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CORPORATE PARTICIPANTS

Kevin Copeland *James River Group Holdings, Ltd. - Head of IR*

J. Adam Abram *James River Group Holdings, Ltd. - CEO and Chairman*

Bob Myron *James River Group Holdings, Ltd. - President and COO*

CONFERENCE CALL PARTICIPANTS

Charles Sebaski *BMO Capital Markets - Analyst*

Mark Hughes *SunTrust Robinson Humphrey - Analyst*

Brian Meredith *UBS Securities LLC - Analyst*

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

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the James River Group Holdings, Ltd. Fourth Quarter 2015 Earnings Conference Call.

At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to hand the conference over to Kevin Copeland, Head of Investor Relations

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Kevin Copeland - *James River Group Holdings, Ltd. - Head of IR*

Thank you, Karen. Participants in this call should be aware that during the course of the call, James River Group will make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are qualified by the inherent risks and uncertainties surrounding future expectations generally, and may materially differ from actual results involving any one or more of such statements.

James River Group undertakes no obligation to publicly update forward-looking statements as of results of events or developments subsequent to this conference call. For more detailed discussion of such risks and uncertainties, please see James River Group's filings with the SEC.

With that, I would like to turn the call over to Adam Abram, Chairman and Chief Executive Officer of James River Group.

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

Thank you, Kevin. Good morning, everybody. I'm here with Bob Myron, our President and COO, and Gregg Davis, our Chief Financial Officer. And we're looking forward to a good back and forth with you about our results for last year and our prospects for the year that's already begun.

Our aim is to compound wealth for our investors at a superior risk-adjusted rate of return. We're in the 13% return on tangible equity in 2015, broke to a 94% combined ratio, and returned $47.8 million to our shareholders in dividends. Given the totality of the economic environment in 2015 and the low risk profile for our underwriting, we're pleased with this result. We expect another good year in 2016.

We'd like our guidance to shareholders to reflect our financial priorities. Our management team and board are laser-focused on underwriting profit and return on tangible equity. Consequently, our guidance for 2016 is we expect to underwrite to a combined ratio of between 92% and

95%, and to earn a 12% return or better on average tangible equity. We know these are high pars, particularly given our low volatility model for underwriting in the current interest rate environment.

Because we aim for consistently high risk-adjusted returns, our touchstones are profitable underwriting and a strong balance sheet with strong reserves. We look for every profitable opportunity to grow, but the map of the insurance business requires careful and consistently profitable underwriting in order to reliably compound growth for shareholders. Approximately half of our income comes from underwriting profits. This means our management team must be exquisitely sensitive to changes in the risk reward ratios of the policies being evaluated by our underwriters. As in past years, we expect there to be more underwriting profit in the second half of the year than in the first half, given the historical finding of our reserve reviews and releases.

In 2015 and so far in 2016, we continue to be in a favorable underwriting environment. In 2015, we grew gross-written premiums across our company by 10.3%. We enjoyed very strong growth in our E&S segment for the year with a 22% year-over-year growth rate. That growth rate was 4-1/2% in the fourth quarter.

Rates on the E&S business remain attractive and our submission numbers in E&S are growing. However, in the fourth quarter, some competitors were more aggressive in pricing larger accounts. We reacted appropriately, I think. And while we wrote more accounts, our average premium account size decreased in the fourth quarter. We believe our positioning will allow us to continue to grow and to produce strong underwriting results, though it's possible that our E&S units' blistering pace of growth from last year may not be repeated entirely.

Underwriting profits, return on tangible equity, and balance sheet strengths are each more important to value creation than growth. This is because our earnings are far more sensitive to underwriting margin than the premium volume especially in today's low interest rate environment. This is the lens through which we view our 4.5% fourth quarter growth rate in E&S.

In the fourth quarter, 75% of our E&S renewal premium was for accounts of under $100,000 in premium. That portion of our renewal book had a 2/10 of 1% reduction in rates. The rate production for the entire renewal book in the fourth quarter was 1.1%, so rates remain stronger in the small to medium account book where we have the majority of our business. Our average E&S account size in the fourth quarter was $18,243.

