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Skyward Specialty Insurance Group, Inc.

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Earnings Call

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Call Participants

EXECUTIVES

Andrew Scott Robinson
CEO & Chairperson of the Board

Mark William Haushill
Executive VP & CFO

Natalie Schoolcraft
Head of Investor Relations

ANALYSTS

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Michael David Zaremski
BMO Capital Markets Equity Research

Tracy Dolin-Benguigui

Presentation

Operator

Thank you for standing by, and welcome to Skyward Specialty Insurance's Third Quarter 2023 Earnings Conference Call. [Operator Instructions]

I would now like to hand the call over to Head of Investor Relations, Natalie Schoolcraft. Please, go ahead.

Natalie Schoolcraft
Head of Investor Relations

Thank you, Latif. Good morning, everyone, and welcome to our third quarter 2023 earnings conference call. Today, I am joined by our Chief Executive Officer, Andrew Robinson; and Chief Financial Officer, Mark Haushill. We will begin the call today with our prepared remarks and then we will open the lines for questions.

Our comments today may include forward-looking statements, which by their nature, involve a number of risk factors and uncertainties, which may affect future financial performance. Such risk factors may cause actual results to differ materially from those contained in our projections or forward-looking statements. These types of factors are discussed in our press release as well as in our 10-K that was previously filed with the Securities and Exchange Commission.

Financial schedules containing reconciliations of certain non-GAAP measures, along with other supplemental financial information, are included as part of our press release and available on our website, skywardinsurance.com under the Investors section.

Now I will turn the call over to Skyward's CEO, Andrew Robinson. Andrew?

Andrew Scott Robinson
CEO & Chairperson of the Board

Thank you, Natalie. Good morning, everyone, and thank you for joining us. We had another exceptional quarter, reporting $0.65 adjusted operating income per diluted share and adjusted return on equity of 18.9%. Gross written premiums grew 32% in the quarter as we continue to benefit from broadly favorable market conditions and our outstanding execution. 54% of our writings in the quarter were in excess in surplus and non-amended lines and 52% were short tail lines of business.

Our company's best-ever combined ratio of 90.2% for the quarter included less than 1 point of cat losses, which continues to be at the low end of our peer group, even though over 25% of our business is property. Our pure rate continued to be strong and above our loss cost inflation estimates and new business pricing remains in line with our in-force book. Both are strong indications that the attractive underwriting margins we are generating will continue.

Lastly, we continue to further strengthen an already strong balance sheet, maintaining a conservative reserve posture and deploying all investable assets into core fixed income while simultaneously rotating out of our higher-risk asset classes. Altogether, the execution of our ruler need strategy is excellent and our aim to deliver top quartile financial returns is visible in our growth, our underwriting profitability, our shareholder returns and our balance sheet strength.

With that, I'll turn the call over to Mark to discuss our financial results in greater detail. Mark?

Mark William Haushill
Executive VP & CFO

Thank you, Andrew. For the quarter, we reported net income of $21.7 million or $0.50 per diluted share compared to a net loss of $2.4 million or $0.15 per diluted share for the same period a year ago. On an adjusted operating basis, we reported income of $25 million or $0.65 per diluted share compared to $10.7 million or $0.33 per diluted share for the same period a year ago.

In the quarter, gross written premiums grew by approximately 32%. Every underwriting division experienced double-digit growth in the quarter and Transactional E&S, Surety, Professional Lines, Captives and Industry Solutions were each up over 20%. Net written premiums grew by approximately 64% to $281 million in the quarter compared to $171 million in the third quarter of 2022. Third quarter 2023 net premium retention was approximately 79% versus 63% in the third quarter 2022.

During the quarter, we rescinded a quota share reinsurance contract and recognized $50.5 million of net written premiums and $13.1 million of net earned premiums that had previously been ceded under the contract through the first 6 months of the year. Overall, the contract had an immaterial net impact on net income. Adjusting for this transaction, net written and earned premiums were both strong and for the full year, we anticipate that our net retention will be slightly higher compared to 2022.

The third quarter combined ratio of 90.2% improved 9.6 points compared to the third quarter of 2022. The 1.3 point improvement in the current accident year non-cat loss ratio to 60.7% was principally driven by the changing mix of business. We had no prior accident year development in the quarter and we continue to maintain a conservative position with respect to our loss reserves.

During the quarter, catastrophe losses were minimal and accounted for less than 1 point on the combined ratio compared to the third quarter of 2022, which was impacted by 2.8 points of cat losses from Hurricane Ian. Recall that in 2022, the combined ratio included 5.9 points from the net impact of the loss portfolio transfer reserve strengthening.

