Assured Guaranty Ltd. (AGO)
February 26, 2021
Fourth Quarter and Year-End 2020 Earnings Call

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Thank you operator. And thank you all for joining Assured Guaranty for our Fourth Quarter and Year-End 2020 financial results conference call.

Today's presentation is made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

The presentation may contain forward-looking statements about our new business and credit outlooks, market conditions, credit spreads, financial ratings, loss reserves, financial results or other items that may affect our future results.

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If you are listening to a replay of this call, or if you are reading the transcript of the call, please note that our statements made today may have been updated since this call.

Please refer to the Investor Information section of our website for our most recent presentations and SEC filings, most current financial filings, and for the risk factors.

This presentation also includes references to non-GAAP financial measures.

We present the GAAP financial measures most directly comparable to the non-GAAP financial measures referenced in this presentation, along with a reconciliation between such GAAP and non-GAAP financial measures, in our current Financial Supplement and Equity Investor Presentation, which are on our website at AssuredGuaranty.com.

Turning to the presentation, our speakers today are Dominic Frederico, President and Chief Executive Officer of Assured Guaranty Ltd. and Rob Bailenson, our Chief Financial Officer. After their remarks, we will open the call to your questions.

As the webcast is not enabled for Q&A, please dial in to the call if you would like to ask a question.

I will now turn the call over to Dominic.

Dominic Frederico
President and Chief Executive Officer

Thank you, Robert, and welcome to everyone joining today's call.

The extraordinary circumstances of 2020 tested Assured Guaranty's business model, operations and people once again, and we delivered remarkably strong results in a year marked by a public health crisis, an economic crisis, volatile financial markets and a tumultuous social and political environment. We had prepared well for the technological and organizational challenges of operating remotely and safely during the COVID-19 pandemic, and our employees showed the dedication and capability to achieve strong results. Most importantly, we saw the clear success of our efforts over many years to assemble an insured portfolio that would perform well in a severely distressed global economy.

The year's challenges made our 2020 accomplishments all the more impressive:

- Our new business production, totaling $389 million of direct PVP, exceeded by $75 million the direct PVP we produced in every year but one since 2010. The sole exception was the $553 million of direct PVP we produced in 2019, making the last two years' direct production our best in a decade. These strong results contribute to a reliable base of future earnings for years to come.

- In our core business, U.S. municipal bond insurance, we guaranteed more than $21 billion of par in primary and secondary markets and generated $292 million of PVP, both ten-year records for direct production.

- We again set new per-share records for shareholders' equity and adjusted operating shareholders' equity, with totals at year-end of $85.66 and $78.49, respectively.

- During the year, our adjusted book value per share exceeded $100 for the first time. At $114.87, year-end of Adjusted Book Value per share reflected the greatest single-year increase since our IPO, $17.88, and the second highest growth rate of 18%.

- We retired a total of 16.2 million common shares, mainly through highly accretive share repurchases at an average price of $28.23. We spent 11% less in 2020 to repurchase 41% more shares than in 2019. We returned a total of $515 million to shareholders through repurchases and dividends. We also repurchased $23 million of outstanding debt.

- Our Paris-based subsidiary, Assured Guaranty [(Europe)] SA, was awarded ratings of AA by S&P and AA+ by KBRA and underwrote its first new transactions, allowing us to seamlessly continue our continental European operations in the

wake of Brexit. We also transferred a portfolio of transactions insured by our U.K subsidiary to the French company.

- And we successfully integrated our asset management business in its first full year of operations and rebranded it Assured Investment Management.

2020 was a profitable year where we earned $256 million in adjusted operating income, or $2.97 per share.

But our most compelling news in 2020 was our performance in U.S. public finance, where conditions were volatile. The benchmark 30-year AAA Municipal Market Data interest rate began the year at 2.07%, jumped in March as high as 3.37% and bottomed out in August at an historic low of 1.27%. In early spring, investors were shocked by the potential scale of the pandemic's economic impact, and municipal bond funds experienced massive outflows. At that time, few analysts, if any, were predicting that 2020 would see $452 billion of municipal bonds issued, the greatest annual par volume on record. Swift action by the Federal Reserve helped to stabilize financial markets by maintaining short-term interest rates near zero and supporting the federal loan programs. These included the $500 billion Municipal Liquidity Facility, which reassured the bond market by providing a backup source of liquidity for states and municipalities.