Submissions for the E&S segment were up 10% of the quarter, which is the largest quarterly increase we've seen since the second quarter of 2012. Our underwriters called through the submissions to find the best opportunities. Consistent with our focus on underwriting, seven of our 12 E&S underwriting divisions grew in the fourth quarter and five shrank. Our approach, our whole approach relies on broad underwriting expertise applied to real-time market conditions. So, three points about the nature of our growth strike us as worth mentioning.

First, as we grow, the starting point for each measure gets higher. For example, general casualty grew by only 10.9% quarter-over-quarter. But the division wrote 73% more premium than the fourth quarter of 2015 than it wrote on the third quarter of 2014. Second, the energy division, as you might have expected, contracted in the fourth quarter compared to last year. It had been growing year-to-date through September but not surprisingly, the fourth quarter saw some contraction and exposure and [some business risk]. And lastly, as I mentioned earlier, our underwriters found more opportunity in smaller accounts.

We think it's our broad expertise that allowed us to grow in areas where we could reasonably expect to make returns that are proportionate to the risks we are assuming. We're not reliant on any one division with E&S, and our risk appetite and capabilities are expanding. Our discipline and methodology for assessing and pricing risk remains unchanged. We look forward to 2016 with confidence that our long streak of profitable underwriting will continue.

I've spoken at length about the E&S business because it's our largest and most profitable segment. And to use it as an example to emphasize that we are granularly focused on our bottom line as opposed to our top line. Our Specialty Admitted unit also grew very well in 2015 with a 53% year-over-year growth rate including strong growth in the fourth quarter. Our program and fronting business, which is part of the Specialty Admitted segment, has substantial opportunities for growth in 2016.

The Admitted Specialty segment wrote to a 97.5% combined ratio for the year and a 95.2% combined ratio in the fourth quarter. Importantly, the 2015 expense ratio for the Specialty Admitted segment is almost 10 points less than in 2014. Scale is beginning to make a difference in this segment.

Our direct workers' compensation book is getting the best rates we've ever had and is earning strong underwriting profits within the Specialty Admitted segment. We've used those profits for the past three years or a portion of those profits for the past three years to subsidize the cost of [doting] out our program in fronting business. We believe our program and fronting business, particularly our fronting business, is poised for significant growth in 2016. And we anticipate this will become a larger part of our profit picture.

We shrank our Reinsurance business by 17% in 2015 because the current market for reinsurance is soft. While we were happy with our fourth quarter group-wide combined ratio of 92.3%, we were frustrated by our fourth quarter underwriting results and reinsurance where we posted a combined ratio of 108.5%. In fairness to our reinsurance team, their annual result was a 101.4 combined ratio. But in our company, any underwriting result above 100% combined ratio is below par. However, in a measured kind of way, the existence of our small reinsurance operation contributes mightily to our overall returns.

I mentioned capital strength earlier. At the end of the year, 68% of our net reserves are for incurred but not reported losses. This is in line with our history and we're very confident about our reserves. The combination of our good earnings and our confidence on our balance sheet led us to dividend almost 90% of our net income to shareholders in 2015, even as we grew our book of business. We remain overcapitalized as we enter 2016, and we will continue to manage capital assertively. If you've had a chance to read our press release, you'll note that the board voted to raise our first quarter dividend to $0.20 from $0.16 paid last year, 25% increase.

With that, let me ask my colleague, Bob Myron, to take over. Bob?

Bob Myron - *James River Group Holdings, Ltd. - President and COO*

Thank you, Adam. Adam has already commented on our Casualty Reinsurance segment, so I won't add much to what he said, except to note that while we lost $2.6 million underwriting casualty reinsurance in 2015, the existence of the casualty reinsurance segment lowers our group-wide expected tax rate from the mid-30s to the low double digits.

Also, the [seasons] continue to get rate increases on the underlying primary business, up 2% in the quarter and 3-1/2% for the year, which is directionally positive for our proportional reinsurance business, which makes up an excess of 90% of our writing in this segment. Of course, a critical element of our performance is, and always will be, our investment returns.

At the end of 2015, our cash in invested assets totaled $1.35 billion, and our investment portfolio had a weighted average credit quality of A-plus, a duration of 3.52, a market yield of 3.4, and had a small underlying post-tax unrealized gain of $3.2 million. Actually -- let me -- that should be a book yield of 3.4.

