S&P Global
Market Intelligence

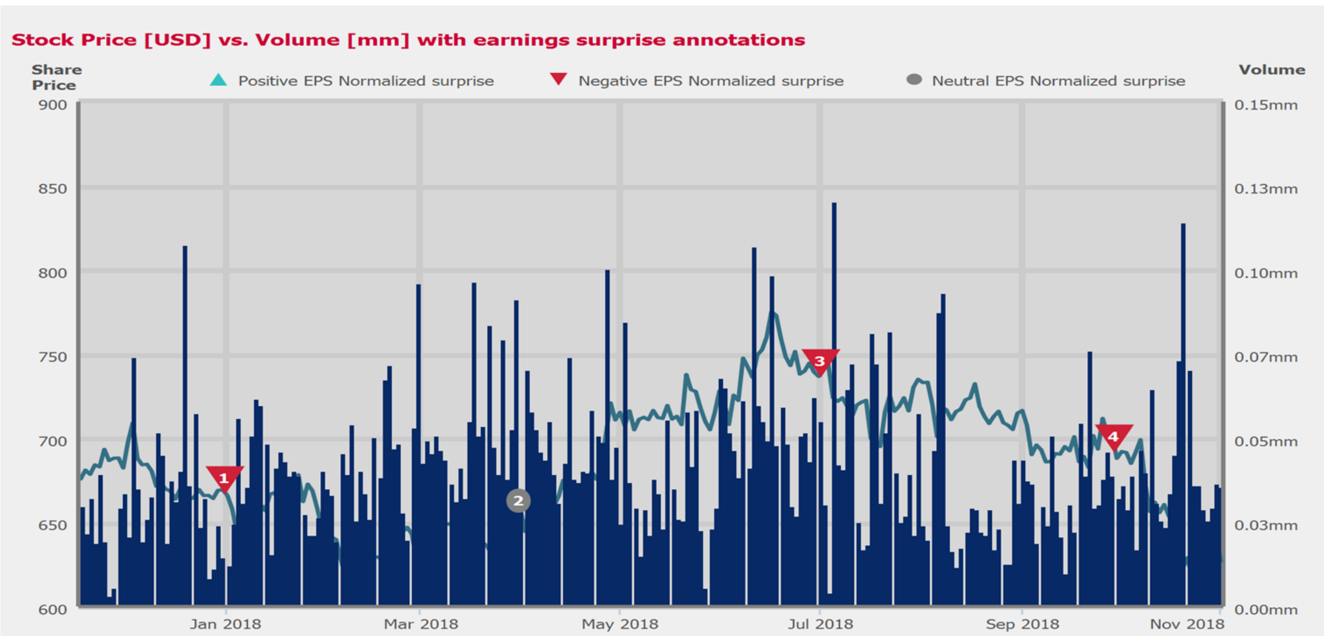
Fairfax Financial Holdings Limited
TSX:FFH
FQ3 2018 Earnings Call Transcripts

Friday, November 02, 2018 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2018-			-FQ4 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	5.90	2.86	(51.53 %)	7.92	23.41	30.45
Revenue (mm)	4326.95	4441.00	2.64	4616.70	17533.73	18408.50

Currency: USD
Consensus as of Nov-02-2018 11:00 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2017	5.10	1.07	1 (79.02 %)
FQ1 2018	5.56	(7.37)	NM
FQ2 2018	5.83	4.07	2 (30.19 %)

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Call Participants

EXECUTIVES

David J. Bonham
VP & CFO

Derek Bulas
Associate Vice President of Legal

Paul C. Rivett
President

ANALYSTS

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Jaeme Gloyn
National Bank Financial, Inc., Research Division

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Mark Alan Dwelle
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Paul David Holden
CIBC Capital Markets, Research Division

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SHAREHOLDERS

Luis Hernandez

Presentation

Operator

Good morning, and welcome to the Fairfax 2018 Third Quarter Results Conference Call. [Operator Instructions] Today's conference is being recorded. If you have any objections, you may disconnect at this time. Your host for today's call is Paul Rivett, with opening remarks from Mr. Derek Bulas.

Mr. Bulas, please begin.

Derek Bulas
Associate Vice President of Legal

Good morning, and welcome to our call to discuss Fairfax's 2018 third quarter results. This call may include forward-looking statements. Actual results may differ, perhaps materially, from those contained in such forward-looking statements as a result of a variety of uncertainties and risk factors, the most foreseeable of which are set out under Risk Factors in our base shelf prospectus, which has been filed with Canadian securities regulators and is available on SEDAR.

I will now turn the call over to our President, Paul Rivett.

Paul C. Rivett
President

Thank you, Derek. Good morning, Fairfax shareholders. Welcome to your company's third quarter conference call. I plan to give you some of the highlights and then pass it on to Dave Bonham, our Chief Financial Officer, for additional financial and accounting details.

Over the first 3 quarters of 2018, Fairfax's book value per share increased by 2.7%, adjusted for the $10 per share common dividend paid in the first quarter of 2018.

Despite the catastrophe losses in the quarter, our insurance companies continue to have good results with combined ratio of 97.6%, with strong reserves and producing an underwriting profit of $74 million in the quarter.

