Assured Guaranty Ltd. (AGO)

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Third Quarter 2017 Earnings Call

Robert Tucker – Senior Managing Director, Corporate Communications and Investor Relations
Thank you operator. And thank you all for joining Assured Guaranty for our 2017 third quarter 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.

These statements are subject to change due to new information or future events. Therefore, you should not place undue reliance on them, as we do not undertake any obligation to publicly update or revise them, except as required by law.

If you are listening to the replay of this call, or if you are reading a 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, 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 the reconciliations 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.
In the third quarter of 2017, Assured Guaranty continued to execute successfully our strategic plan of

- market leadership in the municipal bond industry

- developing new opportunities in international infrastructure finance
- executing our alternative strategies in the recapture of reinsurance program, and
- effective capital management

all resulting in per-share records for shareholders' equity, non-GAAP operating shareholders' equity and non-GAAP adjusted book value.

This week, to further advance our capital management program, our board of directors authorized an additional $300 million of share repurchases. From 2013 through November 2, 2017, we have repurchased 41% of the shares outstanding for a total of $2.2 billion dollars, while maintaining our strong claims-paying resources.

Across the entire range of our financial guaranty business year-to-date, the present value of new business production, or PVP, totaled $212 million through September 30, up 64% from the nine months of last year.

Focusing in on the U.S. public finance market, for the first nine months, new issue volume lagged last year's volume by 16%, but the insured market declined by only 9%, resulting in a 16% increase in Assured Guaranty's penetration of the total market. Year-to-date, we insured $9.8 billion of primary-market par sold through September. We also increased our year-to-date market share to 58% of insured par sold, in part by providing $100 million or more of our insurance on each of 14 new issues, totaling approximately $1.9 billion of insured par. For all of our primary- and secondary-market U.S. public finance transactions closed from January through September, PVP increased by approximately 54%.

Turning to the international infrastructure market, we continue to have good market traction with investors and strong credibility in the market generally. In the medium and longer term, we expect infrastructure to be a core part of U.K. government-backed economic growth, and we believe Brexit, more likely than not, will be neutral or even positive for the flow of infrastructure opportunities in the U.K. Nearer term, we expect to find refinancing opportunities in the P3 sector given continued low rates and the proof we have shown the market of our value proposition. We also continue to be active in the secondary market, where we closed transactions in the third quarter involving bonds of a U.K. water company and a euro issuance for a European utility.

As we move forward on diversifying our new business production, we also continue to pursue our alternative strategies. These fall into the following main categories –

- loss mitigation
- capital management
- acquisitions of legacy monolines or their insured portfolios
- investments in asset management firms that benefit from our core competencies and credit experience and have risk profiles in line with ours
- and commutations, where we reassume financial guaranty business we previously ceded to unaffiliated reinsurers.

Commutations not only increase our unearned premium reserve but also may result in commutation gains. In September, we reassumed the entire book of business we had ceded to a major reinsurer and a portion of our cessions to another reinsurer. These reassumptions totaled $3.5 billion of par and resulted in a $255 million addition to pre-tax income in the third quarter and an addition of $62 million to our unearned premiums.

Also in September, we completed our first investment in the asset management field, purchasing a minority interest in Wasmer, Schroeder & Company, a highly regarded, independent investment advisory firm that specializes in fixed-income management. WSC focuses on municipal and taxable Separately Managed Accounts for high net worth individuals, wealth management groups and institutions. It has approximately $8 billion under management and a national presence, with clients in all 50 states.

This alliance is a great strategic fit that capitalizes on the core competencies of both companies, especially in connection with our public finance business, where both companies conduct credit analysis and maintain strong industry relationships. It should raise both companies' profiles among retail investors. We expect to support the continued growth of WSC as it seeks acquisitions of other fixed income SMA investment managers. We have also committed $100 million to an investment account that will be managed by WSC.

We continue to evaluate additional opportunities in the asset management arena that meet our criteria of synergy, attractive ROI and comparable risk profiles.

