Company Name: W.R. Berkley
Company Ticker: WRB US
Date: 2016-07-25
Event Description: Q2 2016 Earnings Call

Market Cap: 7,168.59
Current PX: 58.47
YTD Change($): +3.72
YTD Change(%): +6.795

Bloomberg Estimates - EPS
Current Quarter: 0.808
Current Year: 3.364
Bloomberg Estimates - Sales
Current Quarter: 1882.000
Current Year: 7506.000

Q2 2016 Earnings Call

Company Participants

- W. Robert Berkley, Jr.
- Richard Mark Baio
- William Robert Berkley
- Jay Arman Cohen

Other Participants

- Kai Pan
- Ryan J. Tunis
- Michael Nannizzi
- Arash Soleimani
- Larry Greenberg
- Ian J. Gutterman
- Josh D. Shanker

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and welcome to the W. R. Berkley Corporation Second Quarter 2016 Earnings Conference Call. Today's conference is being recorded.

The speakers' remarks may contain forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words, including without limitation, believes, expects or estimates. We caution you that such forward-looking statements should not be regarded as a representation by us that the future plans, estimates or expectations contemplated by us will in fact be achieved.

Please refer to our Annual Report on Form 10-K for the year ended December 31, 2015, and our other filings made with the SEC for a description of the business environment in which we operate and the important factors that may materially affect our results. W. R. Berkley Corporation is not under any obligation and expressly disclaims any such obligation to update or alter its forward-looking statement, whether as a result of new information, future events or otherwise.

I would now like to turn the call over to Mr. W. Robert Berkley. Please go ahead, sir.

W. Robert Berkley, Jr.

Thank you, Andrea, and good afternoon everyone. Again, welcome to our second quarter call. With me on this end of the phone, I have Bill Berkley, our Executive Chairman; Gene Ballard, our Executive Vice President; and new to the call is Rich Baio, our Senior Vice President and Chief Financial Officer. Some of you have had the opportunity to meet Rich. Others I am sure will have an opportunity in the future and all of you will be hearing from him today. He's been with the organization for something more than seven years; and the lion's share at that time, he was our Vice President and Treasurer and we're delighted to have him now in the role of Chief Financial Officer.

So the agenda that we've laid out for you all today is I'm going to start out with a few comments about the environment. Then, I am going to offer a couple of sound bites on our quarter. And then, I'll be handing it over to Rich, who is going to run through in some more detail highlights from our numbers. And then, you'll have the four of us at your disposal for Q&A.

So turning to the environment, clearly an interesting moment when you look back on the quarter. Furious cat activity, nothing particularly outsized, but certainly a reminder that cats do occur. Also, continued dislocation in the marketplace amongst some very large carriers as some of them were managing through a merger and acquisition and others are just going through a meaningful restructuring. And then finally, we have discontinued low interest rate environment around the world; and it's really gotten to the point that it could almost make your eyes tear.

In spite of all of that, the insurance market seems to march to a similar beat to what it did in the first quarter. The reinsurance market continues to flirt with the bottom. On the other hand, the insurance market is becoming incrementally more competitive, though it can be vary greatly by product line or class.

A couple of general comments around some of the product lines in the insurance space. Property, particularly cat-exposed property, remains surprisingly competitive to a certain extent. My speculation would be this is as the result of the reinsurance market empowering the insurance market to be less than responsible in many situations.

The professional space is very much a mixed bag. On one hand, the Fortune 5000 D&O excess market is surprisingly competitive as are parts to the medical space. Having said that, there are other components of the professional market that are exceptionally attractive and we think provides meaningful opportunities for growth where margins are attractive.

Turning to commercial auto, certainly a part of the market that we've discussed several times over the past few years. It seems like it is finally getting to the point that discipline is returning. We are seeing rate increases and we are seeing the momentum begin to shift between supply and demand.

On the other hand, we have the comp market, which is very much a mixed bag. As many of you are aware, workers' compensation is the largest component of the commercial line space. And there are parts of this market where the margins are exceptionally attractive and we continue to find opportunities to grow our business; and there certainly are parts of the comp market that give one reason to fall. Probably the market that makes one fall for the longest and scratch their heads these days will be the Florida market; fortunately for us, we have very limited exposure to that marketplace.

The casualty market is probably the brightest bulb on the tree and hopefully that will continue for some period of time. And, finally, the stupidity award would go to the aviation and the global marine hull market.

Turning to our quarter, by and large, it was in line with our expectation. The growth in the insurance market came from the place – rather in our insured segment came from the places we expected it to, led by casualties, followed by professional; again, there are some components of the professional market we continue to find very attractive.

On the reinsurance front, which may have been something that caught your eye coming out of the press release, the growth that we had there you may be pausing and scratching your head over that given how competitive the market is, how are we finding ways to grow; and the growth was really driven by four components. One being our facultative business that distributes on a direct basis. They have a series or a suite of currency products, which are effectively specialty products that are just sold on a wholesale basis.

