Company Name: James River Group Holdings, Ltd. (JRVR)
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<<Analyst, Keefe, Bruyette & Woods, Inc.>>

All right, okay. I think we're live. So we're going to continue to stay on schedule which is actually a surprise and impressive to me. But I'd like to welcome Adam Abram and Bob Myron from James River, just by a way of a very brief 15-second introduction. James River went public in the December of 2014.

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

Correct.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

At $21 as a share and is now hovering around $37 depending on what's happening today, so far had a really successful run in the public marketplace. The tone or the format of this particular session like all them is fireside chat. I do have a list of questions obviously and I will kick it off. But at any point time we do want to make sure that we're getting information that is useful to all of you because we don't have to create signal if you've got a question and will gladly turn it over right then.

But with that will kick it off. And that is one thing that I think may be underappreciated by the market, is that you're in a whole host of different product lines, there's only two or three different specialty lines of business or products that you underwrite. And it's probably always true. It's only true now that there are different pricing trends and different loss cost trends in different subsegments of what we call even the specialty commercial industry.

And I was wondering if you could a talk a little bit about the specifics be it workers' compensation, be it some of the general liability exposures that you've got. What's going on behind the scenes?

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

Yeah. Well, thank you, Will. A reason to have a broad risk appetite is to be able to address these dislocations. And so when there is too much competition in one area, it's great to be able to pull back and concentrate on another area where pricing is adequate. Today we're seeing some of the best opportunities in our manufacturers' and contractors' book, our commercial auto book continues to be very good. It's not a traditional commercial auto book this is really logistics that are driven by applications the most famous of which would be Uber in 49 states. But we write 25 of these accounts where people use apps to get that last mile sometimes or transportation needs satisfied whether its delivery, or personal delivery or taxi substitute.

Our Excess Casualty division continues to be a really good performer in terms of pricing our General Casualty division. I mentioned this in the last conference call we had, particularly in a few sub markets we've seen the rates for liability on apartments be particularly attractive to us is the cost per door has really been which is the way we price that business, has been very attractive in three or four major actually second-tier large city markets.

So other difficult markets, medical malpractice continues to be a very difficult market, our Life Sciences has been very difficult. We use to write some nutraceutical business, they are the kind of products you'd see on the G&C Shop. That's all going away from us because of pricing. But we've been able to replace that with medical marijuana dispensaries. So this is what the EMS business does, it allows you to particularly if you have a broad risk appetite and you're good at new product development to respond to these needs. And I hope that's useful.

Bob other thoughts?

<<Robert Patrick Myron, President, Chief Operating Officer, Director & Head-Investor Relations>>

I would just add the professional liability lines have been challenging certainly for us in the excess and surplus line space whether that's lawyers, or architects, engineers, doctors, as well is an area that we have been shrinking. On the flip side we had actually seen some growth in the allied healthcare area, for example, assisted living facilities. So as Adam said the broad risk appetite allows for shrinking and growing depending upon market conditions and terms and conditions of various divisions as we go along.

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

You might want to talk about workers' comp too because I didn't address that.

<<Robert Patrick Myron, President, Chief Operating Officer, Director & Head-Investor Relations>>

Yeah, so I think we're seeing workers' compensation rates broadly in where we write on a retail basis flat to down. However, and I don't think that this is unique to us. The underlying loss trends continue to be benign in particular when we look at, I saw loss cost trends actually are down. So on a risk adjusted basis or when you look at the margin, we see our margins basically flat to even improved a little bit relative to where they were a year ago even with some rate declines.

We don't see great growth opportunities on the top line in comp, but we certainly see that the margins there or at least for the time being are fine. So we're basically holding serve from a production standpoint where we individually underwrite that business and take the risk ourselves.

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

Yeah.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

Fantastic, I mean my expectation over the long-term of the workers' compensation will continue get more competitive relative to whatever loss costs are. But it does sound like we're starting from a good spot and any deterioration is modest at this point in time.

