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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the James River Group Q4 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Brett Shirreffs, Head of Investor Relations, and please go ahead.

Brett Shirreffs - *James River Group Holdings, Ltd. - SVP of Investments & IR*

Thank you, Didi. Good morning, everyone, and welcome to the James River Group Fourth Quarter 2021 Earnings Conference Call.

During our call, we will be making forward-looking statements. These statements are based on current beliefs, intentions, expectations and assumptions that are subject to various risks and uncertainties, which may cause actual results to differ materially. For a discussion of such risks and uncertainties, please see the cautionary language regarding forward-looking statements in yesterday's earnings release and the risk factors of our most recent Form 10-K, Form 10-Qs and other reports and filings we've made with the SEC. We do not undertake any duty to update any forward-looking statements.

I will now turn the call over to Frank D'Orazio, Chief Executive Officer of James River Group.

Frank N. D'Orazio - *James River Group Holdings, Ltd. - CEO & Director*

Brett, thank you for that introduction. Good morning, and welcome to everyone on the call. We have quite a bit of information to share with you regarding our fourth quarter results as well as the meaningful strategic actions that we announced with our earnings last night.

James River took significant steps in an attempt to put our historical prior year development from our casualty unit behind the organization as we look to significantly downsize that business and emphasize our insurance operations. In doing so, we believe we've extinguished our final legacy hurdle and have had our new Chief Actuary completed a deep dive of all 3 operating segments while receiving external validation points along the way. With these actions behind us, our focus is on continuing to leverage the sector's robust underwriting conditions, while we continue to make James River a stronger and more profitable specialty E&S leader.

We have confidence in our group reserve position after confronting legacy issues head on in 2021 with the actions we've taken, including the 2 retrospective reinsurance transactions that we completed in the last several months. On a group basis, our IBNR now represents 64.4% of our total net reserves. This is up from 55.3% a year ago and is the highest level of IBNR at the company since early 2018. I'm pleased with the progress that we've made organizationally while remaining focused on profitably growing our E&S and Specialty Admitted segments.

The reserve actions of the quarter somewhat obscured the fact that our E&S and Specialty Admitted businesses reported strong results in the fourth quarter with combined ratios in the mid- to low 80s and $27 million of combined underwriting profit, excellent results that I want to expand upon.

The E&S segment reported a combined ratio of 82.1% as well as 12% growth in gross premiums. Underwriting profit of $24 million was the second largest quarterly underwriting profit ever for the segment, and that did not include the benefit of any positive reserve release, highlighting the profitability of the business we're currently writing. Growth in E&S was driven by continued strong performance in Excess Casualty as well as Allied Health, manufacturers and contractors, excess property and our small business unit. Our core E&S book grew 14% in the fourth quarter and 19% for the full year. Rates were up 9.5% across the E&S segment in the fourth quarter and 13.3% for 2021. It's impressive that we've now had 2 consecutive years of renewal rate increases in excess of 13%, which is meaningfully ahead of both our view of loss cost trends and the rate increases implied in our loss picks for the year.

The fourth quarter of 2021 represented the 20th consecutive quarter of rate increases for the E&S segment, compounding to 49% over that period and providing confidence in the strength of our loss picks and the margin we're building in the business that we're writing today. For the full year, our overall E&S segment surpassed $830 million in gross premiums, and our core E&S book reached $800 million in gross premiums, which was growth of $130 million over last year or almost 20%. This is an impressive milestone for a business that was $334 million of premium just 3 years ago at the end of 2018. While we've added significantly to the top line over that period, we've done so over some of the best market conditions of this century while remaining bottom line focused. The hallmark strength of our core E&S underwriting expertise is clearly evidenced by our results this quarter.

Turning to Specialty Admitted. This segment had another very strong quarter with gross premium growth of 9% and a combined ratio of 84.7%. Gross fee income increased 27% from the prior year quarter to $6.5 million. Fronting and program premiums were up 11%, which was similar to the growth we reported last quarter. Our individual risk workers' compensation premiums were down 5.5% for the quarter and 10% for 2021 as we remained focused on managing the portfolio prudently in what continues to be a countercyclical marketplace for workers' compensation. Growth in the quarter for our fronting business was driven primarily from existing programs. We continue to have a healthy pipeline of opportunities and wrote 1 new program in Q4, have already found 2 new programs during the fourth -- excuse me, during the first quarter, so we're off to a good start for 2022.