The expense ratio increased slightly compared to the third quarter of 2022. We continue to invest in the business and expect a higher run rate in line with our target of a sub-30 expense ratio.

Higher acquisition costs were principally driven by the change in our business mix and the impact of canceling the quota share reinsurance contract. This was offset by the improvement in the operating expense ratio due to higher earned premium.

Turning to our investment results. Net investment income was $13.1 million in the quarter, an increase of $7.1 million compared to the same period of 2022. Consistent with our investment strategy to deploy all free cash flow to core fixed income, in the third quarter, we put $145 million to work at 5.6%. The net investment income from our core fixed income portfolio almost doubled to $8.5 million from $4.7 million in the prior year quarter, driven by improving portfolio yield and a significant increase in the invested asset base.

Our embedded yield was 4.2% at September 30 versus 3.3% a year ago. Our core fixed income portfolio is now $875 million, up from $767 million at June 30 and a $300 million increase from a year ago. Net investment income in the third quarter 2023 and 2022 were impacted by negative equity mark-to-market adjustments in our opportunistic fixed income portfolio. Despite the volatility we have experienced over the last year, the inception-to-date return for this portfolio is slightly north of 7%.

During the quarter, we provided a redemption notice on $42 million of the opportunistic fixed income portfolio. Given the actions that we have already taken and inclusive of that notice of the $183 million in the opportunistic fixed income portfolio at September 30, 68% will be in redemption effective December 31. We anticipate reinvesting the proceeds from this part of the portfolio into our core fixed income portfolio.

At September 30, we had approximately $195 million in short-term and money market investments resulting from strong operating cash flow of over $200 million. During the quarter, our yield on short-term investments continue to be north of 5% and we will continue to deploy this liquidity into our core fixed income portfolio.

With that, I'll turn the call over to Andrew for his concluding remarks.

Andrew Scott Robinson
CEO & Chairperson of the Board

Thank you, Mark. It's hard to believe that we're already in our fourth quarter reporting as a public company. And once again, we had a truly outstanding quarter. As has been discussed in prior quarters, the quality and diversity of our growth is notable. In this regard, our investors should understand that we continue our focus on building a well-diversified portfolio of defensible positions with the aim to deliver top quartile underwriting returns in all parts of the market cycle. And our metrics bear this out.

Operationally, we had another great quarter. Pricing in aggregate was in the mid-teens, driven by a meaningfully higher rate in property with all of their lines consistent with the prior quarter. We continue to realize pure pricing above loss cost trend and has been the case for many quarters, our new business pricing is in line with our in-force book. Retention too remains strong, increasing into the low to mid-80%s.

And finally, we continue to see strong submission activity, which is up over 20% from the prior year. While each division is delivering at or above our minimum target returns on capital, we continue to capitalize on the opportunities to grow both top line and margins and ensure we shape our portfolio to those areas that offer the best risk-adjusted returns on capital. As such, we have ongoing investments in new areas, new products, new adjacencies, teams and, of course, technology.

Our diversification and capital allocation strategy is working. For example, the investments we've made in our Transactional E&S, Surety and Professional divisions continue to pay off. Through 9 months, these divisions make up 25% of our portfolio versus 19% through 9 months last year. We've now reported as a public company for 4 quarters. During our lead up to our IPO, we set out some core metrics for Skyward, including low to mid-teens ROE, low 90s combined ratio and double-digit growth.

We also set out expectations that we have derisked our investment portfolio and we reduced the position -- ownership position of our largest shareholder, [Westin]. In the 4 quarters since, we've grown gross written premiums by 34% and each quarter as a public company, growth has increased over the prior quarter. Every single quarter, we delivered a sub 92.5% combined ratio.

In every single quarter, we've delivered mid- to upper-teens ROEs. Our core fixed income portfolio now constitutes 77% of our portfolio, up from 54% at September 30, 2022, and our opportunistic fixed income portfolio has been reduced from 19% to 13% during that same period and we will further derisk our portfolio as per the comments from Mark earlier.

Equally, our loss reserve position is the strongest it has been in the company history. Westin ownership is down from 44% to 28%, providing greater liquidity in our stock. Moreover, we'll continue to focus on delivering and exceeding the key metrics and objectives we set out for our investors a year ago.

