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RE - Q1 2016 Everest Re Group Ltd Earnings Call

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CORPORATE PARTICIPANTS

Beth Farrell *Everest Re Group, Ltd. - VP of IR*

Dom Adesso *Everest Re Group, Ltd. - President and CEO*

Craig Howie *Everest Re Group, Ltd. - EVP and CFO*

John Doucette *Everest Re Group, Ltd. - EVP and President and CEO of the Reinsurance Division*

Jon Zaffino *Everest Re Group, Ltd. - SVP and President of the North America Insurance Division*

CONFERENCE CALL PARTICIPANTS

Kai Pan *Morgan Stanley - Analyst*

Michael Nannizzi *Goldman Sachs - Analyst*

Amit Kumar *Macquarie Research - Analyst*

Vinay Misquith *CRT Capital Group - Analyst*

Sarah DeWitt *JPMorgan - Analyst*

Josh Shanker *Deutsche Bank - Analyst*

Meyer Shields *Keefe, Bruyette & Woods, Inc. - Analyst*

Jay Gelb *Barclays Capital - Analyst*

PRESENTATION

Operator

Good day, everyone. Welcome to the first-quarter 2016 earnings call of Everest Re Group, Ltd. Today's conference is being recorded.

At this time, for opening remarks and introductions, I'd like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead.

Beth Farrell - *Everest Re Group, Ltd. - VP of IR*

Thank you, Roxanne. Good morning and welcome to Everest Re Group's first-quarter 2016 earnings conference call. On the call with me today are Dom Adesso, the Company's President and Chief Executive Officer; Craig Howie, Chief Financial Officer; John Doucette, President and CEO of Reinsurance Operations; and Jon Zaffino, President of the North America Insurance Operations.

Before we begin, I will preface our comments by noting that our SEC filings, include extensive disclosures with respect to forward-looking statements. In that regard, I note that statements made during today's call which are forward-looking in nature, such as statements about projections, estimates, expectations, and the like are subject to various risks. As you know, actual results could differ materially from current projections or expectations. Our SEC filings have a full listing of the risks that investors should consider in connection with such statements.

Now let me turn the call over to Dom.

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

Thanks, Beth. Good morning. For the opening quarter of 2016, Everest had another solid underwriting performance, with a combined ratio of 86%. This is slightly higher than where the full-year 2015 ended, which was due to an uptick in the expense ratio. The loss ratio in the first quarter is in



fact slightly better than where the year 2015 ended. In comparison to the first quarter of last year, the loss ratio was higher due to some level of cat activity in the first quarter of 2016.

The growth in our expense ratio in the first quarter was fully anticipated due to the expansion efforts in our insurance operation. The more modest change was in our reinsurance operation, and the slight increase there is reflective of the reduction in premium as competitive pressures continue.

Our Group gross written premium for the first quarter was \$1.4 billion, down 5% from the first quarter in 2015, with reductions in reinsurance but growth in insurance. The rate environment and foreign currency is driving the reinsurance premium reduction. Offsetting this is continued growth in our insurance operation as we build out our capabilities. You will hear more on this in the operations reports.

Despite premium pressures in the reinsurance sector, these segments overall had a combined ratio of 81.3%. The year-over-year difference, as mentioned, is mainly due to cats and a small uptick in the expense ratio, driven by premium volume. This is an outstanding result in this market and will likely compare very favorably to industry results.

The insurance operations' first-quarter attritional combined ratio of a 98.7% came in higher than last year, solely due to the expense ratio. As I mentioned, this was fully anticipated; but as our platform expands and premium earned grows, we expect that the -- abnormally for us -- high expense ratio will moderate throughout the year. Nevertheless, our current expense ratio remains better than the industry average.

More important is that the attritional loss ratio continues to improve. The calendar-year loss ratio was up due to some late-reported crop hail claims. Overall, however, our insurance operation continues on a very positive trend, as each of our business initiatives continues to show accelerating growth into the second quarter.

Beyond the underwriting results, there were some headwinds. First, investment income is down \$20 million compared to last year's first quarter. Lower limited partnership income was the major cause. Based on what we see to date in the second quarter, we expect that to be more positive in the second quarter.

Nevertheless, low yields generally continue to have a slightly depressing impact on income. And while this will moderate over time, there is limited upside that we see over the next several quarters.

The other item working against this quarter's earnings was foreign exchange. However, this was largely offset in shareholders equity through unrealized gains due to the positive impact of holding foreign assets.

Overall for the quarter, the Company had a very positive result, generating a 12% annualized operating ROE and book value per share that rose 4% for the quarter. With the right mix of underwriting discipline and our continued investment in the insurance franchise, we will be able to continue to outperform the industry -- even with the second-quarter events on the horizon.

As you know, there have been earthquakes in Ecuador and Japan as well as hail and flood events in Texas. But for all of these events combined, we currently expect them to be well below our expected cat load for the second quarter.

Finally, I want to touch on our recently announced reorganization, which changes this morning's presentations from prior quarters. Consolidating some of our departments into distinct operating units, with the superb leadership of John Doucette in reinsurance and Jonathan Zaffino in North American Insurance, will improve the brand for each as well as allow us to focus more intensely on each of these separate markets.

I will now ask Craig to review with you the financial details, followed by John Doucette for reinsurance operations and Jon Zaffino for insurance. Craig?



Craig Howie - Everest Re Group, Ltd. - EVP and CFO

Thank you, Dom, and good morning, everyone. Before I provide an overview of our quarterly results, I'd like to point out a change in our segment reporting and our consolidation presentation. Effective this quarter, we no longer consolidate segregated accounts of Mt. Logan Re into the Everest Re financial statements. This follows amended consolidation accounting guidance and is consistent with how Mt. Logan Re operates with third-party investors.