Getting back to the reserve actions of the quarter. As we discussed in our November call, our new Chief Actuary, Dave Gelinne, was in the process of completing reserve reviews for all 3 underwriting segments and what would be his first full quarter as Chief Actuary. While those comprehensive actuarial reviews have suggested no changes in our reserve positions for both our E&S and Specialty Admitted segments, our thorough analysis of our Casualty Reinsurance segment resulted in a $115 million reserve adjustment given the unexpectedly high emergence in 2021, particularly in the fourth quarter.

Despite the history of relatively small but persistent adverse charges from this segment, the magnitude of the development was both unexpected and extremely disappointing. The bulk of the adverse development was driven by less than one handful of cedents and most of the charge emanated from the 2014 to 2018 underwriting years. By all accounts, very different underwriting conditions in today's marketplace.

The underlying coverage of most of these treaties was primary general liability, including exposure to construction and construction defect. To a lesser degree, treaties contributing to the charge also had aspects of premises and financial lines exposures. Actual reported and paid losses in the Casualty Reinsurance segment significantly exceeded expected indications in 2021, particularly in the fourth quarter, causing us to refine several of the assumptions used to determine our best estimate of ultimate losses for this segment.

We responded to the elevated loss emergence by making significant adjustments to our assumed tail and development factors. In particular, we placed significantly more weight on incurred loss development methods, particularly for treaties with exposure to construction operations. Roughly half of these treaties are no longer in force, and those that are -- have undergone significant underwriting and pricing changes as the segment has heavily derisked the portfolio over the last 3 years. We believe those actions are clearly evident in the meaningfully improved loss experience we see in the most recent underwriting years.

After the reserve movements this quarter, our IBNR represents 66% of net reserves in the Casualty Re segment. This is up from 59.2% at the end of the prior year and at the highest level in more than 7 years. In addition to the reserve strengthening, we moved quickly to provide our shareholders additional certainty around the size of the charge and protection against further development for the segment.

We believe that with the legacy transaction that we've just signed covering the bulk of the segment's reserves, we've meaningfully improved the confidence associated with the casualty reserve portfolio as well as our overall balance sheet. Sarah will describe the loss portfolio transaction in a bit more detail momentarily, but I would quickly emphasize 2 points. For one, our counterparty in this transaction, Fortitude Re, is a sophisticated A-rated legacy reinsurer with greater than $4 billion in surplus that we're very pleased to be working with. Secondly, I view the transaction, which is being executed at less than $7 million above our Q4 held reserves as further validation of the actuarial work that we completed in the quarter.

With our reserves for our Casualty Re segment now significantly strengthened and further bolstered by the legacy transaction with Fortitude, we expect to substantially reduce Casualty Re premiums in 2022. I expect we could see a premium reduction of $100 million or so based on our 2022 plan, which is driven by portfolio optimization and profitability, not volume. We do still view the market as attractive given the strength of the rate environment and terms and conditions, but expect to be selective relative to the makeup of that portfolio while deploying the majority of our capital in our E&S and Specialty Admitted businesses.

Before I move on, given the reserve development we are announcing in the Casualty Re segment this quarter and the impact that construction defect exposure has had in driving the charge, I wanted to spend a moment discussing why we have not also seen emergence present in our E&S segment and provide some qualitative rationale for that sentiment. For one, our E&S segment has historically not written large homebuilders or general contractors who construct massive-scale multifamily housing. We also don't write construction wraps either on an owner-controlled or contractor control basis. These structures and programs tend to be vulnerable to latency because they had very long products and completed operations coverage extensions. We haven't written these programs in our E&S segment, but a few of our larger cedents in the casualty re portfolio did underwrite these structures.

So then what do we write? Our manufacturers and contractors' unit in our E&S segment tends to target artisan and trade contractors with average premium sizes of $25,000 to $30,000. And we try to avoid many of the most problematic states for the class. Finally, we write no new residential construction in our small business or contract binding units. Before Sarah provides greater detail, I'd like to comment briefly on capital and the strength of our balance sheet. Moving forward, I'm very excited about our new relationship with Gallatin Point Capital and the $150 million investment in convertible preferred stock they will make in support of our company.

Gallatin is a highly regarded private investment firm, that specializes in investments and financial institutions. Our Board has approved the appointment of Matthew Botein, a co-founder and managing partner of Gallatin Point Capital to serve as a member of our Board, following the receipt of any necessary regulatory approvals. Several members of the management team and the Board have recently spent considerable time with Matt and his colleagues, and it's clear that they view our franchise and our future with the same appreciation that we do. We're very excited to be in partnership with Gallatin Point and have Matt join our Board.