Lastly, I'd like to take a moment to talk about our team. Recently, we were recognized as one of the best places to work by Business Insurance magazine, which is a testament to our employee engagement across the organization. It was an honor to be recognized publicly for what we have known all along, that we have created a winning and compassionate culture, a company where the industry's best talent wants to work and thrive.

I'm asked by investors all the time about what truly sets us apart and I genuinely believe it is our people and our culture. It is what makes us special. My 500 colleagues get up every day, they live the Skyward values, not just for our company, but for their families and our communities. I'm blessed to be the CEO of such an incredible organization and our outstanding performance through our 4 quarters reporting as a public company is a direct reflection of this team. They are simply terrific.
I'd like to now turn the call back over to the operator to open it up for the queue for Q&A. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Paul Newsome of Piper Sandler. [Operator Instructions]

We'll go to our next question. Our next question comes from the line of Mark Hughes of Truist Securities.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Congratulations on the quarter. Andrew, I'm not sure if you have given a breakout of growth by the 8 divisions, but you certainly say they all were up double-digits. Could you talk about where you saw the fastest growth? And if there's anything in there that was unusual, any big pieces of business that might or might not recur?

Andrew Scott Robinson
CEO & Chairperson of the Board

Well, I think probably to the latter question, I -- by the way, thank you for the question. I would say to the latter question, there isn't anything that's notable that occurred in this quarter that feels sort of unique or outsized for this quarter. As Mark mentioned, every one of the divisions grew at double-digit rates and we had a number that grew over 20%. And that -- some of those have been consistent where we've had very strong growth for some time, such as Transactional E&S and Surety.

And others showed up in this quarter, for example, in Industry Solutions, driven by our construction underwriting unit were particularly strong this quarter. But I don't think there's anything that's notable that's jumping out. Within every single division, we feel like we have good opportunities. There are some specific underwriting units where we are not growing that roll up into those divisions.

And that's just where we see the market not being the kind of favorable backdrop that we're looking for. But there's a big reason that we have the portfolio that we have so that we can press the accelerator in certain places.

But overall, I wouldn't highlight anything as being unusual or outstanding in this quarter.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Appreciate that. How about commercial auto? How do you see that now?

Andrew Scott Robinson
CEO & Chairperson of the Board

Well, commercial, I'm going to look for the statistics here. Commercial auto, again, in this quarter continued to be a smaller portion of our portfolio. I think I reported last quarter it was 16% of our writings. And I believe this quarter -- and correct me if I'm wrong, Mark, I believe it's around 17% or 18% of our writings. We continue to take a conservative position with commercial auto.

Again, largely, as I've said in the past, it isn't because we do not feel confident in our ability to be a better risk selector and a better pricer of risk and to be able to manage exposure should there be a claim better than our competition. But it is clearly from our vantage point the area where the social inflation on bodily injury is most pronounced. And so for some time, we have -- we've said, look, no matter how much we count it with rate, let's say we're -- we've been consistently up in sort of the double-digit-ish range for a long time there.

We're probably at that level, keeping up with loss cost inflation, and that feels like a structural thing that would suggest to us that even if we believe we can make attractive returns on capital, it's probably something you don't want to lean hard into.

Operator

Our next question comes from the line of C. Gregory Peters of Raymond James.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

I guess I'd like to step back and focus on the Global Property book for a second. We're just not seeing the kind of catastrophe volatility in your book that we're seeing others experience. Maybe you could give us some perspective on how that book has shaped up because there has been growth there. And then I guess when we think about how we should model this going forward, what's the right cat load over a course of the year to think about you having some potential exposure to because clearly, at least in my [Technical Difficulty] put too much into it for the third quarter?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. So thanks, Greg. Great question. And first off, you're right, Global Property, up this quarter, right around 20% for the year, up 39%. So obviously, we've been seeing the market opportunity in property generally. We talked in prior calls about just our general disposition. Look, I think that in practical terms, we said this over and over that we are not sort of an intentional cat writer. That includes Tier 1 cat and even some of the sort of more the unmodeled cat severe convective storm and so forth.

We absolutely have it in our book. You can't ignore that that is a component. But I think we do 2 things really well across our book, but in particular, in Global Property, is that our spread of risk is something that we are paying attention to so that we really don't have aggregations really anywhere of materiality relative to our book.

If anything, it would be maybe we have a quake exposure that aggregates for us as a company more so than maybe a Tier 1 North Atlantic kind of hurricane exposure. So that's one.

