Ben Claremon

2013 Fairfax Annual Meeting Notes
Toronto, Canada
April 11th, 2013

- Opening remarks by Prem Watsa
  - About 5 years ago, John Templeton passed away
    - Templeton was his mentor
    - Templeton was interested in spiritual growth
      - Wrote a book in 1990 called *Riches for the Mind and Spirit*
    - Prem recommended reading *The Templeton Plan* and *Discovering Laws of Life*
    - Wanted to highlight a movie called *The Little Red Wagon* that the Templeton Foundation was involved in
- Prem's PowerPoint Presentation on Fairfax (FFH)
  - The company is strong because of the management team it has
    - FFH is a decentralized company but has very good managers
      - They are smart, hard-working and trustworthy
        - Highlighted Andy Bernard
          - Has been with the company for 17 years
          - Is now focused on making sure the insurance companies generate underwriting profits
        - Highlighted Brian Young who has also been with the company for 17 years and runs Odyssey Re
  - Comments of the state of FFH
    - FFH has a fair and friendly culture that is focused on doing well for employees, customers and shareholders
    - The market cap of FFH 27 years ago was $2M and this year just the charitable giving was $12M
    - Decentralization unleashes management talent
      - Write about $6B in premiums among many companies
      - This is an effective structure and is the reason for the success
    - Company values:
      - Honesty and integrity
      - Team orientation
      - Hard working but not at the expense of your family
      - Entrepreneurial
      - Safe—always keep $1B in cash and securities at the holding company level
        - Never bet the company on a project or acquisition
      - Results oriented, not political
      - Believe in having fun at work
  - How have they done over 27 years?
    - Book value (BV) was $1.52 at the beginning
      - BV is now $378
      - Cumulative dividends take the BV from $378 to over $420 per share
      - This represents a compounded return over 23%
      - The focus is on continuing to perform for the long term
    - Results are lumpy
      - Had some terrific years in 2007-09
        - The 2010-12 period was not as good due to their conservative investment stance
        - Believe they should be conservative given the challenges in the business world and the economy

        - Despite being careful, BV continues to grow
        - Are happy with underperforming the S&P with less risk
        - Over the last 5 years, BV/share growth has soundly outperformed the S&P
      - Over 27 years, the BV/share growth compares favorably to domestic competitors, international competitors and the major indices
  - Investment returns in 2012
    - Realized gains of about $1B
      - Mainly in Treasury bonds they sold
      - In 2011 they realized $1B as well
    - Unrealized gains and losses
      - Hedges cost them $1B last year
      - CPI linked derivatives that benefit from deflation suffered a $129M unrealized loss
      - Unrealized gains and losses always fluctuate and the only thing that will tell you the success of these investments is time
- How have the insurance companies done?
  - The 2003-2012 period includes a full cycle of hard and soft markets
    - Combined ratio of the business they wrote (not inherited) over that time has been 95.8% overall
      - As they willingly drop their premiums written during soft markets, the expense ratio goes up and they often suffer an underwriting loss
        - Hard to consistently underwrite better than 100% in soft markets because expense ratios increase
    - 2002-2011 average redundancies
      - All 4 companies have have at least 5% reserve redundancies
  - Companies are very well capitalized
    - Premiums written to capital is about .7x
    - Can write 2x as much quite easily—wrote 1.5x during the last hard market
      - Have dry powder for when the opportunity comes
        - This worked in 2001 when all the insurance companies were able to increase premiums written
    - When hard markets come, they expect to increase premiums very significantly
      - Premiums written are increasing now—about 5-10%
        - Canadian markets are much more competitive
          - Are usually more stable
        - In the US, you are seeing prices come up
          - Prices in the US tend to go down more than they do in Canada but then rebound fast
- Importance of float
  - When they began they had a float of $12.5M
    - Now they float is close to $16B today
      - Equates to $784 per share
      - Float/share is about 2x the shareholder's equity/share value
    - Assuming they can invest that money at nice rates, the liability as shown on the balance sheet is likely over-valued
    - The 10 year average cost of float has been about 1.1%
      - Would like that to be negative in the future