Investors returned to the municipal market with a heightened focus on credit quality, trading value stability and market liquidity, all concerns that drive demand for our bond insurance, and investment-grade credit spreads widened significantly for a time, especially for BBB credits. As a result, bond insurance penetration rose to 7.6% of par volume sold in the primary market, almost a full percentage point above the past decade's previous high. Assured Guaranty led this growth, with a 58% share of insured new issue par sold.

The $21 billion of U.S. public finance par we insured in 2020 was 30% more than in 2019 and included taxable and tax-exempt transactions in both primary and secondary markets. The corresponding PVP was up 45% year-over-year.

Many issuers took advantage of low interest rates to refund existing issues, in many cases using taxable bonds for advance refundings. Correspondingly, taxable issues widened the investor base to non-traditional investors, both domestically and international. Many of these investors could particularly benefit from our guaranty because of our greater familiarity with the municipal bond structures and credit factors. We insured $6.8 billion of par on taxable municipal new issues in 2020, up from $3 billion in 2019 and $1.5 billion in 2018.

We also guaranteed $2.5 billion of par on new issues that had underlying ratings in the double-A category from S&P or Moody's, which was $1 billion more than in 2019. While investors had no reason to see default risk in such high-quality credits, many believed the risk of rating downgrades had increased in all rating categories. This gave investors an additional incentive to prefer our insured bonds over uninsured bonds. There are

demonstratable cases where, after an obligor whose bonds we had insured saw its underlying rating downgraded or its credit viewed as distressed, the insured bonds held their market value better than that obligor's comparable uninsured bonds.

The increased institutional demand for our guaranty was evident in 39 new issues, up from 22 in 2019, where we provided insurance on $100 million or more of par. It included one of our largest U.S. public finance transactions in many years, $726 million of insured refunding bonds issued by Yankee Stadium LLC.

Our production in healthcare finance made a strong contribution during 2020, as we guaranteed $2.7 billion of primary-market par on 25 transactions. As the only provider of bond insurance in the healthcare sector, Assured Guaranty wrapped 9.7% of all healthcare revenue bond par issued in 2020. Additionally, we guaranteed $464 million of healthcare par across 39 different secondary-market policies.

Another highlight was our re-entry, after seven years, into the private higher education bond market, where we insured a total of $690 million of par for Howard, Drexel and Seton Hall Universities. For Howard University, we insured two issues totaling $320 million in par and insured par.

Our international public finance business produced $82 million of PVP during 2020, even though a number of opportunities were delayed due to the pandemic conditions. However, the pandemic also had the positive effect of widening credit spreads. We executed significant transactions, including three solar energy transactions in Spain, a student accommodation financing for Kingston University in the United Kingdom, and we have developed a strong pipeline for 2021.

In our worldwide structured finance business, we executed a diverse group of transactions in the asset-backed securities, insurance capital management and other structured finance sectors to generate $16 million of PVP during 2020. Even though pandemic conditions constrained our marketing activities, we were able to lay the groundwork for a variety of potential transactions in 2021.

The efficacy of our underwriting and risk management was evident in the overall performance of our insured portfolio, whose credit quality changed little even as necessary efforts to control the pandemic disrupted the economy. Our par exposure to credits we view as below investment grade declined by $531 million, a 6% decrease, and ended the year at less than 3.5% of net par outstanding.

Our surveillance professionals reacted to the early news of the pandemic by promptly identifying the insured portfolio sectors most likely to weaken and evaluating the vulnerability of each of those sectors' obligations, reaching out directly to issuers in many cases. In general, what we found was reassuring. We have paid only relatively small first-time insurance claims we believe are due at least in part to credit stress arising specifically from COVID-19. We currently project full reimbursement of these claims.