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

I think that's right.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

Okay. That's actually I think very good for a lot of participants. One of the thing you mentioned Adam is the need for new product development. And I would argue that it's probably critical in the Excess and Surplus Lines space, which is where new industries find insurance. So whether its transportation network services or things that haven't even emerged yet, so may be you could talk a little bit about the incubation of new products, I'm assuming that it's critically important and the distinction between the standard and the specialty markets. How you invest in that, how you manage that facet of the operation?

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

Well, ideas come from a lot of sources. Our wholesale agents bring us problems every day. Sometimes those are what we would regard as routine problems. It's just a risk that's had a lot of payer on it. And we've got to resolve that through pricing, through terms and conditions or sometimes we can't. Sometimes it's a brand new risk when the – when these first TNC, transportation network companies came to us, 32 companies had rejected out of hand before we embraced and found a solution that's now turned into a pretty big business for us and 25 more than 25 accounts. So figuring out a way to solve your customer's problem is a critical part.

But if you think about the technological changes that are coming today, think about nanotechnology in biology, think about medical products, think about shared capital goods. So shared capital goods in a way Uber is an example of that Airbnb would be another example of that. I saw yesterday in The New York Times there was a piece about ship at sea that are drones, drone ships at sea. These are going to be very complex risks that are going to, in my mind naturally start being insured first in the experimental Excess and Surplus Lines market, because think about the complexity. If you have shared capital goods, who owns it, who is liable at what time for that, who is your insured at what moment and time?

So these are the kinds of things where freedom of rate and form and the ability to enter into a very tailored contract with your insured or insurance is really critical. And I think it's going to be a very, very important part. We know that the Excess and Surplus Lines market, which is 82% of the premium in our company is growing as a percentage of the property casualty market. It's becoming a larger part of the overall TNC market.

That market over the last 14 years as a group has outperformed the standard property casualty market by about eight points. So it’s a very significant advantage if you can figure it out. We spend a lot of time on new products, we have a very broad range of traditional products also that was a very big part of the property casualty market is permanently in the Excess and Surplus Lines market. All new businesses come into the Excess and Surplus Lines market first. Many small businesses stay out of their certain classes like contractors or routinely basically always E&S risk.

So this is a $34 billion market and growing, but we think there’s a lot of opportunity to do exciting things. And some of these exciting technical things are bringing new talent into some of the STEM talent that were recruiting and others, these young people that we’re recruiting become the underwriters and claims people for us. It’s becoming a more sexy and exciting part of the employment picture too. So that’s kind of something.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

So I could in theory look at an engineer as an underwriter.

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

Yeah, well we’ve often had, not always, but we’ve often, for example, had people with environmental engineering degrees in our environmental insurance segment because we need that kind of expertise to understand some of the risks, and some of the procedures and some of the claims handling in that area.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

Want to amplify one point that you made. I just see if my inference is correct, you’ve talk about the Excess and Surplus Lines market growing as a percentage of all of TNC that is coincident to standard commercial insurers sort of increasing their appetites and taking some of the gray area business somewhere between specialty and standard. So the growth that you’re seeing is actually, I would say even more impressive because there is that level of normal soft market attrition.

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

Do you want to talk about the standard market has been encouraging?

<<Robert Patrick Myron, President, Chief Operating Officer, Director & Head-Investor Relations>>

Yeah, I think our average account size in the individually underwritten space that we play in is $20,000. And so clearly small very, very small account, where we are seeing the most competition from other E&S carriers, but in particular the standard markets are the larger accounts because we do have some six-figure accounts and some seven-figure accounts. Those are definitely under pressure those – some of those have been lost.

In the small account space we are actually seeing a net inflow of business into the Excess and Surplus Lines space in particular smaller business missions, maybe even $3,000, $5,000 or $7,000 account size. And what we are seeing there is that package policies like BOPS and CNPs that have had losses property loss or whatever and has been those renewals have been rejected by the standard markets. Those are now coming to us in pieces and we're being asked to write, for example, the general liability piece of that small account, but that was previously a standard market package. So interestingly enough we're getting the Intel from our segment folks is that in the $20,000 smaller account stuff we are actually seeing a net inflow right now.