        - Over 27 years they have realized $12B of realized gains
            - These gains allow them to expand either organically or through acquisitions
            - Have $26B of investments that will help them significantly in the future
    - Acquisitions in 2012
        - Prime Restaurants
            - 82% ownership
            - John Rothschild and Nick Perpick have run the company for 20 years
                - Management team owns 18%
            - Have 149 restaurants
            - Bought the company at about 10x free cash flow
        - Brit Insurance
            - Bought at a 10% discount to BV per share
            - This is a runoff business
        - Thomas Cook India
            - At the end of the day, they will own 75% (max allowed in India)
            - Is a foreign exchange business and travel company
                - Offer great service to customers
            - Generates huge free cash flow
                - This will be reinvested in India in other opportunities
            - Over the next 10-20 years, the opportunity for this company is huge
            - They bought this company due to how much they loved the CEO
    - Hamblin Watsa Performance
        - They are pleased with their 5, 10 and 15 year numbers
        - The last few years they are not as happy about but they have been careful
            - Are positioned very defensively
                - Have small government and corporate bond positions
                - Common stocks are hedged
                - Have 30% cash
            - Portfolio won't harm them but it won't make them a lot of money
        - FFH is focused on the long term
            - You have to take quarterly numbers with a grain of salt due to the mark to market nature of the financials
                - EPS is volatile due to these unrealized gains and losses
    - Financial strength
        - FFH's debt maturities are long dated
        - Have more than $1B in holding company cash
    - Why are they hedged in equities?
        - They have put together some good information from Van Hoisington to answer that questions
            - Some of the charts they are showing are his
        - Chart of real GDP growth per decade since 1790
            - The worst decade was the 1930's in terms of growth
            - The second worst period was the 2000-2012 period
                - Why was it that bad?
                    - US private and public debt to GDP was 300% in the 1930's and is 380% in the US today
                    - The US has a ton of debt compared to GDP
                        - But Japan, the UK, and the EU are in the same boat, if not worse
                            - These countries want inflation

                - Inflation could cause interest rates to go up and thus interest costs could spike
                    - Many of these countries can't afford higher rates
            - Canada is in relatively good shape
    - Won't the Fed get us out of these problems?
        - The Fed has done a ton of QE but growth has been tepid
        - The monetary base—what the Fed can control—has gone up
            - But the Fed can't control the money multiplier—basically based on banks making loans
                - The multiplier is 3.5x now, down from 9x
            - There has been no impact yet of the Fed's actions in terms of the money supply
                - Money velocity has been dropping
                    - The last time that happened was in the 20's and 30's
                    - The Fed cannot control the actions of individuals—all it can do is increase the base and that has had a very small impact on the economy
- Chart of long term bond rates after the panic in 1929 in the US, the real estate crash in 1989/90 in Japan and the financial crisis in 2008 in the US
    - For the US in the 1930's and the early 1990's in Japan, it took a long time for interest rates to bottom after the initial panic
        - These are 2 time periods are similar to what the US went through into 2008
        - Prem thinks it will take a long time for interest rates to bottom
            - In reality the average interest rate for the 30 year Treasury since 1871, is 4%
                - There were a lot of periods of deflation prior to 1950
            - You would think that interest rates should go up if you only look back to 1950 when average rates were higher
                - But rates are not that low compared to the long term average
    - In Japan, after the bubble crashed, it took 5 years to actually see deflation
        - They then saw cumulative deflation for the next 17 years
        - It takes time for people to understand that they actually have to de-lever and that there is no other option
        - Prem's view is that there is a possibility of deflation in the US
            - Since 2008 we have had a ton of stimulus and Fed monetary actions
                - In spite of that the economy is weak and there is no inflation in sight
- Reaching for yield is rampant
    - 7-10 year high yield debt has never had a lower yield than it does today
    - Bolivia had not issued US dollar dominated debt for 90 years
        - Bolivia just issued 4 and 7/8ths % 10 year debt
    - FFH is not going to reach for yield
- Over the 27 year period FFH's average investment return has been 9%
    - They have done well compared to everyone else
    - But we have to take the long term view of returns
- FFH is well positioned for the future

