Fairfax Financial Holdings Limited TSX:FFH

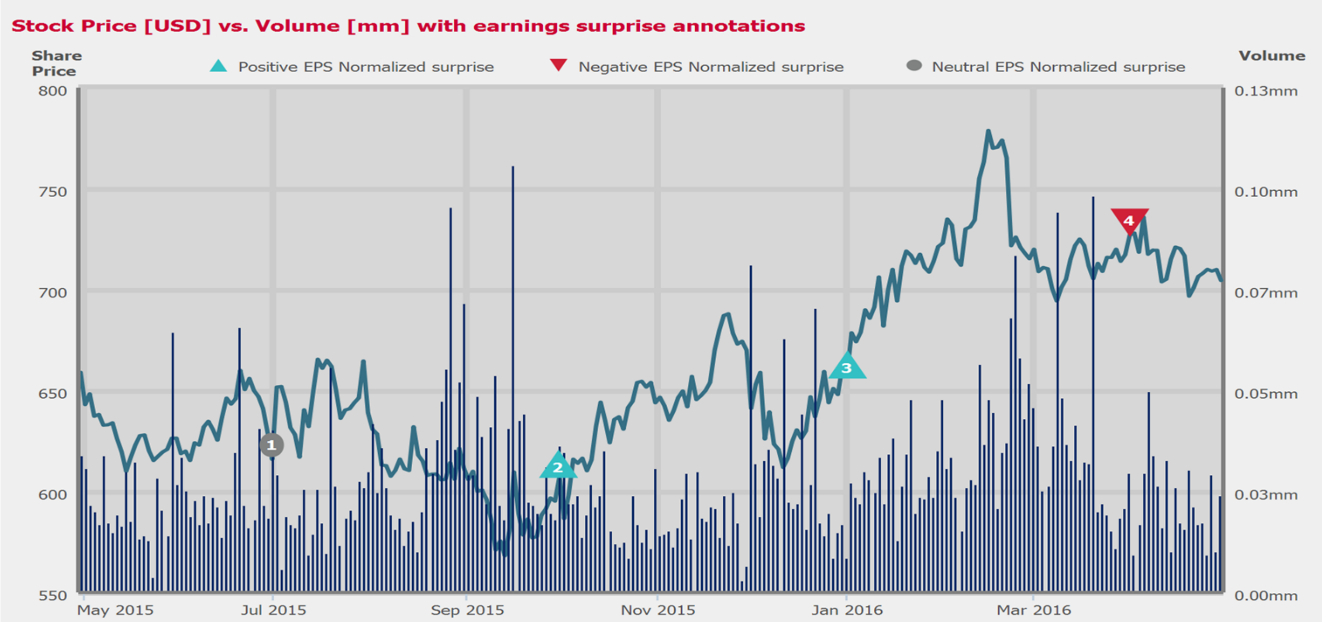
FQ2 2016 Earnings Call Transcripts

Friday, July 29, 2016 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2016-			-FQ3 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	4.09	3.11	(23.96 %)	4.08	17.27	21.24
Revenue (mm)	2400.00	2907.00	21.12	2656.05	10049.05	10854.65

Currency: USD
Consensus as of Jul-29-2016 5:02 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2015	3.80	(8.87)	NM
FQ3 2015	11.14	18.16	63.02 %
FQ4 2015	5.60	13.65	143.75 %
FQ1 2016	13.57	4.82	(64.48 %)

Call Participants

EXECUTIVES

David J. Bonham
Chief Financial Officer and Vice President

Unknown Executive

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

ANALYSTS

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Mikel Abasolo

Paul David Holden
CIBC World Markets Inc., Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Presentation

Operator

Good morning, and welcome to Fairfax's 2016 Second 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 Prem Watsa, with opening remarks from Kevin Sava [ph].

Mr. Sava, please begin.

Unknown Executive

Good morning, and welcome to our call to discuss Fairfax's 2016 Second 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'll now turn the call over to our Chairman and CEO, Prem Watsa.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Thank you, Kevin. Good morning, ladies and gentlemen. Welcome to Fairfax's second quarter conference call. I'd like to give you some of the highlights and then pass it up to Dave Bonham, our CFO, for additional financial details.