And I think just overall the slow steady growth of the U.S. economy with small startup businesses that naturally make their way into the E&S space as you were referring to before when they don't – when they've got three years less than of history, that continues to be something that is a source of new submission activity for us and business that's not really ready for the admitted markets yet. So we continue to see the small new startup businesses, the small sandwich shop or coffee shop that's not part of a chain, for example, that starts up is that type of stuff is pretty robust.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

So there's a little bit of exaggerated cyclicality in other words if the economy is growing then you'll see more new business formation and therefore maybe disproportionate growth in the E&S market?

<<Robert Patrick Myron, President, Chief Operating Officer, Director & Head-Investor Relations>>

Yes.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

Right. And there's one other thing. I think that the Robert you are correct the standard markets and program writers and others are trying to come in to that gray area.

<<Robert P. Myron, President & Chief Operating Officer>>

This continued low interest rate environment discourages them from coming in with dramatically lower pricing because if you've got a 3% yield or lower it's pretty hard to convince yourself that you're going to make your margin by increasing coverage and lowering cost, right.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

So another line of business that we've been seeing and the growth is now explicit and pretty clear is on the fronting and program side. Just hoping you could talk about first off what the strategy is for expanding that subsegment within Specialty Admitted? And second how do you distinguish yourself from other companies that are also offering fronting services?

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

Well the first thing I want to do is shout out to my friends at state and national who are the granddaddies of fronting and who do a tremendous, I think they do a tremendous job in that business. I have a lot of respect for them. We've distinguished ourselves a little bit differently. So our model is this, we know there are capital pools who are very anxious to participate in well underwritten insurance risk and whose need maybe there are pension funds or there are long-term capital pool. And they need a four or five and they are content because of its diversified risk if they could get a steady reliable 4% return, they're happy.

Our approach to this is we're going to rent them our infrastructure, we will oversee the production of this, we will oversee the quality of the underwriting, we're not going to guarantee it. But we will use the same standards we used for our own books for their book to oversee the underwriting this to oversee the claims operation of this. We will organize the reinsurance pool and the spread of risk behind this. So we really provide a tremendous amount of service more service than some other front companies do. And then we charge a fees it's very, very powerful.

I'm going to give you a quickly example of how this works. We just picked up a program that we talked about in our last conference call. This is a program we are very familiar with because we've reinsured it three or four years as a reinsurer. We've now moved up to become the front company in this. It's about a $200 million book of risk compensation business. We're keeping 12.5% of the risk. So we cede 87.5% of the risk to very well-rated reinsurers. We charge a 3.4% fee on the 87.5% that we cede. If you do the math on that, I'm assured that it means that we get a 24% advantage in terms of loss in LAE cost on the 12.5% that we retain. So we are in a very advantage position.

On the other hand we are working very hard to assure our reinsurance partners who are valuable to us and important to us that they get the returns they want. So in 90 days we've already audited this book three times. We put two staff members out one to audit underwriting, one to audit claims constantly. And then we've sent larger teams out for the first three months every month to make sure that this was running exactly within the guidelines that the whole parties had agreed.

So we're providing a high level of supervision on this fronted book, it's very profitable from our point of view. By the way one of the things that you'll see in our business and gives us a lot of confidence these days, basically in our E&S book we retain for the most part we retain $1 million net. In our admitted book our retention is much lower. And in our longest tail business workers' comp, our retention on the retail, the $32 million we write retail is $600,000 it's even less in the program and fronting business.

So in our long tail businesses you've seen that we shrunk in essence our tail by shrinking our retentions and in the 82% of our business which is E&S which historically has been the most profitable part of the segment our retentions remain at the $1 million level that we've had before, it's another way of participating in a very profitable way in the cycle. We've promised a 12%

better return on tangible equity. Last year we made a 13% return on tangible equity we're carrying more capital than we probably may have noticed. I hope you noticed that we got an upgrade to an A rating. And we think that will help our fronting business.