Together with the reserve actions taken earlier in 2021 for our runoff commercial auto portfolio and the legacy solution we announced in September, we believe our balance sheet is strong and very well positioned to continue to support the fantastic opportunities we're seeing in our 2 U.S. insurance segments. In the last 16 months, the company has significantly increased our reserve balance, executed 2 legacy reinsurance transactions to substantially reduced reserve risk, raised meaningful capital and brought on new, experienced, senior management in our actuarial and claims functions, as well as hired a group CEO to provide improved underwriting governance. We have made investments in our technology, updated and improved our enterprise risk management plan and have continued to improve our governance by adding 3 new independent directors to our Board, each with meaningful and impressive insurance industry experience. We've done this while growing the company by 20% over the past year.

James River will continue to be a dynamic and entrepreneurial underwriting organization as we build upon our industry-leading insurance franchises. What we've highlighted in the actions taken since I've joined the organization is the blueprint for how we're going to manage and govern the company. And frankly, there's no turning back.

With the actions that I've taken since joining James River, I see a very bright future for the organization and an opportunity for the company to achieve its earning promise and potential. This is an exciting time for James River.

And with that, let me turn the call over to Sarah.

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

Thanks, Frank, and good morning, everyone. Given Frank's extensive comments on the current quarter, I'm going to focus my comments on a brief review of the operating results and then the transactions we are announcing today as well as capital and guidance. We've made significant progress in strengthening our balance sheet, while our E&S and Specialty Admitted businesses continue to shine.

Last night, we reported a net loss for the quarter of $66.3 million and an operating loss of $67.5 million. As Frank detailed, this is heavily impacted by the $115 million of reserve development in our casualty reinsurance segment. Across the group, quarterly net earned premium growth outpaced that of the year, an increase of 15% on the year and 20% on the quarter. The accident year loss ratio was 66.7% for the quarter and 67.1% for the year. The quarter benefited from strong earnings in both our Excess and Surplus Lines and Specialty Admitted segments.

Moving to expenses. Our expense ratio was 13.9% for the quarter and 23% for the year. The quarter benefited from 6.6 points of slide commission offsets related to the casualty reinsurance reserve additions and the year 1.8 points for the same impact.

Given our performance on the year, we reduced our compensation expenses which had a 2-point impact on the quarter and about a 1-point impact on the year.

Final comment on quarterly operating performance. Net investment income for the fourth quarter was $12.1 million, a decrease of 45% from the fourth quarter of last year and about 20% from the prior quarter. The decline is due to decreased returns in the renewable energy portfolio especially compared to an exceptional quarter for that asset class in the same quarter last year and a decline in assets in the portfolio, given the commercial auto LPT we executed in September.

I'd like to now spend a few minutes on the transactions, capital and 2022 guidance. We are releasing our quarterly earnings a bit later than we typically do as it was imperative to us to complete our reserve work, but at the same time, deliver on the validation and security that we believe the loss portfolio transfer transaction and capital raise together provide. Doing so simultaneously was a critical strategic objective. I note that earlier this morning, A.M. Best released a press release and comment that our ratings, which are A- with a stable outlook remain unchanged following the earnings and strategic actions, we disclosed last night.

Our reserve committee completed and finalized its reserve work in early January. Following Frank's comments during the third quarter call, we began working with Tiger Risk on a potential loss portfolio transfer transaction in late 2021 as our new Chief Actuary completed his work in parallel. We received the final indication on the Fortitude LPT in early February and worked expeditiously with our partner, Fortitude, during February to negotiate the contract that we signed last Wednesday.

As we announced last night, we've entered into a loss portfolio transfer transaction with Fortitude. It's related to the majority of the reserves in our third-party Casualty Reinsurance segment. The transaction will enable us to strengthen our focus on our U.S. insurance businesses while reducing potential future reserve volatility as we shrink our exposure to the reinsurance business. It's been executed by both parties and is pending only regulatory approval for Fortitude.

We will pay $335 million of premium for the $400 million aggregate limit. And of that $335 million, $25 million of that will be in cash and the balance completed on a funds withheld basis, wherein we retain the underlying assets. We expect to recognize an after-tax loss of $6.8 million in connection with the transaction during the first quarter of 2022 and the impact of the 2% crediting rate on the funds with held assets will flow through our expenses.

Adjusting for the $6.8 million expense, which is a consequence of increasing reserves to the inception of the LPT, the transaction will provide us with $65 million of net limit above our held reserves for the portfolio. As Frank mentioned, it will cover the majority of the segment's reserves and importantly, the majority of the construction and construction defects in the portfolio. The portfolio was designed to both significantly derisk our exposure to further emergence in casualty reinsurance and to help enable a transaction during early '22, especially given our accelerated timing. We are very pleased to be working with such a high-quality and A-rated legacy carrier in Fortitude Re.