In the first half of 2016, book value per share increased by 3.2%, adjusted for the $10 per share common dividend paid in the first quarter of 2016.

Our insurance companies had their excellent first half in spite of Fort McMurray losses, with a combined of 94.5%, with excellent reserving and significant underwriting profits of $204 million.

In the second quarter, all our operating segments have combined ratios at or below 200 -- below 100%, with an overall combined ratio of 95.7%. Zenith had an excellent combined ratio of 83.9%. Fairfax Asia had 83.3%. And as shown on Page 35 of our quarterly report, we realized gains on our investment portfolio of $315 million before equity hedges, excluding all hedging losses and before mark-to-market fluctuations in our investment portfolio beyond $490 million in pretax income in the second quarter.

Including all hedging losses and mark-to-market fluctuations in our investment portfolio, we reported after-tax earnings of $294 million in the second quarter or $239 million after noncontrolling interests.

Our insurance and reinsurance business volume was up in the second quarter of 2016 by 17.7%. If you exclude Brit insurance, which wasn't there last year, at this time, the increase was 6.8%. And while the combined ratios, as I said earlier, was approximately 95.9 -- 95.7%.

At each of our subsidiaries, the change in net premium written and the combined ratios were as follows:

OdysseyRe, up 13.9% in premium for the second quarter; combined ratio, 94.4%; from the first half 9.3%; combined ratio, 98.6%.

Northbridge, in Canadian dollars, up 7.4%; combined ratio, 100%.

Zenith, flat, premiums, 83.9%.

Fairfax Asia, up 8.2%, with an 83.3% combined ratio.

And Brit we didn't own last year, so the combined ratio was 99.9%.

As we have said before, very low interest rates and reduced reserve redundancies means there is no place to hide for the industry. Combined ratios have to drop well below 100% for the industry to make a single-digit return on equity with these low rates.

While the short term is always tough to predict, fundamentals will eventually play out. Net investment gains of $229 million in the second quarter consisted of the following: please refer to Page 2 of our press release.

Net losses on equity and equity-related investments were $413 million, resulting from net losses of $208 million on our equity investments due to stock fluctuations and a $205 million net loss on our equity hedge. Stock fluctuations in 3 stocks, BlackBerry, Eurolife -- Eurobank and the Bank of Ireland, accounted for most of the net losses of $208 million in common stock.

Our realized losses of $42 million on our individual equity hedges was mainly due to a switch between 2 individual companies. This was offset by realized gains in our common stocks of $24 million.

Also, we had gains of $640 million, primarily on our treasury and municipal bond portfolio because of the impact of dropping long-term treasury bond rates. As we have mentioned in our annual meetings, annual reports, quarterly calls, with IFRS accounting, stocks and bonds are recorded at market and subject to mark-to-market gains and losses. Quarterly and annual income will fluctuate widely and investment results will only make sense over the long term.

Our CPI-linked derivatives with a notional value of approximately $112 billion produced unrealized losses of $2 million in the second quarter. The majority of these contracts are based on the underlying U.S. CPI index or the European Union CPI index. Further information is available on Page 3 of our press release, where we have included a table on our deflation swaps.

On average, they have approximately 6.1 years to run. These contracts are very volatile. But I would have said many times before, our CDS experience comes to mind. When you review our statements, please remember that when we own more than 20% of a company, we equity account. And when we own more than 30%, we consolidate, so that mark-to-market gains in these companies are not reflected in our results.

As you can see on Page 12 of our quarterly report, the fair values of our investments and associates is approximately $2.8 billion versus a carrying value of $2.4 billion, an unrealized gain of $400 million not on our balance sheet.

Investment gains have been an important component of our returns over time. Since we began, we've had $11.5 billion in realized and unrealized gains. Previously announced, last December, Fairfax agreed to acquire a 40% interest in Eurolife, the third-largest insurance -- insurer in Greece. This transaction is subject to governmental and regulatory approvals and closing conditions. Closing is now expected to occur in the third quarter of this year.