We earned $44.8 million investment income in 2015, which was a 3.54% return on average cash and assets. We know there is a lot of interest in exposure of oil and gas investments. As of the end of the year, on a group-wide basis, we had $52.5 million of exposure in this area, which is just 3.9% of our total cash and invested assets. This exposure was only in the form of debt instruments and loans. Thirty-six-point-seven million of this was in 12 investment-grade senior debt securities that had a market value of $35.8 million. The other $15.8 million was in our senior secured bank loan portfolio, which is in eight loans that have a market value of $11.7 million.

In the bank loan portfolio, we have limited exposure to oil and gas production, more of the loans are to service companies. The maturity dates on these eight loans range from 2018 through 2021; none of them matured in 2016 or 2017.

Offsetting our exposure to oil and gas, we have approximately $26 million invested private wind and solar projects. We anticipate earning high single-digit returns in these investments which we have been making since 2011. In 2015, our cash on cash yield from these investments was 12.3%, representing $3.1 million of cash received relative to original investments of $24.8 million.

We have two current and performing bank loans to Puerto Rican power producers, with a total carrying value at the end of the year of $3.9 million. We had received approximately $800,000 in scheduled principal payments on these loans in the quarter. The remaining principal balances are due during 2016 and 2017.

With that, operator, could you please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Charles Sebaski from BMO Capital Markets.

Charles Sebaski - *BMO Capital Markets - Analyst*

Good morning, guys. First question, I guess, on the E&S business, I don't think I heard exactly, kind of on the retention and exposure growth, on where the growth came from in the quarter, I think you've said the book changed, there's smaller premium. I guess, is retention the same, and are you seeing any growth or interest from the standard market coming into this segment?

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

Our retentions were the same as they had been in the prior periods to acknowledge the starting point. And it's really not admitted markets so much that we're seeing, it's that the large account area where we would get some, we would win some large accounts, that's a lot more -- that's become more competitive. So, we wrote more policies. I really think our people did, really, an expert and a great job. Submissions were up 10%, they got their way through and quoted, basically, the same percent of the total submissions and we had about the same hit ratio that is a success ratio on the ones we quoted. We got great rates. We have a smaller average premium because that's where the level of profitability was. Seven divisions, it's pretty widespread. Seven divisions are up five or down.

By the way, that's not unusual for us to see ebb and flow within a growing book where there are certain lines of business that may be some of these very competitive in or at a moment in time. I do think going forward that one thing that we, and I'm sure, others, are looking at, is that in the E&S marketplace, there's been a big shift. AIG has made some large announcements. There's -- they're large parts -- they're large books of business that are going to come out to the market to be repriced. And the portion of those books that fit in our natural wheelhouse, I think we'll get to see our fair share of that and we want to take an opportunity to look at that and it may be an opportunity for us as we go forward.

So, we think the overall market is healthy. Pricing is good, we dove down just a little bit, maintained margins, and we did that across a lot of sections of business. And then the last thing, and it's repeating, but the energy division, of course, is down because [just] exposures are down in that sector of the economy.

Charles Sebaski - *BMO Capital Markets - Analyst*

So, besides energy, which we understand, have the other divisions -- are you still seeing exposure growth like you talked about earlier in 2015? Was the account level growth the same? Or any changes outside of the energy which had its own specific issues?

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

Yes, we are still seeing more in the divisions that grow. We're still feeling the effects of a growing economy, and I think that the -- I personally think that that small and medium-sized business economy is doing better than you would maybe believe if you were glued to MSNBC all day long.

Charles Sebaski - *BMO Capital Markets - Analyst*

Okay. And so, I guess, just finally, just on the Specialty Admitted business, when we should think about fee income or how fee income profiles should look in 2016 given the growth on the fronting business there?

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

You want to take that, Bob, or?

Bob Myron - *James River Group Holdings, Ltd. - President and COO*

Yes. Our -- I would state, generally, our expectation is that it's going to continue to grow. There is -- we're getting some nice, modest growth in the workers' compensation division of that segment. As you know, most of our growth, at least on the gross written premium basis, we expect -- was in 2015, we expect to continue in 2016 will be in programs and fronting. And we think the fee income will increase commensurately, but we're not providing a specific guidance number on what we think that fee income would be. We -- I would just say generally, we do expect it to grow because we expect the top line in that division within the segment to grow.