So that was an answer to more than the question you asked?

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

That's right. We'll always take more. One of the issues I theorized about is that you've got I don't think Bermuda that simplification a lot of the companies that have done tremendously well in property casualty reinsurance. Maybe the catastrophe incidence side of that changes but certainly the rates have changed. So it's less favorable than it had been. So these companies are looking to deploy capital elsewhere and they don't necessarily have a small account distribution infrastructure or administration infrastructure. Is that a legitimate source of demand for the fronting and program services, I don't make sense of theory that that's actually showing up?

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

Yes absolutely, I think the reallocation of capital away from that into other lines of business has definitely increased the appetite and our ability to place proportional reinsurance for the fronting and program business without question. It's one of the areas that we're seeing a pretty significant increase well toward interest whether it's traditional reinsurance capital, whether it's alternative capital in that space. And so it's certainly one of the surfings for the strategy is that there is, in particular as alternative traditional reinsurance capital, alternative capital has moved away from property and then into other things that being able to produce this wit and effect boots on the ground and our infrastructure is a good seat to be in, in terms of passing that risk on the others.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

So that's actually – and again if there are questions please let me know. But that seems like a good jump up for the next one, which is as your book of business grows and we're seeing, I think very impressive growth without any damage on the loss ratio which you want to see. How does that change your approach to buying reinsurance for the enforced book? I mean obviously some of that will be affected by lower retentions on program and funding business. But let's say with an Excess and Surplus Lines business that you generally want to retain do you buy less reinsurance, do you buy more because it's more affordable, how are those issues being balanced?

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

To date we have not altered materially. I mean we're always adjusting our reinsurance buying here and there. But I think you're pointing to something that's really important, and that is if you assume that we're in a prolonged period of low interest rate and that there are large capital pools some of them are insurance companies others are a large stable pools that are able to provide cash collateral so that you're very confident about the credit. There is an opportunity to increase your, I think there's a substantial opportunity through intelligent reinsurance buying partnering with others who have different long-term financial goals to deliver them premium that we write at a and to increase from the seeding company the return on equity and to diminish our need for carried capital. And use their capital that they're prepared and need to deploy and it makes sense for them to deploy at a higher – at a lower rate of return than we demand for our capital. I think there is a trade to be made there.

In the next few years companies that are really good at buying reinsurance that's going to be a increasingly important test of quality management in my view your ability to safely place and adjust the risk on your balance sheet and the risk you see to others on a sustainable basis and to drive ROE for your company.

So we should look at it as possibly being more dynamic in the next two years, three years than the modest changes you made or so far.

<<Robert Patrick Myron, President, Chief Operating Officer, Director & Head-Investor Relations>>

Yes I think so assuming that we remain in this low interest rate environment and capital pools are out there and continue to be reliable.

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

Have been calling for higher interest rate since 2011 clear my [indiscernible] (0:23:14) it's our ability to die.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

We think the third part of that question which would be James River's casualty reinsurance unit. How do you evaluate the prospects for that where you basically on the other side?

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

Well it's – we don't need it to be very large. We've built this to really serve a few companies, we need Surplus really. Over 50% of that businesses is E&S business not a third party E&S business where we know this even that they need some Surplus really for very comfortable with that we could sustain that business today we're running about one $175 million that Kevin Copeland is the CFO of the company is right there. We're writing about $175 million there we could write as little as $150 million there we don't need a lot of that. And the existence of that company takes our tax rate from 32% to 10%.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

So as long as you can…

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

We don’t have the write very much. We don’t have the write very much. And when you’re writing on a quarter share, just a few accounts four, or five, six accounts can pretty quickly get you to the premium you need and we have a long relationships with the brokers and with proceedings throughout.