On June 27, 2016, the company through its wholly-owned subsidiary, Fairfax Asia Limited, agreed to acquire an 80% interest in AMAG, an Indonesian insurer. AMAG has an excellent long-term track record in the Indonesian General Insurance sector, a well-diversified space -- sales channel with Panin bank, and there's a great opportunity for us to continue to expand our operations in Asia.

This transaction is also subject to closing conditions, including the regulatory approvals, and is expected to close by the end of the fourth quarter of 2016. On July 6, 2016, the company agreed to acquire a 100% interest in Zürich Insurance Company South Africa, a South African and Botswana insurer.

Africa is a continent that represents a long-term growth opportunity for Fairfax, but where we have traditionally done little primary commercial insurance business. This transaction again is subject to closing conditions, including various regulatory approvals, and is expected to close by the end of the fourth quarter of 2016.

Recently, one of Thomas Cook's subsidiaries, Quess, went into public -- went public in India. Under Ajit Isaac, the founder's leadership, the company went public at a market cap of approximately $600 million.

It is trading today at a market cap of about $990 million versus our original investment in the company 3 or 4 years ago, at a market cap of $60 million.

Fairfax owns 42% of Quess indirectly, which is worth approximately $420 million at today's prices, through its 68% of Thomas Cook ownership, which, in turn, owns 63% of Quess. So very significant investment for Fairfax. And we think Ajit has a long runway ahead of them.

Fairfax India has now almost fully invested its $1.1 billion that was raised about a year ago in 6 investments. We like all of them and are excited about the potential in India under Prime Minister Modi's leadership.

We continue to be very concerned over the prospects for the financial markets and the economies of South America and Western Europe, accentuated, as we have said many, many times before, by potential weakness in China and emerging markets.

We have said now for some time we believe there continues to be a big disconnect between the financial markets and the underlying economic fundamentals.

As of June 30, 2016, we had $5.8 million in cash and short-term investments in our portfolios, which is approximately 19% of our total investment portfolios, to take advantage of opportunities that come our way. As a result, in the short term, our investment income will be reduced.

Now I'd like to turn it to Dave Bonham, our CFO, so he can give you some more information on the underlying financials. Dave?

David J. Bonham
Chief Financial Officer and Vice President

Thank you, Prem. Fairfax reported net earnings of $239 million in the second quarter of 2016. That's $9.58 per share on a fully diluted basis. And that compared to the second quarter of 2015, when we reported a net loss of $186 million or a net loss of $8.80 per fully diluted share. Year-to-date, Fairfax has reported net earnings of $188 million or $7.07 per fully diluted share, and that's an increase from 2015, when we reported year-to-date net earnings of $40 million or about $0.71 per share on a fully diluted basis.

Underwriting profit at our insurance and reinsurance operations in the second quarter and the first 6 months of 2016 was $82 million and $204 million, and that was at combined ratios of 96% and 95%. Somewhat lower than underwriting profits of $136 million and $263 million and combined ratios of about 92% in each of those respective periods in 2015.

Quarter-to-date and year-to-date, underwriting profit is lower by about $54 million and $59 million. And that's principally due to higher current period catastrophe losses, partially offset by increased net favorable prior-year reserve development.

Current period catastrophe losses were higher in the second quarter of 2016 and totaled $158 million or 8 combined ratio points, and were $189 million or 5 combined ratio points in the first 6 months of 2016.

The most significant cat event in the quarter was the Fort McMurray wildfires, which accounted for $63 million of the quarterly and year-to-date total cat losses. By way of comparison, cat losses in the second quarter and first 6 months of 2015 were $36 million and $64 million and represented about 2 combined ratio points in each of those periods.

The combined ratio has benefited from higher net favorable prior year reserve development in the second quarter and first 6 months of $175 million and $260 million, and that translated into about 9 and 7 combined ratio points in each of those periods. That compared to a net favorable reserve development of $84 million and $152 million in the second quarter for 6 months of 2015.

Net premiums written by our insurance and reinsurance operations increased by 18% in the second quarter and 19% in the first 6 months. And that reflected the incremental impact of the consolidation of

Brit's net premiums written. That impact was about $201 million in the quarter, $606 million on a year-to-date net premiums written.