Charles Sebaski - *BMO Capital Markets - Analyst*

Excellent. Thanks a lot for the answer, guys.

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

Thank you.

Operator

Thank you. And our next question comes from the line of Mark Hughes from SunTrust.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Thank you. Good morning.

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

Hey, Mark.

Bob Myron - *James River Group Holdings, Ltd. - President and COO*

Hey, Mark.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Was the competition kind of a rush at yearend to pick up some business to hit annual goals? Is that large account competition extended here into the first quarter?

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

Well, I can never speak about the motivation of the other, of our excellent competitors, but the fourth quarter was, is a yearend, and it was highly competitive.

Historically, the small and medium-sized market, and particularly that individually underwritten account where we focus, is historically the most profitable part of the business, and we always concentrate there. And then we pick up large accounts, which we love to see, and we write them we can at a rate that we think is appropriate. It not -- that is part of our business that we like a lot, but it not the core of our approach in the E&S business.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Would you say --

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

It always -- by the way, large accounts are always competitive except in certain moments of time.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

All right.

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

But if you think sort of the competitive moment in time.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

So, would you say year-to-date trends are consistent with what you saw the last couple of months of the fourth quarter?

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

You know what, probably so, but I rather wait to see the quarter close out. And the fact that these things -- they move, we only -- we quoting business today that came in 90 days ago. So, it a little early to call a quarter.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Right. The Specialty Admitted business, you made the point that you using your direct workers comp to help subsidize your finance, the growth in the fronting, in the program and fronting business. When did that -- when did you turn the quarter on that?

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

We have. I think we have turned the quarter on that.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Right. The --

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

We expect the program and fronting business to be producing as a standalone on its profitability this year.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Okay. And so, when we look at the, kind of the underwriting income from the Specialty Admitted, it's been moving up a bit, but still kind of less than $1 million a quarter?

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

We've been subsidizing some of the very real, and we think, very judicious cost that we've been putting in to building out our capabilities in that program and fronting side. Still delivering an underwriting profit, by the way, but we've been using some of the underwriting profit from workers' comp --

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Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Right.

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

-- towards the build-out there, and now we think we're getting to a scale where that program and fronting business standalone should be profitable.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Got you. The current year loss in LAE in the Specialty Admitted started out at the year in the 60, and then there -- it looks like there is a seasonal pattern to that. How should we think about the losses for 2016? And will there be a consistent seasonality to that with higher losses recognized in the second half?

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

We're catching up to you there.

Bob Myron - *James River Group Holdings, Ltd. - President and COO*

Are --

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

Go ahead, Bob.

Bob Myron - *James River Group Holdings, Ltd. - President and COO*

Are you asking about accident year loss ratios or are you asking --

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Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Yes, that's right, accident year. And hopefully I'm looking at good numbers.

Bob Myron - *James River Group Holdings, Ltd. - President and COO*

Yes. I would say that we have a, we apply across the group and by the segment, but we attempt to apply a consistent methodology to how we make, how picks are set on current and prior years. And this is a relatively small book of business, as you know, probably about 5% of our overall gross written premiums. And it's going to be subject to variability from -- you can have a situation where you could have a one loss that could make you think differently about your accident year pick in a given quarter given you've got about $8 million to $10 million of written premium a quarter.

So, I don't think that -- I wouldn't read too much into the variability that there has been in the Specialty Admitted segment, I think that we're -- we will seek to and plan to in 2016, do what we have typically done, which is make a prudent and thoughtful accident year pick for, have an expectation that's for the year, and then we're going to evaluate that quarterly as we see loss activity.

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

And, Mark, what I would focus on -- and I understand you're trying to vote out a good model there, but I would focus one of the guidance that we're offering which is 90% through to 95% combined ratio for the year for the entire group. And that's going to have, that's going to have different components as we go forward during the year at various times.

And it's going to be done -- the results will be the result of a consistent methodology, both in terms of the way we price our business and the way we establish our reserves by line of business by unit. And then roll it all the way up to the whole company. But I think the best place to look at is the whole company.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Right. Understood. And one final question, on the reinsurance, more volatility clearly than you had looked for. Can you give a little more, what happened, why might that be less likely to reoccur? Do you think you're going to shrink the reinsurance book again in 2016?