And the second thing is that our underwriting leader there has done just a terrific job in ensuring that the coverages that we're providing, the attachment points, the deductibles, all that combination of features reflects what we believe is the underlying exposure. And I think it shows through in our results where we had losses, for example, last quarter had a lot to do with, quite honestly, in one instance, the tornado dropping down on top of a roof of a large property and that was a large loss. But we -- otherwise, we've avoided things, I think, largely due to our underwriting and our approach to aggregation management.

In terms of expectations, I think, generally speaking, we'll be rerunning again here looking at our full-year portfolio. But our AALs generally run about 2% of premiums. And then if you look back and you look at our historical performance and adjust for where it is that we've grown the book and so forth, just taking like a 10-year average on that, it tends to tie about 2% of premiums as well.

And so I'd suggest to you that before sort of getting into any kind of guidance for next year and so forth, that's consistently been a reference point. It was -- I think, in general, it was the kind of number that we talked about coming into 2023. And I don't really see a great deal on our book that would suggest that that's changed greatly despite the fact that we've had some good growth in Global Property.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Excellent. Another question just in another business area. I think earlier in the third quarter, you announced sort of a rebranding of your Healthcare Solutions business. And I guess I have 2 questions on that. First of all, inside sort of the Accident & Health business, it feels like there's been increased market attention in medical stop-loss, seeing other announcements around the industry. So I guess I was wondering if you could provide an update on how your medical stop-loss business is developing in the competitive forces?

And then secondly, in that Healthcare Solutions announcement, it kind of sounded like you were going to start getting into actually medical malpractice too. So maybe you could comment on where you see the strategic direction of the Healthcare Solutions business going?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes, for sure. So let me just -- and you may have this in your sort of your framework, Greg. But just for clarity, our Healthcare Solutions is the professional liability component of our business. So that rolls into our Professional division.

And just to address that first, yes, in fact, you are correct that one of the things that we did last quarter is formalize that we are writing a sub-segment of practitioners. Now I will tell you, in no uncertain terms, we are a true E&S market, right? So we are not -- do not think for a moment that we are competing against the -- I guess, what used to be referred to, probably not appropriately anymore, the bedpan mutuals. We're not writing kind of your mainline docs and so forth.

We are writing very specific, I would describe it as nonstandard situations. We are also picking up a lot of professional exposure at facilities where, if you will, it's ancillary exposure. And that fits very well with sort of our thinking of where we can over-earn in the category. Oftentimes in serving those markets, they're very short limits, which we tend to like.

And they also tend to be in areas where the statute of limitations and the claims made features make our discovery of the loss rather short. So we feel very good about that. And I think that that is just a direct byproduct of kind of that we are really an E&S, a true E&S writer certainly in our Professional Lines.

To your question on medical stop-loss, look, we agree. I think that that is a big market that is growing in a sort of very attractive rate. And I think that it serves us very well. I'll remind you that our principal focus is on smaller employers. Smaller employers tend to be far more focused on medical cost management. Sometimes we are catching these employers as they're coming out of the guaranteed cost market into a self-insured market, which is a particular area that we are very good at capturing those opportunities and underwriting those risks when they do that.

But I'll just say to you that what we're not doing is we're not writing these very large groups. And so as a byproduct of that, all of our capabilities, our intellectual property, our focus as an organization is really towards that smaller employer market.

And I think that our distributors would say that we've done things that are very distinctive relative to their ability to serve that market. And we certainly believe in terms of loss cost management, we have the ability to stay in front of things like medical cost inflation and so forth that make the sort of the results of that business particularly attractive for us.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Thanks for helping set straight the geography of those businesses for me. I guess the final question I had for you is just on -- I think you mentioned the quota share contract that you canceled. Can you just walk us through the strategy behind that and what you're thinking? That's my last question.

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. Well, I'll go back. I'll point back to the first quarter. I actually talked directly about this -- actually, I'm sorry, it was our fourth quarter earnings call that was in March. And I noted that we had a foreshadow that we had taken up a quota share contract for auto liability. And I noted as well that our net retentions for the next couple of quarters would be a little bit lower. And the thinking, it was really simple. I'll just go back. We have been talking about the bodily injury inflation here for -- well, since we've been a public company.

And we also have talked about the multifaceted approach that we have taken towards any kind of auto writings where we have bodily injury exposure. And that is through our underwriting platforms, which we -- which, of course, was a key feature of what we spoke about during our IPO. SkyDrive, it is definitely through our quick strike response on claims where we're able to get control of the claim early. I've actively talked about what we've done in terms of just remixing our portfolio, meaning a smaller portion of auto as a percentage of our portfolio.