- Q&A Session
  - As you're expanding globally, what lessons can you learn from the issues surrounding the Cunningham Lindsey acquisition?
    - They paid $9M for Cunningham Lindsey
      - Expanded internationally—into the UK
      - This was a mistake—not in buying it necessarily but in expanding it so quickly
        - Now they are more cautious when it comes to expanding
      - It was one company run from Toronto, it was not decentralized like FFH is
    - Their takeaway from the experience is very simple:
      - You are only as good as the people running the company
      - They expanded way beyond the capability of the management team
        - They see that now in hindsight
    - Claims adjustment business requires 1000s of people
      - There is no investment portfolio
      - They are not adept at operating this business
      - With hindsight they did not provide good enough incentives to the company leaders located around the world
    - When they went through their problems in 2003-04 (after buying 2 big companies), they had similar issues as well
      - Did not have management talent in the US at the time
        - They now have tons of talent in the US
    - Since Stone Point took control of Cunningham Lindsey, the results have been much better
      - Stone Point has been a very good partner
  - Has his approach changed--his Ben Graham style investing--since he started looking to buy entire companies?
    - When they buy a business or just the shares, the same principles apply
    - They are often buying a company at a fair price
      - Have to be comfortable with the management team and the financial position
      - Have a discipline that allows them to be careful what they pay
    - They have changed just like Buffett and Berkshire changed
      - They used to buy Graham turnarounds
        - They have done well in that space but those investments took a long time to pay off and with insurance companies you never know where the liabilities are
        - They are not going to do this again
      - They are more focused on buying good businesses within insurance and when it comes to their investments
        - Every once in a while they will look at Graham-like companies though
  - Why has Buffett never hedged his portfolio the way FFH is hedging?
    - If you don't care about the fluctuations of common stocks over the next 10 years, you don't have to hedge
    - But they have insurance companies that exist in a mark to market world and their capital can shrink if stocks fall in value
      - They have to be more sensitive to stock market fluctuations
      - They want to have capital to take advantage of a hard market when it comes

                - There will be a time when the capital base is so large that they won't have to worry about hedging
            - They have never hedged like this before
                - But they worry that the 2008/09 event was like nothing we have seen before
                - Interest rates have been 0% for 4 years
                    - Even with massive stimulus growth has been very tepid
                    - What if there is a recession in the next 6 months?
                        - The Fed has no bullets left
                - There is so much risk in the system that you have to be careful
        - Can you talk about how past acquisitions have changed the thinking on future insurance acquisitions?
            - They grew from buying troubled companies
                - Were able to turn them around
                - This happened in 1998 and 1999 when they bought Crum and Forster
                - It takes forever to turn companies around
                    - They don't want to buy turnarounds anymore
            - They now want to buy companies with good underwriting track records
                - They want combined ratios below 100%, good reserving practices and good management teams
            - Any potential acquisitions that come to them first go to the insurance company presidents
                - There is not a bureaucracy and they can act very quickly
                - But they have a lot of experience that they can bring to bear
                - Have people in place in each region who can assess the prudence of an acquisition
            - No acquisitions can be made unless the holding company agrees though
                - They can get into a lot of trouble if they delegate acquisition decisions
        - Do they see foresee acquisition opportunities in Europe?
            - In Europe, they have little exposure now
                - They don't go from the top down and say that they need to develop exposure to Europe
                - They are totally flexible
                    - They will do things when they come
                - They could expand into the EU, but they would have to pay a lot to get into it
                    - They would rather be opportunistic than create an objective that they should have EU exposure for the sake of it
            - We can be sure that they will grow organically and from acquisitions
                - He just can't tell us when and where
                - FFH will definitely expand in the Middle East where insurance penetration is really low
                    - Plus the investment opportunities in these countries are huge
                    - These are valuable businesses that they will never sell
        - If deflation were to happen, what would happen to the revenue and P&L of the insurance and operating business?
            - Revenue would go down and it would be tough to make money
                - Costs would go down, but wages only go down over time
                    - Even though the economy and GDP in Greece have been way down for the last few years, the first month of actual deflation occurred last month
                        - It took a while to see deflation

