S&P Global
Market Intelligence

Fairfax Financial Holdings Limited
TSX:FFH
FY 2016 Earnings Call Transcripts

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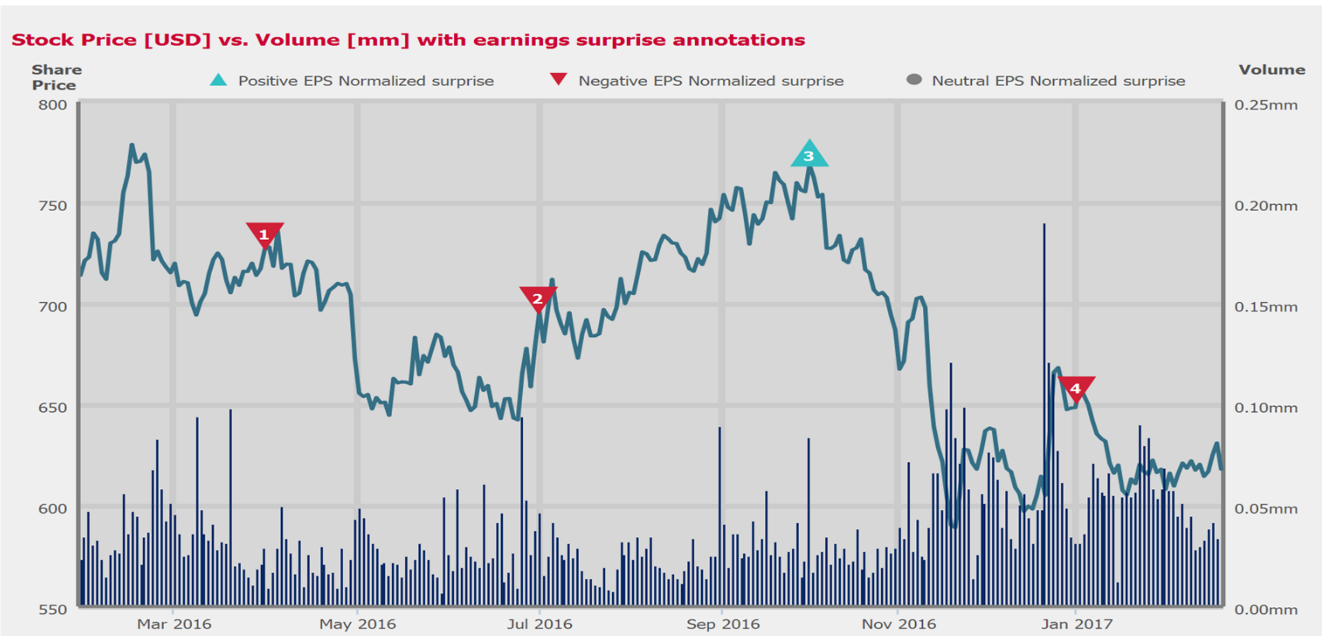
S&P Global Market Intelligence Estimates

	-FQ4 2016-			-FQ1 2017-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	SURPRISE	CONSENSUS
EPS Normalized	-	-	-	8.62	▲24.40	17.23
Revenue (mm)	1510.00	1774.70	▲17.53	2640.00	▼(4.73 %)	10275.00

Currency: USD
Consensus as of Feb-17-2017 5:50 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FY 2016	17.23	14.97	▼(13.12 %)

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Call Participants

EXECUTIVES

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Former VP & CFO

Eric Paul Salsberg
VP of Corporate Affairs & Corporate Secretary

V. Prem Watsa
Founder, Chairman & CEO

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ATTENDEES

Unknown Attendee

Presentation

Operator

Good morning, and welcome to the Fairfax 2016 Year-End 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 Eric Salsberg. Mr. Salsberg, please begin.

Eric Paul Salsberg
VP of Corporate Affairs & Corporate Secretary

Okay. Thank you. Good morning, welcome to our call to discuss Fairfax's year-end 2016 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 & CEO

Thank you, Eric. Good morning, ladies and gentlemen. Welcome to Fairfax's conference call on our 2016 results. I'd like to give you some of the highlights and then pass it on to Dave Bonham, our CFO, for additional financial details.

In 2016, book value per share decreased 6.4% adjusted for the $10 per share common dividend paid in the first quarter of 2016. Our insurance companies had an excellent year, with a combined ratio of 92.5%, with excellent reserving and significant underwriting profits of $576 million. For the full year, all our operating segments had combined ratios below 100%, with an overall combined ratio of 92.5%. Zenith had a very good combined ratio of 79.7%; Fairfax Asia, 86.4%; and OdysseyRe, 88.7%, all below a 90% combined ratio.

The insurance and reinsurance operations produced strong operating income, excluding net gains or losses on investments of $1 billion. In 2016, we realized gains on our investment portfolio of $564 million before the equity hedges. Excluding all hedging losses and before mark-to-market fluctuations in our investment portfolio, we've earned approximately $1.2 billion in pretax income for the year. Including all hedging losses and mark-to-market fluctuations in our investment portfolio, we have reported an after-tax loss of $513 million for 2016, was a painful quarter and year for Fairfax.

Our insurance and reinsurance businesses premium volume was up for the full year of 2016 by 3.8%. At the subsidiary level, the change in net premiums written for the year and the combined ratios were as follows: OdysseyRe premiums were flat combined ratio of 88.7%, as I said before; Crum & Forster, up 9%, combined ratio of 98.2%; Northbridge in Canadian dollars up 10%, with a combined ratio of 94.9%; Zenith, up 4%, with a combined ratio of 79.7%; Fairfax Asia, up 10%, with a combined ratio of 86.4%; and Brit, with a combined ratio of 97.9%. Brit was in 2015 for about 5 months and was -- in 2016 was there for the full year.

