single digits. In an effort to combat the competitiveness of the market, we enjoyed some success with new ways to sell our products. We're working with several large brokers on their initiatives to become more efficient in their delivery of our products to their clients. We're also participating in a new underwriting facility for property coverage and expect to see more of these facilities in the future. We're also exploring layered, bundling approaches, including a number of lines of coverage for large accounts.

There were 2 key personnel changes in January. Robin Russo was promoted to Deputy Chief Underwriting Officer. Robin joined Markel in July of 1999. He has served in various key underwriting roles at Markel, including Senior Vice President and Chief Underwriting Officer of Markel Insurance Company. Since 2010, he has served as Executive Underwriting Officer in the product line leadership group, assisting Gerry Albanese with developing and implementing underwriting strategies and best practices across Markel North America.

Also, in January, Linda Schreiner joined Markel as Senior Vice President of Strategic Management. Previously, Linda was Chief Human Resource Officer and Chief Administrator Officer of MeadWestvaco

Corporation. During a 15-year tenure at MeadWestvaco, Linda served as a strategic adviser to the board and managed succession planning and talent management as well as communications and global facilities. As previously announced, Linda will assume the additional duties of Chief Human Resource Officer of Markel later in the year.

Markel's ability to fill these key positions from within, combined with our ability to attract top talent for expanded roles, remains a very important strength of our organization.

I'll now turn it over to Richie.

Richard R. Whitt

Co-Chief Executive Officer and Director

Thanks, Mike. Good morning, everyone. Today, I'll focus my comments on underwriting results for the first quarter for both International Insurance and the Reinsurance segments. Both segments are off to a very strong start and produced outstanding underwriting results for the first quarter.

First, I'll start with the International Insurance segment, which includes business written by our Markel International division as well as certain products written by our Global Insurance division. Gross written premiums were relatively flat to prior year at \$290 million -- \$291 million for the first quarter of 2016. As has been said a number of times already, market conditions continue to be difficult especially in London and in our global property products. I'll speak a little more about these headwinds later in my comments.

The first quarter combined ratio was 95% compared to 73% for the same period a year ago. The increase in the segment combined ratio for the quarter was primarily driven by less favorable prior accident year takedowns in 2016. Prior accident year losses were unfavorable by 23 points for the quarter, driven by lower redundancies, most notably in our marine and energy lines. The segment also saw a benefit in the first quarter of 2015 related to the decrease in the estimated volatility of our net loss reserves. That contributed \$17 million or 8 points, Anne previously referred to that. The expense ratio increased 3 points compared to the first quarter of '15 due to a 2-point increase in variable expenses related to an increase in earned premiums during the quarter on our Marine and Energy lines. Those lines carry a higher commission rate. Finally, these unfavorable movements were partially offset by a 5-point increase in our current accident year loss ratio. This was primarily driven by lower attritional losses on our property product lines.

Similar to earlier comments, we've seen a decrease in our ultimate loss ratio picks across multiple product lines in both divisions in the first quarter.

Next, I'll discuss the results of the Reinsurance segment, which includes 3 new Reinsurance program written by our Global Reinsurance division as well as those written by our Markel International division. For the first quarter, gross written premium for this segment are up about \$75 million or 20% compared to the first quarter of 2015. This growth is driven by a few large quota share reinsurance treaties within our property and general liability products as well as several 2-year treaties in general liability. Given how large quota share treaties can be, quarterly gross written premium can and will be volatile. In addition, when multiyear treaties are written, current period gross written premium benefits from this onetime increase. While we're certainly pleased with the results for the quarter, we continue to see extremely difficult market conditions and would not expect such significant growth during the rest of the year. The combined ratio for the Reinsurance segment was 82% for the first quarter of '16 as compared to 89% for the same period last year. The 7-point reduction in the combined ratio was driven by a decrease in both our current and prior accident year loss ratios. The current accident year loss ratio decreased 5 points due to lower ultimate loss picks across multiple product lines as well as less earned premium from auto Reinsurance business, which carries a higher loss ratio. You'll probably recall we talked a lot last year about the fact that we made the decision to reduce our auto writings due to poor results. Prior accident year favorable loss development was \$10 million higher in 2016 due to higher takedowns in our property and Marine and Energy product lines. Finally, these favorable movements were partially offset by a 3-point increase in our Reinsurance segment expense ratio. The increase over prior years relates to higher profit-sharing in 2016 as well as higher variable expenses related to mix of business.