So turning to the operating company results. We'll start with Northbridge. Northbridge's underwriting profit is just a fraction better than breakeven in the second quarter of 2016 and was $3 million for the first 6 months. And that produced combined ratios of about 100% and 99% in each of those respective periods. That compared to underwriting profits of $12 million and $19 million in combined ratios of 95% and 96% in those same periods in 2015.

The underwriting results in the second quarter and first 6 months included $21 million of current period catastrophe losses, translating into 9 and 5 combined ratio points at Northbridge, and that was almost entirely comprised by the impact of the Fort McMurray wildfires.

Northbridge's underwriting results in the second quarter and first 6 months of 2016 included the benefit of net favorable prior year reserve development of $38 million and $37 million, respectively, about 17 and 9 combined ratio points. Favorable emergence there were primarily arising on the accident years 2013 and prior and relating to casualty lines of business.

In Canadian dollar terms, the net premiums written by Northbridge in the second quarter and first 6 months increased by 7% and 9%, and that reflected the increase of renewal business, new business writings and modest price increases across the group.

Moving over to OdysseyRe. Odyssey reported underwriting profits of $30 million and $74 million, with combined ratios of 94% and 93% in the second quarter and first 6 months of 2016. That compared to underwriting profits of $71 million and $129 million in those same periods in 2015.

Catastrophe losses in the second quarter and first 6 months totaled $75 million and $102 million, that translated into about 14 and 10 combined ratio points in each of those respective periods. And that was an increase from the cat losses of $33 million and $56 million that we experienced last year in the second quarter and first 6 months of 2015.

OdysseyRe's combined ratio in the second quarter and first 6 months of 2016 included the benefit of $68 million and $103 million of net favorable prior year reserve development. That's about 13 and 10 combined ratio points, respectively. And that principally related to favorable emergence on prior year's catastrophe losses reserves.

Odyssey wrote $631 million and just a little over $1.1 billion of net premiums in the second quarter and first 6 months of 2016. And excluding the impact of the nonrenewal of the Florida property quota share reinsurance contract on June 1, 2015, so that's last year, and we've mentioned that on the prior conference calls, net premiums written increased by 2.4% in the second quarter of 2015 and decreased modestly by 1.8% in the first 6 months of 2016.

Turning to Crum & Forster. Crum & Forster produced underwriting profits in the second quarter and first 6 months of 2016 of $6 million and $16 million, with combined ratios of about 99% and 98%, respectively. That compared to underwriting profits of about $10 million and $15 million in the prior year, and there is no net favorable prior year reserve development in either of 2016 or 2015 at Crum & Forster. Crum & Forster's net premiums written increased by 9% and 13% in the second quarter and first 6 months, and that primarily reflected growth in accident and health lines of business, combined with an incremental impact of the 2015 acquisitions of Redwoods, Travel Insured International, Inc. and Brownyard.

Zenith reported underwriting profits in the second quarter and first 6 months of 2016 of $32 million and $63 million, with corresponding combined ratios at 84% in each of those periods. That compared to underwriting profits of $22 million and $62 million in the second quarter and first 6 months of 2015, respectively.

The combined ratios included 10 and 12 combined ratio points of net favorable reserve development in the second quarter or 6 months of 2016. And Zenith wrote net premiums written of $163 million and $491 million in the second quarter and first 6 months of 2016. That's an increase of 4% in the first 6 months, and that's principally reflecting an increase of an exposure, partially offset by modest price decreases.

Turning to Brit. In the second quarter and first 6 months of 2016, Brit contributed $352 million and $758 million to consolidated net premiums written and produced underwriting profits of $400,000 and $14 million. During those periods, the combined ratios were 99.9% and 98%, respectively. And as a reminder, Brit was acquired in June 2015, so comparative figures for 2015 are only for the period in which Fairfax owned Brit.

The underwriting results in the second quarter and first 6 months of 2016 included current period catastrophe losses of $32 million and $35 million, which translated into 9 and 5 combined ratio points during those periods. Cat losses were principally compressed of the impact of the Fort McMurray wildfires, where Brit incurred net losses of $22 million, and that increased its combined ratio by 6 and 3 combined ratio points in each of the second quarter and first 6 months of 2016.