As we've said before, very low interest rates and reduced reserve redundancies means that there is no place to hide for our industry. Combined ratios have to remain well below 100% for the industry to make a single-digit return on equity with these low interest rates. While the short term is always tough to predict, fundamentals will eventually play out. And we believe pressure will continue to be on the industry to make an underwriting profit.

Net investment losses of $1.2 billion for the year, consisted of the following: please refer to Page 2 of our press release. Net losses on equity and equity-related investments were $1.3 billion, resulting from net losses of $105 million on equity investments and $1.2 billion net loss on our equity hedge, mainly because of our 19.5% increase in the Russell 2000 Index during the year. We realized losses of $184 million on our equity portfolio, on our equities, primarily related to SandRidge Energy and realized $2.6 million of losses due to the removal of our hedges. More on the removal of our hedges later.

Our CPI-linked derivatives with a notional value of approximately $110 billion produced unrealized losses of $196 million during the year. The majority of these contracts, as you know, are based on the underlying U.S. CPI index, about 54%, or the European Union CPI index, about 40%.

Further information is available on Page 4 of our press release, where we have included a table on deflation swaps. On average, they have 5.6 years to run. We continue to hold them as insurance for the unexpected. Events like a collapse in world trade, a problem in China or the disintegration of the European Union. So we will continue to hold our deflation swaps. 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.

The fair values of our investments in associates is $3.3 billion versus a carrying value of $2.6 billion, an unrealized gain of $700 million that's not on our balance sheet.

Investment gains have been an important component of our returns over time. Since we began, 31 years ago, we have had accumulated $10.2 billion in realized and unrealized gains. As we mentioned in our annual meeting, annual reports and quarterly calls, with IFRS accounting, where 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.

In December 2016, Fairfax entered into an agreement to acquire Allied World, a market-leading global property, casualty and specialty insurer and reinsurer. Under the terms of this agreement, Allied World shareholders would receive a combination of Fairfax subordinate voting shares and cash equal to $54 per Allied World share, for a total equity value of approximately $4.9 billion.

In January 2017, the company entered into an agreement, pursuant to which, almost will invest $1 billion in order to indirectly acquire approximately 21% of the issued and outstanding shares of Allied World, simultaneously with the acquisition of Allied World. We are in the final rounds of negotiations with the number of parties that are interested in following almost lead as co-investors. And we are confident that we will be able to raise an additional $500 million and potentially up to $1.5 billion.

We continue to work with partners to utilize the remainder of the option. The transaction remains subject to a number of regulatory approvals and certain Allied World shareholder approvals. Closing of the transaction is expected to occur in the second quarter of 2017.

Over 31 years, our decentralized approach and our fair and friendly culture have attracted many companies to join us in property and casualty insurance and elsewhere. We are the first choice for many good companies and management teams, both from an acquisition point of view as well as the financing.

Let me explain how it works from a management standpoint. AMAG in Indonesia, which we acquired in 2016 is run by Linda Delahaye, who has run it for more than 10 years and as part of Fairfax Asia run by Mr. Athappan. Wright Insurance, formerly Zurich South Africa is run Edwyn O'Neill, and came to us through Mark Cloutier at Brit Insurance, who will continue to monitor it, while reporting to Andy Barnard. The Latin American companies and portfolios in Eastern Europe we acquired from AIG have individual branch managers in all of the countries reporting to Peter Csakvari for Eastern Europe and company presidents reporting to Fabricio Campos for Latin America, both of whom report to Bijan Khosrowshahi. Peter Csakvari has been with us for 2 years, following 17 years with AIG. And Fabricio just joined us and was with the AIG for more than 15 years.

Bijan has been with us for 8 years and before that he was with AIG for 23 years. Bijan, of course, will work closely with Andy Barnard.

Allied World built by Scott Carmilani and his team have an outstanding track record and will continue to be run by Scott working with Andy. We discussed this in our December 19, 2016 conference call and we said this would be a transformative acquisition for Fairfax.

For all of you shareholders who haven't had a transcript, or a look at the presentation I'd recommend going and reviewing that.

Over the past 6 months, Nigel Fitzgerald has led the charge to buy Tower in New Zealand, a company that has operated there for over 145 years. While we were all impressed by Richard Harding, and the team will run that company, Nigel, who runs ADVENT in London will work with Richard as well as continue to be responsible for ADVENT, all reporting in to Andy. The transaction remains subject to shareholder and regulatory approvals.

Recently, we have created a company called Fairfax Africa and it's listed under Toronto Stock Exchange today, having raised $500 million. The reason behind this is similar to Fairfax India. Four years ago we met Mike Wilkerson and Neil Holzapfel and we took AFGRI private together on the Johannesburg Exchange. AFGRI has been a great investment. And with Neil and Mike having specialized in Africa for the past decade and with Neil and 2 partners permanently located in South Africa, we decided to create Fairfax Africa to take advantage of the significant opportunities there.

These are all examples of how our decentralized approach and fair and friendly culture work together to provide outstanding opportunities for you, our shareholders.

At year-end, Fairfax India had invested $1.1 billion that it had raised about 2 years ago. So early in 2017, Fairfax India completed a $500 million share offering at a price of $11.75 per share. Subsequently, Fairfax India purchased additional shares in IIFL for a total consideration of $75 million and now holds approximately 27% of the company.