And then the last part of that was, hey, we are always evaluating if there's an opportunity to make a thoughtful purchase of reinsurance and we did and that was what we took up in -- earlier in the year. And that, in fact, is the contract that Mark spoke about that reversed out here in this quarter.

I really don't think there's much more to it if we have a commission -- ceding commission on offer that we believe is a fair trade of taking out volatility and not reducing our underwriting income in a material way, then we'll take that up. And that's what we did in that instance. But in fact, we reversed that out in this quarter.

Operator

Our next question comes from the line of Meyer Shields of KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

So a couple of sort of basic questions. First, in terms of capital adequacy, given both the phenomenal gross written premium growth and the contract decision, how should we think about that just in terms of the ability to capture all the growth that you're seeing?

Mark William Haushill
Executive VP & CFO

It's Mark. Look, the way we look at capital, we've talked about this before with the revolver and the capacity we have. Under the revolver, we've got flexibility there in terms of alternative versus equity capital. And the way we look at the equity capital is we'll do what's right by shareholders, granted growing at the rate that we are, that would imply that we would need some capital. But back when we did the IPO, we had planned on growing. So I would say to you, right now we're really comfortable where we are with our capital position frankly due to the flexibility that we've got.

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes, Meyer. I would just -- I would highlight a couple of things for you. I think as probably most are aware, we have put on a positive outlook by AM Best only a couple of months ago. That's a clear statement that they feel that our capital is in a good position in supporting our growth. And as Mark said, what we want to do is if we do need capital, we use all the available levers that we have, our financial leverage is low.

But if we see an opportunity to come to market and we believe that it would be appropriate for us to raise equity capital under those circumstances that meet some criteria that we set out for ourselves, we would do that. But right now I think we're in a pretty good position with our capital.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

A number of, I guess, specialty insurers have talked about accelerating casualty rate increases broadly and that's sort of on a sequential basis. I was wondering if you could talk about what you're seeing in your casualty lines?

Andrew Scott Robinson
CEO & Chairperson of the Board

By the way, Meyer, that's the second question you asked that you called rather basic. Both are great questions, by the way. Thank you for that. The industry is a funny place. There's kind of like this maelstrom of echo chamber stuff. Like in the last few days, I've taken articles coming from the IPCA and sent it out through our senior leadership team to share what everybody is saying. And it has a way of sort of creating an echo chamber in our industry.

What I'd say to you is this, just backing up, we have seen very orderly rate in our book for some time. So setting aside property, which we've talked about, which has given us those great headline numbers that we've shared with you about sort of our overall rate, everything else has been kind of ticking along consistently. And that ticking along consistently is above our view of loss cost trend, which is a very good place to be. I will say that there's sort of a convergence of 2 things going on here.

One is the apparent sort of realization that older years or sometimes referred to as a soft market years are developing worse than people have thought, which, of course, resets oftentimes what the starting point is. And then you layer on top of that what we believe to be true, which is there is social inflation. In our part of our business, we see it in bodily injury. We don't see it -- we're not exposed to big nuclear verdicts or things like that as a big driver. What we've seen is like this cascading down to what happens when a person who is injured, who very quickly get in the hands of a plaintiff attorney, how that develops.

And I think that Evan Greenberg says it best, which is, "You never want to get behind on that stuff," right? The moment you get behind that stuff, it's really hard to get caught up. I feel like we've done a good job of staying in front of it. And in that regard, I feel very good about our book.

But make no mistake about it, the industry should be well-served to stay in front of it. And unlike what I believe I saw, for example, in the MedMal tort reform in sort of the early 2000s, this is so diverse and so widespread and some of it is being fostered by what's happening with litigation financing. I don't think that there's a quick structural change.

I think that this is -- or the quick change to this sort of structural situation, I think this is going to play out on a state-by-state basis over a long period of time. And so yes, it would be wise to continue to keep rate ahead of loss trend. And if you were one of those companies who fell behind, you better catch up because it will hurt pretty badly if you have fallen behind. I'd like to think that we are not one of those companies and we protected ourselves certainly through the policy year '17 with the loss portfolio transfer transaction that we set out around the time I joined.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

And I promise this one is basic if I may have missed it. I was just looking for the new money yield currently?

Andrew Scott Robinson
CEO & Chairperson of the Board

We put money to work at 5.6%. And the -- we put money to work at 5.5%, 5.6%. Is that what you're asking?

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Yes.