This is a retrospective application of an amended accounting guidance, and all periods have been adjusted to present on a comparative basis. This change had no impact to prior reported net income, operating income, earnings per share, or retained earnings of Everest. The Mt. Logan Re earnings and fees will now be shown in the other income line of the Everest financials.

Now for the quarterly results: Everest had another solid quarter of earnings, with after-tax operating income of \$223 million or \$5.19 per diluted common share for the first quarter of 2016. This compares to operating income of \$330 million or \$7.34 per share for the first quarter of 2015. The 2016 result represents an annualized operating return on equity of 12%.

Net income for the first quarter was \$172 million or \$4.00 per diluted share compared to \$323 million or \$7.19 per share in 2015. Net income included \$51 million of net after-tax realized capital losses compared to \$7 million of capital losses in the first quarter last year.

The 2016 capital losses were primarily attributable to the fair value adjustments on the equity portfolio and impairments on the fixed income portfolio. The impairments mainly related to credit write-downs on energy investments. The majority of the equity portfolio adjustments have improved since the end of the quarter. The overall underwriting gain for the Group was \$171 million for the quarter compared to an underwriting gain of \$215 million in the same period last year.

In the first quarter of 2016, Everest saw \$10 million of current-year catastrophe losses related to the earthquake in Taiwan. There were no catastrophe losses during the first quarter last year. The overall current-year attritional combined ratio was 85.3%, up from 83.1% at the first quarter of 2015, but only 0.5 point higher compared to the full year of 2015, primarily due to the increase in expense ratio that Dom mentioned.

Our expense ratio was up to 5.9%, as we anticipated, with the buildout of our insurance platform and our Lloyd's syndicate. For investments, pretax investment income was \$103 million for the quarter on our \$17.1 billion investment portfolio. Investment income was below last year, as expected. This result was primarily driven by the low interest rate environment and by the decline in limited partnership income.

Limited partnership income was down \$13 million from the first quarter of last year, primarily due to energy-related investments. The pretax yield on the overall portfolio was 2.8% with a duration of just over three years.

Foreign exchange is reported in other income. For the first quarter of 2016, foreign-exchange losses were \$4 million compared to an unusually high \$47 million of foreign-exchange gains in the first quarter of 2015. This \$51 million pretax swing reflects the relative weakening of the US dollar during the first quarter of 2016.

Other income also includes \$3 million of earnings and fees from Mt. Logan Re compared to \$5 million of income in the first quarter of last year. The decline essentially represents the impact of the catastrophe losses during the first quarter of 2016.

On income taxes, the 11.4% effective tax rate on operating income is on the lower end of our expected range for the year. This rate is slightly lower than the 12% tax rate at this time last year. Stable cash flow continues, with operating cash flows of \$367 million for the quarter compared to \$351 million in the first quarter of 2015.

Shareholders' equity for the Group was \$7.8 billion at the end of the first quarter, up \$232 million from year-end 2015. This is after taking into account capital return for the \$86 million of share buybacks and the \$49 million of dividends paid in the first quarter of 2016. Our strong capital position leaves us with capacity to maximize our business opportunities as well as continue share purchases.

Thank you. And now John Doucette will provide a review of the reinsurance operations.

John Doucette - Everest Re Group, Ltd. - EVP and President and CEO of the Reinsurance Division

Thank you, Craig. Good morning. For our total reinsurance segments, gross written premium for the first quarter was \$977 million, down about \$100 million or 9% compared to Q1 2015. Adjusted for exchange rates, it is down 8%.

Net premiums were \$858 million, down 7%. On a constant currency basis, it is down approximately 5%. Roughly 60% of the decrease in gross written premiums in the quarter compared to last Q1 is due to timing issues. This relates to the timing of when accounts were received and a one-off adjustment in last year's first quarter that did not repeat this Q1.

The remaining 40% of the decrease in reinsurance premium is due to four items: first, foreign-exchange rate, with the strengthening of the US dollar impacting some of our segments' top line, particularly our international reinsurance segment; second, rate decreases; third, migration to higher attachment points with inherently lower premiums but better risk-adjusted pricing; and fourth, nonrenewals, declinations, or reduced shares on underpriced treaties.

Our reinsurance book generated \$174 million of underwriting profit in Q1 2016, down \$30 million compared to Q1 2015. This decrease is driven by two main causes: a reduction in earned premium, which was down 8% quarter over quarter; and a \$10 million increase in catastrophe losses in this Q1 compared to the prior Q1. This relates to the Taiwan earthquake that occurred in 2016.

The attritional loss ratio is 53%, which is essentially flat compared to Q1 last year as well as the full-year 2015. The attritional combined ratio is 81.1%, down slightly from the 2015 full-year 81.8%, but up 1.3 points when compared to Q1 2015 -- largely due to the business mix quarter over quarter. This is predominantly due to the US reinsurance segment, which is up 1 point compared to Q1 2015.

Now some color on the April 1 reinsurance renewals, which reflects approximately 10% of our full-year reinsurance gross written premium. April 1 is a key renewal date for Japanese and other Asian business and for some Latin America and US regional property business. The market remains challenging, with reinsurance rates down, but not as significant as rate declines at 1/1.

For core accounts we successfully gained preferential signings on desirable layers and programs in many different areas. Despite increased pressure from multiyear deals in Japan, we generally secured the annual signings which we wanted.

In loss-affected areas such as Korea, India, and Guam, we were able to achieve improved pricing, terms, and conditions. With our key global reinsurance clients in Asia, the USA, and other places around the world, we mutually benefit from our broad strategic relationships.