Also in 2017, Fairfax India acquired 51% of Saurashtra, the largest container freight station at Mundra Airport for $30 million. We continue to be very excited about the potential in India, especially under Prime Minister Modi's leadership. Please note that Fairfax India and Fairfax in Africa are great investments for us. But over time, will also be a significant source of earnings through additional income -- through an additional income stream of fees that comes to Fairfax Financial.

As we said in our third quarter call, with the uncertainties of the U.S. Elections and a possible new U.S. administration, we decided to sell 90% of our U.S. long treasuries. In the fourth quarter, we continued to reduce the duration of our bond portfolio to approximately one year, through the sale of additional treasury bonds and U.S. muni bonds, and we've purchased treasury locks for the bonds that have yet to be sold.

The effective sale of our bond portfolios had a cumulative realized gain of $2.3 billion from our original cost, $1 billion from treasuries and $1.3 billion from U.S. muni bonds.

The risk in our bond portfolio through an increase in interest rate has been eliminated. Also, after the election, we eliminated our Russell and other index hedges and reduced our individual company stocks. The volatility of the past in our earnings from our holdings of long bonds and equity hedges is over.

Why did we make these dramatic changes? We believe the new U.S. administration's proposed policies of reducing corporate taxes to 15% to 20%, rolling back regulation and business like Obamacare, Dodd-Frank and a myriad other regulations, and significant infrastructure spending has the potential of boosting economic growth significantly in the United States.

Already sentiment among small business has improved dramatically and animal spirits in the U.S. have been revived. When the U.S. economy, which is approximately $20 trillion, does well much of the world does well, too. To us, this means our concerns of China or Europe, precipitating a worldwide recession/depression have been significantly reduced, but not eliminated.

Also the trade policies of the U.S. could precipitate a collapse in world trade. So these risks will be very much monitored by us. But we think the new administration's policies may make this as stock maker's market and then one -- and one in which we have thrived over the past 31 years.

In the past few years, we have played defense. We are expecting to play offense, but always with a long-term value oriented investment philosophy. We will continue to pick good companies, which provide significant downside protection and potential appreciation over the long term. Our recent investments of $150 million in Chorus and CAD $150 million in Mosaic in a bond and warrant structure are examples of emphasizing downside protection with potential upside, with great management teams with excellent track records.

The stock markets are not cheap. But selectively, we expect to invest on $10 billion in cash over time, always keeping a watchful eye on the risks outlined earlier. Over the last few months, there have been media and analyst reports with respect to a rumored $1 billion sale of our portion of our 35% stake in ICICI Lombard and to a rumored application by us with an Indian partner through a new insurance license in India. These reports have noted, that if a new license were issued, we would be required to own no more than 10% of ICICI Lombard. We cannot comment specifically on these rumors. However, what we can say is that we have in the past reminded our shareholders that we have created significant value in our investments in numerous companies that are not valued at market value in our financial statements. And for the right price, these holdings may be sold opportunistically.

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

David J. Bonham
Former VP & CFO

Thank you, Prem. First of all, we wanted to let you know that in addition to the press release that we issued yesterday, all of the details of our fourth quarter and year-to-date financial results will be made available in our annual report, which will be posted to our website on March 10, 2017.

So now we can move into Fairfax's consolidated results for the full year of 2016. Some details of the operating company results and then on to our consolidated financial position.

So for the full year of 2016, Fairfax reported a net loss of $513 million or $24 per fully diluted share. And that would compare to net earnings of $568 million, $23 per fully diluted share in the full year of 2015.

The net loss in 2016 principally reflected net investment losses that were offset by strong operating income. Our insurance and reinsurance operations produced an underwriting profit of $576 million and a combined ratio of 92.5% in 2016, that compared to underwriting profit of $705 million and a combined ratio of 89.9% last year.

The decrease in underwriting profit year-over-year of about $129 million principally reflected increased the current period catastrophe losses partially offset by higher net favorable prior year reserve development.

Net premiums written by our insurance and reinsurance operations increased by 11% in 2016, principally reflecting the consolidation of Brit's net premiums written of about $1.5 billion in the full year of 2016 compared to about $946 million for the period that we owned Brit in 2015.

So turning to our operating company results, we can start with OdysseyRe. In 2016, OdysseyRe reported an underwriting profit of $235 million and a combined ratio of 89%, that compared to underwriting profit of $337 million and a combined ratio of 85% in 2015.

Slightly lower underwriting profit in 2016 principally reflected higher current period catastrophe losses, the impact of lower net premiums earned, lower writings of higher margin property catastrophe business and continued rate pressure. That's partially offset by increased net favorable prior year reserve development and lower current period extraordinary losses.

OdysseyRe wrote about $2.1 billion of net premiums in 2016 and that was fairly consistent with a net premiums they wrote in 2015.

Moving on to Crum & Forster. Crum & Forster's underwriting profit of $32 million and 98% combined ratio in 2016, was slightly lower than the underwriting profit of $35 million and 98% combined ratio in 2015. The decrease in underwriting profit was principally due to increased current period catastrophe losses, a deterioration in accident and health loss experience in the current accident year and that's principally related to a single program and increased commission expense.

And those factors were partially offset by net favorable prior year reserve development and an improvement in non-cat losses experience in the current accident year. There was no net favorable prior year reserve development last year.

Crum & Forster's net premiums written increased by 9% in 2016, primarily reflecting growth in the accident and health and commercial transportation lines of business, as well as incremental contributions from the acquisitions Crum completed in 2015. That was partially offset by decreases in their construction contracting line of business.

Zenith National reported increased underwriting profit in 2016 of $164 million and a combined ratio of 80%, that compared to underwriting profit of $134 million and a combined ratio of 83% in 2015. The improvement in 2016 principally reflected increased net favorable prior year reserve development and a lower estimated accident year loss ratio. Net premiums written by Zenith of $819 million in 2016 increased by 4% year-over-year, principally reflecting an increase in exposure and that's partially offset by modest price decreases.