Second would be our global property fac business, which drives property fac around the world, outside of the United – or ex-U.S.; and this is a business that we had started last year and is getting momentum. Additionally, we started, as we had announced last year as well, a business in South Africa; and they are getting good traction. And then finally, here, back in the States, our treaty business has been finding some niche opportunities within the structured space.

The structured space is – and I believe Gene has touched on this in the past – is a part of the market that while the potential for great underwriting margins may not be there, the way one can structure these deals, the downside is very limited.

So, as always, when we think about our business and included in that the reinsurance business, we start from a perspective of risk adjusted return and we believe the structured deals that we are able to participate in make a lot of sense when you think about the required capital charge and exposure.

Turning to the loss ratio – and again Rich is going to get into a lot of these numbers, so I'll keep it high level – approximately $40 million of tax. This by and large is in line with what our expectations were, given the level of cat activity in the quarter. I think different organizations use different definition of cat. Our definition is PCS, at least domestically. We've certainly seen some of the announcements where they've come out talking about cats and weather-related as well. From our perspective, it's not unusual to see certain types of weather losses, certainly, in the second quarter.

Rich will break that down for you a little bit more, but I believe that was about 2.6 points for us on the loss ratio as a result of the cat. On the expense front, by and large, again sort of in line with our expectation. The insurance segment continued to show improvement as the earned premiums developed are gross or billed, following the written. And on the reinsurance front, the adverse impact on the expense ratio was mainly driven by the structured deals that carry a slightly higher commission. And, again, Rich is going to touch on that in more detail shortly.

Turning to the investment portfolio, many of you saw the announcement that we made a little while ago about the sale of Aero Precision. This is a pre-tax gain of approximately $130 million and we highlighted not just because the $130 million is material to the organization, but it's yet another example that demonstrates the approach that we've taken to how we manage the investment portfolio.

As you've heard our Chairman talk about for some number of years now, given the interest rate environment, we had have to look for alternatives, hence the building out of our alternative investment portfolio; and gains have become a more meaningful part of our strategy. All right, this is a guidance that we have given and we continue to believe is appropriate, is approximately $25 million of quarter-end gains. Having said that, that will fluctuate from time to time because these gains don't come through necessarily in such a predictable or, I should say, smooth manner.

With regards to other parts of the investment portfolio, again the duration continues to shorten a little bit. We have approximately three years for the fixed income portfolio and the yield is 3.2%. Again, kudos to our colleagues managing the fixed income portfolio. They managed to find ways to maintain the yield, while not compromising on the duration.

Again, as far as the reserves go, Rich will touch on this. So we continue to see positive reserve development. And last comment from me about numbers and then I'm going to hand it off to Rich to get into it a little more deeply. But on the FX gain [indiscernible] (09:47). From time to time, we've seen some people that follow the business and write on our results on a quarterly basis. They tend to focus on that, and I'm not sure if they fully appreciate the full picture.

Fact is we have this gain because of our approach and our philosophy to how we manage our currency exposure. And, yes, that gain came through. But one needs to keep in mind the fact that some of our underwriting in turn was impacted by a weaker local currency as it is translated back into dollars. So is it an exact push? No. But I would assure you that this is not just a one-off benefit. We have things going both ways.

So, again, I'm going to pause there. I'm going to leave it to Rich to run through some of the numbers with you in more detail. And once Rich is done, we'll be opening it up for questions and you have the floor in order to try and address anything we can for you, Rich?

Richard Mark Baio

Great. Thanks, Rob. Appreciate it. For the second quarter, we reported operating income of $105 million or $0.82 per share, which is unchanged from the prior year's operating earnings of $105 million or $0.81 per share. As Rob alluded to, earnings reflected a slight increase in investment income and the recognition of net foreign currency gain, which were offset by a modest decline in underwriting income due to higher catastrophe-related losses.

Overall, our net premiums written increased by 6.4% to more than $1.6 billion. The insurance segment premiums increased 5% on the $1.5 million. The growth was led by a 15% increase in our other liability business. In addition, professional liability was up approximately 8%, while workers' compensation, commercial automobile, property and other short tail lines were relatively flat quarter-over-quarter. The segment's increase was understated due to changes in foreign exchange rates. In original currency terms, premiums rose by 7.1% compared with the USD equivalent basis of 5%.

For the reinsurance segment, net premiums written increased almost 20% to $171 million. This growth continues to be driven by structured reinsurance and a few of the other items that Rob alluded to earlier in his comments. During prior calls, Gene has referenced these transactions, which have very limited cat exposure and carry a lower than average loss ratio while being partially offset by higher profit commission.

Our overall pre-tax underwriting profits – excuse me, decreased $7 million or 8% to $79 million primarily due to increased cat losses. The accident-year loss ratio before cat loss is at 60.3% compared with 60.5% a year ago and comparable to full year 2015 at 60.6%. Although our lower cat losses were in line with expectations, this quarter we recorded losses of $40 million or 2.6 loss points compared with $25 million or 1.6 loss points in the prior year.