U. S. municipal bonds make up about three-quarters of our insured portfolio and, as a class, they are well structured to protect bondholders, with most of our transactions containing covenants that require issuers to increase tax rates, fees or charges to ensure there are adequate funds to meet debt service requirements, and many also require the maintenance of a debt service reserve fund with up to a year's worth of debt service coverage. Municipalities generally improved their financial condition in the decade since the Great Recession which further prepared them to handle the market disruption caused by the pandemic.

Regarding Puerto Rico, we announced earlier this week that we have agreed to conditionally support a revised GO and Public Buildings Authority Plan Support Agreement with the Oversight Board and other creditors of Puerto Rico and the PBA. As we have said all along, we support a consensually negotiated and comprehensive approach to resolving Puerto Rico's current financial challenges. We have conditionally supported this agreement with the express understanding that the affected parties will work with us - in good faith - to make this agreement part of a more comprehensive solution – one that respects our legal rights and achieves the ultimate goal of bringing the Title III process to a just and expeditious conclusion. We will continue to work diligently and constructively towards a resolution of any remaining issues with the GO and PBA credits, as well as other Puerto Rico credits such as Highway and Transportation bonds, Convention Authority bonds, and others.

This effort is taking place amid encouraging economic news. Significant federal assistance has been unlocked, and Commonwealth revenues continue to exceed the expectations underlying the Oversight Board's fiscal plans, resulting in aggregate Commonwealth balances tripling over the last three years to more than $20 billion at year-end 2020, and reaching as high as almost $25 billion mid-year.

Our total net par exposure to Puerto Rico decreased in 2020 by $545 million, including $372 million of water and sewer bonds that were redeemed without any claims having been made on our policies.

Turning to asset management, our corporate strategy for entering the business was to diversify our business profile by building a fee-based revenue source that complements our risk-based premium revenues utilizing our core competency of credit evaluation. Assured Investment Management also gives us an in-house platform to generate improved investment returns.

Our asset management subsidiary accomplished a number of its strategic objectives during 2020. AssuredIM issued two new CLOs and opened a European CLO warehouse during the year. It also created a specialized investment advisor that launched new healthcare opportunities funds and continued its planned strategy of unwinding certain legacy funds. AssuredIM sold CLO equity positions in those funds to third parties. Even though AssuredIM assets under management in the wind-down funds were reduced by $2.4 billion, its total AUM changed very little – declining by less than 3%, to $17.3 billion.

Assured Guaranty insurance companies have allocated $1.1 billion of investments for AssuredIM to manage, of which almost $600 million was funded as of year-end.

On October 1st, 2020, we were pleased to learn that Assured Guaranty would become a component of Standard & Poor's SmallCap 600 index. We believe there are thousands of passive and active small cap mutual funds and exchange-traded funds that track or benchmark to this index and are therefore likely to hold our shares for the long term. These investors' appetite for our shares was reflected in a 31% increase in our share price in the week following the announcement. Our share price continued to grow, ending the year 44% higher than on October the 1st and almost doubling through February 25, 2021. Inclusion in the index changed the composition of our shareholder base to be somewhat more heavily weighted toward index-focused asset managers, including our second and fourth largest shareholders, which together hold approximately 20% of our shares at year-end.

In times like these, there are no substitutes for financial strength, experience and judgment. These are qualities that have enabled Assured Guaranty to stand the test of time, through more than three decades of market cycles and unexpected economic shocks, and they are attributes that enable us to help borrowers of public finance, infrastructure and structured finance markets, as well as financial institutions, pension funds, insurance companies and retail investors, to navigate the current economy.

We are optimistic about 2021. On the whole, U.S. municipal revenues have fared much better than the market originally feared from the pandemic. They remain under stress, but we believe few investment grade credits will default, least of all those that we have selected to insure. We are confident in the quality of our insured portfolio, our financial strength and our financial liquidity and many investors have a renewed appreciation of our value proposition. As infrastructure spending increases in our markets to address deferred needs and provide economic stimulus, we expect to continue to find opportunities to assist issuers in managing their financing costs. Longer term, we believe 2020 was a pivotal year that is likely to leave a lasting impression of the great value our guaranty provides when something as unexpected and distressing as COVID-19 occurs.