All of our major insurance companies, with the exception of Brit, had combined ratios of less than 100% with Zenith at 80.3%, Northridge at 89.5%, Odyssey Group at 97.5%, and Allied World at 96.7%.

Third quarter operating income was, again, very strong at $250 million, while net gains on investments in the quarter were $41 million.

As shown on Page 42 of our quarterly report, our net investment gain of $41 million in the quarter consisted of realized gains on our investment portfolio of $74 million, offset by unrealized losses of $33 million.

As we have mentioned in our annual meetings, annual reports and quarterly calls, with IFRS accounting where stocks and bonds are recorded at market and subject to mark-to-market gains or losses, quarterly and annual income will fluctuate and investment results will only make sense over the long term. All in, we had net earnings in the quarter of $106 million.

Our insurance and reinsurance businesses' net premium volume decreased -- sorry, increased in the third quarter of 2018 versus 2017 by an aggregate of 6.5%, primarily due to premium growth at Northbridge at 10.8%, Odyssey at 10.6%, Crum & Forster at 7.8% and Brit at 10.2% as well as the acquisition of our Latin American operations.

This was offset by lower premiums written at Allied World and Zenith and the sale of First Capital. As you can see on Page 72 of our quarterly report, the fair value of our investment in noninsurance associates and listed consolidated companies such as: Recipe, formally Cara; Grivalia; Thomas Cook; Fairfax India and Fairfax Africa is $5.2 billion versus a carrying value of $4.8 billion, an unrealized gain of approximately $400 million or $15 per share pretax, not on our balance sheet.

When you review our statements, please remember that when we own more than 20% of a company, we equity account and when we own about 50%, we consolidate. So that mark-to-market gains in these companies are not reflected in our results.

Of note in the third quarter were the following items. In July, we purchased 11.2% ownership interest in Brit from our minority partner, OMERS, for $252 million. Subsequent to this transaction, Fairfax's ownership in Brit is now 88%.

In September, Fairfax Africa entered into a $90 million credit facility. The facility matures in September 2019 with an extension option for an additional year. There were no amounts drawn on this facility at the end of September.

Subsequent to the third quarter, early in October, RiverStone purchased a runoff portfolio written by a U.K. insurer prior to 2001. RiverStone assumes net insurance liabilities of approximately $562 million in return for the cash payment of -- to RiverStone of approximately $645 million.

Also, in October, Fairfax India invested $60 million in common shares and warrants of the Catholic Syrian Bank. Fairfax India has committed to further invest approximately $104 million in common shares and warrants of the bank over the next 12 to 18 months.

Once completed, Fairfax India will have a 51% equity interest in the bank on a fully diluted basis. The bank was established in 1920 and is a private company headquartered in Thrissur, India, offering banking services through over 420 branches across the country.

In recent months, we have seen a general decline in the Indian markets and the Indian rupee. This decline is likely attributable to several factors, including rising commodity costs and liquidity concerns at certain nonbank financial companies. However, all of our investments continue to perform well, and we believe this current correction will be short-lived.

In the first 9 months, we also put more of our cash to work, approximately $6.6 billion in short term, which is less than 2 years, United States Treasuries. Given the continued strength in the U.S. economy and the bias towards higher interest rates, we continue to be focused on the short end of the treasury curve for the time being. As of now, we have an annual run rate of approximately $800 million in interest and dividend income. Subsequent to the end of the quarter, there are 3 investment items to note: First, we sold our common share ownership in Arbor Memorial, Canada's largest funeral home business, for a gain of $112 million, which is more than 3x our cost.

We want to thank David Scanlan and the entire Scanlan family for trusting us to help them take Arbor private in 2012 and for treating us very well as partners. We wish them the very best in the future as a leading Canadian private family company.

Another subsequent event we would like to highlight is with the Resolute Forest products. After many patient years as shareholders, Yves Laflamme and the Resolute team, with the guidance of our Brad Martin, have provided shareholders with $135 million special dividend, which is approximately $44 million payable to Fairfax.

We think there may be more good things to come as Resolute is generating strong free cash flow and is keenly focused on shareholder-friendly capital allocation.

Sporting Life and Golf Town, under the direction of our partners, David and Patti Russell and Chad McKinnon, with the oversight of Bill Drysen, of have merged their companies. The 2 profitable operations will be even stronger together with cooperation on a number of fronts, but continuing to run their respective businesses on a decentralized basis.

We remain vigilant with holding company cash and marketable securities at over $1.7 billion. Always looking to be soundly financed first, we've began to repurchase our partners' interest in our insurance companies as well as, over the past 12 months, we have purchased 656,000 of our shares at an aggregate cost of $347 million.

As we have said in the past, we believe the U.S. administration's policies at reducing corporate taxes to 21%, rolling back regulation on business and planned significant infrastructure spending has the potential of boosting economic growth significantly in U.S. and prolonging the U.S. business cycle. That said, our investment team at Hamblin Watsa is cautiously observing events, such as the upcoming U.S. election next week and ongoing negotiations on global tariffs, in particular, with China.

The trade policies of the U.S. could precipitate a collapse in world trade, but we see these risks potentially diminishing as the U.S. has recently announced the deal with Canada and Mexico as well as potential deals with Europe as well as China.