Loss reserves developed favorably by $16 million, representing our 38th consecutive quarter with positive development. That gives us a calendar year loss ratio of 61.8%, an increase of 1.1 loss points from a year ago. Our overall expense ratio for the second quarter was 33.1%, compared to 33.5% in the second quarter of 2015 and relative to the full year 2015 of 33.2%.

The Insurance segment expense ratio was 32.3% representing a decline of 0.7 points from the second quarter of 2015 and slightly below the full year 2015 of 32.6%. The decline in the expense ratio for the Insurance segment, as Rob referenced earlier, is largely attributable to a higher increase in the earned premium relative to underwriting expenses. The Reinsurance segment expense ratio increased 1.4 percentage points to 40.1%. That increase was due primarily to the growth in the structured business, which has a higher expense ratio relative to the other Reinsurance business written.

For comparative purposes, the structured business represented 25% and 8% of the net premiums earned for second quarter 2016 and 2015, respectively. That brings our combined ratio to 94.9% for the second quarter 2016, compared with 94.2% for the same quarter a year ago.

Touching on the investment income and the contributors to that, investment income increased approximately $2 million or 1% to $129 million resulting from a few main drivers. First, income from fixed income securities was up $3 million to $108 million with an annualized yield of 3.2%, which is unchanged from the second quarter 2015 and slightly lower than the full year 2015 of 3.3%.

Second, income from the merger arbitrage accounts increased $3 million compared with the year-ago quarter. And finally, earnings from the investment funds declined $3 million to approximately $19 million attributable to improved energy fund results, offset by a decrease in other fund income. The investment funds performances were approximately 6% on an annualized basis in line with our target return.

At June 30, 2016, after tax unrealized investment gains were $363 million, representing an increase of $182 million, more than 100% rise from the beginning of the year. The average rating, as Rob alluded to, was AA- unchanged and we shortened the portfolio from 3.3 years at December 2015 to three years at the end of June 2016.

The overall tax rate is 31.2%, which is almost unchanged from the overall tax rate for the prior consecutive quarter, as well as the full year of 2015. That gives us net income of $109 million and overall return on equity of 9.5%; and for comparison purposes, a pre-tax return on equity of 13.8%. Also, during the quarter, our book value per share increased $1.22 to $39.97, which is an increase of 12.6% on an annualized basis. Our operating cash flows remain strong with $156 million for the second quarter 2016 and almost $300 million year-to-date 2016.

Finally, as Rob was alluding to earlier, subsequent to our second quarter, we announced the sale of Aero Precision and investment in our private equity portfolio. The estimated pre-tax gain of approximately $130 million or an after tax gain of approximately $78 million relates to an increase in book value per share of $0.64 and 1.7 percentage points improvement on our ROE, which we would expect to reflect in our third quarter 2016.

Thank you, Robert.

W. Robert Berkley, Jr.

Rich, thank you very much. Andrea, I think that will complete our formal remarks. So if you could please open it up for questions. And again, you have all four of us here to try and answer any questions you folks have. Thank you.

Q&A

Operator

Absolutely. [Operator Instructions] Our first question comes from the line of Kai Pan with Morgan Stanley. Your line is now open.

<Q - Kai Pan>: Good afternoon, and thank you.

<A - W. Robert Berkley, Jr.>: Good afternoon.

<Q - Kai Pan>: The first question on the reinsurance side, the growth. Are those one-off deals or do you expect those sort of like you continue to see the opportunity there?

<A - W. Robert Berkley, Jr.>: It depends on the part of the business, as you may recall, I pointed to four different areas that were driving the growth. Certainly, it is our hope and expectation that our global property fac business or the business – property fac business that's non-U.S., I think that business will continue to grow. We would expect our business that's focused on South Africa to continue to grow as well. The turnkey business where we offer through our direct fac operations domestically we would expect will grow. And as far as the structured deals, those tend to be one-off. While there can be renewals on those, it really depends on the season. So short answer is it's a mixed bag. I would suggest to you that this quarter the planet and stars lined up. I don't think our expectation is this type of growth necessarily going forward.

<Q - Kai Pan>: So roughly the 19% year-over-year growth, would you say the treaty business on the structured deal is – like account for majority of it or?

<A - W. Robert Berkley, Jr.>: I am not suggesting that. I am suggesting that I don't think we're going to continue to grow at 19% quarter-over-quarter.

<Q - Kai Pan>: Okay. That's great. And then on the insurance side, it looks like you have a pretty healthy growth on the other liability lines, as well as professional lines. Like, where do you see sort of pricing environment right now?

<A - W. Robert Berkley, Jr.>: I am sorry, where do we see the what?

<Q - Kai Pan>: The...

<A - W. Robert Berkley, Jr.>: Could you repeat that, where do we see what?