Brit also experienced net favorable prior year reserve development of $22 million in the second quarter and first 6 months, benefiting the combined ratio in those periods by 6 and 3 combined ratio points. Reserve development primarily reflected better-than-expected emergence on casualty and property reinsurance lines of business.

Fairfax Asia's underwriting profits of $13 million and $25 million and combined ratios of 83% and 81% in each of the second quarter and first 6 months of 2016 improved when compared to underwriting profits of $8 million and $14 million, combined ratios of about 90% in the comparable periods in 2015.

The insurance and reinsurance other segment produced underwriting profits of $1 million and $9 million and combined ratios of 99% and 96% in each of the second quarter and first 6 months of 2016. Lower underwriting profit in 2016 principally arose from higher current period catastrophe losses and the lower benefit of net favorable prior year reserve development, partially offset by improved noncatastrophe loss experience related to the current accident year.

Looking at run-off. Run-off reported operating losses of $1 million and $16 million in the second quarter and first 6 months of 2016. That compared to operating income of $25 million and $12 million in those same periods in 2015. The decrease in operating profitability year-over-year was principally the result of lower interest and dividend income.

Turning to our consolidated results. Consolidated interest in dividend income increased from $147 million and $261 million in the second quarter and first 6 months of 2015 to $161 million and $314 million in the second quarter and first 6 months of 2016. And that principally reflects holdings of higher-yielding government bonds year-over-year and the impact of consolidating Brit's investment portfolio.

We ended the second quarter with an investment portfolio inclusive of holding company cash of $29.5 billion when compared to $29 billion at the end of 2015.

And turning to our financial position. Our total debt to total capital ratio increased to 23.2% at June 30, 2016, from 21.8% at December 31, 2015, primarily as a result of the issuance of 400 Canadian principal amount of 4.5% unsecured senior notes in the first quarter. And that was offset somewhat by the increase in our common shareholders equity, where we issued 1 million subordinate voting shares.

The proceeds from these offerings will principally be used to finance investments in ICICI Lombard, which closed in the first quarter of 2016. And the acquisition of Indonesian insurer, AMAG, and Eurolife in Greece. Both are expected to close later in 2016.

And now I'll pass that back over to you, Prem.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer
Thank you very much, Dave. Now we're happy to answer your questions. [Operator Instructions] Okay, Nicole, we're ready for your questions -- for the questions.

Question and Answer

Operator

[Operator Instructions] Our first question is coming from the line of Paul Holden of CIBC.

Paul David Holden
CIBC World Markets Inc., Research Division

So I have 2 questions. One is related to the bond portfolio and second is to the insurance operations. So with respect to the bond portfolio, it looks like in this quarter you sold just over $1 billion worth of Muni's and then redeployed that into U.S. treasuries. So wondering if that's purely just duration-driven and if you'd have capacity to do more of the same?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes. So, Paul, we -- that's right. We sold approximately $1 billion in Muni bonds. We've mainly pre-refinanced -- they call it pre-re-bonds, which have been refinanced by municipalities, which on underlying treasuries 0.6%, 0.7%, 0.8% of the -- to the date of refinance. And we bought treasuries. We bought along treasuries. And so our treasury positioned -- long treasury positioned that's a little above $6 billion. And -- interest rates Paul, as you know, have come down significantly in the past 6 months. So for example, in Germany, they dropped by 110 basis points, 1 point -- long German bonds, 1.5% to 0.4%. In the U.K., in spite of Brexit, has gone down from 2.7% to 1.7%. So approximately 100 basis points, again, on the 6 months I'm talking about. And then The United States has dropped about 70 basis points from 3 to -- 3% to 2.3%. But The United States still has the highest rates and the spread is, in fact, higher than it used to be in the past. We talked about that at our AGM. So we still have treasury bonds. We think it reflects these rates coming down. Of course, it reflects the QE, the quantitative easing, in Europe and in Japan. But it also reflects the fact that there's too much supply in the world on a global basis and the lack of ability for the global economy to get traction. So yes, so we like treasury bonds, and we like the position that we have today, Paul. And that's the position we have. We never talk about what we will do in the future, of course, but we like what we have.