I'll make a couple of more quick comments on competition. Market conditions remain challenging with London market and large account business under the most pressure. Competition, as I previously had said, also remain strong in the Reinsurance market. However, the rate of the price decline has slowed and actually, in a few cases, has stabilized on the reinsurance side. Finally, I'd like to make a few comments about Markel CATCo operations. Tony Belisle and the team are off to a fast start as part of Markel. Assets under management were approximately \$3.2 billion at the end of the first quarter. This is roughly a 19% increase from where CATCo finished 2015. 3 various subsidiaries that's also worth noting that Markel has invested \$200 million in the Markel CATCo funds. Pricing for the Markel CATCo multi-pillared product was largely flat during the first quarter of 2016.

With that, I'll turn it over to Tom. Thank you.

Thomas Sinnickson Gayner
Co-Chief Executive Officer and Director

Thank you, Richie. I'm happy to report to you that we're off to a good start in 2016. As we've talked about before, Markel benefits from a comprehensive approach to building the values of this company for our clients and customers and our associates. In doing so, we build the financial value for our shareholders. We described the values of this company in the Markel style, when we talked about our belief in hard work and pursuit of excellence while keeping a sense of humor. We also constantly reiterate our creed of honesty and fairness in all of our dealings. There is no more important message that I can give you this morning than to tell you that we followed that formula to a T during the first quarter of 2016. We do so constantly. All of the numbers and the results flow from that description and pledge as to how we conduct ourselves.

The pace of change in business continues to accelerate, and I can assure you that we are working harder than ever and at several new and appropriate initiatives to power Markel forward. Financial results from any 1 quarter or any 1 year are inherently volatile. Things like weather, financial market volatility and competitor behavior are beyond our control and can highly influence short-term results. That said, it's always more fun to report good results than bad ones, and the first quarter was filled with good results.

Comprehensively, there are 3 main engines at Markel that build financial value: our insurance operations, our investment activities and Markel Ventures. Fortunately and pleasantly, all 3 engines powered positive results as we start this year. Anne gave you the overall numbers and Mike and Richie described our Insurance overall operations. On the investment side of the house, we earned 3.6% on our equity investments and 2.4% on our fixed income holdings with a total return from the portfolio of 3.1%. Foreign currency actually gave us a little bit of a boost this year in our investment returns compared to the negative effects in 4 of the last 5 years. As a reminder, we try our best to match our foreign currency assets to our foreign currency liabilities to maintain an economically neutral position from changes in currency.

At March 31, equities represented 52% of our shareholders' equity compared with 51% at year-end. We continue to invest in a methodical fashion and expect to increase that percentage over time. Historically, we've invested between 50% and 80% of our shareholders' equity in equities. Over the last year, we've had a higher degree of turnover in the portfolio than normal, which reflects our view that the landscape for business is changing at a faster pace than historically was the case. When refined, we tend to accumulate gradually and persistently over time. We used dollar cost averages and periodic and regular purchasing to gradually build positions in line with our understanding of the businesses involved and the prices at which they're available. When we exit a position, we tend to sell it relatively quickly. The net of this behavior is despite our buying, our overall equity exposure remain relatively unchanged during the quarter. Over time, we continue to expect the increase in the overall equity weighting as we find investable ideas and continue to produce cash from our insurance invested and Markel Ventures activities.

In our fixed income operations, we earned a bit more than the coupon as interest rates continue to move lower. I commented in previous quarters that you needed an electron microscope to see the current levels of interest rate. Now even an electron microscope can't spot them. Now you need to feel it. I remember that it was hard learning about negative numbers in fifth grade and find it even harder to understand them as a grown-up as they pertain to interest rates. Fortunately, I figured out the negative numbers and made

it to the sixth grade, eventually. And we will all do so as well with negative interest rates. We remain as high quality as we know how to be in our fixed income portfolio, and we have no credit issues to report to you. We'll try to keep it that way. The duration of our portfolio is slightly over 4 years, and that roughly matches our insurance liabilities. We plan to stay that way for the time being.