<Q - Kai Pan>: Sure. Where do you see the pricing environment right now in these lines? And also, on these growth, how would impact your sort of like mix of loss ratio going forward?

<A - W. Robert Berkley, Jr.>: Well, the other liability or what we refer to as casualty in general is pretty wide and diverse as is the professional space. So we're growing in places where we think the margins are attractive. So I guess, ultimately, from our perspective, we think that this will be accretive to our business and help us achieve our targeted returns.

<Q - Kai Pan>: Okay. And then on your new business, you mentioned about the high net worth business as well as the Asia business. Could you talk more about this sort of new hires and new startups and what would that impact on your expense ratio in the near-term?

<A - W. Robert Berkley, Jr.>: So just to touch on the overall expense question and perhaps this to give a little bit of insight or color for some on the phone. When we are starting a new business, the expenses associated with starting a new business are expenses that we maintain at the holding company or corporate. Once those businesses begin to operate, which oftentimes can take a little bit of time between when they are hired and when they actually start running business – but once they start running business, that's when you will start to see them participate in the overall ratios including the expense ratio.

So the two businesses that you're referring to that we referenced in our release, one in the high net worth space, from our perspective, we think that that is very much a specialty business. Many people think of the personal lines base is a commodity business and there are certainly parts of it that are commodity business. But, ultimately, we will like the high net worth base because we think it is a specialty business that targets an audience where they value claim services, they value service in general and they're willing to pay for that value.

As far as our expansion into Asia, it seems people again that are focused on the commercial specialty business, they have a great track record, they have great relationships. We don't think that this business will be overwhelming from a scale perspective anytime soon. But if you take a long-term perspective and you think about where the global economy is likely to grow over the next few decades, Asia is likely to be a good part of that. And we feel as though as we manage the business and position it for the future, we need to be learning and participating in a thoughtful and controlled way. And the people that are managing the capital in that region on behalf of the shareholders, we think, are more than capable of doing so.

<Q - Kai Pan>: That's great. If I may add in one last one on the $130 million pre-tax gain on the Aero Precision divestiture. Two things on that. First is that, what's the earnings impact going forward? And then secondly is that sort of like how do you think about the proceeds? Are you going to invest in other deals like private investments or like could be used for the capital management including buybacks?

<A - W. Robert Berkley, Jr.>: The issue is when we get the money, we'll make a decision how we use it. But it's a holding company and we'll make our own decision as we do with all holding company funds. As to affect earnings, in the third quarter, it will [ph] close (23:14) sometime the end of July, the end of August, in that period of time. As far I could tell just what it'll do, as an ongoing basis it'll have some impact, but we also are always looking to buy things in that area and expand. So it will have an impact in the very shortest run, but we would think that in the longer term we would expect to expand that aviation business again and restore it to its level of profitability.

<Q - Kai Pan>: Great. Well, thank you so much for all the answers.

Operator

Thank you. Our next question comes from the line of Ryan Tunis with Credit Suisse. Your line is now open.

<Q - Ryan J. Tunis>: Hey, thanks. I guess my questions are just a little bit more on the structured deal on reinsurance. I think Rob said first of all that the margins are a little bit lower, but the risk rewards are a little bit better; in other words, there's less downside. What would you say the target combined ratio is on the structured deals that you've been doing?

<A - W. Robert Berkley, Jr.>: So that's just not something that we're going to get into on the call. I would tell you that we are not going to deploy capital unless we think it's a reasonable risk adjusted return. But how we price individual transactions, that's just not typically something that we would get into that level of detail. What I would tell you is that while the upside may not be as attractive as some other activities, the downside is very limited and the [indiscernible] (24:49) commission is on a sliding scale. And then again, as I mentioned earlier, when we look at the capital expose, we think it justifies the utilization of the capital. But as far as the details, I'm not sure if that would really make sense for our shareholders to get into that level...

<**Q - Ryan J. Tunis**>: Sure. That's fair. But I guess just from an accounting standpoint, I think I heard that 25% of the earned premium this quarter within reinsurance was coming from these deals; and I think you also said that they tend to be one-off. So maybe just looking for some visibility over the next few quarters to the extent that you don't do any more of these – sort of where we should see the combined ratio and reinsurance even out, I guess, is maybe the right way to put it?

<**A - W. Robert Berkley, Jr.**>: I think the way you might want to think about this, well, first of all, this isn't just like some flurry of deals that we've done in the last 90 days. While this perhaps spiked up a little bit, that in part is because we reduced our participation in some of what one might define as the more traditional components of the market. So the structured component is standing out a bit more. But from our perspective, from a combined ratio, normalized forecasts and perhaps the loss ratio getting incrementally better, I think if you look back to where we've been over the past few quarters; it's probably not a bad data point.

<**Q - Ryan J. Tunis**>: That's helpful. Thanks.

Operator

Thank you. Our next question comes from the line of Michael Nannizzi with Goldman Sachs. Your line is now open.