<<Robert Patrick Myron, President, COO, Director & Head-Investor Relations>>

Yeah and I would just add that it’s probably obvious given what our results had been but we are not seeking to grow that reinsurance business right now nor do we need to our growth is certainly on a risk taking basis in the Excess and Surplus Lines segment where we grew 26% last quarter and then in the Specialty Admitted segment where we’re seeing significant growth and we’ll have even more growth as a result of this new workers’ compensation program in the fronting and programs area.

So we’re really focused on growing the domestic businesses and making good bottom line profitability in Excess and Surplus Lines segment more of a fee income focused on the Specialty Admitted segment and then the reinsurance segment, I think is given the current market conditions and the nature of what we do is holding service perfectly fine.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

Right. When you talk about the growth that you’re pursuing, so we’ve seen very strong organic growth do you have any interest in, I guess there are different ways of doing it right there are – there’s some talent that’s being dislocated now because of consolidation or retrenchment, there’s some smaller companies that are probably under pressure because they’re expensive basis are manageable and there maybe M&A targets. How many approaches can you use to augment organic growth?

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

Well we’re growing organically very nicely so we don’t feel any compulsion to make an acquisition. We have resisted hiring teams, we have added a lot of talent in the last year. But we add them in ones where we meet somebody they may be a young person or that could be an experienced person, but they fit our culture, they fit our approach to underwriting, they bring expertise or they bring intelligence and we hire them. And we’ve grown very considerably over the last couple of years.

<<Robert Patrick Myron, President, COO, Director & Head-Investor Relations>>

Or that a young person smart person who can be taught to do things our way so to speak.

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

Exactly. We have looked at many acquisitions and have to be well priced acquisition or something that really was – it was supplemental to us. And yes, we were really confident on the balance sheet and the quality of the underwriting. It's been some time since we made – it's been spend over a decade, I think since we found something that really fit our targets for that.

So we're pretty selective about that. And when we look at a lot we just not found the right thing that we wanted to buy. We essentiously avoid anything that's got catastrophic risk and there have been a number of interesting vehicles out there that have come up for sale, but they've had substantial exposure to catastrophic risk. And we just like this low volatility, 12% of their ROE very consistently delivered and we don't want to disrupt that.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

That certainly makes sense. Another opportunity for growth obviously would be expanding the distribution network. Can you talk a little bit about how you manage your current and maybe potential distribution partnerships?

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

Sure. There are two parts to our business there is the non-admitted part where we deal exclusively with wholesales and there are – may be 130 offices that we deal with on a really almost a regular basis. We have deep relationships with them. They're appointed by office and by product line. And these are by and large with some movement with them. These are long-term, these are long-term relationships. We find it very efficient to deal with this wholesale network that still they understand our appetite and they are really the go to, that's where the retail agents tell us taking this non-admitted risk and is the most efficient way we found to reach this $20,000 average account business.

In the specialty admitted side, we deal directly in some cases with agents we deal also with managing general agents directly. So on that side of the business we're open to direct retail agents and open to call centers. So we have exposure to everything except for direct underwriting. We don't own an agency and we don't take anything directly from the consumer.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

Is that an area you spend any energy thinking about that?

<<J. Adam Abram, Non-Executive Chairman & Chief Executive Officer>>

Not today. And I'm not saying we wouldn't eventually find products that were appropriate to, we're agnostic about some of this. Look, here is the reality. The reality is that having built a grade and growing business in the most profitable segment of the E&S business, the overwhelming majority of that business comes out of the wholesale market and will continue to come out of the wholesale market for a long time. And consequently you want to be careful about disrupting relationships that are growing and working.

And so I would be low the step up here and start talking about experimentation with 130 relationships that are working very well for us, that are extraordinarily profitable, have been for 20 years, we foresee them continuing to be profitable for us. They're very good for the other side.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

I was at a dinner last night where somebody remarked, if you look at the insurance industry, go look at the ENS industry and say okay well 60% of your cost not for us it's in the 50s but 60% your cost incurred loss in LA, 10% of your cost go to just internal cost of operating your business and 30% your cost go to acquisition and marketing, is that really so terribly out of line.