As we continue to work to create value through a thriving financial guaranty business and a growing asset management arm, we will never lose sight of our role as the stewards of capital, where we are committed to manage efficiently to protect policyholders, reward our shareholders and serve our clients.

I will now turn the call over to Rob.

Robert Bailenson
Chief Financial Officer

Thank you, Dominic, and good morning to everyone on the call.

Let me start by highlighting this year's achievements against our long-term strategic initiatives. In 2020:

- We had strong PVP results, particularly in the U.S. public finance sector, which replenished enough deferred premium revenue to offset scheduled amortization and refundings.

- We also retired 16.2 million shares, mainly through share repurchases, which helped to boost adjusted book value per share to a new record of over $114 per share.

- In our asset management business, we increased fee-earning AUM from $8 billion to $12.9 billion, or 62%, across CLO, opportunity and liquid strategies.

- As of year-end 2020, Assured Guaranty insurance companies had $1.1 billion of invested assets that is managed by Assured Investment Management, of which $562 million is through an investment management agreement, and $522 million is committed to Assured Investment Management Funds, which had a total return of 15.6% on the invested balances.

Turning to our fourth quarter 2020 results, adjusted operating income was $56 million, or $0.69 per share, compared with $87 million or $0.90 per share in the fourth quarter of 2019.

The contribution from our Insurance Segment for fourth quarter 2020 was $109 million, compared with $133 million in fourth quarter 2019. While loss expense was higher in fourth quarter 2020, primarily related to our Puerto Rico exposures, our earned premiums and income from the investment portfolio both increased on a quarter-over-quarter basis.

Net earned premiums and credit derivative revenues increased $30 million to $159 million in fourth quarter 2020, compared with $129 million in fourth quarter 2019. These amounts include premium accelerations of $65 million and $39 million, respectively.

Total income from the Insurance segment investment portfolio consists of net investment income and equity in earnings of investees, totaling $94 million in fourth quarter 2020 and $84 million in fourth quarter 2019.

Net investment income represents interest income on fixed maturity and short-term investment portfolio and was $70 million in fourth quarter 2020 compared with $85 million in the fourth quarter of 2019. The decrease was primarily due to lower average balances in the externally managed fixed-maturity investment portfolio, due to dividends paid by the insurance subsidiaries that were used for AGL share repurchases, and a shift of investments to Assured Investment Management Funds and other alternative investments, as well as lower short-term interest rates.

Equity in earnings of investees represents our investment in Assured Investment Management Funds, as well as earnings from our strategic investments. This component of investment earnings is more volatile than the net investment income on the fixed maturity portfolio and will fluctuate from period to period. In fourth quarter 2020, equity in earnings was $24 million compared to a negligible amount in fourth quarter 2019. As of December 31, 2020, the Insurance Subsidiaries' investment in Assured Investment Management Funds was $345 million, compared with only $77 million as of December 31, 2019.

The insurance companies have authorization to invest up to $750 million in Assured Investment Management Funds, of which over $493 million has been committed, including $177 million that has yet to be funded. In addition, the Company has a commitment to invest an additional $125 million in unrelated alternative investments as of December 31, 2020.

As we shift assets into these alternative investments, average balances in the fixed maturity investment portfolio and the related net investment income may decline. However, over the long term, we expect the enhanced returns on the alternative investment portfolio to be approximately 10%-12%, which exceeds the returns on the fixed maturity portfolio.

In the Asset Management segment, adjusted operating income was a loss of $20 million compared with a loss of $10 million in fourth quarter 2019. The additional net loss was mainly attributable to $5 million in placement fees associated with the launch of a new healthcare strategy, and an impairment of a lease right-of-use asset of $13 million related to the relocation of Assured Investment Management's offices to 1633 Broadway, Assured Guaranty's primary New York City location.

Our long-term view of the asset management segment remains positive, based on our recent success in increasing fee-earning AUM by 62%, and launching a $900 million healthcare strategy with significant third-party investment.

In addition, we believe the ongoing effect of the pandemic on market conditions may present attractive opportunities for Assured Investment Management and for the alternative asset management industry as a whole.