<**A - W. Robert Berkley, Jr.**>: Hi, Mike.

<**Q - Michael Nannizzi**>: Hello, sir. How are you doing?

<**A - W. Robert Berkley, Jr.**>: We're all good. Thank you. And how are you?

<**Q - Michael Nannizzi**>: Good. Thanks. A couple questions for you on the Aero Precision sale, Bill. I guess that was one piece of Aero Precision. It looked like it was just maybe one region of that business. I'm just trying to get an idea, is it possible to understand whether on a percentage of revenue basis or a percentage of something basis, percentage of profit basis, what was the contribution of the business that was sold?

<**A - William Robert Berkley**>: It was bigger. It was the largest single part of [indiscernible] (27:03). And we acquired Aero Precision rather I think three years ago, and we'll reinvest some part of that money and expanding into other kinds of specific areas that offer us other opportunities in the aviation field. We think we have expertise in areas having to do with the aviation business. So we're continuing to look. But it has had a varying percentage of the business. That has not been a business that has consistently had earnings that are highly predictable quarter.

<**Q - Michael Nannizzi**>: And do you give the proceeds number from that transaction? I know that we got the gain number, but I don't know...

<**A - William Robert Berkley**>: No, we didn't.

<**Q - Michael Nannizzi**>: Okay. And then I noticed that you guys picked up some debt in the quarter. I was just curious, I mean, the financial leverage is a bit higher than it's been historically, [indiscernible] (28:14) up a little bit a couple of years ago when you guys pre-funded some debt. Just wanted to understand how we think about that. I mean, you've got a couple of issues coming due in I think 2018 or 2019. I was just trying to get an idea is this where you expect or you plan to be running your leverage and is there a reason why you've chosen to take that out?

<**A - W. Robert Berkley, Jr.**>: Rich, go ahead.

<**A - Richard Mark Baio**>: Sure. So as you pointed out, we do have some maturities coming due in 2019 and 2020. In light of the interest rate environment, our expectation was to try and take advantage of the both coupons that one could benefit from. And so, as we evaluated our capital stack, we determined that it would be more efficient to have hybrid capital in our overall debt and hybrid structure. And so, to that end, we effectively are pre-funding recognizing that the leverage ratio is a little bit elevated from where we would like it to be. I think we target kind of 32% to 33% over the

short-term.

<**Q - Michael Nannizzi**>: Okay.

<**A - W. Robert Berkley, Jr.**>: So, Mike, we like the trust preferred instruments. We like the duration, given there is a lot of flexibility. We like the five-year call option. And it's hard to know when interest rates were going to be moving up, but it seemed like a reasonable window. And is there a little bit of short-term cost? Yeah, there is. But, as Rich suggested, it's an opportunity to pre-fund; and obviously, rating agencies are comfortable with this.

<**Q - Michael Nannizzi**>: Right. Okay. And then just one quick on expenses. So when we back out the FX, looks like the other expenses were a bit higher and then – well, at least relative to my estimate the expense ratio overall, especially in insurance, was a bit lower. So is some of that sort of the expense initiative that you're talking about with regard to these new sort of businesses that you're starting?

<**A - W. Robert Berkley, Jr.**>: Yeah. That's correct, Mike. As you recall, over the past, call it, 12 months or so, we've started quite a number of new operations, some of them stand-alone, some of them in incubator that will get folded into an existing operation. And, as I mentioned earlier, we tend to put the expenses prior to operational into the overall expense. So, for example, the high net worth, as well as Asia, that's coming through in the corporate expense; and there are a couple of other different pieces that are just in their infancy that are in there as well.

<**Q - Michael Nannizzi**>: Got it. Okay. And so, then when we look at the expense ratio excluding those, so we could expect to see more expense coming through that line as you're building and then – I mean on that? Yeah.

<**A - W. Robert Berkley, Jr.**>: It's almost like an incubator, if you will. And once I leave the incubator, then it shows up in the expense ratio. So you'll see a spike in the corporate than you're going to see it evolve over to the expense ratio. And then as they hit maturity or the earn get some level of critical match, you'll see that expense ratio start to come down as that earn turns up.

<**Q - Michael Nannizzi**>: Got it. Okay. And then when we look at the segment, then that 60 basis point year-over-year improvement in insurance in the expense ratio, which is reflecting the continuing businesses that we should be...

<**A - W. Robert Berkley, Jr.**>: Yeah.

<**Q - Michael Nannizzi**>: ...that level of expense is reasonable for the way that you're going to be accounting for that business on the go forward, at least as a starting point.

<**A - W. Robert Berkley, Jr.**>: Look, I think it's a reasonable number to start with. But obviously as businesses mature and they go and they are up and operational, then it's going to flop over and hit the expense ratio and it might move it up. So as things make their way down the assembly line, the numbers are showing up in different areas. Whether it's corporate expense or expense ratio, the improvement that you saw on the expense ratio this quarter [ph] that is (32:30) consistent with some of the things that we've chatted about in the past on these calls is the result of the maturing of some of the operations and that earn premium growing. So, again, as we are starting new operations and they migrate from corporate expense into the expense ratio, you'll see that expense ratio go up and down.