            - We should remember that insurance companies in Japan only earned 5% ROEs during the long deflationary period
            - Hope the deflation hedge will help offset the losses in income from other areas
            - Most people won't have money to take advantage of deflation but FFH will have money to take advantage of distressed opportunities
            - Deflation is something they worry about a lot
                - Have a risk culture at FFH—people think about the risks that can hurt their capital position
                    - They want to survive irrespective of what happens
                    - No one is going to bail them out
                        - They don't care if the music is playing, they are not going to dance
        - If the deflation protection plays out, what would they do with that capital?
            - In 2008, they were able to buy $4B of BRK guaranteed municipal bonds at very attractive rates
                - If they did not have cash and securities they would not have been able to do that
                - They bought because the banks and hedge funds had to sell
        - Is there counterparty risk to the deflation hedge?
            - The banks have to put collateral in a separate account
            - They also can't lose any more than their initial investment
            - How do get comfortable with the bank exposure?
                - They have exposure to only the biggest banks in the US and Germany
                    - No government will let the these huge banks go down
                - These CDS are marked to market and the banks have to post collateral daily if necessary
                    - These banks can go bankrupt but the money would be in a separate account
    - The decision to hedge seems to have come from a top down perspective on the world. Is there a valuation component there too?
        - The valuations of stocks are clearly up
            - He sees a 16-18x PE multiple for the S&P
            - Spreads are very narrow on bonds
            - When you look at 2008-09, the spreads widened a lot and they took advantage of it
        - Valuations are not extreme but the possibilities of problems around the world are very evident
            - China is an example
                - Chinese ghost cities are everywhere
                - All of this real estate building has boosted GNP
                - The people he met in China have 3-4 apartments with values that have gone up 4x recently—but people won't sell because they are afraid to miss potential upside
                    - This is very characteristic of bubbles
                - We can see the problems but we think that the smart Chinese government officials can handle it
                    - Some people believe they will fill those apartments over time because the country is growing so much
        - We saw the real estate bubble in the US in the mid-2000s
            - Everyone saw it but you never knew when it was going to burst

    - The banking sector in Europe is much larger than is the GDP of the EU
        - In Cyprus, the banking system was 7x the size of the country's GDP
        - In the EU as a whole, the banking system is 3x the size of EU GDP
            - In the US, that number is only 1x
    - It is possible that we may just muddle through
        - But stocks have increased a lot off of the bottom
        - At some point, the Fed will run out of bullets and the marketplace could get very difficult
            - Want to protect themselves and be in position to take advantage of turmoil
        - They continue to see opportunities though
            - They are not sitting down and doing nothing
                - But their first rule is not to lose money
            - Will provide capital to people they like
            - Won't invest if they can't protect their downside
            - The background is a tough world with a lot of unintended consequences
                - A lot of decisions are being made that may not look smart in hindsight
- Is it possible to get an idea how much of Prem's wealth is in FFH?
    - Close to 90% of his net worth is in FFH stock
        - That may make his wife tear up but it is the truth
    - Do the other execs have a lot of their net worth in FFH?
        - They believe that all the presidents should own shares
        - They have a new bonus plan where senior execs get 50% of their bonus in stock and 50% in cash
            - These options cliff vest after 5 years
        - Most of the people can make more money working for other companies
            - But FFH has never lost a president in 27 years
                - These people like the ability to run their own companies
                - Plus, FFH provides the right financial incentives
- What does he think about today's pension issues and how do pensions impact decisions about the companies they buy?
    - Defined benefit (DB) plans represent huge liabilities
        - The 7-8% return on plan assets that many companies are hoping for is going to be hard to get
            - In contrast FFH is expecting 5-6%
            - They know how to manage pension portfolios
                - Most companies cannot invest the money based on the long term
                    - Most hire and fire managers based on short term results
                    - The more meddling pension funds do, the more it hurts returns
            - They don't have DB pensions across their system so the liability is small
        - Prem actually likes the pension system because most people are not trained to manage their own money in a 401-K
            - He feels bad for them
            - Properly managed, pensions represent a great benefit for employees