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

I think it'll be my -- I don't think the book, on an absolute value basis, absolute dollar basis, is likely to shrink. It might a little bit, but I don't think it's likely to, but as a percentage of the total, it could shrink. And what happened was that in the fourth quarter, we got some claims in on three accounts that hadn't come before, they just came in, in the fourth quarter and we reflected that in the results.

Mark Hughes - *SunTrust Robinson Humphrey - Analyst*

Okay. Thank you.

Operator

Thank you. And our next question comes from the line of Brian Meredith from UBS.

Brian Meredith - *UBS Securities LLC - Analyst*

Yes, thanks. A couple of questions here for you all. First, Adam, Bob, could you talk a little bit about what we should expect for your renewable energy partnerships here going forward. Is there much of an impact from these lower gas prices? Would that mean that income from that will be down in maybe '16 versus '15?

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

Bob is really deep into that. Let's (inaudible).

Bob Myron - *James River Group Holdings, Ltd. - President and COO*

Yes. The oil and gas pricing should really have no effect on those whatsoever because this is -- does the wind blow and does the sun shine? And in both -- and for these partnerships, generally, there's a pretty tight distribution around the mean in terms of how much power they generate, and then they have long-term power purchase agreements with investment-grade utilities, right?

So, if you think about all of those things, the price of oil and gas, that doesn't only matter when you have a power purchase contract for 20 years that says how much the utility is going to pay for it. So, pre-uncorrelated and, in absolute terms, we really like how these have performed. We like it as an investment class.

Our expectation there is that these are going to earn some alpha over risk-free across the cycle. It's reasonably conservative. So, I wouldn't ascribe a huge yield to that when you make your NII assumption, but it's going to be something -- our expectation is going to be something sort of in the mid to higher single digits.

Brian Meredith - *UBS Securities LLC - Analyst*

Mid to high single digits? I think --

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

By the way, I mean, given the risk and the duration there of these long-term contracts, that mid to high single digits is very attractive. And when the world gets back to some sort of equilibrium, I believe that the equity that we own there will be well-valued, too, because that's a really attractive long-term (multiple speakers) getting and we're getting in current [pay].

Bob, in his comments, made a reference to what the current pay was on the $24 million over the last year. That's a really nice return we got in terms of cash on cash.

Brian Meredith - *UBS Securities LLC - Analyst*

I absolutely agree. Great. I just noticed that there was, that you did $3.9 million versus $5.2 million last year. And I'm trying to understand why it was down, was there something that was impacting that?

Bob Myron - *James River Group Holdings, Ltd. - President and COO*

Yes. I think that there was a -- in the prior year, there was a distribution on one -- we actually sold one of the projects.

Brian Meredith - *UBS Securities LLC - Analyst*

Got you.

Bob Myron - *James River Group Holdings, Ltd. - President and COO*

And so, we had a higher notional amount that we had invested, and then there was the distribution shortly before the sale happened, and that's the reason why you're seeing that number meaningfully higher a year ago.

Brian Meredith - *UBS Securities LLC - Analyst*

Got you. Okay. And then, another quick question on the E&S business. Are we at a stage yet where pricing is below, call it, loss trend plus exposure growth?

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

Not in our book.

Brian Meredith - *UBS Securities LLC - Analyst*

Not in your book? So -- and is part of that due to the kind of mix of business and where the mix is going? Because I notice you guys continue to see some nice improvement in your accident year loss ratios. Is that because pricing exceeding trend? Or is that because of big shift that's going on in the business?

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

Our guys are just doing a really great job of picking their spots. And they're -- we've got -- we really did this idea that we've got a lot -- these 12 divisions, they're all run by experts and then staff by people who have appropriate experience under them, and that we're using a lot of experience and real data to price these risks appropriately that we write a small part percentage of the submissions and that we've got a really rigorous and fair claims process behind that. That's all adding up.

So, our having, I think, very good rates right now. We are -- I mean I made the comment that we're in a pretty positive underwriting environment. It's competitive. But the rate we're getting on the accounts that we do write, it's really pretty attractive from our perspective, and I think that's reflected in our historical and in our current accident year picks. And our methodology for where that pick comes is constant. We just use where that pick lands as a concept methodology. Just -- it breaks out where it breaks out, depends on the mix, pricing, claims arising, a whole host of measures that you know well.