Second, on the convertible preferred of Gallatin Point. First, a moment on process and strategy. As we work to complete the reserve work and LPT, our objective was to raise equity capital as needed for rating agency purposes but at a premium to market trading price. And our work with Citi enabled us to deliver on this objective. Our capital and ratings are allocated across the group, and I believe it's very unlikely we could have raised less capital to get to maintain the rating outcome that was reiterated this morning.

The Gallatin Point affiliate will purchase $150 million of convertible preferred securities, which will pay a 7% coupon beginning in June. The transaction is expected to close this morning. The securities are convertible at a premium of 27.5% to either the lower of our volume weighted average price of our stock during the 5 trading days preceding our earnings release of last night or the volume weighted average price of our stock from today through March 7. We have an ability to force conversion in 2 years if the stock trades for at least 20 consecutive days above 130% of the conversion price.

Voting rights of the preferred are capped at 9.9% on an as-converted basis, and the conversion price is subject to customary anti-dilution adjustments. We intend to contribute the majority of the proceeds of the capital raise to our insurance operating subsidiaries. I echo Frank's comments in saying that we are thrilled to have Gallatin Point in all of the thoughtful strategic expertise and experience they bring on board.

With regard to capital, we are allowing cash to build so that we can continue to support the operating businesses in a robust environment that we believe has meaningful room to run. As part of this assessment of capital in the event of the past year, we made the decision to reduce our quarterly dividend from $0.30 per share to $0.05 per share per quarter, beginning with the cash dividend declared earlier this month by our Board of Directors. The dividend reflects our current growth profile, which remains robust. We will balance capital with growth opportunities and consider a moderate regular increases annually according to our opportunity set. Our balance sheet and ratings are critical to us.

Our expectation for 2022 is to earn a low double-digit return on tangible common equity across the group with strong underwriting profits in both of our U.S. segments and to grow our tangible book value per share. We believe our franchise, current operating conditions and balance sheet have set up our small account casualty E&S operation to deliver a very strong performance. As mentioned, and also cited specifically in the investor presentation entitled Frequently Asked Questions, which we filed last night, the loss portfolio transfer will have an impact on our income statement. This includes the $6.8 million that we will record as adverse development in the segment in the first quarter of '22, the higher current accident year losses of $5 million and the interest credited on the LPT funds held assets -- funds withheld assets. Together, I believe these will limit the opportunity for the Casualty Reinsurance segment to achieve a profit this year but provide us with significant balance sheet comfort.

With that, I'll hand it back to Frank.

Frank N. D'Orazio - *James River Group Holdings, Ltd. - CEO & Director*

Thanks, Sarah. Operator, I think we can open up the lines for questions from our listeners.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Cullen Johnson of B. Riley Securities.

Cullen Johnson - *B. Riley Securities, Inc., Research Division - Research Analyst*

When we look at the dividend cut, do you think of that as maybe more of a temporary measure? Or is that more saying that capital is kind of highest and thus use is supporting the growth of the E&S book and at a more fundamental shift of your capital management strategy?

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

Thanks, Cullen. We appreciate the question. That's obviously a very good one. We think about our dividend as really rightsized for the growth opportunity that we continue to see. I think that I just kind of go back to my comments there that we expect to, through our Board and our internal processes, look at moving that up annually as part of a regular process. But I'm not expecting significant volatile movements up and down in that.

We think it's almost about a 1% yield. It's rightsized according to the growth opportunity and also is fairly consistent across the board with some of the other folks who have similar business profiles and returns as we do.

Cullen Johnson - *B. Riley Securities, Inc., Research Division - Research Analyst*

Okay. Great. That's helpful. And then we touched on with the Uber loss portfolio transfer, we kind of saw a decline in the size of the investment portfolio and that kind of flowed through to investment income. And we'd see a kind of similar size reduction with the Casualty Re transaction as well?

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

I think it will be a little bit different potentially here because the way this transaction works is most of the assets will remain on our balance sheet instead of going over, that's the construct of the funds withheld on this portfolio. So we'll retain the assets, but we will pay the 2%, otherwise known as 50 basis points a quarter crediting rate on that declining balance of assets. So said a different way, we would expect to have a return on our assets ahead of 2%. So that return would be netted against ideally what would be a slightly higher return than that. So it's not going to be a full transfer and a full give up of all the assets in that way.

Operator

Our next question comes from Matt Carletti of MPS (sic) [JMP] Securities.