Paul David Holden
CIBC World Markets Inc., Research Division

Okay, good. And then the question on the insurance operations is specific to OdysseyRe and the favorable reserves development in the quarter, which was equal to roughly 13 points of premiums earned, more than double of what we've seen in the recent period. So I guess my question is where do those PFADs come from on the property cat given that we haven't seen any major cat event since 2011? And then, is there capacity for those same PFADs to favorably impact future quarters?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes. So, Paul, the way we've always said -- we like to put the reserves in a conservative way. So that then, as time goes by, we have redundancies as opposed to deficiencies. And so I think it's a very uncertain world we live in. And so for us, we put the accident loss ratio at levels which we think are conservative. And we expect reserve redundancies over time. And so we continue to feel very comfortable about our reserve positions across all our companies. And we just went through our Audit Committee at the end of June and we looked at Peter Clarke, who does our -- our Chief Risk Officer. He looks at reserves in each of our company. And we feel very comfortable with the reserve position that we've got.

Operator

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

First of all, I thank you for putting that operating earnings and earnings reconciliation table on the front page. It's really, really helpful and have that up right at the front and center.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

We reacted to your comment, Mark, and we were thinking about what makes sense, and it's a simplified version of what's available in our income statement. It's in our quarterly statements, interim reports. But, as you've pointed out, putting it up there makes it a little easier for all concerned. So thank you for that suggestion.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

I definitely appreciate it. Second question, and maybe this is just a little bit more general question, but I was a little bit surprised to see the Brit had exposure to the Fort McMurray fires. I guess I had thought that Brit's book of business was a little bit more U.K. and Euro-centric. Obviously, I wasn't quite right in that assessment. But I was just curious, I guess what lines of business that might have been in? And maybe just a little bit of a description about -- maybe my own identification isn't quite right about where they really do most of their writings.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

No, your -- no, your observation is right, that a significant portion of that business is in the United States, particularly, and then of course, U.K. and Europe. But the beauty of the Lloyd's franchise that -- is that it's worldwide. And it's a worldwide book of business that they have written in London, 450 people. It's now a little more than a little above -- approximately 1 year since we bought it. And I must say we're very happy with the acquisition led by Mark Cloutier and Matthew Wilson. And -- but they do also have a reinsurance book, Mark, that is also a worldwide treaty [ph] book. And so when you have a cat like we had in Fort Mac, well, that flows right through well within limits and well within their expectations. And that was a horrendous loss for the community, Fort Mac. But of course, reinsurance and insurance helps, and the Canadian companies were all protected from this type of loss. But anytime you have a loss like that worldwide, we'll have some impact. It will be some impact on us. Brit, on the other hand, in their way of -- their cat margin, they don't release still really they -- it's more focused on the end of the year, the third and fourth quarters, because that's where the exposures come from, with the Florida windstorms and European storms. So we focus on -- they focus on that and we're comfortable with that. And so we are very happy with our Brit acquisition a year ago. For the record, Mark, that South African bridges that we made and announced just recently came from Brit. It came from Mark Cloutier, particularly. He identified it. They did due diligence with our group, of course, and Andy and Paul, all involved in it. But it came to fruition but the lead was Brit through Mark. And it's a terrific acquisition that we'd love to tell you a lot more about as it goes through the process through regulatory approval to closing. But we're very excited about it, as we said, in the -- in our press release.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. That's helpful. The other question that I had relates to the CPI derivatives. And I know you've consistently disclosed what the average amount of rent remaining duration is on those various positions. I was curious what the nearest term expiration is, which is to say, is there some part of that book that is getting close to rolling off that will either need to be renewed or otherwise just allowed to lapse?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Mark, that's a good question. There's enough -- so we have enough flexibility, Mark, like we can extend the term. We can refresh it as and when the most -- the closest one maybe 4 years, 4 years, something like that. So there's -- we don't expect any expiry, but we do have the ability to freshen it up and/or accept. But we'd have to pay money for it, of course. We've done it in the past, as you know, and we can do it in the future. But we have -- the closest one is perhaps 4 years ago, something like that.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. Very good. Sounds like there's still pretty fair amount of runway there.