These global trade barrier risks will continue to be very much monitored by Hamblin Watsa. With this backdrop, we will continue to focus on picking good companies, which provide significant downside protection and potential appreciation over the long term.

As of September 30, 2018, we have $9.2 billion in subsidiary cash and short-term investments in our portfolio. In total, including short-dated U.S. treasuries, we have approximately $17.2 billion in cash and short-dated securities, which is approximately 50% of our portfolio investments. Our investment portfolios will be largely unimpacted by rising interest rates as we have not reached for yield.

With an annual run rate of approximately $16 billion in gross premiums, a singular focus on underwriting discipline and superior reserving and investment portfolio of approximately $40 billion, over 50% of which is in cash and U.S. Treasuries, and the Hamblin Watsa team constantly evaluating the market, we continue to believe there is tremendous opportunity for Fairfax shareholders over the long term.

I'll now pass the call over to David Bonham, our Chief Financial Officer.

David J. Bonham
VP & CFO

Thank you, Paul. So in the third quarter of 2018, Fairfax has reported net earnings of $106 million or $3.34 per share on a fully diluted basis, and that compares to the third quarter of 2017, when we reported net earnings of $477 million or $16.42 per share on a fully diluted basis.

For the first 9 months of 2018, Fairfax's net earnings of $854 million or $28.83 per fully diluted share, and in the same period of 2017, we had $871 million or $33.13 per diluted share.

Underwriting profits at our insurance and reinsurance operations in the third quarter and first 9 months of 2007 -- 2018 improved to $74 million and $299 million, with combined ratios of 98% and 97% in each of those respective periods. That's compared to underwriting losses of $833 million and $617 million combined ratios of 130% and 109% in those respective periods in 2017.

Higher underwriting profits in 2018 principally reflected lower current period catastrophe losses comprised principally of Typhoons Jebi in Japan; Mangkhut in the Philippines, Hong Kong and southern China; and Hurricane Florence that affected the Carolinas and Cape Verde.

In the third quarter and first 9 months of 2018, these events and some other attritional totaled $215 million and $312 million and represented 7 combined ratio points on a year-to-date, 4 combined ratio points on the quarter. Obviously, significantly lower than the current period catastrophe losses of about $1 billion and $1.1 billion in those periods in 2017, representing 37 points on the quarter, 16 points year-to-date in 2017 and principally the impact of Hurricanes Harvey, Irma and Maria.

Our combined ratios also benefited from higher net favorable prior year reserve development in the third quarter and first 9 months of 2018 of $174 million and $372 million, translating into 6 and 4 combined ratio points in each of those periods. That compared to net favorable development of $88 million and $299 million in those same periods in 2017.

Turning to net premiums written and adjusting for the impact of certain 2017 acquisitions and the sale of First Capital, net premiums written by our insurance and reinsurance operations increased by 5% in the third quarter, 8% in the first 9 months of 2018, and that primarily reflected growth at OdysseyRe, Northbridge, Crum & Forster and Brit.

So turning to the operating company results. We'll start with Northbridge. Northbridge's underwriting profits increased to $31 million and $16 million in the third quarter and first 9 months of 2018, combined ratios of 90% and 98% in those respective periods, compared to underwriting profits of $2 million and $6 million and combined ratios of 99% in each of those same periods in 2017.

The underwriting results in the third quarter and first 9 months of 2018 included net favorable reserve development of $37 million and $72 million, translating into 13 and 9 combined ratio points.

The underwriting results also in the third quarter and first 9 months included $3 million and $17 million of current period catastrophe losses, and that principally related to several storms in Ontario and Québec.

In Canadian dollar terms, net premiums written by Northbridge in the third quarter and first 9 months of '18 increased by 16% and 10%, and that reflected increased renewal business and price increases across the group.

Looking at Odyssey Group. It reported underwriting profits of $19 million and $134 million with combined ratios of 98% and 94% in the third quarter and the first 9 months of 2018. That compared to underwriting losses of $168 million and $64 million, combined ratios of 126% and 104% in the third quarter and first 9 months of 2017.

Current period catastrophe losses of $77 million and $142 million, represented 10 and 7 combined ratio points in the third quarter and first 9 months of '18, principally related to Typhoon Jebi and other attritional current period catastrophe losses, certainly lower than the losses of $262 million and $316 million, which represented 41 and 18 combined ratio points in the third quarter and first 9 months of 2017, principally related to HIM.

Odyssey Group's combined ratio reflected the benefit of higher net favorable development of $56 million and $152 million and that principally related to property catastrophe loss reserves compared to net favorable reserve development of $43 million and $110 million in the third quarter and first 9 months of 2017.

OdysseyRe Group wrote $706 million and $2.2 billion of net premiums in the third quarter and first 9 months, increases of 7% in the quarter, 16% in the year-to-date, reflecting growth across all of its divisions.

Moving on to Crum & Forster. Crum & Forster's underwriting profits improved to $10 million and $18 million in the third quarter and first 9 months, combined ratios of 98% and 99% in those respective periods.

That was compared to underwriting losses of $18 million and $12 million, combined ratios of 104% and 101% in the third quarter and the first 9 months last year.

Net prior year reserve development was nominal in the third quarters and first 9 months of both 2018 and 2017.