Matthew John Carletti - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

Matt Carletti at JMP. First question, I hope that's a question on E&S and just understanding kind of the picture of the accident year loss ratio picture you've been making. So if we look back historically, I think inception to date since kind of beginning of James River fully developed high 50s is probably the profile of kind of where accident loss ratios have gone. And clearly, your booking I think, 67 or so is where this year was or '21 was at least. And Frank, I think you termed it as best conditions we've seen in the century.

So my question is, has anything changed in terms of mix in the book or otherwise, that should lead us to believe that we should look at history as we think about where recent years could go in what you're terming as one of the best pricing cycles in at least people's careers. Or is that more just we have to let the process play out, obviously, and see where the losses develop?

Frank N. D'Orazio - *James River Group Holdings, Ltd. - CEO & Director*

Thanks for the question, Matt. So I would point to your latter part of your commentary there that we're going to be more patient as an organization and let reserve season. I would suggest that our process is fairly conservative in terms of taking a look at the rates that we were able to get on our renewal business in the prior year, look at what is excess of our view of loss trend and have a very contemporary view of what loss trend is by product line and then only accept a portion of that increase when calculating our loss ratios for the following year. So fairly conservative.

If you're looking at maybe the jump between 2020 and 2021. 2020, certainly, we had the reduction in claims frequency of, call it, 20% to 30% on an exposure-adjusted basis. And what I said at the time was we weren't going to assume that, that was the new run rate of the new normal. And so we were going to assume that claims frequency would return to pre-COVID levels. And so that's why you saw maybe a jump between '20 and '21 relative to the loss ratio picks.

Matthew John Carletti - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

Okay. Great. And then just one question on Casualty Re. And I guess the question is, why remain in it at all? I mean I appreciate your comments that you'll shrink the book significantly, expect $100 million to come out. But my question is kind of why remain there at all? Why not just cut it off clean and be core E&S with a fee income fronting business?

And secondarily, if you were to cut it completely, would that at all change kind of capital requirements for the organization? Or would that not have an impact on that?

Frank N. D'Orazio - *James River Group Holdings, Ltd. - CEO & Director*

Sure. So good question. Listen, Casualty Re is in our 2022 plan because we feel, given the market conditions and demand for reinsurance, that we can make money there. If you put the cost of this transaction aside, the legacy transaction aside, we expect to make money in 2022.

Rates in the underlying business for that unit were up, call it, 12%, 13% last year. But our team is not going to be under premium pressure and will significantly shrink the book, as I've kind of outlined in my earlier comments. The action that we have taken there, though, in the quarter, I think, give us more flexibility, so we can be very selective about the business that we write there, continue to monitor our market assumptions and make changes to strategy if we feel they're warranted.

And I guess -- I think the latter part of your question, you were kind of speaking to kind of capitalization there. So one other item. I think we should make clear that our ratings and capital are consolidated across the group. So said another way, keeping our Casualty Re unit as an ongoing concern did not impact the size of the capital raise.

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

That's right. Some of my comments there too, I think that, that -- I don't think not writing that business would reduce the amount reraise maybe just -- if I could just say that in my own words, too.

Frank N. D'Orazio - *James River Group Holdings, Ltd. - CEO & Director*

Agree.

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

Yes.

Operator

Our next question comes from Mark Hughes of Truist.

Mark Douglas Hughes - *Truist Securities, Inc., Research Division - MD*

Frank, what gives you confidence that the bulk of the reserves or the -- yes, I guess your phrasing was the majority of the reserves or bulk of the reserves that you've got the problem handled with this LTP portfolio. How much is still on your books that you have exposure to?

Frank N. D'Orazio - *James River Group Holdings, Ltd. - CEO & Director*

Sure. So let me step back to what I committed the company to during the November call. So I said that we were going to be addressing the casualty reserves after what's been a series of adverse charge. As I said, we do that in Q4. We finished that work in early January. And as I said, we made significant adjustments to our tail and developmental factors and put more weight on the incurred loss development methods that drove the 115 charge that we talked about. But given the company's reserving history or recent reserving history, we wanted to further validate that point and provide some additional certainty to shareholders. So we explore the legacy marketplace with a goal to have something meaningful to announce, providing that certainty with Q4 earnings, as Sarah said earlier.

So our Casualty Re segment, just to give you some background, that reserve portfolio currently includes about 480 treaty participations historically, dating back to when the segment first started running business in 2008. Many of those treaties have long been in active, just relative to claims activity and just not concerning. What we tried to accomplish in selecting the subject business was capturing a majority of the reserves, including our largest treaty relationships and treaties where we've had meaningful reserve strengthening, but also treaties that would capture the most significant exposure to construction classes.