Adjusted operating loss for the Corporate division was $28 million in the fourth quarter of 2020, compared with $32 million in the fourth quarter of 2019. The Corporate division mainly consists of interest expense on the U.S. holding companies' debt. It also includes board of directors and other corporate expenses, and in fourth quarter 2019 also included transaction expenses associated with the BlueMountain Acquisition.

On a consolidated basis, the effective tax rate may fluctuate from period to period based on the proportion of income in different tax jurisdictions. In fourth quarter 2020, the effective tax rate was a provision of 12.7%, compared with a benefit of 3.5% in fourth

quarter of 2019. The benefit in fourth quarter 2019 was primarily due to the favorable impact of a new regulation related to base erosion and anti-abuse tax.

Moving on to the full-year results, adjusted operating income was $256 million in 2020, compared with $391 million in 2019. The variance was mainly driven by the Insurance Segment and Asset Management Segment adjusted operating income, which declined $83 million and $40 million, respectively, on a year-over-year basis. Please note, Asset Management full-year results are not comparable between 2020 and 2019, as 2020 includes a full year of operating results while 2019 includes only one quarter as the BlueMountain Acquisition occurred on October 1, 2019.

The Insurance Segment had adjusted operating income of $429 million in 2020 compared with $512 million in 2019. Full-year insurance results were lower primarily due to a large benefit in RMBS exposures in 2019 that did not recur in 2020, partially offset by a commutation gain in 2020 on the reassumption of a previously ceded portfolio.

Net earned premiums and credit derivative revenues were $504 million in 2020, compared with $511 million in 2019, including premium accelerations of $130 million and $130 million, respectively. Also noteworthy is that public finance scheduled earned premiums increased 5% in 2020 compared with 2019.

The Corporate division had adjusted operating loss of $111 million in both 2020 and 2019.

Turning to our capital management strategy, in the fourth quarter of 2020, we repurchased 4.3 million shares for $126 million, at an average price of $28.87 per share. This brings our full year 2020 repurchases to 15.8 million shares or $446 million, at an average price of $28.23. So far in 2021, we have purchased an additional 1.4 million shares for $50 million. Since January 2013, our successful repurchase program has returned $3.7 billion to shareholders, resulting in a 63% reduction in total shares outstanding.

The cumulative effect of these repurchases was a benefit of approximately $29.32 per share in adjusted operating shareholders' equity and $51.48 in adjusted book value per share, which helped drive these metrics to new record highs of $78.49 in adjusted operating shareholders’ equity per share and $114.87 of adjusted book value per share.

From a liquidity standpoint, the holding companies currently have cash and investments of approximately $204 million, of which $133 million resides in AGL. These funds are available for liquidity needs, or for use in the pursuit of our strategic initiatives to either expand the asset management business or repurchase shares to manage our capital.

I'll now turn the call over to our operator, to give you the instructions for the Q&A period. Thank you.

QUESTION & ANSWER SESSION

Operator
[Operator Instructions] The first question comes from Tommy McJoynt with KBW.

Thomas McJoynt, *Keefe, Bruyette, & Woods (KBW)*
Yes. So I just wanted to ask if you could discuss some of the changes around kind of what changed over the past year in terms of the economic conditions of Puerto Rico, or whether it be the terms of the plan of adjustment that led you to join and support this plan support agreement versus not supporting the one back in February of 2020.

Dominic Frederico
Okay. So we support the current agreement. And obviously, these things have a lot of discussion, a lot of consideration. And we look at our legal rights, we look at the timing of litigation, we look at the value of the settlement. The overall recovery rate here is in an area that we find acceptable. However, it is conditioned on further activity and agreement on the transportation, the HTA bonds. Because of the intricacy of the clawback credits relative to funds available for the general obligation of the Commonwealth, there are 2 critical components that we cannot separate. Although we're willing to accept the existing recovery relative to general obligation and PBA, to us it's very important that we get clarity in an agreement on HTA because of the intricacies of the 2 credits.

The one positive note I would say is that the amount of recovery on the GO and PBA bonds falls within our reserve. Obviously, that means we have no financial impairment from accepting the deal as currently structured, but that's got a long way to go in terms of whether it ultimately gets ratified and supported and approved. And as I said, it's still conditional, the HTA credits.