Crum & Forster's net premiums written increased by 8% in both the third quarter and first 9 months of 2018, again, growth across several of its lines of business.

Zenith National reported underwriting profits in the third quarter and first 9 months of $41 million and $91 million, combined ratios of 80% and 85%, compared to underwriting profits of $34 million and $92 million, with combined ratios of 84% and 85% in those same periods in 2017.

The combined ratios in the third quarter and first 9 months of 2018 included 11 and 10 combined ratio points of net favorable prior year reserve development compared to 8 and 10 combined ratio points in the third quarter and first 9 months of 2017.

Zenith wrote $167 million and $638 million of net premiums in the third quarter and first 9 months of 2018, which was somewhat lower than the $175 million and $677 million net premiums in those respective periods in 2017. Decreases in net premium written in 2018 primarily reflected price decreases.

Looking at Brit, in the third quarter and first 9 months, Brit produced underwriting losses of $33 million, $15 million and combined ratios of 108% and 101%. That compared to underwriting losses of $222 million and $199 million and 2017 combined ratios there was $158 million in the quarter, $118 million year-to-date.

Current period catastrophe losses at Brit of $66 million and $70 million, represented 17 and 6 combined ratio points in the third quarter and first 9 months, principally related to Typhoon Jebi and Hurricane Florence, and that was lower than current period catastrophe losses of $244 million and $245 million that represented 64 and 22 combined ratio points in the third quarter and first 9 months of 2017, again, principally related to HIM.

Brit's net premium written increased by 10% and 6% in the third quarter and first 9 months of 2018. That reflected a contribution from initiatives that they've launched in prior years, price increases, favorable impact of foreign currency translation, partially offset by reductions in their noncore lines of business through active portfolio management.

Allied World contributed $519 million and $1.9 billion to net premiums written in the third quarter and first 9 months of 2018. The underwriting profit improved to $20 million, with a combined ratio of 97% in the third quarter of 2018 compared to an underwriting loss of $416 million and a combined ratio of 182% in the third quarter of 2017.

The improvement in underwriting profitability principally reflected lower current period catastrophe losses, which were $62 million or 10 combined ratio points in the third quarter of 2018, principally related to Typhoon Jebi and Hurricane Florence, compared to current period catastrophe losses of $412 million or 82 combined ratio points in the third quarter of 2017 related to HIM.

Fairfax Asia recorded an underwriting profit of $1 million and an underwriting loss of $1 million in the third quarter and first 9 months of 2018, lower than the underwriting profits of $15 million and $32 million in the same periods in 2017, which included the more favorable results of First Capital, which was sold in the fourth quarter of 2017.

Insurance and reinsurance other. The segment produced underwriting losses of $13 million and $19 million and combined ratios of 105% and 102% in the third quarter and first 9 months of 2018, compared to underwriting losses of $60 million, $56 million, combined ratios of 131% and 111% in those same periods in 2017.

The improved underwriting results in the third quarter and first 9 months of 2018, again, principally reflected the lower current period catastrophe losses.

Runoff reported operating losses of $49 million and $102 million in the third quarter and first 9 months of 2018 compared to operating losses of $15 million and $95 million in those same periods in 2017. The increase in the operating loss in the third quarter of 2018 principally reflected higher net adverse prior year reserve development, primarily related to asbestos exposures.

On the consolidated front, interest in dividend income increased year-over-year from $152 million in the third quarter of 2017 to $194 million in the third quarter of 2018, principally reflecting higher interest earned on increased holdings of short-dated U.S. treasury bonds, partially offset by lower interest earned on U.S. state and municipal bonds as a write-off -- as a result of sales during 2017 and 2018.

Fairfax recorded a provision for income taxes of $71 million, a 32% effective tax rate in the third quarter 2018 and a provision for income taxes of $140 million and a 10% effective tax rate in the first 9 months of 2018. The higher effective tax rate quarter-to-date primarily reflected losses at the holding company, which were not recognized as deferred tax assets, but lower effective tax rate year-to-date primarily reflected the gain on the deconsolidation of Quess, which was not taxable.

Our total debt to total capital ratio increased to 26.8% at September 30, 2018, from 25.8% at December 31, 2017, and that primarily was as a result of a modest increase in total debt and decreased total capital. We ended the third quarter of 2018 with an investment portfolio which included the holding company cash investments of $39.1 billion, which was slightly lower than the $39.3 billion that we held at December 31, 2017.

And with that, I'll pass it back over to you, Paul.

Paul C. Rivett
President
Thanks, Dave. Now the team here looks forward to answering your questions. [Operator Instructions] Okay, Cal, we're ready for your questions.

Question and Answer

Operator

[Operator Instructions] We have the first question coming from Jeff Fenwick of Cormark Securities.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Paul, nice to hear you on the call. So I guess, the topic everyone's always interested in is the investment side of things there and continued evolution this year of moving that -- the cash into some of the shorter-dated bonds. And I think, at this point, exiting the quarter, you were still around 25% in the cash position here. So what's the thinking in terms of that rebalancing? Do you feel like you got it approximately where you want it to be? I know, you don't want to reach per yield. At the same time, I know you wanted to get some of that idle cash working for you the whole time.