<<Robert Patrick Myron, President, Chief Operating Officer, Director & Head-Investor Relations>>

Maybe not.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

Maybe not, right. In profit…

<<Robert Patrick Myron, President, Chief Operating Officer, Director & Head-Investor Relations>>

Relative to other businesses.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

Yeah, I left out profit I shouldn't should have done that.

<<Robert Patrick Myron, President, Chief Operating Officer, Director & Head-Investor Relations>>

We took out only 55% that differentially would be the difference that you need.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

So I'll ask this question, I guess capital management, is little bit on selectively in M&A. I would be skeptical of sort of aggressive share repurchases just given sort of limited flow, but as we saw last year the potential for returning excess capital through special dividends. How do you think about that? How do you balance those, how did you come up, how did do you arrive at the special dividend of the decision last year?

<<Robert Patrick Myron, President, Chief Operating Officer, Director & Head-Investor Relations>>

Yeah, we haven't been focused on share repurchases, really from the IPO forward because really we didn't want to decrease the flow of the company we’re 52% public with about $1.1 billion market cap. And so didn't want to decrease the float it seems like the most practical way to effectively manage capital was through ongoing and then last year special dividend. And I think that we look at our company through a shareholder lens and we are very focused on meeting or seeking to exceed the guidance that we give the public and the ROTE target that we have. And I think that at the end of this year we’re going to look at the same things we did last year and make an assessment of where we think our capital position is at the tail end of the year, what does our budget look like for a next year growth, and production, and so and so for.

And there's a lot of people in this room I'm sure know the largest charges that you're ever going to get to your own capital models, as well as the regulatory or the rating agency models are going to come from premiums and reserves. And so you've got to take all those things into account, take a look at where you think you're going to be seeking to deliver a strong return on tangible equity and obviously, the bottom line from an operating earnings perspective is the numerator in that, but the denominator is we got to try and actively manage the capital, as well. So I think that's a long way of saying we're going to continue to be proactive and look at this through a shareholder lens with a view towards not dragging around excess capital. There is certainly a link between this and the fact that we already got up, we did get upgraded after being on positive outlook for two years. And so it's always more difficult to achieve a change from the rating agency that actually sort of holds serve. And so I think that now that we've gotten that taken care but I think we'll just be will be thoughtful about looking at capital gain at the tail end of this year. And I think we – but I want to be clear we're not making any promise about necessarily making a special dividend again.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

Is that a team target.

<<J. Adam Abram, Chief Executive Officer & Chairman>>

Well 12% higher.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

But I was referring about that just a 12% and it's still within the process. I recognize we are seeing very strong growth in fronting and programs but it is growing nicely. And it is I imagine much lower capital, there is much lower capital consumption associated with that the ones traditional underwriting. As that grows should that at some point time impact the ROTE target?

<<J. Adam Abram, Chief Executive Officer & Chairman>>

Well we haven’t, we give guidance one year at a time.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

Right.

<<J. Adam Abram, Chief Executive Officer & Chairman>>

Last year we were a little bit more than a year out from our IPO we gave 12% target in our first year we made up 13% will assess the same, really.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

If you only take the other side of that, sort of the other side of that and then that there's a constant pressure on the investment income side right, we're seeing yields start to go ups and therefore the – there is opportunity to deploy new money into high-yielding securities is very, very difficult at this point in time. How do you manage through that particular process?

<<J. Adam Abram, Chief Executive Officer & Chairman>>

Well, there are a couple of parts to it. We're fortunate and one of the reasons we went to Bermuda is, we now have two-thirds of our assets in Bermuda so the investment income – our income over there we keep a larger percentage of it than investment income earned in the United States.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

Right.

<<J. Adam Abram, Chief Executive Officer & Chairman>>

So that helps us. Our investment leverage that is as we've grown and as our reserves have grown, our investment leverage has increased and that's been a plus. But it is also true that rates are down and the reinvestment opportunities are lower than they were taking a small but useful part of our portfolio and invested it in some alternative investments that have yielded really good results for us, particularly on a cash on cash.