<**Q - Michael Nannizzi**>: Got it. Okay. And last question just on these new initiatives. Do you expect the natural expense ratio for your businesses as you're starting to be different at maturity than the remainder of your business?

<**A - W. Robert Berkley, Jr.**>: Some of the businesses will take more time to mature than others, but ultimately speaking we believe long-term that our expense ratio certainly will be in the low-30%s and we're going to keep trying to push on that in a sensible way to the extent we can push that farther.

<**Q - Michael Nannizzi**>: Great. Thanks so much.

<**A - W. Robert Berkley, Jr.**>: Thank you.

Operator

Thank you. Our next question comes from the line of Arash Soleimani with KBW. Your line is now open.

<Q - Arash Soleimani>: All right. Thank you. Couple of questions here. I think that the high net worth business was described by one of your competitors as being $8 billion to $10 billion currently in annual premium, but having the potential to hit $30 billion to $40 billion. Just curious if you would drive that market similarly?

<A - W. Robert Berkley, Jr.>: Well, I think that people can define that market in a variety of different ways. And if you talk to 10 different carriers, they'll probably tell you 10 different definitions as to where the high net worth market starts. I also think it depends on the territory whether you're talking about the U.S. or whether you're talking about global; and I think it also depends that you are just talking about auto and homeowners or are you including fine art, jewelers, block, et cetera, et cetera. So, like many things in life and certainly this industry definition is key. But we do believe that it is a meaningful market where there is not only dislocation, but there is quite frankly enough scale that there is opportunity for multiple carriers to play and find different ways to bring value to customers.

<Q - Arash Soleimani>: All right. Thanks. And then, can you just remind us of some of the business mix changes that are helping the core loss ratio?

<A - W. Robert Berkley, Jr.>: The business mix changes that are helping the core loss ratio, generally speaking, we will disclose some things in the Q, but we don't really get into the specifics as to what the margins are by product line and that level of granularity. What I would suggest is that if – I know it's a bit monotonous, but if you go back and hear our comments from today and in the past as to where we think the best margins are, that's usually where the improvement is coming from.

<Q - Arash Soleimani>: Okay. Thanks. And lastly, can you just mention any impact if any at all that you expect from Brexit on your business?

<A - W. Robert Berkley, Jr.>: Well, I have a couple of thoughts, but in addition to the title of Chairman around here, he is also a Chief Economist. So I'm going to leave that to our Chairman to reflect on it.

<A - William Robert Berkley>: First of all, we in fact had set up a company in Liechtensteinwell in advance being cautious and wanting to take no chances. So, we are equipped to do business in the EU domicile other than the UK. So, from a legal point of view, it won't have an impact on us, and we did that sometime ago.

Clearly, the impact that's based in the London market continues to be there. We don't see it disappearing. So we think London will continue to be the center of the insurance business in that part of the world. And from a regulatory point of view, we think we protected ourselves, so we don't really see a major change or a significant impact.

<Q - Arash Soleimani>: Okay. Thank you very much for the answers.

Operator

Thank you. Our next question comes from the line of Larry Greenberg with Janney. Your line is now open.

<Q - Larry Greenberg>: Thank you very much. I guess this is just a modeling question, but can you tell us what percentage of the investee revenues was represented by Aero? And then is there a kind of a new normalized run rate for the investment funds line that we should be thinking about?

<A - William Robert Berkley>: Yeah, Rich, do you have comments that you'd like to make or....

<A - Richard Mark Baio>: I would just say that the – as it relates to the investment funds, there is a fair amount of variability as you've seen over the quarter. So I don't know if that's something we could really predict or provide guidance around.

<A - William Robert Berkley>: Yeah, it changes substantially quarter-to-quarter, and it doesn't model particularly well.

<Q - Larry Greenberg>: And the Aero as a percent of total investee revenues?

<A - William Robert Berkley>: The answer is, I can't tell you, but if you call Rich Baio tomorrow, we can give you the answer to that. I don't know ...

<Q - Larry Greenberg>: Great. Thanks.

<A - William Robert Berkley>: I don't know offhand. Okay.

<Q - Larry Greenberg>: Thanks.

Operator

Thank you. Our next question comes from the line of Jay Cohen with Bank of America. Your line is now open.

<A - Jay Arman Cohen>: Good evening Jay.

<A - W. Robert Berkley, Jr.>: Good evening, Jay.

<A - William Robert Berkley>: Hi, Jay.

<Q - Jay Arman Cohen>: Good evening, Rob. A couple of questions. First, the buyback activity, I guess given the accelerating top-line growth and also given the added debt, is it reasonable to expect buybacks to be fairly close to nil in the near-term?