Paul C. Rivett
President

Yes, so I think we've done that with the help of Brian Bradstreet and the Hamblin Watsa team, Jeff. We've moved, as you said, into the shorter-dated treasuries to get our interest income up. And so we're at about 100 -- sorry $800 million now total of interest in dividend income on an annual run rate. And so we're going to continue to increase that, but we're not going to reach for yield and -- but as we're watching the markets, where you see some volatility, we're seeing opportunities. We've got dry powder because we're roughly 50% in these short-dated U.S. treasuries and cash. So -- and like we've talked about, we will continue to harvest some of our investments like we just did with Arbor and redeploy it. And we're seeing some opportunities to redeploy it, but we are not, particularly in these volatile markets, going to reach for yield. So -- and you see the employment data coming out now. We've got some wage inflation, it looks like potentially, and so interest rates will probably continue to rise. So we'll be ready for that as spread widens -- spreads widen and we can redeploy that, the short-term U.S. treasuries.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

And I guess, the second part there is just on the equity side, in terms of the mix in the total for the portfolio. I mean, any change in the approach there at all? I mean, it doesn't really seem like it. I guess the Seaspan investment is probably a great example of you're willing to make some large bets where you see value, but what are you thinking there in terms of the mix of equity or equity-related investments?

Paul C. Rivett
President

So we're still continuing to look for the debt and warrant-type transactions, Jeff. So -- and so we've got some opportunities there, but there may be some shuffling, some selling in this quarter and moving into some other interesting equity opportunities that the Prem and the team have been working on. So we're going to be opportunistic as always, but we've got some interesting things that are close to being able to action on.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Okay. And maybe just one quick one on the insurance operations here. I just noticed the RiverStone transaction that you mentioned here, a pretty sizable runoff book that you're taking in. It seems to be happening around the same time that you're putting ADVENT into runoff. So maybe the context around the decision to take that on and how you're thinking about from just --- from managing those moving parts.

Paul C. Rivett

President

Yes, so on that, Jeff, great questions. So we and the RiverStone team is always looking for good opportunities, and this is one in particular that they've been working on for almost a year. And there's already an embedded, quite a substantial embedded game in that, and we're quite happy with it. We'll continue to look at other things, but we're always going to be opportunistic and this is just a really great deal that RiverStone's found. And they've got a good team. And so they're going to look -- continue to look for other opportunities, but as it stands, now there isn't any others.

Operator

Our next question is coming from Anthony Lai of Fairfax India.

Paul C. Rivett
President

Anthony? Cal, it looks Anthony might not be there.

Operator

It looks like Anthony has also dropped out from the question-and-answer session. Let's go ahead to the next one from Paul Holden from CIBC.

Paul David Holden
CIBC Capital Markets, Research Division

So I want to ask one question on the investment portfolio and then one on the underwriting side. So starting with the investment portfolio. Paul, I heard your macro view. It sounds like nothing's really changed. So I guess, my question is there, what would need to change or maybe it's more than one thing versus more than one thing, what would need to change for you to become either more defensively positioned or to look at sort of asset pricing dislocation opportunities, things that Fairfax has done very well in the past to take advantage of?

Paul C. Rivett
President

Yes. Look, I think as it stands now, we're -- As you know Paul, we're very conservatively focused. So with that over 50% in cash and short-term U.S. treasuries, we're conservative relative to our peers. And well, we're going to be opportunistic, and we're seeing volatility, and we will watch as corporate spreads widen. We might decide to go longer. But for now, it's looking like the U.S. economy is continuing to do very well and the business cycle may prolong longer than people expect. And corporate earnings continue to come in strong, but things can change. I mean, next week, we've got a pivotal U.S. election to change things and obviously, it's a crucial meeting coming up between China and the U.S. on trade. So Hamblin Watsa team, Prem, Brian, Roger, Wade, Lawrence, all watching this stuff very carefully every day, but we feel very comfortable. We are very, very conservatively positioned right now.

Paul David Holden
CIBC Capital Markets, Research Division

Okay. And then just the follow-up on that. And I want to be clear on this. Nothing philosophically has changed in terms of your appetite to express macro views through the use of derivatives such as the CDS where you had a huge gain in '08 and '09, like both types of options are still on the table as you see fit?

Paul C. Rivett
President

Yes. So we're -- again, as you know, Paul, we'll continue to be opportunistic and -- but from a hedging perspective, very unlikely that we'll hedge again, and there's really no need to given we're already very conservative relative to our peers, very comfortable where we are with the 50% of our portfolio, nearly $20 billion in cash and U.S. treasuries.

Paul David Holden
CIBC Capital Markets, Research Division

Okay. Fair enough. And then my question on the underwriting side. Just wondering how all of the changes taking at -- taking place at Lloyd's are impacting your syndicate through Brit. My impression is we should probably expect premiums to shrink with the focus on margins, but maybe you can tell me more directly what should we expect on Brit?

Paul C. Rivett
President

Yes, so as -- I think you can expect more of the same probably, Paul. We're seeing net premiums increasing, and we're seeing some price increasing. Lloyd's has said that they want to reduce volumes and so that's good generally for pricing. So Brit is taking advantage of that. And so we're, again, always focused on combined ratio of 95% or less and good reserving. But we're seeing opportunities. Brit's seeing opportunities as Lloyd's shrinking a little bit here.