So we wanted a high percentage of the total reserves. We wanted treaties that have driven our reserve strengthening. We wanted to cover concerns with latency or latent exposures like construction defect. And we needed to allow counterparties the opportunity to review a subject portfolio that would allow us to execute a transaction in the time frame that we were talking about, while protecting ourselves from further reserve volatility.

And that's what we believe we accomplished with this transaction. We didn't get the final terms completed from the legacy market until February, as Sarah said. So it really was a separate work stream than the work of our Chief Actuary. So again, just provide another validation point in the quarter. Beyond that, obviously, we went through the capital raise process as well as obviously discussions, as you might imagine with A.M. Best. So we feel we picked up additional validation points along the way relative to the actions that we took. And hopefully, that gives you some sense of how we came to where we ended up on the subject portfolio.

Mark Douglas Hughes - *Truist Securities, Inc., Research Division - MD*

Yes, I appreciate that. Sarah, on the expenses, you've obviously got some one-timers here hitting in Q1, but kind of run rate expense ratio, if you think about the company as a whole and then the E&S and specialty admitted, I wonder if you have any thoughts you might share, there's been a lot of moving parts lately.

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

Sure. And thank you for the question because there have been a lot of moving parts just given the reserve issues kind of related to that as well as, of course, incumbent compensation changes and in various COVID impacts, et cetera. So I appreciate there are a lot of moving pieces.

If I think about it, Mark, and I think about 2022 or kind of go-forward years, in particular, I think that our expense ratio remains at a significant advantage to our competitors. So it's in the mid- to high 20s. I'm going to call it, 26% to 28% on a run rate basis, and we've obviously beaten that pretty significantly this year down to the 23%.

And then within the segments, you saw that kind of manifest through the compensation changes in particular this quarter and some of the commission offsets in casualty re. But I think about the rollout being there around 20% in each of the 2 U.S. segments. Obviously, to the extent Specialty Admitted continues to grow as it has. It's got a nice offset on ceding commissions, et cetera, through the fronting business as does E&S. So that's how those 2 kind of around about 20% or a little bit better numbers could move.

And then Casualty Re, I think that's a low 30s expense ratio, call it, 32-ish percent and it's really hard for it to be any different than that because that's almost entirely different by the ceding commissions on Casualty Re, in particular, even that we've got a very small expense base and a small team there as well. So hopefully, that provides you a little bit of color in context as to how that manifests itself ideally over the next year or so.

Mark Douglas Hughes - *Truist Securities, Inc., Research Division - MD*

Good. That's great. I appreciate that. And then the withheld funds, what's the pace of runoff there if we're thinking about that 2% fee? And then when does that -- is there some trigger at some point of what that shifts entirely over to Fortitude?

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

Yes. Good question. I think it's in the contract that it's in about 5 years, whatever remains there shifts over to Fortitude and the balance. So kind of truncate the funds withheld balance at that point and just return whatever assets remain there. That business will run down -- or excuse me, that balance will run down as the claims are paid. And I think we think about the portfolio and the Casualty Reinsurance segment, in general, is being probably a 3- to 5-year tail. That's obviously a fairly wide range there. But that fits with how we're thinking about the give up of the assets over the 5-year -- after the 5-year period.

So let's assume that runs down in a fairly linear fashion from the $310 million in to whatever could remain 5 years out. And I think the important thing to think about is that, that $335 million, i.e., $310 million is as of 10/1. So as we will continue to pay claims between now and then as well, so it will, in effect, really never be at the $310 million high level. That's a high watermark and it will just go down from there. And therefore, the interest credit, the 2% on that balance will continue to decline over time as well.

Operator

Our next question comes from Tracy Benguigui of Barclays.

Tracy Dolin-Benguigui - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

Let's go back to your dividend cut. You mentioned part of the thinking was reassessing how your dividend yield stacks against other growth stocks. So I guess, help us get excited about your growth prospects because what I saw was that casualty re premium growth outpaced your core E&S book. I know going forward, that's going to be more subdued. But if you could just touch on what happened this quarter and how much more growth we could expect from E&S in 2022?

Frank N. D'Orazio - *James River Group Holdings, Ltd. - CEO & Director*

Sure. Good question, Tracy. Let me start off here. So just relative to Casualty Re first, I think I foreshadowed this likely during our Q3 call. We had less than $8 million in GWP in Q3, but we had several million dollars of treat adjustments and growth in underlying business that was in the double digits millions range as well as some new business in Q4. And so all that, of course, was committed before we said we shrinked the segment and well before the results of our segment reserve review. But just relative to our growth prospects, our core E&S grew about 14% in Q4.