At Markel Ventures, revenues increased to \$287 million compared to \$245 million a year ago. EBITDA increased to \$41 million compared to \$34 million, and I couldn't be happier about how the Markel Ventures organization is performing. We're enjoying strong results, in particular, from our transportation-related businesses. These businesses are and will remain cyclical in nature, but it is important to make hay while the sun shines, and they are doing so. There's nothing more that I could ask of them. Our steady Eddie businesses are living up to their reputations in producing solid results, and the businesses where we faced some challenges are actually showing some signs of improvement in 2016. Overall, I continue to be very pleased with the results for Markel Ventures, and we would be happy to add additional companies to the fold should we find appropriately priced opportunities to do so. While overall market prices for acquisitions remains elevated, we will remain patient yet confident that things will come our way.

Net-net, 2016 is off to a great start in insurance, investments and Markel Ventures. We're optimistic that as it says in the Markel style, the hard work and zealous pursuit of excellence along with our creed of honesty and fairness in all our dealings while keeping a sense of humor will produce results we can all be proud of over time.

With that, I wish you happy Star Wars day. May the Fourth be with you. We would now be delighted to take your questions. Thank you.

Question and Answer

Operator

[Operator Instructions] And our first question will come from Jeff Schmitt of William Blair.

Jeff Schmitt

Looking at Markel Ventures, the EBITDA margin moved up over 14%, looks to be about 14.5%, net profit margin at 5%. These looked like the highest numbers at least to the available historical information. What's driving that? Is the Cottrell deal driving that or is there something else that driving that?

Thomas Sinnickson Gayner

Co-Chief Executive Officer and Director

Jeff, it's Tom. The EBITDA margins are the more meaningful thing to look at as opposed to net income. Net income is heavily influenced by purchase accounting. And the younger in the business to do part of Markel, the more purchase accounting will to support that number. So EBITDA is what we look at, that's the key performance indicator and I would encourage you to focus on that. That number probably will range from some mild double-digit number to something in the teens. It's dependent on the mix of businesses that we own, any acquisitions that we would do and what sort of cyclical performance we would see from time to time in the businesses that do have more cyclical to it. So it's a good quarter, but these are the sort of margins that we would expect and be pretty happy about when conditions are reasonably good as they are right now.

Jeff Schmitt

So do you view these levels as more of a run rate going forward? I mean, they're above historical levels.

Thomas Sinnickson Gayner

Co-Chief Executive Officer and Director

I would think or appropriate to think it was a run rate over long periods of time, but there will be a lot of volatility in a quarter-by-quarter, just the nature of the business. Just the [indiscernible] of the business. Net-net-net, we don't judge ourselves or think about quarters too much. We think about rolling 5-year periods and things like that. And over rolling 5-year period, yes, low to mid-teens EBITDA margins sounds good to me.

Operator

Our next question will come from John Fox of Fenimore.

John D. Fox

Fenimore Asset Management, Inc.

My question specifically, I think, is for Richie. There are a lot of good surprises on the results but I was surprised by the amount of reinsurance gross written reinsurance premiums. Certainly, is it well well-known that reinsurance premiums have been heading down, particularly on the property side for a few years. And you mentioned retaining more of the property business. So could you just talk about the growth in reinsurance premiums? Why you're writing more property at this point as rates have been declining? And what you think kind of the risks are in the property book at this point?