Operator

Our next question is from Jeff Fenwick of Cormark Securities.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Just one follow-up here on the CPI-linked derivatives. And I guess, this pertains to Brexit and some of the potential for changes in the EU. And I'm wondering how does that impact, if at all, the CPI contracts if you were to have a country or more countries leave the EU. Does that change or nullify or somehow impact the return or the way those contacts are going to work?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, it's -- they've never faced that term, Jeff, in terms of what country. Brexit taking place, of course, is the first one in a long time. And our thinking is the CPI index will just be adjusted and it goes forward. But it's a good question. We don't see any impact from that. But we'll review that again. But we basically don't see much of a change. I forget, 16, 17 countries in Europe will -- their CPI index will go forward.

Operator

Our next question is from Tom MacKinnon of BMO.

Tom MacKinnon
BMO Capital Markets Equity Research

A question just following-up on this reserve development discussion. In your prepared remarks, you continued to point to reduce reserve redundancies in the industry. And I get that, but your -- Fairfax is running sort of the highest we've seen over the last 10 years in terms of favorable reserve development. And just given the prepared remarks on the industry, do you suspect that your favorable reserve development would be able to trend higher going forward or lower going forward? It's around 9 points on the combined ratio now, and it sort of averaged about 3 over the last 10 years?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

So, Tom, if you look at the pricing, the pricing in the industry now we are operating -- we operate worldwide. And the cat area is coming on very significantly, and I can't -- even in the last quarter cat pricing, property cat business, down 8%. And so cat prices have come down significantly, but the other lines of business, they're flattening out, maybe a little down, but basically flattening out. And I'd say -- the point I'm trying to make on that, when I made the comment on lower interest rates, like even if you get a combined ratio below 100%, with these interest rates, every time a bond renews, right, you have a lower investment income. And for you to make a 5% or 6% rate of return, it's going to be very significant at these low interest rates. So you need an underwriting profit. And you are seeing in the industry combined ratios moving up as people are discounting in different areas. And eventually, our thinking is that, that will change. It's still not a hot market by any stretch of the imagination. It will turn when capital gets tight. And our thinking that might well be is on the asset side. It always happens, of course, if you have a major catastrophe, earthquake in California or a huge windstorm in Florida. But it also will be affected by changes in the asset side, spreads widening, common stock prices coming down, stock markets coming down, all of that will impact the industry. And we like where we are, Tom, in the sense that we are very decentralized. So we have the ability to expand significantly and you have to be ready to expand in terms of people and capital when the opportunity comes. And we are in that position, and have been in that position for some time. I'm not forecasting any change. But if takes place, we would take advantage of it. And so as I said earlier, our reserving position is very, very solid. This reflects, of course, Tom, 30 years in the business. And we've seen cycles up and cycles down. And we recognize that our reserves always have to be up at very high levels. And we're not frightened to reduce the premiums. And so OdysseyRe, if you look at, it's premiums have been flat to coming down some and -- if you look over the years, and -- so that's our position there, Tom.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. So if the current pricing environment persists, do you think, especially, at like OdysseyRe that we'd be able to sort of maintain this via very high levels of favorable development? Or do you think they should probably come down a little bit?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

They could well come down, Tom. They could well come down over time. And -- yes. No, they could well come down over time. And particularly with the -- and particularly in a soft market. But remember OdysseyRe is a global company, insurance and reinsurance. And they have the ability to pick their niches, pick their -- the products and countries where they can expand or contract. And it's a tremendous franchise that Brian Young runs, that Brian and Andy built over 20 years. OdysseyRe, by the way, is celebrating 20 years. And it's just one outstanding company, now run by Brian Young. And it's a global franchise run from New York and Stamford. And it's one of the premier broker reinsurance companies in the world. And so they have -- they've built a tremendous company that we're very proud of.

Operator

Our last question is from Mikel Abasolo of Solo Capital Management.