<A - W. Robert Berkley, Jr.>: Jay, I think, first off, the trust preferred that we issued, well, it looks like debt, as far as our room in our basket, we get equity credit for that. So, just wanted to clarify that. In addition to that, while certainly the growth is there, at this stage, we're generating a fair amount of capital and we think that we're well-positioned to have, over the coming quarters, barring the unforeseen event, flexibility as it relates to special dividends, repurchase of debt or repurchase of equity or stocks. As you've heard from our Chairman in the past, our approach to returning capital to shareholders varies and it all depends on what we think is the most appropriate at that moment in time, but we do think that there will be capital in all likelihood available to return to shareholders over the next several quarters.

<Q - Jay Arman Cohen>: That's great. That's helpful, Rob. Second question, you talked about some of the pricing trends that you're seeing. I am wondering if you could talk about what you're seeing from a claims standpoint, and I guess, to highlight one line of business, workers' compensation, specifically what you're seeing from a claims standpoint there?

<A - W. Robert Berkley, Jr.>: Generally speaking, we continue to be pleased with the frequency trends there. There are some outliers. I referenced Florida earlier as a place that personally [indiscernible] (40:41) as you may be aware. They are basic – what they are doing – [ph] not (40:44) basically, what they are doing is retroactively they are changing the benefits and fees, and as a result of that, what people thought their loss costs were, those are changing. So the idea of loss cost and what people had thought they were when they priced the business may not prove to be a reality.

<Q - Jay Arman Cohen>: That's at the worker's comp, any other lines of business where the claims' trends are surprising to you at all?

<A - W. Robert Berkley, Jr.>: There's nothing that's outstanding, but I think as we commented in the past, we continue to see potentially early signs of an uptick amongst the [indiscernible] (41:31), and how well organized and focused they are, has again come through in the comp line and we are seeing early, early signs that it may present itself in other lines. Certainly not at the point that anyone should hit the panic button, but from our perspective, it's something we're paying attention to.

<Q - Jay Arman Cohen>: Great. Thanks for the comment.

Operator

Thank you. Our next question comes from the line of Ian Gutterman with Balyasny. Your line is now open.

<Q - Ian J. Gutterman>: Hi, thanks. Rob, actually, can I ask just on that last answer about the Florida comp, I just want to make sure I've understood my reading of the issue. Could you just give me a sense, I know obviously a lot of the concern is on new business, but my understanding is it also applies to any sort of open inventory essentially of unclosed claims? Can you just give a general sense of [indiscernible] (42:22) workers' comp in the State of Florida, how much of their essentially back-reserves might be exposed to this?

<A - W. Robert Berkley, Jr.>: Yeah, you know, honestly, I am not the Florida comp guru. There are other people who could opine on this. We do not have a lot of exposure there. I think we have a whopping $5 million or so of premium, so it's not a big deal for us. But what I have heard, and again, don't go on this, please check it out yourself, but it is retroactive, it is on claims that are open, and I've heard some commentary where there are some people that are actually trying to open old claims.

<Q - Ian J. Gutterman>: Sure. Okay.

<A - W. Robert Berkley, Jr.>: So, this could potentially be quite meaningful. Again, I am not the expert. I would encourage you to talk to others, and quite frankly, a great resource is NCCI.

<Q - Ian J. Gutterman>: Exactly, exactly, great. And then just most my other questions were answered, I guess just one thing to pile on, on the aviation question is, I think the reason people are asking so much is just it's a hard line to model as you guys say and just it would be unfortunate if you were to miss next quarter or Q4 or whatever it is, for something you could have disposed in advance on the aviation. So, if there is any color, maybe you can put in the Q that would help us model, that would be much appreciated.

<A - W. Robert Berkley, Jr.>: It's hard to give an answer when we don't know it.

<Q - Ian J. Gutterman>: No, I understood, understood about that, I was just

<A - W. Robert Berkley, Jr.>: ...part of is, we don't lose the earnings till we close. We don't know the date we close.

<Q - Ian J. Gutterman>: All right.

<A - W. Robert Berkley, Jr.>: So that's a starter for why we don't know the answer. There is lots of reasons, we're not avoiding the answer, we just don't know it. And giving the wrong answer generally gets people a lot more unhappy.

<Q - Ian J. Gutterman>: I understood, all right. Thank you

Operator

Thank you. Our next question comes from the line of [indiscernible] (44:19) Your line is now open.

<Q>: Hi, Rob, I just wanted to [indiscernible] (44:25).

<A - W. Robert Berkley, Jr.>: [indiscernible] (44:24)

<Q>: [indiscernible] (44:27) I am trying to get a sense of where you think we are, meaning if you look back over 10 years, you guys have had ROE of 14%, you've got book value per share growth nicely double-digit, what to you is the most important metric and what do you think about your ability to achieve that over the next 10 years?