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. And our embedded yield at the end of the quarter was about 4.2%, Meyer Shields. Yes, we feel good. We're making progress there and feel good about our investment portfolio as I think both Mark and I commented in our prepared remarks.

Operator

Our next question comes from the line of Paul Newsome of Piper Sandler. [Operator Instructions]

We will move to the next question. Our next question comes from the line of Tracy Benguigui of Barclays.

Tracy Dolin-Benguigui

Just a quick clarification on the quota share reinsurance contract that you rescinded. I remember the fourth quarter earnings call, you talked about a whole account quota share for commercial auto. I thought that incepted at 1.1. We're not 12 months in. Was it another contract you were talking about? Or is it that one?

Andrew Scott Robinson
CEO & Chairperson of the Board

That's the one. Those -- what we were rescinded was what I referenced in the March earnings call.

Tracy Dolin-Benguigui

Okay. But were not 12 months in. So was it a shorter tenure, that policy?

Andrew Scott Robinson
CEO & Chairperson of the Board

No, we -- sorry, I want to make sure we understand your question. What happened in this quarter is we had rescinded the contract and effectively unwound the first 2 quarters. So the premium that was ceded came back to us and we retained that as net.

Tracy Dolin-Benguigui

Also I had a question on the new money yields. When you're redeploying the 68% of the $183 million opportunistic fixed income redemptions at year-end, how would that -- I think you said a few 5%, maybe it was 5.2%, how would that compare to the yields of those routine assets?

Mark William Haushill
Executive VP & CFO

So the yield -- sorry, the yield on the opportunistic fixed income inception to-date has been slightly north of 7%. As you know, it has bounced around a little bit recently. What I'd say to you is where we are in the current fixed income, we will take our 5.5% and that's where we're going to be putting the money there. The opportunistic has done fine, but we just would rather put our money into the core fixed income, which we've been doing for the last 1.5 years.

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. Tracy, I just -- I mean, just to sort of go back when we talked about the opportunistic fixed income, we talked about that the target returns there were sort of in the 8% range. And of course, we entered into that at a time that was different than the yield environment that we're in now. To be honest, just in terms of just straight up the risk return trade-off, we'd rather be in core fixed income. We have the opportunity to do something that's a little more sort of core plus, which might be at the bottom end of high-quality investment assets with a bit more yield.

And I think there are things that we can do that are consistent with derisking our portfolio and importantly, taking some of the volatility out of our NII line item that has been showing up here over the course of the last few quarters.

Tracy Dolin-Benguigui

And when do you think the remaining 32% will be redeemed?

Andrew Scott Robinson
CEO & Chairperson of the Board

The remaining 32%, we actually like what's left. And so it's a particular portfolio that we like. And so our intent will be to hold on to that. That has in our view, lower volatility, a bit more yield to it and we like it as part of our overall mix.

Mark William Haushill
Executive VP & CFO

Yes, Tracy, hey, it's Mark. It's the commercial mortgage loan piece of the opportunistic that Andrew is talking about. And we will continue with that.

Andrew Scott Robinson
CEO & Chairperson of the Board

And as a reminder, in that portfolio is not what we would characterize as the economically disposed parts of real estate. It tends to be more industrial in nature and areas that we tend to like.

Tracy Dolin-Benguigui

Will you grow it or just maintain...

Andrew Scott Robinson
CEO & Chairperson of the Board

Just maintain it. So it will shrink as a portion of our overall portfolio because we're committed certainly in this environment to put our free cash flow towards our core and sort of core-plus kinds of strategies.

Operator

Our next question comes from the line of Matt Carletti of JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

Andrew, you made a comment in your opening remarks about you believe your reserves are the strongest in company history. I was hoping if you could just expand on that a little bit? If that's -- if it's how your actuals are expected there unfolding? Or if you kind of -- as you go along, you see kind of your position versus kind of actual midpoint expanding? Or just any color you can give would be helpful?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. So well, I'd say a number of things. So first, I mean, just to talk about history, right? The further we get away from the history, so reference in this case, LPT, the '18, '19 year after the LPT policy years, we get a better and better view. So we have more confidence, right? So that's one feature. And so that informs our thinking.

The second is I would just point you towards our pace, right, as a measure. We believe that we have maintained, let's call it, the same margin throughout. So every cycle that we've gone through, we've maintained the same margin.