- Resolute Forest Products has a large pension and he thinks that if it is managed right, it is a benefit to the employees

- Who do they think about the hedge fund trying to get rid of the management at Sandridge (an FFH investment)?
  - The company is run by Tom Ward
    - FFH is a big fan of Tom Ward
    - People are very short term oriented in the marketplace today
      - Hedge funds come in, replace management and then sell
    - But FFH is focused on building value for 5+ years
      - They would back Tom Ward if he left and started another company
  - Prem highlighted JC Penney and Ron Johnson—who he suggested was brought in by a hedge fund
    - Sales dropped at JCP by 25% or more based on his radical changes
    - Businesses are fragile and it is hard to change them very quickly
- Why doesn't he consider cutting the dividend or not paying the dividend at all in order to pay down debt?
  - They are very careful about the preferred debt and the bonds are long term
    - He thinks the rates on the debt are very reasonable
    - The preferred debt they have is in perpetual preferreds
      - Can be redeemed or extended at FFH's option
        - They cannot be called
        - But FFH can decide to pay back the preferreds
      - These are as close to equity as possible
    - The financial position of FFH is very strong
      - It will be a lot stronger once they start making more money
        - Their big gains are lumpy and could offset their mediocre years
  - What he likes about the dividend is that all shareholders benefit from it
    - He does not like when it a CEO takes a big chunk of the company's money out in the form of compensation
    - What he has done is fixed his salary at $600K with no options, stock grants, or bonus
      - The shareholders get the same dividend he gets
      - He does travel a little better than we do though—they have a plane
    - Most of the cash flow will be retained to build the business
- Will Andy Bernard and the insurance heads talk about how they plan to keep underwriting ratios under 100%?
  - Andy Bernard: the primary mission he has is to maximize underwriting performance
    - In 2012 they had a 99.8% combined ratio
      - He thinks they can do a lot better than that
      - There are initiatives ongoing at each company to try to improve these ratios
    - This is a risky business that is subject to market forces
      - They need to maintain discipline but be opportunistic
    - He wants the underwriting operations to have the same reputation for excellence that the investment group has maintained over a number of years
    - He thinks they will do better in 2013 and beyond than they did in 2012

        - Will see more opportunities for organic growth in a number of companies
- They have a major initiative in place that is meant to enhance cooperation across the group
    - FFH will remain decentralized but given the scale and scope of the operations, there is a great deal of opportunity to improve earnings by increasing cooperation
        - Scale purchasing
        - Utilizing best practices
        - Have an Executive Leadership Council
            - A forum that helps facilitate cooperation between the groups
- Crum and Forster
    - Have moved Crum from a company with a 15% exposure so to specialty businesses (where they have a competitive advantage) to one that is now an 80-85% specialty business with higher margins
        - Think they have a better opportunity to generate underwriting profit in hard and soft markets
        - Think that this move is going to start paying off soon and the drag from the legacy business is going to be reduced
    - Have established specialty liability groups in product recall, environmental liability, and other segments
        - Expect these to keep growing in 2013 while keeping combined ratios low
    - The expense ratio has not been as favorable as a result of being in the middle of the transition
        - Now that the business has stabilized, they expect this to be comparable to that of the competitors
- Northbridge
    - 2012 was a very pivotal year—was the first year operating as 1 company
        - They have brought together three broker-based companies into one
        - Their results were disappointing due to 2 material events in the 4th quarter
            - They think these will be non-recurring
    - They have assembled underwriting groups in industry sectors
        - Believe industry specialization optimizes underwriting expertise and knowledge
            - This helps them respond more quickly to changes and opportunities within these industries
        - Have increased investment in the actuarial group
            - This talent allows them to increase pricing segmentation
    - Think that as a group they can leverage their scale more now
    - Expect the business in 2013 to be stable—will not be in a hard market though
- Zenith
    - Recognize that they are buying lifetime medical claims
        - That makes them very conservative
        - There are times when they grow the business and there are times when they let business go
    - 4 reasons for future success and his optimism