Northbridge reported underwriting profit of $46 million and a combined ratio of 95% in 2016 compared to an underwriting profit of $71 million and a combined ratio of 92% in 2015. Northbridge's underwriting results in 2016 reflected the impact of increased current period catastrophe losses, mainly the Fort McMurray wildfires and a deterioration in non-cat loss experienced related to the current year, that's principally the result of increased frequency of large losses.

And that was all partially offset by increased net favorable prior year reserve developments. In Canadian dollar terms, net premiums written by Northbridge in 2016 increased by 10%, reflecting increased new business writings and Northbridge insurance and modest price increases across the group.

Turning to Brit. In 2016, Brit produced an underwriting profit of $29 million and a combined ratio of 98%. In 2015, Brit produced an underwriting profit of $45 million and a combined ratio of 95%. And as a reminder, Brit was acquired in June 2015 so comparative figures for 2015 are only for the period in which we owned it.

The underwriting profit in 2016 included $76 million of current period catastrophe losses and that was principally comprised of the impacts of Hurricane Matthew and the Fort McMurray wildfires.

Fairfax Asia reported increased underwriting profit of $41 million and a combined ratio of 86% in 2016 compared to underwriting profit of $35 million and a combined ratio of 88% in 2015.

Net premiums written by Fairfax Asia increased by 10% in 2016, that principally reflected the acquisitions of Fairfirst Insurance in Sri Lanka AMAG in Indonesia. And also, reflected increased writings at Pacific Insurance and the impact of increased premium retention and that was primarily at First Capital.

The insurance and reinsurance other segment produced an underwriting profit of $28 million and a combined ratio of 94% in 2016, somewhat lower than the underwriting profit of $46 million and combined ratio of 90% in 2015. The decrease in underwriting profit in 2016 principally reflected increased current period catastrophe losses and lower net favorable prior year reserve development, partially offset by improvements in the non-cat loss experience related to the current accident year.

Net premiums written by the insurance and reinsurance other segment decreased by 6% in 2016, and that decrease reflected the nonrecurring impact of the QBE loss portfolio transfer in 2015 at Polish Re and decreases at Group Re, primarily related to the nonrenewal in 2016 of an intercompany property quota share agreement with Brit. Those were partially offset by increases at Fairfax Brazil and ADVENT.

Run-off reported an operating loss of $149 million in 2016 compared to an operating loss of $74 million in 2015. The increase in the operating losses 2016 principally reflected higher net adverse development and lower interest and dividend income, partially offset by lower operating expenses.

Turning to some of our consolidated figures. Consolidated interest and dividend income increased from $512 million in 2015 to $555 million in 2016 that reflected higher interest income earned, that was principally on increased holdings of higher-yielding government and corporate bonds, partially offset by the impact of sales of U.S. state municipal bonds. We had lower total return swap expense in 2016, lower interest on funds withheld expenses and that was partially offset by lower dividend income in 2016.

Fairfax recorded an income tax recovery of $160 million in 2016 and that was relative to a pretax loss of $554 million, producing effective tax rate of 29%. We ended 2016 with an investment portfolio, including holding company cash, of $28.4 million compared to $29 million at the end of 2015. The lower investment portfolio reflected net unrealized depreciation of common stocks, net losses on derivatives, partially offset by net unrealized depreciation of bonds.

Our total debt-to-total capital ratio increased to 28.7% at the end of 2016 from 21.8% at the end of 2015 and that was primarily as a result of debt issued by -- issued during 2016 by Fairfax -- Fairfax India in Kerala and that was to finance various purchases and that also reflected the company's lower shareholders' equity at the end of 2016.

The proceeds from Fairfax's fourth quarter 2016 debt issuance are ear-marked to retire debt that is already outstanding.

So now, Prem, I'll pass it back to you.

V. Prem Watsa
Founder, Chairman & CEO

Thank you very much, Dave. Now we're happy to answer your questions. [Operator Instructions]
So, Jen, we're ready for your questions.

Question and Answer

Operator

[Operator Instructions] And our first question is from the line of Jr. Rock [ph], a private investor.

Unknown Attendee

Quick question. What do we -- what do CPI index need to go back to get the price we paid for the equity?

V. Prem Watsa
Founder, Chairman & CEO

Sorry, give me that question, again.

Unknown Attendee

So the CPI index right now is at a loss, right? To get it back into a gain state, what does the CPI index need to go to in the U.S. and Europe?

V. Prem Watsa
Founder, Chairman & CEO

Yes, Dave, why don't you answer that?

David J. Bonham
Former VP & CFO

Yes. So we don't have those figures in front of us. But in our financial reporting, we do give you all the index values on the CPI indices. That's to where the average was when we started those contracts. So you can compare the 2 to where the indexes at the current point in time and get the answer to that question.

V. Prem Watsa
Founder, Chairman & CEO

And in terms of the indices, it's very close to where they are. But we might be in for a period of inflation as you saw the last numbers come out in the United States. And so we will be watching it carefully. But as I said before, it's tremendous protection, it's got 5 or 6 years to go and when we will keep them.

Operator

And our next question is from the line of Jeff Fenwick from Cormark Securities.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Just -- with the movement on the balance sheet this quarter. Your debt-to-capital levels moved up fairly meaningfully, I guess, quarter-over-quarter here. I just wanted to get your sense of level of comfort with where you are sitting there from a capital position today? And is there any concern around that or any plans in terms of bringing incremental capital?