So when we look back at our reserve position going back, let's say, this time last year and the year before and the year before, our margin is the same. Yet, that we get further and further away from some of those legacy years on one hand. The second is that that margin position remains the same, yet our reserve base is growing, right? So there's just kind of a law of large numbers here playing out. And it's those combination of things. If you look at our distance from those years, you look at just the margin position that we've been very consistent and the reserve base gets larger and larger.

And then you look at our paid patterns, I think that that sort of 3 elements that along with all the things that actuarial does around emergence that really give us confidence.

Matthew John Carletti
JMP Securities LLC, Research Division

And then just one other, if I can. You also talked a bit about making ongoing investments in the business, adding teams, for example. And the kind of the -- it looks like a little bigger ad in the Surety space and what you kind of categorized as a strategic move, you caught my eye during the quarter. I was hoping you could just expand on that a little bit, what you're looking to do there?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. Thank you for that. Surety keeps showing up for us. I think that we have an amazing group of leaders and Surety or head of that division, our head of Commercial, our head of contract. You saw we recently brought in Scott Bailey to effectively run our field organization. I think what's happened, Matt, in Surety specifically is that we have become the place where the best surety guys want to go to. It's just that simple. And so we have our -- we've had our active outbound recruiting to fill out geographic regions.

Recent hire in Texas is a great example of that of a senior personnel build-out that part of the market for us. But we've equally now had inbounds from folks. And Surety, it's not like surety people move around a lot, right? They're pretty sort of, I'd say, in the spectrum of being disciplined in any decisions that they make. They're kind of out there on the extreme of discipline.

What I would say to you is that that was a big announcement. There are 7 people we added. It's not the only place where we're adding talent. You just go back over the last few quarters. And we are just -- we're having great success in so many different places. It just happens to be that that one seems to show up quarter after quarter after quarter. And that's very intentional from our perspective. We love that business.

We think that we can continue to grow it and have it be really sensible for us in terms of the type of diversification, our ability to be able to get leverage out of our capital, all things that are good for shareholders, not to mention that if you run the business well, the returns are just excellent.

Operator

Our next question comes from the line of Mike Zaremski of BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

First question on the other operating general expense line. Is this the -- I guess, and also the acquisition cost ratio. So other operating expense, it looks like momentum is picking up in terms of the year-over-year decreases, which is kind of being partially offset by the higher acquisition costs as you move into the business mix shifts. Is this like the dynamic that should continue at these levels or anything you want to call out?

Mark William Haushill
Executive VP & CFO

So Mike, let me see if I can unpack it for you. The acquisition expense ratio as we've talked about for a while now has ticked up slightly as we have moved the business mix. So that upward trend is not unexpected. The reversal of the quota share did impact the acquisition expense ratio a little bit in the quarter. With respect to other operating expenses, what I'd tell you is the leverage we're getting from the earned premium is reducing the operating expense. Does that answer your question?

Michael David Zaremski
BMO Capital Markets Equity Research

Yes. And so the quota share, that had a positive impact on it or negative this quarter?

Mark William Haushill
Executive VP & CFO

It would -- it depends on which part you're looking at, but it would increase the acquisition expense ratio, but lower the operating expense ratio because of the earned premium benefit.

Michael David Zaremski
BMO Capital Markets Equity Research

I guess, lastly, just a quick follow-up on the catastrophe loss commentary from earlier in the call. And obviously, your results were excellent, not trying to nitpick at all. Just trying to see if we can get any more color on the -- on your low catastrophe losses? Because it feels like when we look at the industry-wide 3Q catastrophe loss data, it was above historical average.

But it's been -- I guess, we've seen uniquely a lot of companies, some companies have just shown results that have been catastrophe loss much higher than expected and some very benign, you're in the benign camp. So any -- was anything unique about catastrophes this quarter in the U.S. where they were just really more geographically concentrated? Or is this kind of you think kind of a normal 3Q for you guys ex -- when there isn't an earthquake or a hurricane?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. No, it's a very good question, Mike. Look, I think where you've seen companies -- and because obviously we follow all our peers and then companies that we don't directly compete against just to understand how others results are playing out. And I -- Mike, just my editorial commentary is that you see high concentrations of cat losses in companies that have -- because of their business concentrations of their business, particularly in the Midwest, Upper Midwest, where there's been a pretty heavy dose of severe convective storms in the last quarter.

That said, even amongst our peers, which we pointed to you on multiple occasions, include not only the sort of the -- I'd describe as pure-play specialties, but the primary insurance is particularly the specialty primary insurance divisions of the larger companies, the Bermudians and so forth, even against that group, our numbers were exceptionally low. And I think that most companies at a minimum, are picking up some effects of what has been a pretty heavy severe convective storm quarter. And I just will tell you, I just go back to this, I think we're really good in terms of our aggregation management.