            - Rates—started raising prices in 2011 and 2012 even when others weren't increasing rates
            - Reserves—they are still paying on legacy claims where they had not reserved properly
                - Over the last several quarters their reserves have stabilized
            - Loss ratio
                - Have never had a loss ratio problem
                - It is an honest ratio and he will put it up against anyone in the US
            - People
                - He has never worked with a greater group of people during the 40 years of his experience
        - He doesn't think anyone knows how to do it better than they do
            - They just have to execute
    - Odyssey
        - Prem called Odyssey the jewel of the business
        - Had a great year in 2012
            - Generated over $260M in underwriting profits and had an 88.7% combined ratio
            - Was the best year ever in terms of underwriting
        - Diversification works for them
            - Have offices in countries around the world
            - Allows them to turn the tap on when they can make money and turn it off when the profits aren't there
            - Have 30 discrete business units
                - 14 insurance businesses
                    - Had a 104% combined ratio on this side in 2012
                    - Had some extraordinary claims in 2012
                    - Are seeing rate increases so they think profitability will improve
                - 16 re-insurance businesses
                    - 81% combined ratio in 2012
                    - Margins in this business are attractive despite competition
                        - A lot of that is property reinsurance, especially on the catastrophe side
                        - If you get big catastrophes that will impact results
            - Hurricane Sandy led to a $175M loss
                - Added 7.5 points to the combined ratio
                - Most of that was incurred in the reinsurance business
                - Believe they can absorb large losses
            - Results tend to be very lumpy
                - They could use some luck as well
- Are they still bullish on Blackberry (BBRY) given that Mike Lazaridas is not there anymore?
    - Mike is a genius
        - He founded the company and ran it for 30 years
    - Mike said to them that he was tired
        - He is going to support the company and will not sell his shares
        - But Mike wanted to be more in venture capital now

                - He chose Thorsten Heins to the be the CEO
        - Blackberry is going to miss Mike
            - But there are a ton of great management players there
        - What about the delays in the US surrounding Blackberry 10 (BB10)?
            - There are some issues there
            - But there are 78M subscribers--a lot of those are companies
                - Prem believes that the response to the BB10 will be strong when it is available
            - They are not focused on mobile phones—they care about mobile computing
                - The security that BBRY can offer is unlike what anyone can offer
        - There is a ton of demand for smartphones and BBRY will have its place
            - This is a long term opportunity and investment for FFH
    - Can he talk about the fiscal and monetary issues in Japan?
        - Japan has a ton of short term debt
        - If rates go up 3-4%, interest expense will take up the entire government budget
        - Japanese people have put their money in government bonds for years
            - At some point they could decide to move that money elsewhere if the Yen continues to depreciate
        - This is a fluid situation that they worry about
        - The Yen has made Japan much more competitive and thus has hurt its neighbors
        - They have some Japanese real estate that they own
            - When interest rates go down, property values go up
                - REIT valuations have gone through the roof and low rates have brought their portfolio an increase in value
            - They have hedged their Japanese Yen exposure
    - Is there an industry that he will not invest in like Buffett won't invest in airlines?
        - There is nothing he can see right now
        - They just focus on not losing money
    - How do you determine when to exit an investment?
        - Buying can be simpler than selling
        - They sell because things have changed with the management or financial position
        - They also sell to buy something cheaper
            - They usually don't trade and have a long term time horizon
        - They are very conscious about the price and valuation
            - They take profits when the stocks they buy have done very well
        - Selling is difficult
            - Sold ½ their position in International Coal at $7.50 and 6 months later they sold the rest for $14
    - What is his view on the record high profit margins of companies, especially in the US?
        - 2 things have happened in the US
            - Profitability has increased and labor costs/wages have come down
            - In a free enterprise system that does not continue forever
                - You expect regression to the mean
        - The profitability of American companies could come down significantly because of reversion to the mean
            - Businesses and businesspeople are doing well but the people who work are not
                - Median income in the US has been falling
        - How does a bottom up investor incorporate that fear when making investment decision?