Mikel Abasolo

Very briefly -- and, well, my first question revolves around your renewed bit on inflationary traits being -- building up on treasury bonds and increasing your equity hedges. Coming from someone who shares completely your deflationary scenario, don't you think that you're concentrating the investment portfolio too much into that field, meaning that if it works for your -- on your -- for your advantage, it, will be a big hit and a big success, but otherwise it could be a big hit to the company? That's my first question. The second is, I see that you have raised equities this year and that -- and it marks underwriting exercise in the previous years at multiples that are 1.2, 1.3 book value? And you're very well capitalized and ready to capture any opportunities, I was wondering if that is your statement of what you consider to be a fair value, a fair economic value, for Fairfax Financial? And my last question, if I may, you mentioned in your prepared remarks that some of the pretty losses came from 2 companies. I don't know if you could be more specific and say which one of those is if that is broken up.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Thank you very much, Mikel, for your questions. The first one is, as you point out, we worry about deflation and we bought some long treasuries. See, in a deflationary environment, Mikel, the worry will be a lack of investment income. If you look at what happened in Japan, over 20 long years, as interest rates came down and down and down, and now they are negative. But they'd been like 1% for maybe 10 years. And so there's very little investment income that you can make. And our worry has been that. And if you take credit risk, which you might be able to get more income. And most insurance companies are doing that, taking credit risk at very low spreads. So we don't like taking credit risk right now. We'd rather take duration risk or term risk in terms of buying treasuries. And we are focused on the fact that income in the future might -- and this might be tough to get, meaning these rates could last at low levels for a long time in a deflationary environment. And so that's our thinking. And we watch this very carefully. Treasury bonds are easy to sell if we change our minds. We have no expectation that we will, but we can change our minds very quickly. So we feel comfortable with that position that we have. Mikel, on the valuation of our own company at 1.1, 1.2, 1.3x book, whatever that current number is. We always say you have to make that judgment as to what you think is fair value for our company. We're long term. We've always been long term. We don't worry about fluctuations in our stock price, fluctuations in stock markets or bond markets. But we have -- we look at the fact that we've taken a book value with over 30 years from USD 1.05 to $400 change, and that's a compound growth of 20% in the past. In the future, we expect to make 15%. But our first criteria is to be financially sound, is to survive whatever comes in front of us.

Today, we have all sorts of possible pitfalls. You just had Brexit. Brexit by itself is not a significant factor, but it is significant in the fact that it's taking place at a time when interest rates are negative, 0, pretty well in the Western world, and you have too much debt in the system. So that's when Brexit is taking place. You've got Scotland looking at leaving the -- leaving Britain, leaving the U.K. You've got problems at Northern Ireland surfacing. You've got the possibility of France having a referendum, Holland having a referendum. Italian banks, there's a concern. So you have all of these taking place. With Germany having negative interest rates, Switzerland has -- every bond is negative, even the 50-year bond is negative today. So it's not an environment that is without risk. And that's the point that we are trying to emphasize. And it's difficult in this environment to make a return. And so we are focused on stability, on downside protection, and only then on making a return for our shareholders. And so if any of these unintended consequences come -- take place, we will not only survive, but we will thrive. And for that, we take our costs as a cost to that. And we, in the last few years, we paid that cost. But we think that if any of these unintended consequences take place, we will thrive. And so we've got a terrific group of shareholders, who I thank very much because they all take a long-term view, and we benefit from the fact that our shareholders -- we see them every year, we saw them in April at our annual meeting, and we benefit from that. but your point is well taken. And as far as the company's and equity issues, I just highlighted one in our case, Quess. But I didn't know if you -- you were thinking some losses. What did you have in mind, Mikel, there? Sorry.

Mikel Abasolo

No. I was -- I think that you mentioned that the equity losses that you recorded -- and I don't -- I didn't quite understand if it was in the first half or in the second quarter --[indiscernible]

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes. So what's -- what I was saying there, Mikel, is that you have fluctuations in stock prices. So I was highlighting the fact that BlackBerrys and Eurobank and Bank of Ireland had come down in the quarter and their fluctuations and -- they have shown as unrealized losses. An important point to make is they are unrealized. Our view is, over time, we'll still do well on them.

Operator

At this time, there are no questions on queue.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

So, Nicole, if there are no more questions, thank you all for joining us on this call. We look forward to presenting to you again after the next quarter. Thank you, Nicole.

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