As part of our hedging strategy, we maintain outward ceding relationships with some of these large, global players, providing them high quality ceded premium. In turn this improves our reinsurance signings as a select core trading partner, thereby solidifying our long-term strategic relationships.

While several areas remain challenged, we are seeing robust submission flow reflected increased demand, including the following: Solvency II surplus relief treaties; facultative casualty, particularly in loss-affected auto books; increased lines on existing treaties with several global clients; and new layers for global clients, some of whom are reversing the trend of holding larger net retentions.

We scaled down our nonrenewed treaties which do not compensate us adequately for putting our capital at risk. This results in significant churn in our renewals. This, combined with a nimble reallocation of capital to the best-priced business, has resulted in the outperformance of our reinsurance portfolio relative to the broader market.

As of 4/1, Mt. Logan grew again, with AUM now over \$900 million -- a growth of 33% in AUM from Q1 of last year. Logan remains one of the fastest-growing capital markets convergence vehicles and continues to be a core part of Everest Re's long-term capital management and business strategy. 100% of Logan's capacity was fully deployed at 4/1 renewals, allowing for efficient and timely hedging of the Everest portfolio. This also benefits Logan's investors, as their capital is deployed immediately rather than being uninvested, earning no return -- a common problem for investors in other convergence vehicles.

With a suite of hedges including Mt. Logan, Kilimanjaro cat bonds, traditional reinsurance, retrocessional programs, and ILWs, we managed our catastrophe risk well within our long-standing Group risk appetite. As of April 1, we reorganized the worldwide reinsurance operation under one division, streamlining the reporting lines while maintaining local market presence and controlled underwriting autonomy. We have added to our reinsurance bench strength, hiring a deputy CUO along with recent additional hires throughout the operation to complement our best-in-class global reinsurance team. This reorganization and increased bench strength will provide for expanded product offerings and capabilities, allowing us to grow and diversify our reinsurance book profitably.

We are pleased with the overall outcome of both our 1/1 and 4/1 renewals, despite the current market conditions, and believe that we are off to another strong start this year for our reinsurance book. Thank you. And now I will turn it over to Jon Zaffino to review our insurance operations.

Jon Zaffino - Everest Re Group, Ltd. - SVP and President of the North America Insurance Division

Thanks, John, and good morning. Everest Insurance performed well in the first quarter. The transformation into a vibrant and diversified specialty insurer is gaining momentum. As a result, we remain encouraged about our ability to pursue profitable growth.

Our global insurance operations -- inclusive of the North America division and Lloyd's -- gross written premium increased 11% quarter over quarter to \$376 million. Net written premiums grew to \$324 million, representing an increase of 7%. The net written premium growth lagged GWP growth primarily due to a marginally more conservative reinsurance strategy in our US operations to support the various new business launches.

The insurance segment GAAP combined ratio for the quarter was 101%, impacted by prior-year development of about \$7 million, mostly related to the late-reported crop hail losses at Heartland. On an attritional basis, the calendar year combined for the quarter was 98.7%, slightly above last year due to a higher expense ratio. Excluding Heartland, the attritional calendar-year result improves further, to 96%. The attritional loss ratio remained essentially flat -- and in fact showed 40 basis points of improvement quarter over quarter, coming in at 69.1% versus 69.5% for 1Q 2015.

As previously noted, the operating expense ratio increased 2.8 points quarter over quarter, reflecting both seasonality and net earned premium, particularly within Heartland, and our continued investment in our global insurance capabilities both in the US and at Lloyd's. To highlight this, our expense ratio is reduced by 80 basis points or 29% if we adjust for the organic Lloyd's expansion. As Dom mentioned earlier, this was fully anticipated and is also something we expect to normalize as the year progresses.

Let me offer some commentary on the performance of our major insurance segments and provide an update on market conditions and also on the buildout of the Everest Insurance platform. Our US and Canadian operations demonstrated growth and profitability in the quarter, although growth was not linear across all product areas.

We continue to build capabilities across both of these platforms, enhance our underwriting sophistication, and selectively launch new product lines. These efforts are supported by additional talent, which should translate into meaningful growth and profitability over time. To be clear, the rate environment is not favorable everywhere, nor is it the same as prior years. That stated, opportunities continue to exist, and we will pick our spots accordingly.

Notably in the quarter, we began benefiting from our increased product diversification. For example, in the US the California workers' comp market came under further pressure as favorable fundamentals attracted increased competition.

Despite these favorable underlying dynamics, we underwrote selectively amidst a mid-single-digit rate reduction environment. That stated, we did find several opportunities within our specialty casualty portfolio both in the US and Canada and also within Everest Specialty Underwriters, our D&O, E&O, and related lines platform.

Additionally, we continue to find opportunities for diversified growth across our property portfolio -- again, despite the rating pressure. Further, our A&H segment continued its strong performance with meaningful year-over-year growth within the medical stop loss and sports disability markets.



It's important to note that the strong premium growth experienced over the last several quarters, largely as a result of our strategic growth and diversification efforts, has not yet been fully reflected through earnings. Therefore we would expect a continued build-in of earnings from the insurance platform throughout the year.

Let me now turn to market conditions. The market is exhibiting similar trends to those experienced in the fourth quarter of 2015. Headwinds continue to exist, and negative rating pressure remains.

That stated, we are operating within a defined trading range across many lines of business, with further rate pressure somewhat abating or, in certain cases, stabilizing across lines. And the US market property lines, particularly in cat zones, remain competitive. Rate reductions are, on average, high single- to low double-digit. These reductions often widen in peak cat zones, where competition is more intense.