V. Prem Watsa
Founder, Chairman & CEO

Yes, Jeff. We are -- the focus is very much to bring that back to where it was. We have many, many possibilities of doing that. But, of course, as Dave mentioned, it includes debt from our Fairfax India, Jeff. It includes debt from our subsidiaries, which is really not our debt, it's consolidated into our companies. Fairfax India, for example, has every expectation to pay off its debt by the end of March. And -- but we are -- we would get that much lower. If there's any truth to those rumors that I highlighted for you, our debt equity comes back significantly.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Okay. And then maybe just a question as you hear on your investment positioning as you're entering 2017. I mean, obviously, significant change and you articulated that for us. Just wondering around your concerns about market volatility. I mean, there's certainly been a lot of initial euphoria post the U.S. Elections, but we know that the change takes time and those changes as they emerge, may be different than what people originally thought. And how do you manage those risks in the near term, with respect to the pace of deploying that capital out in the market?

V. Prem Watsa
Founder, Chairman & CEO

So you know, Jeff, when you think about -- there's always going to be volatility. I think of going back a few years now, 1965, the Dow Jones hit a 1000, 1982, it was still at a 1000, 17 years later. So there are long periods where the index might not go up significantly. But individual companies and stock do very well. So that's what we mean by saying it's a stock picker's market. The last number of years, the stock markets have gone up. We're not expecting the markets, in general, to do very well, but we think individual companies might do well. But always subject to the value investing principles of margin of safety provide downside protection, great management teams, we gave you Mosaic and Chorus in a quasi-convertible structure. So when we invest these monies, we'll be investing it in that way. Are we going to have 20%, 30% fluctuation? It's very much possible. And then, never forget that the stocks that we have haven't done very well recently, especially in 2016. And over time, we expect them to do well. We've got some investments in Greece, I've talked about it in our annual report last year. I'll give you an update again. In this year's annual report, we've got our investment in BlackBerry, which is stable now. So we've got these investments that we expect to do well. We don't expect them to go down a lot from here. And so that's another reason for us to take our hedges off, because the components of our stock positions have come down significantly already.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Okay. And maybe just one last one, if I may, on Fairfax India's not having its own calls. Is there any update you can provide on the status of the Bangalore airport investments. And that's been in the work for a long time and waiting for approval from various agencies, any update you can provide there?

V. Prem Watsa
Founder, Chairman & CEO

Yes. So it's -- very much, Jeff. The security clearance that we were waiting for, we have obtained. And so now it's just a question of closing the transaction, which we do expect to close in the next week or 2. And it's working with the seller and his banks to make sure that it works well for everyone concerned. And -- but there is no hurdles now any longer after we got the clearance, the security clearance. So it should close relatively soon. And we'll have the 33% from the controlling shareholder, we will have 5% from Zurich, as we mentioned, so we'll have 38%. And I just came back from there, it's a wonderful airport, it's got tremendous possibilities, it's running at about 20-plus million passengers today, has all the ability to go to 60 million. Bangalore, as you know, is the Silicon Valley of India.

And so, yes, we're very excited it will happen in the -- hopefully, in the next few weeks.

Operator

And our next question is from the line of Paul Holden from CIBC.

Paul David Holden
CIBC Capital Markets, Research Division

Two questions, if I may. First is a quick one. Would you happen to have what the duration of your bond portfolio was, say, mid-2017, just to give us a sense of how much you've reduced it, which were at mid-2016.

V. Prem Watsa
Founder, Chairman & CEO

Yes. We had very long bond portfolios, our treasury bonds were mainly 30-year treasury bonds. And are -- we had California bonds, which were very long term. And we had some muni bonds, which had call features in it. So I don't have the duration, but they were long. And once we decided, we sold the 90% just recognizing the risk of the administration change unexpectedly, which had -- which happened. And so we're now -- we basically are the solo bonds in the case of treasuries, all California's, or we have locked them up with the treasury lock. And so our duration is plus or minus a year. And the risk, as I said, in terms of interest rates going up are eliminated. I just want to highlight, the reason we've changed so dramatically, we just think we've always thought what will make us change. And of course, a good situation was of -- the markets come down and we cover our hedges at a profit that would have been terrific. But we also thought of the other side and the other side was -- if what happened, happens -- in our mind, the facts changed. And the other facts, corporate -- the new administration comes with economic policies that are focused on reducing corporate taxes to 15% to 20%, as you know, rollback regulations significantly. And regulation in business has -- have been very heavy over the last 8 years. And a very significant infrastructure spending, which is exactly what the United States needs. And so those are a very powerful combination of policies. I mentioned that it's already got animal spirits up in the United States. And so the economic growth could take place there. And so in that setup, we thought, if we had known this earlier, you would say, and rightly so, and when I say, you, I mean generally to our shareholders. We perhaps, if we had known that this type of thing could happen, we should not have hedged even a few years ago. But, of course, that was not, not so at least for us. It wasn't possible to think through that potential. But as we saw it, we reacted and we've taken it out. And now, we're back to what we've done for 31 years, invested on our value-oriented basis. And as I said, in our script, that we've made $10 billion over that time period, cumulative gains. We expect in the next 3, 4, 5 years to do as well, in the positions that we have. But -- and that's what we -- our bond portfolios are plus/minus 1 year.

So, Paul, what's the next question you had? Maybe I...

Paul David Holden
CIBC Capital Markets, Research Division

Yes. So next question is in terms of the deployment of the $10 billion of cash you have today. Obviously, you have to do that in the context of risk-weighted assets in terms of solvency ratios and your credit-rating insurance rating, et cetera. So maybe you can just sort of help us think about the feasibilities that in terms of asset class, in terms of how you can deploy that?