        - They just overlay conservatism
            - They don't expect as much growth
            - They want to invest with really good management
        - When prices have gone up, they take advantage of that opportunity and sell
- Could you comment on the prospects on insurance pricing given the increase in capital coming from non-traditional sources such as hedge funds?
    - There are a few ongoing/potential dynamics that will eventually lead prices to go up
        - We had a hard market in the middle of the 2000s so there are reserve redundancies from 2003-06
            - Of the reserves they have today, 50% are from the last 2-3 years
            - So, the hard market years only represent about 10% of reserves now
                - These cushions have just about disappeared
        - Also, now everyone has to renew fixed income investments at much lower rates so dividend and interest income falls
        - Higher prices can come from a change in financial markets where spreads blow out, capital levels fall, and then the other players have to pull back their underwriting
    - Non-traditional financing has always been there
        - If the right set of circumstances take place, all of that pulls back
            - That has been their experience and they don't think that anything has changed
- How should we think about the intrinsic value of FFH?
    - BV is $378 per share
    - Have $784 per share in float
        - They are able to make money on the float
        - The float in their hands is very valuable
            - So that $16B liability might be much less in reality
        - If Andy Bernard is right and they can improve combined ratios, then the float is very valuable
            - That makes the liability worth less and increases BV
        - The float has been a big plus for FFH
    - If we get into a market where premiums are growing, then the float starts to grow
        - In the right environment, they could double the current float
        - The presidents are ready to write a ton more premiums when the market is right
        - There is a virtuous circle when premiums grow and you are able to generate positive investment returns
    - Can also make acquisitions that bring in float
        - They are even willing to buy runoff companies
            - They have an expertise in running off companies
        - They have a reputation of dealing well when they make acquisitions
            - In 27 years they have never changed a deal after the agreed to it
    - Prem thinks the intrinsic value of the company is much higher than the BV
- Is he interested in the National Bank of Greece recapitalization?
    - He can't tell us what he is doing but they look at opportunities everywhere

        - They are really excited about their investment in the Bank of Ireland, for example
            - They bought it because they love the guy who is running it
            - Did not think there is much risk that they could actually lose money
                - They first want to make sure they don't lose money and will follow that in Greece or Portugal or anywhere
    - How has Dodd Frank impacted the insurance markets in the US?
        - Dodd Frank was focused on big banks and insurance companies
            - The state regulations continue to be the most applicable for insurance companies of FFH's size
            - Have good relationships with the states
                - Don't see a whole lot of change there
            - There eventually could be a global regulator created due to what happened with AIG but that is not Dodd Frank related
        - Broadly speaking, the P&C insurance industry was not the source of trouble during the crisis
        - They look at opportunities to buy small companies that may not be able to afford increases regulatory burden
    - How do they manage currency risk?
        - What they do is match as much as they can
            - Their liabilities and assets are generally matched
            - The investment side of FFH works with the operating side
        - They can't match their common equity position in a company, but they can match the insurance assets and liabilities
    - How do they manage tail risk in insurance?
        - Insurance is filled with risk
        - With Zenith, they have very distributed clientele
        - If you have terrorist activity in New York City for example, everyone would take a large hit
            - They just want to be able to survive a huge catastrophe and write business the next day
                - They can handle a Category 5 hurricane in Miami or an earthquake in LA
                    - But 3-4 huge catastrophes in the same year all over the world would hurt the entire industry
    - Has the intrinsic value grown more than the BV over the last few years, despite the hedges?
        - Yes, Prem thinks so
        - You can see it from the float growing and the businesses growing
            - You can see it in the great management team they have
        - Intrinsic value is a subjective number
            - They have their own ideas about intrinsic value but we have to figure it out ourselves
    - Why haven't they bought back shares of FFH as opposed to buying into operating companies?
        - They want to be really sound when they buy back common stock
        - Over their history, they have bought back 25% of their stock
            - They always think first about buying back their stock
        - The depth and scope of their business is also something they focus on
            - Zenith, for example, is a great company and the other insurance companies are learning a lot from Zenith

- They want to be opportunistic in buying back stock—they are very price conscious
    - There will be a day when they buy back a lot of stock
    - But first they will have to have a very strong financial position
- They buy companies when they come up for sale and sometimes that can be better than buying back stock
    - They look for different streams of income