And then within that, we're really good in terms of our sort of where we put our retentions and so forth, and that beared out this quarter. And I'll just say to you that we've showed this data consistently leading up to the IPO, certainly been true during the IPO, even when we had an elevated cat quarter last quarter, we were still considerably better than our peer group. And so we feel that this is a feature where property will be a material part of our portfolio. I believe it's about 26%, yet you should see us outperform and take the volatility that often others see in their quarterly results out of our results. We'll have -- we'll always have some cat for sure, but it's not the kind of cat that should ruin a quarter.

Operator

Our next question comes from the line of C. Gregory Peters of Raymond James.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

I guess in the context of your results this year, can you remind us of the renewal waterfall of your various reinsurance programs in place? And I know it's a little early, but it's November. Have you had any sneak peeks on how pricing for your reinsurance and ceding commissions for reinsurance next year might trend?

Andrew Scott Robinson
CEO & Chairperson of the Board

Greg, this is Andrew. And thanks for that question. Well, the first thing I'd remind you is that the bulk of our property renewals, which includes our cat, our per risk, our Global Property quota share or 2 different per risk, I believe, are all 4/1. So it's far too early. And that's probably the most material one.

The second, probably most material is 1/1, which includes our excess quota share and a handful of other related treaties, but the excess quota share probably being the most significant. And I don't really have anything to report. I know that our team actually today is at PCI and meeting with reinsurers. We've been out early with our reinsurance renewal.

But I don't really know if there's enough to say that is worth commenting on at this time -- well, I don't have enough to say to comment on this time, but we'll be happy to sort of update everyone at the next earnings call.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

And then one of the businesses that you highlight in your slide deck inside Global Properties also in agricultural business.

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

And that seems to have come up in a couple of other earnings reports. And so I'm just curious if you could comment on your business and how it's performing year-to-date for...

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. So well, let me just -- let me say that. I've been following that as well, particularly 2 very large participants in the large government program. And so first off, only about 15% of our book has the MPCI exposure. I think that the reference has generally been towards this being a slightly worse year than average.

We don't disagree with that point of view. But for that portion of our portfolio, we'll actually probably generate a better return than the industry on average for that portion. But it's not material enough in our -- in the grand scheme of things. That book of business today is circa $30 million and probably about 15% of that is exposed to that.

And quite honestly I think that -- it's -- that 15%, as small as it is, is shaping up to generate a nice return for us. And that's just simply because we had some excess of loss in there that will end up performing well side-by-side with the quota shares to give us probably a better result.

Operator

Our next question comes from the line of Tracy Benguigui of Barclays.

Tracy Dolin-Benguigui

I also had a question on the expense ratio. I get it there has been a business mix change this quarter. There was -- maybe some of that had to do with the quota share contract that you rescinded. But going forward, how should we think about the proportion of the acquisition ratio and operating expense ratio? I mean, this quarter looks pretty similar. Do you think that will revert back to what we've seen in prior quarters?

Mark William Haushill
Executive VP & CFO

I think this quarter is how you should look at it, Tracy, with the reversal, et cetera. Yes, I think Q3 is more the way you should look at it.

Tracy Dolin-Benguigui

Okay. So like a higher policy acquisition ratio run rate?

Mark William Haushill
Executive VP & CFO

Yes. Thank you. Yes.

Tracy Dolin-Benguigui

And premium leverage opening OpEx?

Andrew Scott Robinson
CEO & Chairperson of the Board

Yes. I mean, the one comment I would have, Tracy, is it's kind of intuitive, right? So if you take a look at our highest growth businesses, things like Transactional E&S, Surety and so forth, Surety is the highest commission line of business in the industry or Transactional E&S, as you certainly know, is wholesale distributors, so you have a higher commission rate. And what's happened is that many of the wholesale-driven parts of our business have been growing disproportionately and you kind of see that running through in our acquisition expense.

Tracy Dolin-Benguigui

Appreciate the color on the business mix.

Operator

I would now like to turn the call back over to Natalie Schoolcraft for closing remarks. Madam?

Natalie Schoolcraft
Head of Investor Relations

Thanks, everyone, for your questions, for participating in our conference call and for your continued interest in and support of Skyward Specialty. I am available after the call to answer any additional questions you may have. We look forward to speaking with you again on our fourth quarter earnings call. Thank you and have a wonderful day.

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