V. Prem Watsa
Founder, Chairman & CEO

Yes. So the $10 billion will be capitalized, as I said. But we bought a -- we like the idea of buying bonds, getting us 5%, 6%, 7%, as we did with Mosaic and Chorus, backing very strong teams. In the case of Mosaic and Chorus. In Canada, we're well-known. These companies are giving us 20% or 50% of the shares outstanding. And you don't do that lightly if you are a management. But they know we're friendly, we've demonstrated over 31 years, always been friendly, always been supportive and that's a big plus that we have. Our culture is a huge plus. So differentiating factor between us and the other companies that we compete with, in any industry we're at. So you'll have -- in Canada, the people come all over the place for financing from us. They come to Paul Rivett, they come to others. And the insurance companies, I gave you a whole list, they have come to us to be part of Fairfax, because it's decentralized. They can run the company like they see fit. And we will see similar things happening, Paul, in the United States. The U.S. is a big country, there is also some opportunity taking place, also, some entrepreneurs and for an entrepreneur with a great track record and wants to expand in this -- in the U.S. we're the right partner for them. And they'll be amenable, they'll be sensitive and they will work with us, structures that work, like we did with Chorus and with Mosaic.

And I'll speak a lot more about this in our annual report. Yes.

Operator

And our next question is from the line of Tom MacKinnon from BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

Prem, I'm just following up on Paul's question. If I look at equity, your equity, common equity and preferred equity plus your investment in associates. Those are I don't know low 20s, 23%, say of your total portfolio. Is there -- do you -- how high would you take that, like traditionally you don't see insurance companies with much higher than 25% or 30% of their total portfolio invested in equity and investments in associates.

V. Prem Watsa
Founder, Chairman & CEO

That's right, Tom. And so somewhere around that 25%-plus/minus, is sort of the maximum. But first of all, our equities are weaker as they do well, we can sell them and replace them with other investments that's happening as we speak in terms of the stock markets. But also, the structure like a Chorus or where we have a convertible, but we split them into a bond, which really adds -- insurance companies have a lot of bonds, and a warrant, which is 5 or 7 years, which perhaps has no value today, but has the upside if the company does as well, as we think it might. So that structure is very conducive to us, it looks really well. And so those are the type of things we're looking at doing -- that makes sense for Fairfax.

Tom MacKinnon
BMO Capital Markets Equity Research

That's great. And just as a quick follow-up. What do you hold ICICI Lombard on your balance sheet at? I know you did increase your stake and the cost of that is disclosed. But what is the -- what do you owe to that?

David J. Bonham
Former VP & CFO

I think, well, $350 million plus/minus we show it there in our statements. And it's about 3 years. We increased that stake, it was about $100 million term. And then we bought 9% or 10% and about $250 million, $240 million something like that. And so our total investment, I think is, $350 million. And -- so that's what I was alluding to in terms of the -- those rumors.

Tom MacKinnon
BMO Capital Markets Equity Research

Yes. And I think in terms of Allied World, there is really $2.7 billion more needed. There is this talk about OMERS with $1 billion. You -- so that $1.7 billion more are you -- how comfortable are you in terms of raising that from potentially outside party.

V. Prem Watsa
Founder, Chairman & CEO

So, Tom, we've got $1 billion from OMERS. And we said -- in my prepared comments, I said we've very confident of another $500 million. So that's a $1.5 billion. That $1.5 billion, Tom, if we could give Allied World shareholders in cash, that will be like Brit, 70% Fairfax; 30% partners. If we get another $1 billion, then it will be like 50%, 51% Fairfax; 49% partners. So that's the split, we have -- we think we feel confident, as I said, for a $1.5 billion. So which is a 70-30 split. And if we get the additional $1 billion, then we would be more like 50-50, 51% for us, 49%, we'll always control the company. And we expect to retire this over time, just like we did. We have the ability to buy back these shares over time, 5 years, 7 years, basically. And so if we do a 70-30, and we've issued the 30% -- the 30% 70-30. And then we've issued some shares, the shares that we would issue are the 70-30 split, Tom, would be approximately 23.5%. So that means if we go over $1.5 billion, if you bear with me, we are issuing $14 of -- per share of Allied World in common shares. And we are issuing the 30% comes in cash and the 70% will be in shares, a part of it will be in shares. And so net-net, Fairfax's shares outstanding will grow up -- will go up by 23.5%. If we only do $1.5 billion in financing for that $30 a share. So everything in the company with Allied, as I've mentioned before, goes up 1/3. The premiums go up by 1/3. The investment portfolio goes up 1/3. But the shares outstanding will only go up by 23.5%. If we get $2.4 billion, which just gives us 51%. And then the shares outstanding go up by about only -- they go up only 15%. So if we have more cash come in and that's not guaranteed, as you know. But if -- we're working with many partners, as I've said. But if that does come in, then the shares that we would issue would be much less. In our minds, if that doesn't come in, we'll just think of using cash flows from Allied World to buy back our stock that we would have issued to in excess of what we wanted to issue. So that's how we're thinking about it. And -- but at the moment, it looks like our shares outstanding will be up by about 23.5%. But on March 3, as when we have to announce, how much cash, how much shares, and we will do that on that date.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And how come you can't use any of this? Or why wouldn't you be able to use substantial amount of this $10 billion in cash? Is that just because it fits in operating insurance subsidiaries that cause pullout?

V. Prem Watsa
Founder, Chairman & CEO

Yes. So the insurance companies, a term that fits in all our insurance companies, mainly in the United States, but all over the world. And we'll invest that, because a lot of that we've invested in, and most of that was invested in our bond portfolios. And so we -- the interest rates are going up some, so cash is not a bad thing to have, 5-year treasuries are at 2% in that area. So we'll -- we get some interest income, but over time, we'll be investing in that, as I said earlier.