I believe in E&S, we met or exceeded prior year GWP production in all but 1 or 2 months. November was actually one of those months driven by some actions taken on a handful of accounts, basically underwriting actions in 3 underwriting apartments. In our Energy group, we took an underwriting stance in a very large account that ultimately, we nonrenewed. It was a $6.5 million budget hit. That account came to me for a referral and discussion with our segment President, Richard Schmitzer, our segment actuary. In Excess Casualty, we took similar stances on 3 other renewals, just taking underwriting decisions that had about $3 million impact. And then another large win in our commercial auto segment.

So we're -- in our core E&S operation, we're writing policies typically in the $20,000 to $25,000 range. So when you lose those larger accounts, it just has more significant impact. So November production was slightly off, had a little bit of impact on the fourth quarter, but we bounced back nicely in December, and certainly the first quarter looks very robust as well.

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

I'm just going to jump in tie that good color back to the dividend, Tracy, because that was a great question. So just specifically, I think Frank's gone through the dividend -- excuse me, the growth in particular. But I included in my comments, our outlook for 2022 that we absolutely expect to make a low double-digit ROE.

We're getting a great return on our business. So we think it makes a lot of sense to continue to put that capital to work, and that's a big piece of this as well and kind of underlying what we said. If we think we can continue to get that strong return specifically from our highest and most capital-intense business, the core E&S business, I think that we'd like to continue to put that to work and drive those strong and consistent ROEs.

Tracy Dolin-Benguigui - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

Great. Can you also discuss the balance sheet protection affording by your LPT? How did you arrive at $65 million of net limit? I'm wondering how that stacks up relative to your expectations? Was that more than what -- more or less than what you were expecting as you were going through the negotiations?

Frank N. D'Orazio - *James River Group Holdings, Ltd. - CEO & Director*

I don't know that it was more or less per se. Dave completed his deep dive and comprehensive reserve view in early January, that produced the $115 million adverse development charge, which in and of itself is a very significant reserve move. But also as validated by the other strategic actions that we've taken in the quarter.

As far as that LPT limit, we view that as just bolstering kind of the step that we took. And quite frankly, when you're in a legacy market to get a limit that's more than 50% of the charge that you just took based on the premium that we paid for the structure, I mean, it obviously, I think, gives some credence to their view of the reserves as well. So we are very comfortable to tack on, again, like I said, a pretty significant limit on top of that just relative to the $115 million.

Tracy Dolin-Benguigui - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

And then just following up on that. You did say poster reserve actions, our Casualty Re reserves will sit above your third-party central estimate, so how should I think about the $400 million you're carried in that additional cover relative to the central estimate. Could you express that as a percentage of redundancy?

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

We've not disclosed that, Tracy. We -- I think we've been fairly explicit in saying that it's above the central estimate. So we booked $425 million of reserves in the segment this quarter. Those reserves, 66% of them aren't incurred but not reported reserves, and that's meaningfully above where it was last year. So I would just reiterate that our reserves are above the central estimate, but we don't feel it's appropriate to disclose the percentage level there.

Operator

Our next question comes from Brian Meredith of UBS.

Brian Robert Meredith - *UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist*

Sarah, I wonder if you could tell us what the implications are on your tax rate from the kind of big decline here in the reinsurance business? Or do you have any...

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

Yes, sure. I think a couple of things here, Brian. As we think about this, tax rate is related to obviously the decline in the business, but we also have a significant balance of invested assets that remain from unit environment as well. But if I could be just almost a little bit simplistic about it. I think about the 2022 tax rate of being, let's call it, anywhere from 19% to 21%. Obviously, that's dependent on where we make the money and how we make the money when, but I would think about that as a fairly consistent rule of thumb with the year ahead.

Brian Robert Meredith - *UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist*

Great. And then, Frank, I'm just curious, what's the reaction been, I guess, quarter-to-date? And I guess we'll find out over the next couple of weeks of your distribution to all of the issues that have been happening from a balance sheet perspective. The E&S business as well as just willingness of people to transact business with you on the fronting business.

Frank N. D'Orazio - *James River Group Holdings, Ltd. - CEO & Director*

Sure, Brian. So we've been very pleased, quite frankly, with the loyalty and support that we've received both from our wholesale distribution partners as well as our program managers in the fronting business, very supportive. I received a note today from the CEO of one of our largest distribution partners, just kind of congratulating us on this transaction and continuing to pledge support.

I think I've said just relative to the fronting business for those several months where we were on negative outlook from A.M. Best, we didn't lose one renewal within our program space. So really no issues in that regard. Our A- stable rating is very strong and being supported by our distribution partners across the segments.