Thomas McJoynt
Right, thanks. And you said it's fully reserved in there. And you can say there wouldn't be any reserve release or kind of incremental, I guess, negative from the recovery from that?

Dominic Frederico
This is a fluid situation. We react to public information. We react to other information that we might have available to us. But as I can tell you, the reserve or the current recovery for PBA and the Commonwealth bonds are within our reserve. In other words, we are more reserved up than obviously what the severity rate for the settlement here is.

Thomas McJoynt
Okay. Great. And I believe it was with one of the other restructuring agreements, with PREPA, that you had the ability to wrap the new bonds and kind of improve your general economic returns. Would you expect that to be the case with the -- either the GO or HTA provided how those negotiations go?

Dominic Frederico
Well, once again, you got to look at the specific terms regarding the new securities and how well protected and whether they're bankruptcy approved, whether they fall onto a true sale remote entity, whether you can assure the cash flows.

The one thing I will tell you, as we look at this, there's a lot of moving pieces, right? And especially, when you think about the GO and PBA, the contingent value security, what its value is, is going to be hard to determine initially. So you've got to take very conservative views of that. But at the end of the day, these type of instruments make the ability to further insure or put our wrap on, et cetera, a little bit concerning. Therefore, we would only do it in very, very specific cases. And right now, in terms of the GO and the PBA, we have no plans to wrap any of that.

Thomas McJoynt
Okay. Got it. All makes sense. And then lastly just...

Dominic Frederico
The crux of your question, we could always make a lot more value in terms of recovery by wrapping it. Of course, it would sell a lot higher value. But at the end of the day, we really need to gauge the behavior of the Commonwealth, its legislators, et cetera, even our own government as to the treatment of creditors, whether you'd ever want to get involved further for any insurance relationship with the Commonwealth.

Thomas McJoynt
Yes, definitely makes sense to evaluate that. And then just lastly, switching over to the Asset Management segment. So I thought you called out a few items in the quarter. So it looks like operating net income, excluding, I think there's about $18 million there worth of items where they're pretty close to breakeven. Do you feel like it's breakeven or something that's going to happen sometime in 2021? Or just kind of what's your outlook for run rate earnings there?

Dominic Frederico
Well, I think we've made tremendous strides in the Asset Management. And although the pandemic probably cost us a year of activity, when you think about specifically what are the critical things we need to accomplish, we need to get rid of the legacy investments that's stuck in the legacy hedge fund. Why? Because we carry expenses related to the continued support and servicing of those specific investments and the rewarding or paying back the LPs to funds that are still remaining there. So that costs us money and time.

Number two, we obviously couldn't launch as many new opportunity funds or new, as said, management solicitation that we would have liked to have done and it affected both our CLO business and the regular flow business. So that's now back on track. And obviously, we had some very positive movements in that area through the end of 2020 and obviously going into 2021.

Number three, we had to sell out more of the CLO equity that was held in the funds because that caused a rebate situation of other funds under management. As we said on the call, the amount of funds under management to which we now can collect fees on is up over 60%. That's a significant revenue changer for us going into 2021. So when you think about getting rid of the expenses for the legacy funds, attracting new funds under management to generate more management fees, converting more of the existing portfolio to fee-earning versus fee rebating, as well as raising new funds in areas of where we think we have expertise does provide us huge optimism and opportunity for 2021. When we try to look at that business now kind of on a quarterly basis, and we expect to achieve profitability in that business by the fourth quarter.

Robert Bailenson
One other thing I want to mention is, just to be clear, the capital placement fees that we disclosed would have to be expensed immediately under GAAP and the earnings from that, obviously, would come in over time, as the new funds are launched and fees become over time. But under GAAP accounting, the capital places and fees have to be expensed upfront. And that's a positive thing because it shows that we're actually growing the AUM and growing new funds.

Thomas McJoynt
Got it. And it's really like just the $13 million piece was more of a onetime kind of non-returns.

Robert Bailenson
That's a onetime item, but you might see capital placement fees in the future, which would mean that we're successful in launching new assets under management.