Third-party casualty lines are mixed, with some softness or flattening for the general liability lines offset by positive rate in the commercial auto segment. Professional lines continued to experience mid-single-digit decreases overall, less so in primary layers. Work comp is mixed, depending on state and class of business. And within the A&H market, the medical stop loss segment remains competitive other than for accounts with challenging loss experience.

So, again, a mixed market landscape, depending on the many factors influencing various lines of business. As a result, and due to our increase product depth, we are able to adjust our underwriting appetite towards lines with more favorable underlying dynamics.

Finally, a quick update on the status of our operational buildout within the insurance operations. We are capitalizing on the dislocation within the specialty commercial market to grow and diversify our platform, notably by adding leading talent in several geographies across the Company.

Our robust and diversified footprint in the North American market empowers this talent to drive improved operational performance. In fact, every one of our new and selected business launches in 2015 contributed to growth in the first quarter of 2016. We expect these investments to further materialize as the year progresses and as we continue to execute on this plan into the balance of 2016 and beyond.

With that, let me turn it back over to Beth for Q&A.

Beth Farrell - *Everest Re Group, Ltd. - VP of IR*

Thank you. Joanne, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Kai Pan.

Kai Pan - *Morgan Stanley - Analyst*

First, a quick question on the second-quarter cats -- you said well below your second-quarter budget. What is that budget?

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

As we've mentioned previously, our annual cat load is approximately 10 points of combined ratio points. 10%.



Kai Pan - Morgan Stanley - Analyst

Okay. But if that has seasonality, the second and third quarter, I would imagine, would be higher?

Dom Adesso - Everest Re Group, Ltd. - President and CEO

Everyone deals with that differently. We actually treat that for calculating our effective tax rate -- we maintain a flat budget in previous quarters.

Kai Pan - Morgan Stanley - Analyst

Okay. Great, thanks.

Dom Adesso - Everest Re Group, Ltd. - President and CEO

But people do it differently, so --.

Kai Pan - Morgan Stanley - Analyst

Okay, that's great. Then back to your expense ratio: you guys have been sort of the competitive advantage, one of the competitive advantages, low -- the expense ratio. I just wonder, given the buildout and also given the premium decline in the reinsurance segments, what's the near-term implication on the expense ratio? Do you expect to -- because you are still building out teams, then could trend a little bit higher in the near term? And what is long-term -- like, what -- are you back to where you were the last few years? Or it will be settled down to a rate which is higher -- lower than current now, but could it be still higher than what you have been?

Dom Adesso - Everest Re Group, Ltd. - President and CEO

Let me take the two pieces of that. On the reinsurance side, the rise in the expense ratio is predominantly driven by the top line. And we're going to maintain our discipline on top line. And that will return to more normal levels once the market returns to a more normal level, unless there's other segments or pockets of business that we can find to offset the premium decline. And that's -- we obviously have the bandwidth or the room to tolerate that expense movement, because we already started from a very, very low base.

On the insurance side, that's elevated primarily because of the investment we've made there. And the premium earned has not caught up yet to the investments we've made. That will moderate throughout the year. And I think over the longer term, we would expect our expense ratio to be consistent with where we historically have been.

Kai Pan - Morgan Stanley - Analyst

Okay. My last question is really stepping back, look to your ROE profile over the last few years. In recognized catastrophe years, you've been able to achieve, like, mid-teen to high-teen ROE. This quarter the cat is relatively low, but the ROE is much lower. I just wonder, besides the expense ratio, what are the key drivers? What do you think is a one-off, and what are those that will be persist?

Dom Adesso - Everest Re Group, Ltd. - President and CEO

I understand, Kai. I think, first of all, the annualized ROE is frankly a little bit understated -- realizing that it's one quarter. We've had some one-time impacts in the first quarter, and of course that gets multiplied out for the full year on an annualized basis, the most notable of which is investment income.



But you also have foreign exchange, which, as I mentioned in my script, though, you've got an offset to that flowing through the other comprehensive income, because we've got the investment in foreign assets which offsets what's coming through the P&L. So you have to recognize that.

You also had the reserve charges in the first quarter as well. So I think if you kind of adjust for those things however you see fit, then you would see that our ROE on an annualized basis -- on a pro forma annualized basis -- is higher.

Kai Pan - *Morgan Stanley - Analyst*

Okay, great. Well, thank you so much for that.

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

I should also add to that -- excuse me, Kai. I should also add to that some of the things I mentioned is reflected in the book value per share growth of 4%, right? That doesn't quite align with a 12% ROE, but it's due to some of the factors that I mentioned.

Kai Pan - *Morgan Stanley - Analyst*

Okay, that's great. Thanks.

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

Thank you, Kai.

Operator

Michael Nannizzi.

Michael Nannizzi - *Goldman Sachs - Analyst*

Thanks. I think you addressed most of our questions in your prepared comments. But on investment income, just -- that ticked down in the fixed income component, like the core fixed income component of the portfolio. So I was just wondering if that was impacted by the carveout of some of the Mt. Logan assets, potentially? Or should we be looking at that sort of downdraft year-over-year? Is that something that we should anticipate will continue at this level for the foreseeable future?

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

Mt. Logan does not impact that number at all.

Michael Nannizzi - *Goldman Sachs - Analyst*

Okay.



Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

And I think essentially what you're seeing is just the long-term decrease in the interest rates and the impact on our fixed income portfolio, also driven by the fact that some of our limited growth in invested assets were limited by the amount of share repurchases we've made and dividends we pay. So that also -- so not as much of an increase in invested assets.