Operator

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Just a couple of fairly quick questions here. You mentioned the special dividend that you'll be receiving from Resolute. When that gets booked, is that going to be booked as just regular dividend income? Or is that going to run through the capital gains and losses lines as the way we normally mark affiliate earnings?

David J. Bonham
VP & CFO

Mark, yes, that Resolute is an equity accounted investment. So when we get that in there, it'll actually reduce the carrying value of our equity method, the carrying value for Resolute. It will be in our income statement.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Got it. Okay. That's the first question. The second one. You mentioned the asbestos charge in the runoff segment. Was that pursuant to the normal kind of end-of-the-year actuarial review? Or was that some specific one-off reserve add?

David J. Bonham
VP & CFO

So in runoff, you're right, it tends to be -- these are fairly lumpy claims. So they're larger kind of one-offs and that's what you're seeing coming through in the third quarter. Our reserve review we do as of September 30, so we'll be reviewing all that in the fourth quarter and in respect of the third quarter for our year-end reporting.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. That's what I thought on the reserve review. I was just -- I was curious that it wasn't accelerated at quarter. Last question I have is, do you have any early sense of how your Hurricane Michael claims might come out? Any type of suggestions of what the range of loss there might look like?

Paul C. Rivett
President

Yes. So good question, Mark. They're coming in line with our expectations. So we're very comfortable and don't think it's going to be material.

Operator

Our next question is coming from George Smith of Davenport.

George Levin Smith
Davenport Asset Management

Buyback activity doesn't seem maybe as though it's as aggressive as it could be since you guys articulated a strategy of being more aggressive maybe 9 or 12 months ago. And it seems to have slowed a bit recently at a time when if anything may have been an opportunity to ramp it up a bit. So I was just wondering if you could rearticulate your thoughts there.

Paul C. Rivett
President

Yes. So no, great question, George. So we always want to be soundly financed. That's the first priority, but we'll be opportunistic, and we have been over the last 12 months. But our first priority is to buy-in the minority interests from our partners, which we did. And you're right, we would like to buy-in more and the recent price movements during the blackout, unfortunately, we couldn't take advantage of. But 656,000 shares over the last 12 months is pretty good, $347 million deployed there. So we'll continue to do that opportunistically, though. It is a focus.

George Levin Smith
Davenport Asset Management

Is it fair to assume we might pick the activity up in light of what we've seen with the stock?

Paul C. Rivett
President

At these prices, it certainly could. We don't want to forecast, but certainly, I like the stock at this price.

George Levin Smith
Davenport Asset Management

And in terms of equity portfolio, I'm also trying to get just a better feel for direction, you guys -- and you're speaking towards opportunities. You're just talking about minority stakes and very big liquid well-known public companies or do you have your eye on some form of controlling positions and I guess, something a little less vanilla.

Paul C. Rivett
President

No. So we're always opportunistic, George. So we really are, and continued to be focused on transactions like Seaspan, where we can get partnered. Whether it's minority or control, it doesn't matter. The more important thing, quite frankly, is really good management with a long-term track record and companies like Seaspan, we've got that with Bing Chen and David Sokol, masterful capital allocators. So we'll do those types of transactions every day of the week.

George Levin Smith
Davenport Asset Management

We also, I think, had a renewed emphasis, if you go back a year ago, on achieving kind of a double-digit, let's say, low- to mid-teens annual compound return or the return on equity, which I would think would be awfully difficult to achieve with the cash balance. I mean, it's great that interest rates have moved up and we're picking up a little bit more on the cash and such, but I don't get how we're going to get to that target with the attributes of our portfolio yielding 2%.

Paul C. Rivett

President

Yes. No. No, you're absolutely right. That's a good question, George. So for us, it's just taking a long-term focus and just being patient and opportunistic. And we've been cautious throughout and having 50% of our portfolio, roughly $20 billion in cash and U.S. Treasury, short-term U.S. treasuries. We're just dry powder. We're waiting. Brian Bradstreet and the team, to the extent that spreads really gap out, will be ready for it. On the equity side, we continue to see really, really interesting opportunities. Things in this volatile market, things are starting to pop out, and you will be seeing, hopefully, if we can execute some interesting new buys in this quarter.

George Levin Smith
Davenport Asset Management

Which sectors you can speak towards that, I mean, without getting too detailed, whether it's building or energy or whatever it may be, where you think there's more opportunity?

Paul C. Rivett
President

No, we're quite agnostic. So we're not -- we don't really focus on particular industries. We've, as you saw, we've monetized Arbor with the funeral home business. We've looked at things in oil and gas. We're looking for -- again, we're looking for good value, buying in less than intrinsic with good management with a long-term record. And we have a really good deal flow in that regard, George. So we're -- if there is a good value out there, we're seeing it, but we don't try and focus on any particular sector.

George Levin Smith
Davenport Asset Management

And it sounds like we'll be hearing more soon on some of these deals.

Paul C. Rivett
President

Yes. And hopefully, so.

Operator

The next question is coming from Jaeme Gloyn of National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

First question is regarding the other reporting segments. I know, it's that -- it looks like margins were coming down in pretty much all the segments, restaurants, retail, India, Thomas Cook. I'm wondering if you just sort give us a little bit more color as to what's going on in each of those segments that might have drove that.