Operator
Our next question comes from Joshua Esterov with CreditSights.

Joshua Esterov, *CreditSights*
On the demand side, overall, par penetration, it's certainly been elevated, but it's trended downwards over the last few quarters, albeit on a higher asset base. But as we get further along with regards to economic recovery, where do you see insured penetration kind of settling maybe in a post-pandemic type environment?

Dominic Frederico
Well, the interesting thing about penetration, right, is really relies on 3 factors, and obviously, none of them within our control regretfully. So one is spread or what is the view of the credit volatility in the market. So obviously, at the hit of the pandemic earlier in 2020, that was pretty high. And if we saw the demand for insurance spike way, way up towards the early, middle part of the year.

What are the other 2 components that have a huge impact are interest rates and spreads. Although they widen out, they immediately tighten as we got towards the end of the year, except for the BBB that still stayed reasonably wide. So as we think about penetration

going forward, obviously, the numbers have started to go up a bit, and we had a 7% overall -- or a little over 7% overall penetration.

If you break that down, though, and look at the A-rated issuers, that penetration is still way over 50%. You say, can that migrate to a bigger part of the portfolio? We did more AA than we've ever done the current year in terms of wrapping AA securities. I think the trend is positive. But while we still stay in a very low interest rate, almost 0 trade environment with tight spreads, I'd be happy that the penetration is starting to get up towards 10%. If we ever got to a normalized environment and I get tired of saying that because I don't even know what that means anymore, obviously, you could see significantly higher penetration rates, which will drive the strong financial guaranty business.

And as Rob said, in our core business, which is U.S. public finance, the earned premium actually was up in the quarter, which means we're building that portfolio back again. We're seeing growth. The accelerated amortization for refunding slowed down significantly, and therefore, new business writings have now really started to add long-term earnings value to the organization.

Joshua Esterov
I appreciate that. If I could get a second one in here, and I recognize that it's a bit of an unfair question here to ask you to opine on something maybe a little bit outside your control. But what do you think about the likelihood of Puerto Rico's legislature proving this revised PSA?

Dominic Frederico
Well, I'm not going to put on my lawyer hat because it doesn't fit very well. But remember, it seems like the Board has the ability to force the government to follow its requirements relative to achieving the balanced budget. So it's not been tested in court, you have no idea how that ultimately figures its way out. But there's been a lot of back and forth in terms of point, counterpoint. Obviously, we would hope that the Commonwealth, because I think it does support the Commonwealth's long-term aspirations relative to financial stability and growth, they do approve the deal through the legislature. But like anything else, that's still up in the air.

Operator
[Operator Instructions] The next question is from Brian Meredith with UBS.

Brian Meredith, *UBS*
A couple of questions here. First one, Dominic, the $70 million of Puerto Rico-incurred provisioning in the quarter, was that at all related to some of the actions that are happening recently in Puerto Rico? And then just kind of just a follow-on to that. As things progress here in Puerto Rico, should we start seeing that provisioning kind of fall and maybe -- not see any maybe at some point this year?

Dominic Frederico
Well, it depends on how this ultimately settles out, Brian. As we've always said about the reserving policy, right, it follows the GAAP requirement that says you've got to consider all possible scenarios and probability weight them. The current activity in the quarter exactly does that relative to what we see happening. And it also continues to work in the time value of money because the longer you don't get resolutions, the longer you're paying claims, the longer it takes to get a recovery, that discount rate then obviously works against you. So we just reacted to the information that's available.

Because the settlement is so conditional at this point in time, and has got too many other requirements, we've taken no changes relative to the proposed settlement. To make sure you understand what that means: We've taken no changes relative to the proposed settlement because at this point in time, it's too conditional. So therefore, the activity that's in the quarter reflects exactly what we've known in terms of information that was available to us, how we looked at our scenarios and probability weighted them.

Robert Bailenson
And remember, Brian, the $70 million you're talking about is what comes from the income statement, and some of that is embedded losses there in PGAAP. But the economic loss development for public finance, just public finance, was $52 million.