Richard R. Whitt

Co-Chief Executive Officer and Director

Sure. Yes, thanks, John. Like I try to say in my comments, I think the headline number 20% is probably a little bit more flattering than it really is. We had a couple large quota share deals that the timing just happen to be that we got them in the first quarter, and so they sort of pumped up the first quarter volumes. A couple of those situations, one in particular we've been working on for 3 years, and we finally were able to put the deal together and that fell into the first quarter. So there's a decent amount of timing

there. In addition, we had quite a few that has become more and more popular just kind of with where the market is of multiyear deals. And we had a number of 2-year deals that we booked in the first quarter. And what basically happens is in terms of gross written premium, that all gets put into the quarter in which you write the deal. So first quarter has been flattered by those deals. First quarter next year will be lower as a result of not having that premium in the first quarter next year. So we definitely had a good first quarter in terms of writings, but at the same time, we also stepped away from a number of programs or reduced on programs where we weren't comfortable with where the pricing had gotten to. So I would expect that the year progresses, you won't see that kind of growth for the rest of the year. I would see us trending more down towards basically what we wrote last year, I think, would be a good guess based on what I see today.

John D. Fox

Fenimore Asset Management, Inc.

Okay. Great. And how do you think about when you come into the year, the amount of property cat Reinsurance you're willing to write? I mean, of course, there's a concept of PMLs, of course. But how do you guys think about it in terms of kind of "What you're willing to lose if there's a large event or 2?" Or just how do you approach the property cat business risk?

Richard R. Whitt

Co-Chief Executive Officer and Director

Sure. Well, we said on various metrics of corporate appetite, how much we're willing to lose in a certain size event, how much of our shareholders' equity we're willing to expose, and we monitor those metrics very carefully. And I can tell you just given the state of the property market and what -- as you mentioned what's been happening last few years, we're well below what our appetite would be in a more better pricing environment. So we're well within those metrics today. Property, we basically -- I don't think we've written much -- probably about flat to last year in total in the first quarter for -- or what we think we'll write this year. There was some timing differences in terms of the first quarter bookings. So we're -- as I said, well below our theoretical maximum appetite in a better market. And I don't really see us pushing the gas pedal, to speak, as we go through this year.

Operator

[Operator Instructions] Our next question will come from Mark Dwelle of RBC Capital Markets.

Mark Alan Dwelle

RBC Capital Markets, LLC, Research Division

I have kind of 3 questions, I guess. The first one relates to the U.S. business. You had commented about a timing difference there in terms of keeping the underwriting book [ph] or something. Can I just clarify on that? Did that essentially borrow premiums out of what would've been the second quarter and booked them into the first quarter such that the 2 together would end up being more of a flat run rate? Is that the way to think about?

Francis Michael Crowley

Vice Chairman

Yes, it is right, Mark, it's Mike. But even despite -- we have an extra week of bookings. But even excluding that extra week, the divisions were up slightly.

Mark Alan Dwelle

RBC Capital Markets, LLC, Research Division

Okay. So there was a little bit of growth in the quarter, but I mean the difference between a little bit and 11% or whatever the total was is really almost entirely that extra week?

Francis Michael Crowley

Vice Chairman

Yes. Yes, I think that's a good assessment. But we had I can say modest single-digit growth excluding that.

Mark Alan Dwelle

RBC Capital Markets, LLC, Research Division

Okay. All right. The second question, and I guess the -- this is in the other revenues and expenses table in the Q. You break out the investment management segment, which I guess I assume is probably the CATCo unit. And that unit showed a small loss for the quarter. Was there a certain amount of acquisition or integration-related expenses? Or I guess I wouldn't assume that making a loss is your normal state of play in that unit?

Francis Michael Crowley

Vice Chairman

No, that wouldn't be the goal, I can assure you, Mark. You're right, that is a portion of it. And I think this first year will be a learning experience for everybody to kind of get used to have the pattern of earnings on CATCo. But there's a couple of things going on. There is a seasonality to the earning of the management fees at CATCo. And first quarter and fourth quarter are the lowest. Second and third quarter are the highest kind of corresponding with when the wind risk is in the portfolio. So relatively low management fees compared to what we'll see in the next 2 quarters at CATCo. That's part of it. You've mentioned and you are correct, there are some acquisition costs, related costs going through this year, state bonuses, incentive plan bonuses. Those will be recurring for the rest of the year. And then probably the biggest thing is, we're only recognizing in revenue the management fees as we go through the year. If we get through the year and have a solid year in the fourth quarter at the stroke of midnight on December 31, we will go ahead and recognize performance fees as well. We -- there is some leeway in terms of accounting. We chose the preferred method which was wait until you're absolutely certain it's earned. So our fourth quarter has the potential to be where most of the revenue is booked into CATCo.