Paul C. Rivett
President

That's -- the margins, they haven't really been declining. I don't think necessarily, Jaeme. So it's depending on the industry. If you look at Recipe for instance, they've got same restaurant sales increasing. I think over the -- quarter-to-quarter, we tend not to look at quarter-to-quarter fluctuations. But on -- from a year-over-year perspective, all of the, particularly noninsurance investments, continue to perform very well. Our private company investments, Toys "R" Us, Sports, Sporting Life and Golf Town doing very well, and Recipe, like I said, continues to do well from a same restaurant sales perspective. The fluctuations you might be seeing are maybe currency fluctuations in places like India and Africa, where currency has declined, but we think that's probably a temporary thing if you take a long-term view.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. And then just in terms of the gains that you've talked about, the Arbor Memorial. Are there any other monetizations that have occurred at the quarter end?

Paul C. Rivett
President

No, not of any -- not from any material perspective, Jaeme, but there's a lot that we have that we are currently looking at potentially monetizing. I don't know when because we obviously want to get a good price. But we are looking and there may be a few in the next few quarters.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay, great. And a couple more here. Just in terms of the global cat -- catastrophe experience. When we talk about like North American experience, it's usually sort of like 1.5% before government covers come into play. Is that the same when we sort of think about global cats like in Japan, for example, the 2 typhoons that were highlighted this quarter? Is that sort of the same type of exposure that Fairfax should expect is about that 1% to 1.5%?

Paul C. Rivett
President

Absolutely right, Jaeme. That continues to be our experience, that's what we've just seen in the recent 3 catastrophes. We were around $170 million of losses there on an industry loss of somewhere in the neighborhood of $12 billion. So it's right in line exactly with that 1% to 1.5%.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. And given the still elevated cat experience, I would say, even though it's slower than 2017, do you have any thoughts or comments on pricing heading into 2019 at this point? Or is it still too early?

Paul C. Rivett
President

No, it's -- from our perspective, it's probably still too early, but we are seeing it flat to slightly up. We're seeing pricing in some lines up and some lines a little bit down like worker's comp. But pricing seems to be firming and going up a little bit. So -- but it's early days here, but it does look like it could be positive.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. And if I could, just a few quick questions on some of the insurance operating segments. Northbridge really solid quarter from that entity. Can you sort of maybe go into some of the details, I guess, about what -- we saw some improvement in personal lines and commercial auto and then some net favorable reserve developments. Are these sustainable performance numbers? Or is there something going on in the quarter that might have caused a little bit of the performance?

David J. Bonham
VP & CFO

No. I think these are sustainable for Northbridge. So what you're seeing is the benefit of price increases that Paul mentioned. So low single digits. And if you look back a few years, Northbridge has taken some underwriting initiatives to move into other more profitable segments, targeting small mid-sized businesses and the like that are just inherently offering a little bit more profitability to us. So I think that's right. We've also seen better experience in the trucking segment as well in Northbridge. So I think you can expect to see that continue.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. So that sort of declining trend of favorable developments. We would say that's kind of stunted at this point. It will be back to sort of low double-digit levels on development and obviously, pricing is going to help that in the next 3 or 4 quarters, sort of thing. Is that fair?

David J. Bonham
VP & CFO

Yes. We'll have a look at the reserve development in Q3. Right now, we think we're adequate with some conservatism. So we'll see how that plays out over time.

Paul C. Rivett
President

And for the last 5 years, it's been roughly 3% to 5% year-over-year. So we expect that to continue. Obviously, we can't forecast, but that looks to be the trend.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. And then, in Crum, your commentary around growing in the right businesses and then your GPWs and accident health, commercial transportation, multi peril, some other ones that are highlighted here. What have you seen in those business lines? What's good about those business lines today? Is there just firming markets or competitive dynamics or shifting? What's going on there?

David J. Bonham
VP & CFO

I think, on these lines, these are the ones that Crum is just focused on growing. They've got niche advantages in these segments. They've spend time developing them through, in some cases, acquiring MGAs that specialize in that, so that they can just retain more of the profitable business. And again, I think you were just seeing the effects of some of the initiatives that they've taken in prior years, and that's coming through an improvement in the accident year loss ratio.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. And maybe just to wrap it up with a more overall broad statement here. You're obviously targeting 95% combined ratios. You've been a little bit higher here for, let's say, 5 or 6 quarters. Do you feel like you're on the path right now, where you'll get back to that 95% run rate here in the next quarter or 2? Or is that going to take a little bit longer?

Paul C. Rivett
President

No. No, I think, obviously, Jaeme, we don't forecast, but we do continue to think that 95% is achievable. So that's our focus, and we do think we'll be able to get there.

Operator

Our next question is coming from [Junior Rah].

Unknown Analyst

A quick question about Bangalore Airport. Are you guys planning to increase the stakes there? And who is going to be funding the expansion? Is that going to be third parties? Or would that be between one of your companies?

Paul C. Rivett
President

Sorry, [Junior]. I missed the last part of your question. Could you say it again, please?