Brian Meredith
Okay. Right. Makes sense. And then the next one, I was just curious, given -- at least, it looks like maybe we've got some progress in Puerto Rico going on right now, and hopefully, we're kind of in an economic improvement as we look forward here. What are the chances now or what are your thoughts around a special dividend out of the insurance ops?

Dominic Frederico
Yes. So that's a good question, Brian. So obviously, special dividends have kind been put aside by the regulators, and you could appreciate the why. Remember, we weren't getting special dividends even with Puerto Rico. So it wasn't Puerto Rico so much, it was more the pandemic. But I think as you look at 2021, we would hope to get resolution relatively to definitely the pandemic and therefore get economies back to a standard activity that makes sense and gets rid of that kind of concern as well as we hope to see further improvement or further advancement on the Puerto Rican front. So if you think about it, if we can get through both of those through the early part of 2021, then I think the opportunity for special dividend increases significantly. Absent that, I don't see an opportunity for special dividends until late in the year, if any. And that, once again, it's going to be predicated both COVID and Puerto Rico -- less Puerto Rico, more COVID, getting some more significant final resolution and municipal economies back on their feet.

Operator
The next question comes from Geoffrey Dunn with Dowling.

Geoffrey Dunn, *Dowling & Partners*
I wanted to get a little bit more understanding around a couple of things. First, Rob, I think you said it was a $5 million hit for those placement fees. Each time you launch a new fund or strategy, are we looking at a similar sort of hit, in which case, can you give us some indication or some guidance in terms of how many new funds or initiatives we could see in '21 or '22?

Robert Bailenson
Well, I can't give you guidance on what we could see in 2022 -- or '21 and '22. But I can tell you that to the extent that we are not consolidating that fund, the GAAP accounting rules will say, if you are using a placement agent and you pay for those fees, you have to -- even though you might pay them over time, you have to expense them upfront. And the earnings for that will come in over time as you raise those assets. So we will disclose every time we have been, and you'll be able to use them in your models. But if, in fact, we do consolidate the fund, then you won't see that -- you see that in the segment, but you won't see that in consolidation because it will come through as a reduction of equity. But for right now, for a fund that we don't consolidate, those placement fees will be a one-time item.

Dominic Frederico
The one thing I will also say, Geoff, is, obviously, we continue to want to expand the Asset Management operation, and obviously, the assets under management as we build more of that in-house, then you'll have less of a situation where you'll be paying placement fees. So the goal is longer term to take this in-house and have our own fund solicitation operation within the company.

Geoffrey Dunn
Right. Okay. And then I wanted to better understand this concept of the conditional agreement. Is it conditional from purely your view and you just voiced that word to PROMESA and Puerto Rico? Is it conditional, understood from both sides and agreeing that it's -- that they're going to work with you? It's fine to say it's conditional from your perspective, but I'm just -- I want to understand if they're actively agreeing to this conditional concept and actively ready to work with you.

Dominic Frederico
I would say it's the latter condition on both sides, Geoff, because obviously we think we're critical to getting any deal accepted in terms of restructuring. We as well as the rest of the financial guarantors, so the MBIA and Ambac, we represent a significant component of the credit balances. I think I've read in some of the information that we're the largest single creditor to Puerto Rico. So at the end of the day, I think our participation is necessary, if not critical. And therefore, they've agreed to the conditionality that if we don't get what we see as proper treatment in terms of the dealing of HTA, then we're out. And if we're out, so does that mean probably MBIA and Ambac's out, makes it a very different process for them, plus in terms of the potential of further litigation and delay, and this is to no one's benefit. Plus, remember, we still have cases in court that are going to be heard. We have the appeal in Boston now, the revenue bonds. I mean, these things all have a huge

impact, direction and motivation for settlement. So I think the conditionality is appreciated on both sides of the table.

Operator
This concludes the question-and-answer session. I would now like to turn the conference back over to Robert Tucker for any closing remarks.

Robert Tucker
Thank you, operator. I'd like to thank everyone for joining us on today's call. If you have additional questions, please feel free to give us a call. Thank you very much.

Operator
This concludes today's conference call. Thank you all for attending. You may now disconnect your lines, and have a great day.