So the combination of those things is pointing to a drift downward, as I mentioned my remarks.

Michael Nannizzi - *Goldman Sachs - Analyst*

Yes.

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

We do anticipate, though, that is going to be flattening out here in the not-too-distant future.

Michael Nannizzi - *Goldman Sachs - Analyst*

Okay, great. Thanks for that, Dom.

And then just in terms of the insurance business, when we think about the expense side, should we be looking at notional dollars in the other underwriting expenses category? Like, should we be looking at that as, like, a notional dollar amount; and then the ratio for the more likely variable costs on the commission side as you're building out?

And in that, if we do, should we be thinking that that other underwriting expense dollar amount should rise from here? Or how to think about the pieces? Because obviously, on the insurance there's been a lot of movement of premium dollars, and changes, and now some investments. Just trying to get a better handle on how to think about that segment. Thanks.

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

Well, I think of straight ratio approach would be difficult. As I mentioned, we expect the expense ratio to moderate throughout the year and even more so in the longer-term. And that's exactly to your point of -- it's better to look at the increase in expenses in a notional dollar amount, because that will give you a sense of the build and the additional expense year over year.

And then, of course, if you project -- depending on your projection of premium earned, that will produce the resulting expense ratio. And again, to our point earlier, we would expect that expense ratio to moderate through time, as well as the increase in notional amounts year over year. Essentially, we have had a pretty rapid build here over the last six months. Into the fourth quarter of last year and the first quarter this year, we've made a significant number of new hires. So that's what's impacting the notional amount as well.

Michael Nannizzi - *Goldman Sachs - Analyst*

Got it. Okay, great. And then just one last one, if I could. Just on the 2Q events so far -- I realize, Dom, you mentioned that you don't expect that to have a material impact on Everest. Have you guys given some thought in terms of how large you think these events might be just for the industry? I mean, when we look at whether it's the San Antonio hailstorms, or at the Houston floods, or maybe the Japan quake -- just some idea in terms of how you're thinking about with the total industry loss exposure might look like?



Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

We don't have at this point any better information than what you've been reading in the trade presses about the ranges. And if we did, frankly, we'd have a more precise estimate that we could give you relative to each of those events.

So it's -- given the ranges that have been spoken about, we obviously feel very comfortable that it's well below our annual expected cat load or quarterly expected cat load, if you will. And now, whether or not -- you say it's not material; that's your judgment. But it's still well below our annual expected cat load.

But I don't have a better sense of what those events are. It's early days. You know, we are getting reports in -- we have losses that will come to us from, obviously, our insurance book, which are coming in slow, although we do reach out to potentially affected accounts. Same thing happens on our facultative side. And then the biggest piece -- and I'm talking about Texas, now, in particular -- the biggest piece would be treaty property. In Ecuador, we would only be affected by our reinsurance book.

Michael Nannizzi - *Goldman Sachs - Analyst*

Okay, got it. Thanks so much, Dom.

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

Thank you.

Operator

Amit Kumar.

Amit Kumar - *Macquarie Research - Analyst*

Thanks, and good morning and congrats on the quarter. Just a few follow-ups, I guess, on the previous questions. Maybe starting on the insurance side, Dom, you talked about the rapid build, the new hires. I think what a lot of us are trying to figure out -- is there some way to sort of talk about how big the books were of these people whom you've hired?

Are we talking about a materially large number of premium coming in down the road? I guess that is what we are sort of struggling with: how to ballpark that number.

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

Well, there's no way I can give you our specific plans, nor would I want to. We certainly would expect some meaningful percentage growth year over year.

We have hired resources in the -- you know, the marine space; in the workers' comp area; in the professional lines and D&O and E&O areas; political risk; trade credit; surety. What have I left out?

Jon Zaffino - *Everest Re Group, Ltd. - SVP and President of the North America Insurance Division*

That's a good summary.



Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

Excess casualty. So all of those sectors we have added talent to. And this -- they come to us with many years of experience from, in many cases, large global entities. And so we would expect year-over-year some meaningful percentage increases.

However, just like we do on the reinsurance side, it is a difficult time to be growing because of the rate environment. So my comments have to be tempered by some degree of prudence that we're going to take on the premium that we put on the books. And that's the challenging part in terms of giving you some sense of what the actual dollar projections are.

Amit Kumar - *Macquarie Research - Analyst*

And are these new hires sort of sitting back and waiting for the markets to turn with a specific ROE target in mind? Or is there a combination of premiums plus ROE target for them as they are -- as they have been joining you over the past several months?

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

As people in this room can attest to, no one around here sits around waiting for anything. So, no, we're not doing that.

You know, there are opportunities in each of the segments to put business on the books. I'm not saying that there aren't opportunities. What I am saying, though, is that perhaps what the market will give us will dictate how quickly we add to those ranks and how patient we are with the marketplace.

So it's really more about what the additional expense numbers are in terms of what the marketplace will give us. But we do think there's opportunities for the staff that we have here today. And they are busy not only building relationships with our distribution partners, also building out infrastructure needs, underwriting guidelines -- all the things that it takes to run an effective insurance operation.

Amit Kumar - *Macquarie Research - Analyst*

Got it. And then switching to the reinsurance side: would it be fair to say -- in your opening remarks, when you talked about it, were there more pluses than minuses? So net-net it was a positive on the 4/1 renewals? Or did I over-read into those comments?

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

I'll ask John to respond.

John Doucette - *Everest Re Group, Ltd. - EVP and President and CEO of the Reinsurance Division*

Good morning, Amit; this is John. I think we -- overall, again, tough market, but we were pleased with our ability to execute in that market. I think rates were down about 5% or so in Japan, which is a major part of the 4/1 renewals. We saw some combining of wind and quake programs into combined layers.