Bob Myron - *James River Group Holdings, Ltd. - President and COO*

And I would add one thing to that as well is that we also have to -- we certainly see the scale benefit of just being the larger, right? So, I mean, the expense ratio in the segment for the year is down 100 basis points to 25.8, which is a compelling level, obviously, for a commercial lines operation. And there is still scale benefit to be achieved with the people and systems and the like that we have in that segment. So, that's another important consideration, Brian, right? That it's not just about pricing relative to loss trends if we can write it with a lower expense ratio. Because of scale benefit, that helps, too.

Brian Meredith - *UBS Securities LLC - Analyst*

Got you. Got you. And then, Adam, just one last question, just with respect to wholesale distribution out there. There have been some transactions going on and stuff. Any potential impact in your business? How are you thinking about that?

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

We really feel very good about deep relations that our E&S leadership and team have with our wholesale distribution. And I think you saw the submissions are up, we're getting more opportunities to quote than we had a year ago same period, so, we're feeling -- I think we feel really fine about that. No --

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Brian Meredith - *UBS Securities LLC - Analyst*

No concerns.

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

-- constant work to make sure that we're servicing our wholesalers appropriately so we help them help their clients. We want to be really great at that and we are appreciative of the work they do with us, but no concerns.

Brian Meredith - *UBS Securities LLC - Analyst*

Great. Thanks.

Operator

Thank you. And our next question comes from the line of Meyer Shields from KBW.

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

Thank you very much. Good morning. Can you -- I guess, Adam, can you talk a little bit about the adverse reserve development within the casualty reinsurance segment [that's] happening? I mean you're bigger in the quarter than we are used to, but I'm wondering what are you thinking you've finally got your arms around it?

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

You know, I'm never one of -- first of all, I think that our overall reserves are completely adequate and strong. And not only do we think that, but that's confirmed by the independent looks that we get for our reserves.

The reinsurance reserving is the toughest part, I think, in some ways, of this analysis because it's the part of your book where you're furthest away from the, really, underwriting of the risk and you have the late reporting. That's what we had here in the fourth quarter. We have some of the lawsuits come in from prior years that we haven't seen before, and they came in, in the fourth quarter and surprised us.

One thing I would note, Meyer, in this is, as frustrating as that was, if you get a chance to take a look at the Reinsurance segment expense ratio because one of the things we have done there is -- and it's the new team that's done this, and they've done it very ably, is the structure of the contracts with our (inaudible) so that the commissioned structure fluctuates with results.

And so, while we had a bad fourth quarter, we'll see a fair amount of that was absorbed through commission slides, and we had a reduction in the expense ratio there. That doesn't answer -- that's not an answer to your question about reserve adequacy. But it's a -- it came to mind because I'm thinking about the fourth quarter results and the structure of that book and the way we try to protect ourselves in the structure of the policies from the fact that we're further away from the risk, and it takes us a little longer to get our arms around results.

(multiple speakers)

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

Last thing I'll say is the first I'll say, the overall reserves are really strong, and we're frustrated by that. We're frustrated by the fourth quarter results in Reinsurance.

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

Now, that's helpful. The expense ratio is actually my next question, so that helps a lot. One last one if I can is just whether the 12% or higher return on tangible equity guidance, does that anticipate any capital management besides the regular common dividend?

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

We haven't made any decision about capital management beyond the first quarter dividend that's been announced, but we are going to assertively, as we always will, managed capital. It does -- it doesn't have a specific assumption in there about that, no. It does not have a specific assumption about the dividends in there. That's a return that we expect to make period.

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

Okay, perfect. Thank you very much.

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

Thank you.

Operator

Thank you. And that concludes our question-and-answer session for today. I would like to turn the conference back over to our hosts for any additional comments.

J. Adam Abram - *James River Group Holdings, Ltd. - CEO and Chairman*

Operator, thank you very much and thanks to everybody on the phone call, and we very much appreciate the support of our shareholders and of the analysts who follow us and we look forward to following up with you and have conversations in the periods to come. Thanks so much.

Operator

Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may now disconnect. Everyone, have a good day.