Operator

(Operator Instructions) Our next question comes from Meyer Shields of KBW.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

So one, I guess, broader one specific question on the Excess and Surplus Lines segment. I guess, the specific question would be, shouldn't some of the older accident years redundancy that Frank didn't use the word rude, I want to put words in your mouth. But you talked about the conservatism relative to history. Shouldn't some of that have manifested itself in the fourth quarter? And maybe more broadly, how should we think about the loss trends that are embedded in Excess and Surplus reserves? And what should we watch to ensure or to monitor that?

Frank N. D'Orazio - *James River Group Holdings, Ltd. - CEO & Director*

Meyer, I just want to make sure I got the first part of your question.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. Basically, we saw, I mean, 17,000, I think, of reserve releases of Excess and Surplus Lines, but the business has decent tail. You talked, I think, very reasonably about wanting to let that mature. I would have thought that some of that would have matured in the fourth quarter just because some of the reserves pertain to older accident years.

Frank N. D'Orazio - *James River Group Holdings, Ltd. - CEO & Director*

Right. So I mean, listen, we feel very confident in the strength of our reserves in the segment. But it didn't manifest itself in a release for the quarter at this point in time. It's not suggesting anything more than that.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. Can you give us a sense as to the maybe overall trends that are embedded in the book?

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

I think I'm going to jump in. It's just -- I think we're getting a funny audio feed here Meyer, but let me just try to address what I think we heard some of the trends in the underlying portfolio. I guess I would say I'll start out and then actually get back to Frank. We got the 13% rate increases, renewal -- rate increases in E&S for each of the last 2 years.

Our loss picks were articulated in design and booked assuming a much lower rate increase in each year than was manifested. So I think you start with that in terms of conceptually thinking about margin. And then I'll let Frank expand upon this a little bit more. I also think about what's in that book, in particular, that we -- no one's immune to social inflation. But with the SMB business that we write, I think it's fair to say that we would have less exposure -- significantly less exposure than some of the larger carriers. So again, that should kind of speak to loss trend going forward. But Frank, I mean, those are some of the things I think about, but...

Frank N. D'Orazio - *James River Group Holdings, Ltd. - CEO & Director*

Yes. So obviously, we're closely watching inflationary trends in the industry in our business. So we talk about it quarterly. We continue to secure rate in excess of loss cost trend regardless of some moderation in rate increases. We also have the benefit of capturing inflation-driven exposure growth when we rate our policies as most of the premium formulas are driven by our revenue metric and roughly another, call it, 45%, 50% of the portfolio is adjustable based on growth in revenues over the policy year.

So we feel there's a little bit of a hedge in there just relative to capturing additional premium that's impacted by inflation. But listen, like the rest of the industry, we'll continue to watch the trends closely and very seriously to determine whether the bottleneck dynamic on demand eases as supply chain issues eventually moderate or if it's something more persistent. But again, we'll watch it very closely.

Sarah mentioned social inflation. We do have the SME focus within the portfolio, which I think shields us a bit because we don't have the large corporate profile. That's not kind of what defines our E&S book, certainly.

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

I think the last piece that -- the last point I would make is clearly just being able to be working here with Frank over the last year, I think there is a real visibility and philosophy and outlook that he's taken on in particular, which is great for our organization in terms of just patients around reserves. And I think you cited that a little bit earlier in a question that he answered, but I would just point to that in particular this quarter.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. And then just a brief technical question. Is the 2% on the funds was held, that can be paid out of Bermuda? Or is it a taxable expense?

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

That will be paid out of Bermuda. That's exactly right, Meyer, and it will be basically -- it won't come -- let me just tell you geographically where it will be. It will basically be let's call that an interest expense or a contra expense. So you'll see -- you won't see it be netted against net investment income. You won't see it being netted against underwriting income, but it will be paid as a fee out of the Casualty Reinsurance business.

Operator

I would now like to turn it back to Frank D'Orazio for closing remarks.

Frank N. D'Orazio - *James River Group Holdings, Ltd. - CEO & Director*

Thank you. I want to thank everyone listening on the call for their time today and for the questions we received this morning. I look forward to speaking with you again in a few weeks to discuss our Q1 results. But I'd also like to express my appreciation for the staff of James River for the countless hours of hard work and effort over the course of 2021.

Collectively, your focus on our corporate objectives and ability to grow the organization by roughly 20% in the current environment has made James River a stronger and more profitable company with a brilliant future ahead. Again, thank you to everyone on the call for joining us this morning and enjoy your day.

Operator

This concludes today's conference call. Thank you for participating, and you may now disconnect.