We really did see a lot, though -- and we've talked about this in prior quarters -- we really did see a lot of our ability to get signings that we want. Signings by layer, increases on deals in layers that we liked. Moving up when wanted to move up. The clients let us do that.

And also leveraging some of the strategic relationships that we've been building over the last several years. So, again, tough market, but we felt pretty good about how 4/1 went for us.

Amit Kumar - *Macquarie Research - Analyst*

And last question: is there any way to sort of draw that arc from 4/1 to 6/1 renewals? And how do you feel about that? Thanks.

John Doucette - *Everest Re Group, Ltd. - EVP and President and CEO of the Reinsurance Division*

We don't know what's going to happen at 6/1. There's a lot of moving parts on -- you know, there's obviously a lot of supply of capital that's out there. There's potential demand shifts, variations on what Citizens in Florida cat fund will do. Some of the -- there's talk of less buying that's happening for Citizens, for example. But that may in fact mean more limit being purchased by some of our long-standing clients. So in some ways it might be more of a reallocation.

So we are not sure what's going to happen at 6/1. But we are confident we'll be able to successfully execute our plan about both writing a gross footprint that we are comfortable with and then combining that with our ability to match the risk to the capital, the appropriate capital, as we talked about earlier. So our ability to build a portfolio that we are pleased with and feel has a strong profit potential in it.

Amit Kumar - *Macquarie Research - Analyst*

Got it. I'll stop there. Thanks for the detailed answers and good luck for the future.

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

Thanks, Amit.

John Doucette - *Everest Re Group, Ltd. - EVP and President and CEO of the Reinsurance Division*

Thank you.

Operator

Vinay Misquith.

Vinay Misquith - *CRT Capital Group - Analyst*

So the first question -- I just wanted to follow up on the expenses, the other underwriting expenses for US insurance. So that was about \$42 million this quarter. Curious whether the hiring is largely done, and whether we should be using this as the base for the future? Or should we see an uptick in those expenses near term?

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

I think you'll see a continued addition as we continue to build out the insurance platform, as I mentioned before. But that will be consistent with what our expectations for growth are. So we don't -- we're not done. Given what our premium plans for the longer term, no, of course we're not done adding resources.

Vinay Misquith - CRT Capital Group - Analyst

Okay, the second question is on the reinsurance premiums. So this quarter, I believe 60% of the decline was because of one-time items. So the core decline in reinsurance premiums -- is it on 3%-ish? Should we think of this as a normalized number for the near-term future? Or based on your renewals, do you think it's going to be less or more?

Dom Adesso - Everest Re Group, Ltd. - President and CEO

Well, it's somewhat of a derivative of the question that John just answered, right? I mean, some of that is dependent upon what the 6/1 and 7/1s will be, which -- we really have no idea yet. But certainly we are not anticipating any strong premium growth in the reinsurance sector through the balance of the year, if that helps at all, just given what generally the rate environment has been over the most recent quarters.

Now, having said that, there's always new opportunities that we might see that could change the answer to that. So it's an extremely difficult answer to give you, Vinay, when we really don't know what -- all the opportunities that will be presented to us. But on a like-for-like basis, if we're just looking at our renewal book and then maybe some normal, what I call normal, maybe new submissions that we would see, then I would expect certainly a very flattish premium expectation, premium amount.

Vinay Misquith - CRT Capital Group - Analyst

Sure, thank you. And then just one last thing: this quarter we saw not much in terms of share repurchases. Can you talk about capital management for the future, please? Thanks.

Dom Adesso - Everest Re Group, Ltd. - President and CEO

I would like to answer that with just a brief no.

Vinay Misquith - CRT Capital Group - Analyst

(laughter)

Dom Adesso - Everest Re Group, Ltd. - President and CEO

Because, obviously, it does get asked every quarter. And that's fine; I understand that. We think -- you know, we did have, obviously, some level of repurchases this quarter. And it's what we do each and every quarter. We look at what the opportunities are ahead of us, and what the price of the stock is in the marketplace, and we make decisions accordingly.

We don't give any guidance on what our level of share repurchases are going to be, other than to say that we will continue to repurchase shares at the appropriate prices in the market. And we will look forward -- when making that evaluation, we do look forward a couple of quarters in terms of what we would anticipate vis-a-vis our book value.

Vinay Misquith - CRT Capital Group - Analyst

Okay, thank you.

Operator

Sarah DeWitt.



Sarah DeWitt - JPMorgan - Analyst

On the insurance premium volume, I think you said previously that you hoped you could grow 20% or more annually, given some of the new hires you were making. Do you still think that's achievable, given the first-quarter results?

Dom Adesso - Everest Re Group, Ltd. - President and CEO

Well, I think part of that is going to be tempered back a little bit by the rate environment that we're seeing. But keep in mind that, as I mentioned earlier, some of the recent hires were just made into the late fourth quarter of last year and into the first quarter this year. And it's going to take some time for them to have their impact.

But I think we can get at a higher level of growth than what we experienced in the first quarter. Whether or not we can get up to that 20% number, we'll see. But I think it'll be higher than -- the percentage growth, I believe, will be higher than what we saw in the first quarter.

Sarah DeWitt - JPMorgan - Analyst

Okay, great. And then just on the net investment income -- and I know you have the loss on the limited partnership, but overall for that line item, what's the right run rate to be thinking about?

Dom Adesso - Everest Re Group, Ltd. - President and CEO

Well, I think the -- I would say generally, our expectation -- if it wasn't for the energy-related issue in our LP, limited partnership, income, which was solely due to price of oil -- and now that that's kind of seemingly, at least for now, stabilized, we would have otherwise expected our investment income to be kind of flattish. So that's what I would expect as a run rate.