But sometimes the fair market valuations of these can be confusing to follow. But the current yield on those investments has been very attractive to us and we will continue to invest a percentage of our portfolio in these alternative investments that have helped us keep our returns. But it is a challenge. By the way on the other side of that that same problem is keeping the admitted market from coming in and doing some of the things that they have historically done to pricing. And so while we hated on the investment side I appreciate it on the – in the sense that we're having to play less defense than we might against admitted markets if interest rates were 6%, 7% or 8%.

We personally, we're thinking that we're on a permanent low. I know a permanent but a longer term low interest rate environment and so what that means is that we're getting back to the reinsurance and the risk sharing point of view the opportunity to find stable, responsible capital pools that want to bear risk, who have lower return hurdles than we do and to share risk with them and to be pay for generating these risks to them reliably is a remarkable opportunity and historic opportunity to structure the insurance business in a way that really solid underwriting can continue to earn, the kind of double-digit, low volatility returns that we're offering to our shareholders, even in the continued low interest rate environment. And I think that's going to be one of the important steps that companies will needs to address over the next three, four, five years.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

It's possible and probably true for some lines that the cost of the low interest rate environment so that the benefit in terms of low inflation, low loss cost trend and to move along. How do you monitor that to see if something maybe non-monetary starts to bubble up if the quarts become more and first, I mean it’s really that?

<<J. Adam Abram, Chief Executive Officer & Chairman>>

It’s really a terrific question. Bob, and I and other senior managers in our company look at every loss that could exceed where it seems like it could exceed $250,000. Now we won't be able to do that forever. Bob and I are not adjudicating claims, that’s being done by very skilled people but we're sending a signal about the intensity of the interest in this. We have built a very, very robust claims operation and we dedicate as much intention to claims, claims scale, claims handling, claims cost, claims arising. The number of claims being handled by our – by each examiner, the outcome, the progress of those claims we’re tracking, tracking that progress from inception, to investigation, to setting a case limit, to resolving that claim and what that takes. That's a major, major focus within the firm and across the firm.

And so that skill set, I think, is really critical to bringing in the kinds of returns, and then talk in [indiscernible] (0:40:19) distinguishing factor of our company, but we spend as much time on claims as we do when underwriting.

<<Robert Patrick Myron, President, Chief Operating Officer, Director & Head-Investor Relations>>

And I would just add to that that yes the legal environment is pretty friendly for insurance companies right now. And so is the regulatory environment to the extent that matters in particular in the workers' compensation area. In fact we've seen substantial improvement in that over the last few years where, I think, there was probably when the economy was poor there was a bias towards claimants in the workers’ comp arena when you were getting judgments from the regulatory governing bodies and the like. And that has reversed and it's been – become more business friendly as well.

So right now I think that is a pretty good time for that, but we are not seeing any underlying trends or anything under the covers that indicate that’s change any time soon.

<<J. Adam Abram, Chief Executive Officer & Chairman>>

And we've take the entire see our time is that we take every line of business apart at least once a year, some lines of business are taken apart twice a year, with claims underwriting actuarial administration IT, all of the table with completely no assumptions. We take that business apart and evaluate what's going on in that business. Is it taking longer to close the claims, what's the average cost of the claim, what's litigation cost, what's the – and we do this by venue, we do it and we slice and dice every significant part of our business pretty routinely to make sure that as we put it back together that we understand what terms and conditions in pricing are necessary to make our return hurdles in that business. And so and claims is a critical part of that analysis.

<<Analyst, Keefe, Bruyette & Woods, Inc.>>

Fantastic heading into the great story very well told. And thank you very much I join in thanking Adam and Bob.

<<Robert P. Myron, President & Chief Operating Officer>>

Thank you.

<<J. Adam Abram, Chief Executive Officer & Chairman>>

And thank you to KBW for hosting this conference, it's a tremendous event.