Tom MacKinnon
BMO Capital Markets Equity Research

And -- sorry, what was the significance of the March 3 date? What was -- sorry, about that?

V. Prem Watsa
Founder, Chairman & CEO

March 3 is the date when we have to let Allied World shareholders know that $30 in cash or shares, how much is going to be in cash and how much is going to be in shares. So the way to look at Allied World is to think of it as fully funded, it's either cash or shares. And the only point we have to make on March 3 is that, whether it's going to be in -- whether we're going to put $1.5 billion in cash or $2 billion in cash or $2.5 billion in cash, that we have to announce then. And then subject to regulatory approval, sometime in the second quarter, maybe late in the second quarter is when the approvals are -- we expect to come.

Operator

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

You've already covered a lot of the investing and financing type of questions. I just wanted to ask a couple of others that are a little bit more operational. Could you provide the amount in total of cat losses and favorable developments in the quarter? Just in dollar terms or points, whatever is easiest.

David J. Bonham
Former VP & CFO

Yes. I can do that for you. So in the fourth quarter, we had 12.9 points of favorable developments in our combined ratio and that would -- and for the year-to-date that would be 8.5 points. And in terms of dollars, $257 million in the quarter, $675 million in the year of favorable development. And if you're looking at cat losses, 5.4 points of cat losses in the fourth quarter, 4.6 points of cat losses year-to-date.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

And then the second question I had was, the net written premium volume at Brit fell off fairly substantially in the fourth quarter on a year-over-year basis. And I was wondering, if there was any case there. I know the pricing has been under pressure for Brit. But that was a much steeper decline than was suggested by just pricing alone.

V. Prem Watsa
Founder, Chairman & CEO

Yes. Pricing is under pressure. But not huge, 0% to 5% in all our companies across the world. Some closer to flat, some closer to 2% or 3%, and some a little more in the case of Brit, in the direct insurance businesses, it might have been down 2.9%, Mark. And in the reinsurance business, like 4.5%, 5% in terms of pricing. So they are charged to all our insurance companies is not to focus of the top line. And if they had to reduce it, they'll reduce it. We don't even think twice about that. And so we're not focused on premium at all. We are focused on combined ratios. And good reserving, and I can tell you at the end of the year, our reserves are very good, in very good shape and our management teams all over the world are very much focused on under putting and in a -- on an underwriting basis, we've had an outstanding year, another very good year. And our reserves are in good shape. And so we're writing $10 billion in gross premiums all over the world, and with all these different management groups that have been with us for long time, I must say that, that's a very stable operation. And Scott Carmilani and Allied World, they have run it for 15 years that's going to be such a good fit. It's going to be no integration problems, no synergies that we expect from them in terms of cost synergies. But of course, in terms of revenue synergies over time, we expect that will take place. But there are no cost synergies. You'll never hear us talk about $100 million, $200 million of synergies. And we think that's a huge plus, as I'll remind you, Allied World had a return on equity of 12% over the last 15 years. And if you look at their 10-year returns on the investment portfolios, it was approximately 3.9%, I think it is, Peter [ph], and our 10 year returns, in spite of very -- and not good returns in the last 5-, 10-year returns approximately 7%. And you put our 7% on the combined ratios and you get a 20% return on equity, that 12% becomes 20%. That's basically what -- how Fairfax was built. And it will continue to be the case over time. And so, I must say, that was a painful quarter, painful year. But I want to reassure our shareholders we are very focused on doing well for you, we've done really well for you over a long period of time. But I'm the first to recognize that we haven't done well for you in the last 5. And we'll make that up for you over time. Mark, any other questions you have?

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Just one other last quick one. The Fairfax Africa investment, I assume that's going to appear on the results and the reported balance sheet and so forth in a pretty similar manner as Fairfax India Holding?

V. Prem Watsa
Founder, Chairman & CEO

Yes. Yes. It'll be -- it'll come in -- it'll have its own statements, of course. And like Fairfax India, now it will have a second annual meeting and by the way, I'm going to welcome all of you for our annual meeting, not only Fairfax Financial, but Fairfax India's annual meeting, which is in the afternoon. And you will see and meet a lot of our -- a lot of the management team who run our Indian companies. And they are very, very impressive. We all had a chance to do that, our management team and our Board of Directors about a few weeks ago. And -- but we'll bring them in and we'll have a presentation. You'll have a chance, we're really quite excited in terms of our investments in India. And it's difficult to see, Mark, you've done a really good job, in understanding the Fairfax India, but the potential in that country is huge. And we have the better part in Fairfax India, the better part of $2 billion invested there. And then our other investments like ICICI Lombard and other Thomas Cook and all of those, they add up to about $3 billion. So we have about $5 billion, not on a cost basis, because we've done very well on that, but in terms of market, approximately $5 billion invested in India. And we're really -- we think the returns over time is going to be significant.

Operator

Our next question is from the line of Mikel Abasolo from Solo Capital Management.

Mikel Abasolo

My first question and that has to do with the removal of your Russell 2000 hedges. And my question to you is, I mean, in my mind, even if the new U.S. administration orchestrates a miracle or they were as good as Cardoso in Brazil or Modi in India. Don't you think that the averages, overvaluation of the U.S. stock market and particularly, Russell 2000 with 2/3 of the companies making a loss will definitely overwhelm the potential or the marginal improvement in the prospect of U.S. companies coming from better policies, if they manage to actually orchestrate better policies. So my question -- and I fully understand...

V. Prem Watsa
Founder, Chairman & CEO

No, Mikel, I understand your...