Sarah DeWitt - JPMorgan - Analyst

You mean flat quarter over quarter or year over year?

Dom Adesso - Everest Re Group, Ltd. - President and CEO

Well, because we've already had the first quarter down, so -- quarter over quarter.

Sarah DeWitt - JPMorgan - Analyst

Okay, great. Thank you.

Operator

Josh Shanker.



Josh Shanker - *Deutsche Bank - Analyst*

Yes, so I guess I'm a little confused. Following up on Vinay's expense question, it seems like some of the guidance is that the expenses are elevated in this quarter and trickle down; and there's also new hires, and there might be a few more hires going forward. And I'm trying to understand the directionality. I guess there's a few moving pieces I need to zero in on, I guess.

Dom Addresso - *Everest Re Group, Ltd. - President and CEO*

Okay.

Josh Shanker - *Deutsche Bank - Analyst*

Can you sort of walk through how both of those things work? How it should trickle down, but also the hiring is sort of -- obviously, you're going to have to pay those people for the next two, three quarters as well.

Dom Addresso - *Everest Re Group, Ltd. - President and CEO*

I'm not quite sure I understand the question, but let me try to --.

Josh Shanker - *Deutsche Bank - Analyst*

All right, so just to say -- I don't understand. Why should we expect expense ratio to decline, I guess, is the question.

Dom Addresso - *Everest Re Group, Ltd. - President and CEO*

Because the pace of hiring that we had in the fourth quarter and the first quarter will not be as robust in the remaining quarters. And we'll start to begin to see the premium earned take hold.

Josh Shanker - *Deutsche Bank - Analyst*

Okay. So the premium earned one was -- and there were large one-time procurement fees in sort of getting those people on board?

Dom Addresso - *Everest Re Group, Ltd. - President and CEO*

No, no, no. I mean, you are basically looking at an expense number year-over-year that's elevated because we have a group of people on staff that are here this year that weren't here last year. And at the same time, the premium earned this year compared to last year hasn't yet earned in for the business that these folks are now beginning to write. So that's why the expense ratio is going to moderate over time.

Josh Shanker - *Deutsche Bank - Analyst*

All right. Okay. That makes sense. And -- although, obviously, to Sarah's question, the growth -- we'll have to see where the growth comes in, I guess, overall.

And then in terms of the sort of assets under management: when you think about Mt. Logan this year versus last year, did you have more interest than you are willing to put capital to work in the third-party vehicle?



John Doucette - Everest Re Group, Ltd. - EVP and President and CEO of the Reinsurance Division

Josh, it's John. We have continued interest from a lot of people that have been looking at this for a long time. And one of our goals is to continue to diversify the investor base and the types of investors that are in there. And so we have a lot of people -- and a lot of this -- the ramp-up from somebody who expresses initial interest to making an investment sometimes is measured in 12, 18, 24 months.

So we take money in that we think we can deploy, and we would expect that we continue to grow that over time. And it's a balancing act between the two -- our opportunity set and the investor appetite.

Dom Adesso - Everest Re Group, Ltd. - President and CEO

If what you're asking, Josh, is -- and forgive me if I'm reading too much into your question. But certainly I think overall demand in this space seems to have quieted a bit because of where rates are or rates are headed. So I think that's in part, maybe, perhaps what you are getting at. We still have an increased interest in Logan. But it doesn't mean that it's at the same pace that it might have been a year or two ago.

Josh Shanker - Deutsche Bank - Analyst

Okay. That's -- I'm trying to figure out what the -- I guess the supply/demand equation on that, which is a little loosey-goosey. But that definitely helps.

And then finally, when we look at the -- you know, thinking about going forward over trailing 12 months, combined ratio in the insurance segment: how big do you think the insurance segment needs to be on a dollar basis for you to be confident that this is a business that runs at a consistent combined ratio below 100%?

Dom Adesso - Everest Re Group, Ltd. - President and CEO

I don't think the answer to that is a function of size. I think we -- at \$1.5 billion of premium I think we are of sufficient size. I think what's been challenging for us, as you know, has been some of the legacy issues that we've had to deal with.

But I do think that at our size, we can produce very profitably the kind of insurance bottom lines we'd all like to see. So I don't think it's a function of size.

What will happen, though -- if this is in part the answer to your question -- is that I'm just measuring what -- my answer to you is in part driven by just focusing on the loss ratio. But we will have during this ramp-up period, obviously, the pressure on profitability, just driven by the expense ratio. But that's not a function of nominal size; that's a function of how we have chosen to invest in the business and how we've chosen to grow it. So there will be some short-term pressure until we get the premium earned catching up to the expenses that we've put on the books.

Josh Shanker - Deutsche Bank - Analyst

Do you believe the rigor and conservatism of the reserving habits in the insurance segment is equal to that of the reinsurance segment?

Dom Adesso - Everest Re Group, Ltd. - President and CEO

You bet. It's the same management team. It's the same approach. It's the same diligence that, frankly, I started when I came here several years ago. It doesn't mean we've always got it right in sector by sector, but we are just as diligent in every one of our reserve buckets that we have.



Josh Shanker - *Deutsche Bank - Analyst*

Okay. Thank you very much for all the answers.

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

Thank you, Josh.

Operator

Meyer Shields.

Meyer Shields - *Keefe, Bruyette & Woods, Inc. - Analyst*

Thanks, good morning. One brief question, just to make sure I didn't misunderstand. I think, Dom, you said that the cat load overall was 10%. Wasn't it 12% not too long ago?