Mark Alan Dwelle

RBC Capital Markets, LLC, Research Division

Okay, that's helpful. Probably not something I can easily model in advance, but at least that understands how the flow of the numbers is going to go.

Thomas Sinnickson Gayner

Co-Chief Executive Officer and Director

We've heard the ball drop in Time Square, it means a lot to us this year.

Mark Alan Dwelle

RBC Capital Markets, LLC, Research Division

All right. Then the last question I had and I think you touched on it in terms of the tax rate. The tax rate in the quarter was sort of in the in-between space between sort of where it used to be and where it was last year. Could you just go through it again how, what benefit, if any, was from the foreign tax paid in the quarter?

Anne G. Waleski

Chief Financial Officer and Executive Vice President

Well, so last year, we had benefit from the foreign tax credit about, I think, 8%. So this year, you're right, we're sort of at the level we are. We're a little bit lower than we have been historically, but moving back into that base, 24%. And I think it would be our expectation that we would be in the mid- to high-20s this year.

Mark Alan Dwelle

RBC Capital Markets, LLC, Research Division

Okay. So the thing -- the factor that was making it a little bit lower this quarter was a little more onetime in nature than being part of the just kind of the ongoing assessment?

Anne G. Waleski

Chief Financial Officer and Executive Vice President

No, no, that would be the impact to last year's number. So the comparison would be the 24% this quarter versus the 19% last quarter or last year's first quarter. And last year's first quarter would have benefited from those tax credits that we took advantage of.

Mark Alan Dwelle

RBC Capital Markets, LLC, Research Division

Okay. I probably asked the question poorly. If you're going to get to a mid- to high-20s for the full year, the balance of the year will need to be relatively higher than the first quarter. Is that a fair way to think of it?

Anne G. Waleski

Chief Financial Officer and Executive Vice President

No, I don't think so. I mean, I think the 24% is our expected tax rate for the year. It's a little bit lower than we would have historically had, and that is being driven by a decrease in earnings that we expect to be taxed at a 35% rate.

Operator

Our next question is a follow-up from John Fox of Fenimore.

John D. Fox

Fenimore Asset Management, Inc.

Yes, I figured people can only take so much cat reinsurance, so I went back in the queue. Could you talk about CATCo? And you mentioned they are up to \$3 billion in AUM. Can you talk about there's a wind event, the risk -- one of the risk to Markel, I assume there's some management fee and then you mentioned you have \$200 million invested in the fund. So in a wind event, what are the risk of the CATCo investment?

Richard R. Whitt

Co-Chief Executive Officer and Director

Sure, thanks, John. You're right, there's really -- I think the way to think about CATCo and what it means to Markel is one revenue stream is as an investment manager, fund manager. The other revenue stream would be to the extent we invest in the CATCo funds. And as I mentioned and as you'll see in the queue, this year, we have invested \$200 million into the CATCo funds. So those would be the 2 revenue streams. That's what we'll be recording in our financials as we go throughout the year. And also, in terms of the investment manager, there's really 2 pieces to it. There's the management fee, which we'll book quarterly; and then there's the performance fee, if performance is good, and that would be booked in the last quarter of the year. In terms of the \$200 million investment we've made in CATCo, the potential is there would need to be multiple events, but the potential is we could lose the entire \$200 million. And that is the same for virtually any other investor in CATCo. There is a slight complication to that. We have multiple funds, and in some of the funds, we actually do go out and hedge some of the risk for the investors in those funds. So their results could be slightly different as a result of that. But in a multi-event, large event scenario, Markel could lose the entire investment. That is highly unlikely. In a one event sort of large event loss, we could lose as much as approximately \$50 million of the \$200 million. CATCo's product just not to get into great detail, but CATCo's product is a little different than most other products out there as opposed to a single-shot, retro sort of product, it is a multi-pillar product. And you can have up to 4 losses against the product. And the entire limit there's not a road unless you have up to those 4 losses. So to give you the bit of background on it, and if you need more information on it, happy to talk to you offline, John.