Mikel Abasolo

Your Greek investments, yes...

V. Prem Watsa
Founder, Chairman & CEO

It's a good question. And the markets are not cheap, I grant you that, I said that in our prepared comments. So you are exactly right. And some of you might wonder and might actually think that we are doing it at exactly the wrong time. And this is, of course, what makes investing such a great business, because it's all sorts of opinions and all sorts of views. Our view is just that these are very significant policy changes. If they come to place, and they might not come into place, cutting in corporate tax, a drop in corporate taxes to the 15%, 20%, I mean it's huge. If it's instituted and your point might well be that and many of you have said that it might not take place. The rollback in regulation, Obamacare, Dodd-Frank, all of these regulations you'll take them back. America is always based on business. And when you open it up for business, again, and these animal spirits come back. And then you throw in the infrastructure spending and some of you might have a chance to review the 50 infrastructure projects that are already explained. And you read just a few of them, and they are very, very significant. And so, I mean, you put all of that, the profit margins are high, but tax rates coming down is going to have a significant impact on profits, economic growth will have a significant impact, they're talking 3% or 4% economic growth. The confidence factor, the animal spirits is not a factor. So when I look at it, Mikel, I'm saying the markets might not go up significantly in the next 5 years or 10 years, who knows, right? But there might be individual names that go up, and individual companies that do well. And there will be fluctuations, 20%, 30% fluctuations all the time. And so we want to identify the companies that do well and the risks are very clearly, the world trade collapsed because of some of the policies that we talked about. The risks are about Europe and the Brexit going right through France and Holland and other countries. And of course, China is always a potential risk. So you have that risk, that's one of the reasons we've got the deflation swaps, we are keeping $110 billion which is in our books, I think, less than $100 million. So it's not a big item there. But if any of these risks come to play, our deflation swaps will be worth a lot. And on the other side, we think because $20 trillion economy is that doing well. Yes, so $20 trillion economy does well, a lot of these risks perhaps not eliminated, but reduced. So that's where what we think, Mikel, but only time will tell, okay. But we appreciate your question. It's a good question.

Operator

And our next question is from the line of Louis Fernandez [ph] from Prosper Partners [ph].

Unknown Analyst

Well, I just wanted to ask you, I mean, you already mentioned that and I want to ask you, again. Given your long-term plan of growing book value per share 15%, how do you think we can compensate for the last 6 years or kind of like 0 growth. And are we still in plan? And basically, what's your view on the future of Fairfax kind of like the same question?

V. Prem Watsa
Founder, Chairman & CEO

That's a very good point. We haven't done well as you said, last 5 or 6 years. And the question is, your question, can we compensate for that. Only time will tell if he can or not. We used to think that we could compensate with the treasury bonds and the government bond portfolio, which as I've told you, we made $2.3 billion of gains. We could have made perhaps a little more. We thought we could compensate on the hedges. But remember, we've got a whole bunch of equity positions that are not showing any profits today. For example, euro bank, for example, BlackBerry, they are all valued at market. And I can make -- paint some scenarios where that would be very different from where it is today. If you take those equity portfolios, common stocks which we've acquired, and you could make a scenario where they'll be valued a lot higher than they're valued today. Today, this is where they are. This is the reality of it. But we're not selling it. And so we've taken our hits, we've taken the hits, we've taken the hits on the hedges. We've made a lot of money on the bond portfolios, but not made more that perhaps we could have. And now, our focus is trying to do well. And only time will tell if we can compensate for the lack of progress, as you said, in the last 5 years plus. But let me tell you this, Louis, if you think of intrinsic values, if you think of what we have built over that time period, if you think of the individual companies that are making an underwriting profit year after year after year, you are going to think that they intrinsic value of Fairfax is a lot higher than what it is today. And I have no question about that. On the investment side, we've demonstrated a skill for a long period of time. You're exactly right, we haven't done that in the last 5 to 6 years, where you're going to see that change in the future, we've got the same team, there is no difference in our team. But the intrinsic value and book value tend to go together over time. While I would suggest to you that, right now that our intrinsic value of our companies is significantly higher than what the book value indicates. Some of the reasons for which you've alluded to.

Operator

Our next question is once again from Mikel Abasolo from Solo Capital Management.

Mikel Abasolo

Sorry for taking again some time from you. And I hate to do these questions, but it's kind of significant to me. I know that part of your success in the past and most likely in the future comes from your reputation as a fair and loyal partner. And my question is an uncomfortable one, because I wanted to ask you about the deliberate support that Fairfax did to corporate action by your Greek holding MYTILINEOS, our by its affiliate METKA. I think that transaction is an outright abuse of minority shareholders of METKA. And I wanted to ask you how come Fairfax actively supported that. And full disclosure, we're shareholders of Fairfax -- we're shareholders of Fairfax India, and also of MYTILINEOS and of METKA. So we're an interested third-party, but we were very disappointed to see that you were imposing that.

V. Prem Watsa
Founder, Chairman & CEO

If you will, send me an e-mail, I will make sure that we have our guys who specialize in it, in MYTILINEOS and they have reviewed it. They think it's fair. We want to give our perspective as a shareholder so that you would understand it. You might not agree with it, but you'll understand it. And we'd be happy to share that with you if you send us your e-mail. Okay?

Operator

At this time, we do not have any questions on queue, sir.

V. Prem Watsa
Founder, Chairman & CEO

Well, Jen, if there are no more questions. Thank you all for joining us on this call. We look forward to presenting to you again in the next quarter. Thank you, Jen.

Operator
Thank you. And that concludes today's conference call. Thank you all for joining. And you may now all disconnect.