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

I'm sorry, which rate was it?

Jon Zaffino - *Everest Re Group, Ltd. - SVP and President of the North America Insurance Division*

Cat load.

John Doucette - *Everest Re Group, Ltd. - EVP and President and CEO of the Reinsurance Division*

Cat load.

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

That's the difference between with and without Logan. When you include Logan premiums, it was 12% on all of that. But if it's just on the premiums without Logan, it's 10 points.

Meyer Shields - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, then that makes perfect sense. On a year-over-year basis, I guess, besides the insurance segment -- and I think you've explained that well -- corporate expenses also rose by about \$2.5 million. Is there anything unusual there?

Craig Howie - *Everest Re Group, Ltd. - EVP and CFO*

Meyer, this is Craig. That was partially the start-up of our Lloyd's operation, you know, the start-up costs associated with that; and then also some share-based compensation that comes through there as well.

Meyer Shields - Keefe, Bruyette & Woods, Inc. - Analyst

Okay, well, just -- I guess both of those. I thought it was like --.

Craig Howie - Everest Re Group, Ltd. - EVP and CFO

So one-off type items.

Dom Adesso - Everest Re Group, Ltd. - President and CEO

Yes, accrual-type items.

Meyer Shields - Keefe, Bruyette & Woods, Inc. - Analyst

Okay, got it. Okay. And then, last, you mentioned earlier that there's been some disruption in the marketplace as competitors retrench. Are the margins in that sort of freed-up business different from what you're seeing in the overall marketplace?

Jon Zaffino - Everest Re Group, Ltd. - SVP and President of the North America Insurance Division

This is Jon Zaffino. I think it depends on sort of what pocket you're referring to on what we're seeing in the business. I would say as sort of a sweeping comment, no, I don't think the margins are materially moving yet beyond some of the fundamental drivers of the business. So in other words, they are not dislocation change premium or premium rate for that matter.

So we are seeing different pockets react differently to this cycle in the market. But the biggest dislocation impact, obviously, is the form of human capital. And that's been significant and severe, and we've taken full advantage of that. But not quite seeing that translate into a broad-base different rating environment.

Meyer Shields - Keefe, Bruyette & Woods, Inc. - Analyst

Okay, fantastic. And just one final, if I can. Is there any way we can, I guess as part of reporting, split off FX and the earnings from Mt. Logan?

Craig Howie - Everest Re Group, Ltd. - EVP and CFO

Meaning split them out separately out of other income?

Meyer Shields - Keefe, Bruyette & Woods, Inc. - Analyst

Yes.

Craig Howie - Everest Re Group, Ltd. - EVP and CFO

We'll take that under advisement. Thank you.

Meyer Shields - Keefe, Bruyette & Woods, Inc. - Analyst

Okay, good. Thank you.

Operator

Jay Gelb.

Jay Gelb - Barclays Capital - Analyst

Thank you. I believe second quarter is a pretty large seasonal quarter for crop insurance. Can you give us some perspective on what you're seeing so far in terms of overall trends that would affect Everest in the crop insurance market -- things like yield and price activity?

Dom Adesso - Everest Re Group, Ltd. - President and CEO

I think at this point it's a little early to be doing that. I think the weather conditions that we've noted kind of hit early, so there doesn't seem to be any impact on -- we're not expecting any impact -- adverse impact on yield.

Of course, price has been down this year on many of the commodities, so that's affected the premium. But in many ways that's not such a terrible thing, given that it provides some floor, if you will, on the price protection.

So we're not expecting -- we're expecting a normal crop season. You know, nothing -- hopefully profitable. We're not anticipating any adverse -- at this point any adverse outcome is the best I can give you on that.

Jay Gelb - Barclays Capital - Analyst

That's helpful, Dom. And that usually means kind of like a low 90s combined on that business?

Dom Adesso - Everest Re Group, Ltd. - President and CEO

Correct.

Jay Gelb - Barclays Capital - Analyst

Okay. If you could just remind us, what are the commodity prices we should track to kind of keep on top of this stuff?

John Doucette - Everest Re Group, Ltd. - EVP and President and CEO of the Reinsurance Division

The main one is corn, followed by soybean, basically. That accounts for most of the revenue products within the crop space.

Jay Gelb - Barclays Capital - Analyst

That's helpful. Thank you.

John Doucette - Everest Re Group, Ltd. - EVP and President and CEO of the Reinsurance Division

Thanks, Jay.

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

Thank you, Jay.

Operator

Now I'd like to turn the call over for our presenters for any additional or closing remarks.

Dom Adesso - *Everest Re Group, Ltd. - President and CEO*

Yes. Let me just close out with a few thoughts. And thank you, everybody, for participating and your interest and your questions this morning.

In closing, I think it's worth emphasizing again that 12% ROE and a 4% growth in book value per share, we think, is an outstanding result in this market. And we'll likely see that as the best in the industry.

And again, as I said -- the answer to one of the questions, that the ROE for the quarter is slightly understated due to one-time items in that first quarter. And as planned, we will continue to make investments in the insurance segment. In the short term, this has resulted in an increased expense ratio; but again, we believe that will be normalized over time.

And as mentioned on previous calls, this is a result of our build -- not buy strategy -- which is producing an improvement in the loss ratio. In the reinsurance business, we continue to do what we said we would do all along: that is to be disciplined, manage through the cycle not being bound by the top line. While this does have short-term implications, it is still resulting in superior returns.

Those are my thoughts for you for today. And again, thank you all for participating. Have a great day.

Operator

This does conclude today's conference. We appreciate your participation. You may disconnect at any time.

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