John D. Fox

Fenimore Asset Management, Inc.

Okay. I was just curious, the \$200 million is where on the balance sheet?

Anne G. Waleski

Chief Financial Officer and Executive Vice President

In the investment portfolio.

John D. Fox

Fenimore Asset Management, Inc.

In equity investments or?

Anne G. Waleski

Chief Financial Officer and Executive Vice President

I think \$175 million of it, John, is in equity. And the other is in equity method, that was in other.

John D. Fox

Fenimore Asset Management, Inc.

Okay, that's close enough. And then -- Anne, the \$44 million early extinguishment of debt, is that pretax?

Anne G. Waleski

Chief Financial Officer and Executive Vice President

It is, yes. The pretax in it will come through in the second quarter.

Operator

Our next question is from Mark Hughes of SunTrust.

Kevin Alloway

SunTrust Robinson Humphrey, Inc., Research Division

This actually Kevin Alloway on for Mark Hughes. Just a question about the current accident loss, that seems kind of lower generally across-the-board. Is that a sustainable level? Or is this more of a onetime phenomenon?

Anne G. Waleski

Chief Financial Officer and Executive Vice President

I think it is the trend that we started to see in the fourth quarter a little bit. So we think it is attritional losses as well as lower loss ratios across product lines, so we believe it's sustainable. But we will look at it every quarter.

Operator

Our next question will come from Rob Hobbs of Wells Fargo Securities.

Robert Hobbs

I had a quick question on the large quota share that you mentioned. Curious, was that with a new or existing customer to Markel?

Richard R. Whitt

Co-Chief Executive Officer and Director

That was a new customer. It was a customer we have been courting for probably 3 years now, and we're finally able to break through and have success. And that's sort of the nature of that business. There's a long lead time sometimes on putting those deals together, and when they come, they can be pretty substantial. That was roughly a \$20 million deal in the first quarter.

Robert Hobbs

Okay, great. And then I don't want to focus too much on this, but just -- if you could give us a little bit of color on the adverse development in the medical lines. Was that concentrated in certain accident years? Is there any -- was it concentrated in certain customer types that it emerge from? Any color you can give us on that would be helpful.

Richard R. Whitt

Co-Chief Executive Officer and Director

Yes, sure. I think there are some specific areas we saw, and then I think there also there's some general trend there. The specific areas we saw were some areas like correctional medicine. We saw some uptick in losses in that area, and that's an area we've written a decent amount of premium in, in the past. The other thing I would just say is just the general state of healthcare. There's been a trend from solo practitioners into larger practices, into practices being brought into hospitals. And I won't -- I don't think we've got our hands totally around it at this point, but we do believe that is leading to higher trend in terms of the medical lines. So we're looking at it very carefully. We've taken a lot of corrective actions, and we think we're on top of it.

Robert Hobbs

Great. And then last question, I was wondering if you could just update us on your thoughts on the M&A landscape, whether it be valuations, the pipeline you guys are being shown or whether or not you're seeing better opportunities in the underwriting business versus the Ventures business?

Thomas Sinnickson Gayner

Co-Chief Executive Officer and Director

In general, prices are high across-the-board. Whether we're looking at insurance deals or ventures deals, we do see a flow. Fortunately, we're well known enough to be aware of a lot of transactions but -- and we are anxious to add to the Markel family, but not with these prices.

Richard R. Whitt

Co-Chief Executive Officer and Director

The only thing I would add to that is -- and Tom's absolutely right. Prices do seem to be high across-the-board and expectations seemed to be higher across-the-board. Probably the other side of that coin at least in insurance is, organic growth is going to be very, very difficult to come by. And so if you are setting out growth targets for yourself, acquisition is the other way to do it. So in some point, people will come to a meeting of the minds on that, and we might see some deals. But right now, I think just given what the future looks like, people expect a little too much for their companies.

Operator

Having no further questions, this will conclude our question-and-answer session. I would like to turn the conference back over to Tom Gayner for any closing remarks.

Thomas Sinnickson Gayner

Co-Chief Executive Officer and Director

Thank you very much. Glad you joined us. We look forward to chatting with you next quarter. Take care.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

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