Unknown Analyst

For Bangalore Airport, who would be funding the expansion? Would it be like external parties? Or would that be somewhere within the lines of Fairfax?

Paul C. Rivett
President

Yes. So we haven't determined what we're going to do yet there, but it could be either, but we'll obviously go with the best possible financing.

Operator

Our next question is coming from Andrew Hollingworth of Holland Advisors.

Andrew James Hollingworth
Holland Advisors LLP

I've just got 2 very quick ones. So gentlemen, one before last, after that, the 95% combined ratio. I'm just following up from that. The -- I think, it was at the AGM, Prem gave us a very interesting insight as to one of the smaller insurance subsidiaries that came up to the group and said, "Look, we just don't think we can get to that." So they sort of volunteered. I think it was to be rolled into Brit. And it was a very interesting sort of insight just to the deep dive that you're doing to try and make sure that you can deliver the 95%. So first question really is just, having done that across the group and for some period of time now, are there still bits that you think that you've got to think of ways, you got to deliver the 95%? Or do you really think now that across a very, very large percentage of the sort of underwriting cat capacity that you could do that without really any many -- any sort of more major changes?

Paul C. Rivett
President

Yes, great question, Andrew. We really don't think any changes are necessary. We're very happy with where we're positioned now in each of the companies. And we're -- we believe we're on target and on plan and yes, so no, we're not expecting to do any more movements of any kind with the companies.

Andrew James Hollingworth
Holland Advisors LLP

Okay. That's very clear. If I can have just one very quick follow up and that's obviously the discussion earlier on about the buyback and the use of capital, and so on. And I think you made it very clear that you'll see -- your priority is to really buy out the minority stakes in the insurance subsidiaries that you want to do and then, obviously, that competes with the capital for the buyback. Just help me out a bit. I'm not an insurance analyst sort of day-to-day. So roughly, what is the content of capital that you would ultimately want to deploy to buy out all those minorities that are likely going to be offered to you? Or are you able to need to buy out the term in the next 3 to 4 years?

Paul C. Rivett
President

So you're asking, Andrew, the total capital over 3 to 5 years? Yes, it's....

Andrew James Hollingworth
Holland Advisors LLP

If you were to buy out, I think that you were able to buy -- or mostly buy out rather than higher-end shares. What might that come to?

Paul C. Rivett
President

Yes. So I think what we're -- certainly, we're going to be buying out the remainder of the minority interest in Brit over the next couple of years and Eurolife as well maybe even sooner, maybe in the next year or so. Those will be the focus first, are Brit and Eurolife.

Operator

The next question is coming from Luis Hernandez.

Luis Hernandez

Well, the first one is, I just want -- I just was wondering, which is your biggest private noninsurance business right now after Cara and all that get public? I'm a little confused which one is your biggest noninsurance operation wholly owned?

Paul C. Rivett
President

Fully owned. So from the largest investments would be probably BlackBerry and Seaspan, but our largest wholly owned would, I mean, just looking at Dave here, would probably be...

David J. Bonham
VP & CFO

I don't know about wholly owned, but Thomas Cook is a fair size one of our companies, and would be next one.

Paul C. Rivett
President

And Toys "R" Us is quite large now too, but yes, they're wholly owned, but certainly, our investments -- from an investment perspective would be much larger in Seaspan and BlackBerry.

Luis Hernandez

Yes? I just wanted to know the noninsurance like a private business. Okay. So that's okay. And then the second question is regarding -- you just also published the Fairfax India results. And I just wanted to hear your comments on the revaluation on Sanmar and BIAL, the airport. I wasn't sure if it was profit driven or simply a revaluation of the assets. So yes. That's...

Paul C. Rivett
President

Yes. So no, good question, Luis. So on the Sanmar transaction, as you know, that's not going to be completed until 2019, and we use the discount rate in that valuation. It's fairly significant due to these remaining market uncertainties. I don't know, Dave, if you want to add anything to that.

David J. Bonham
VP & CFO

Yes, with the Sanmar investment, we made it a few years ago, and there were some projects that they were undertaking. And but we -- well, we're just conservative and waiting for the projects to unfold and then become operational. And we've started to see that now. So that resulted in a review of the evaluation and a bit of an increase.

Unknown Analyst

Okay. And also on BIAL?

Paul C. Rivett
President

On the Bangalore Airport? Yes, so currently, we own 54% now of the Bangalore Airport, and with that particular evaluation, I think, Dave was that on discounted cash flow is what we applied there? And so we're -- they're currently building out the second runway, Luis. So it's -- we're seeing traffic volume through that airport increase dramatically. Basically, the entire population of Canada roughly went through that airport one year, about 33 million people, and it's on its way to $50 million or thereabouts once we build the second terminal. So doing quite well there, but Dave, I don't know if you wanted to add anything on valuation.

David J. Bonham
VP & CFO

No, I think that's right, Paul, on the Bangalore.

Operator

We show no more questions on queue at this time. [Operator Instructions]

Paul C. Rivett
President

Well, thanks, Cal, any -- it doesn't sound like there's any other further questions. If there is no further questions, we'd thank you all for joining us on this call, and we look forward to presenting to you again after the end of the year. Thank you, Cal.

Operator
And that concludes today's conference. Thank you for your participation. You may now disconnect.