<A - W. Robert Berkley, Jr.>: Okay. I think ultimately we believe our model has worked well and we think the fundamentals of that model will continue to serve us well and that is really a focus on expertise and a focus on parts of the market where it's expertise that are the great differentiator. And we continue to do that as we build out new operations and we continue to invest from the perspective in our existing operations and bringing in new talent.

So, clearly, there are a lot of variables, a lot of questions as to how the business will operate over the next 10 years, and that ranges from predictive modeling to analytics to how product in many parts of the marketplace will be distributed and the list goes on from there. But fundamentally, we choose to participate in parts of the market that are not easily commoditized. We want to participate in parts of the market where its people and expertise that makes the difference. And we believe that approach has served us well and we believe it is applicable going forward.

<**Q**>: Can you speak to the question about sort of metrics and what you think is the most important things to you?

<**A - W. Robert Berkley, Jr.**>: We focus on risk-adjusted returns. All returns are not created equally and we try and evaluate the risk that we are taking on and whether an appropriate return is associated with that. Ultimately, we are focused on, obviously, going hand-in-hand with the risk adjusted returns, ROE.

<**Q**>: Okay. Great. Thank you.

<**A - W. Robert Berkley, Jr.**>: Thank you.

Operator

Thank you. [Operator Instructions] Our next question comes from the line of Josh Shanker with Deutsche Bank.

<**Q - Josh D. Shanker**>: Thank you. Good evening, everybody.

<**A - W. Robert Berkley, Jr.**>: Good evening Josh.

<**Q - Josh D. Shanker**>: Can we talk little bit, we've got election seasons coming up, about what you think the chances are for [indiscernible] (47:02) tax reform?

<**A - W. Robert Berkley, Jr.**>: You know what, in addition to being Chairman, our Chief Economist, he also our Chief Lobbyist. So I'm going to yield to him on that one as well.

<**A - William Robert Berkley**>: Hi, Josh, how are you?

<**Q - Josh D. Shanker**>: Hey, Bill.

<**A - William Robert Berkley**>: Tax reform, I don't know who is going to be elected President, probably the either of the above would be a good outcome. I have no idea whether we're going to get tax reform or not. I think that the reality is that the tax system is not working, not just for the insurance industry, but for lots of parts of Corporate America and how people behave and what people do. Will we get tax reform? We sure should, we need it. I spent less time in Washington as I become less enthusiastic about something happening. Last week, I spent time with our lobbyist and talked about it. He was more optimistic, because – since they don't have much choice. So I'm slightly more positive than I was two years ago, but you surely can't bet on that.

<**Q - Josh D. Shanker**>: And what about in the UK, I heard the rumbling of that UK taxes might come down, maybe benefiting Lloyds and what not, in order to compete with EU?

<**A - William Robert Berkley**>: They are talking about lowering the tax rate in UK from 25% to 20%. But I think they're talking about a lot of things in the UK. They haven't yet turned in the resignation from the EU and we don't know that what's going to happen there. So I think there's a lot of uncertainty. We don't – I'm just sort of trying to keep our company in a position, so we have the optimal level of flexibility, that's why we have an EU dominant or domicile company as well as a UK domicile company. We're just trying to sit here to be sure we can do the best for our shareholders with the best return. That's why we're investing in different kinds of things than fixed income securities because we couldn't get great returns that way. And we're just trying to be as nimble as possible until we feel like we have some way to judge the future and it's pretty tough [indiscernible] (49:32).

<**Q - Josh D. Shanker**>: Good luck [indiscernible] (49:32) Good luck. Take care.

<**A - W. Robert Berkley, Jr.**>: Thanks, Josh.

Operator

Thank you. And our next question is a follow-up to the line of Kai Pan with Morgan Stanley. Your line is now open.

<Q - Kai Pan>: Yeah, thanks. Just a number of question. The $60 million of reserve release, can you break down it into the insurance and reinsurance segments?

<A - W. Robert Berkley, Jr.>: Yeah, generally speaking, we don't get into that detail in the call. It will be in the Q as it is – as it has been in the past.

<Q - Kai Pan>: Okay. Great. Thanks.

<A - W. Robert Berkley, Jr.>: Anything else?

Operator

I am showing no further questions at this time. I would now like to turn the call over to Mr. W. Robert Berkley for any further remarks.

W. Robert Berkley, Jr.

Okay. Andrea, thank you very much and thank you to all that dialed in. Again from our perspective, we think the business is particularly well positioned. We think the investments that we've made over the past two years and continue to make today are going to serve us very well over the foreseeable future, and as a result of our structure and the people that make up the organization, we are able to find opportunities and for that – more specifically, very attractive opportunities to make good risk-adjusted returns, when others that have a more traditional structure and perhaps are not as nimble, are not able to identify these type of opportunities as easily as we believe we can.

So, again, thank you for calling in and we look forward to speaking with you in about 90 days.

Operator

Ladies and gentlemen, thank you for participating in today's conference. Thus conclude the program. And you may all disconnect. Everyone have a great day.