As for the legacy monolines, a number of financial guaranty portfolios with significant unearned premiums remain available, and we believe we are the most likely party to acquire or assume one or more of those portfolios.

We also continue to execute our capital management program, which includes share repurchases as well as appropriate allocations of capital at the subsidiary level. Our MAC subsidiary's insured portfolio has amortized materially over the last number of years, and to rebalance assets during the third quarter, MAC repurchased $250 million of its own shares from its holding company, which is jointly owned by AGM and AGC. The cash from the repurchase was distributed to AGM and AGC in proportion to their ownership shares. This provides additional liquidity for AGM and AGC to upstream dividends.

Speaking of share repurchases, as of yesterday, we have bought back 11.3 million shares for a total of $451 million this year, and expect to reach $500 million or more by the end of the year.

One thing the third quarter helped spotlight was the potential risk to uninsured bondholders from natural disasters, while on the other hand, if you own bonds we insure, your bonds have maintained strong valuation and you know with certainty that you are going to receive your interest and principal in a timely manner. Time and again, we have seen cases where bonds we insured held their trading value while nearly identical uninsured bonds' valuations declined significantly. This divergence was very evident in Puerto Rico bonds, and it was even more pronounced after Hurricane Maria.

To be clear, Assured Guaranty does not take property or casualty risk. P&C insurers will be injecting money into the hurricane-affected areas as those types of claims are made, as will FEMA and other federal agencies. However, Assured Guaranty does have to consider the short- and long-term economic impacts of natural disasters on municipalities whose bonds we insure. In the past, we have paid hurricane-related claims that provided liquidity when, for example, technical or communications obstacles prevented a municipality from funding a payment. Those claim payments were ultimately reimbursed by the obligors. To date, we have had no claims in Florida, Texas or California based on their natural catastrophes, which has historically been our experience.

Puerto Rico, of course, is a special case. A number of its obligors were already in default when Hurricanes Irma and Maria hit, and some had already sought bankruptcy-like protection under Title III of PROMESA. Given the suffering Puerto Ricans have endured, and continue to endure, restoring water and power, among other things, are the most immediate and pressing concerns, and we support all recovery efforts.

While we continue to be confident that all of our various legal rights are valid and enforceable against Puerto Rico, its Oversight Board and certain of its public corporations, we have withdrawn two of our lawsuits for now. One challenged the use of the Oversight Board's fiscal plan, and the other challenged the failure of PREPA, the electric power authority, to apply pledged revenues to the payment of its bonds. Although we expect to be successful in these cases, there is no reason for any party to expend resources litigating them until the Oversight Board indicates its new plans in the aftermath of the storm and service is restored to all customers of PREPA.

It is encouraging that the federal government has approved a $36.5 billion disaster relief package that, along with help for other locales, includes significant aid for Puerto Rico. We do have concerns about the potential for inappropriate diversions of that aid and call on all responsible parties to maintain strong controls.

One example of this relates to PREPA. We and other creditors have been seeking to exercise our legal right to have a receiver appointed for PREPA, one with substantial experience managing an electric utility. The controversy over the Whitefish contract only reinforces the need for independent, strong professional management. The Oversight Board has now essentially acknowledged this need by asking Judge Swain to authorize a revitalization coordinator "to assume the powers of a chief executive officer at PREPA." While at this point we are still reviewing the experience of the person they have selected, the fact that they are trying to install an independent manager shows that they have recognized the importance of the point we have been making, which is one that we have the legal right to require and were denied.

The new conditions in Puerto Rico give the Oversight Board an opportunity to correct its legal and economic mistakes. The fiscal plan it certified must be reevaluated not only in light of the hurricane damage but also in light of the plan's failure to comply with PROMESA and the laws and constitutions of the United States and Puerto Rico. Especially at this critical juncture, the island should not be bogged down in lengthy and expensive litigation, in which it is unlikely to prevail.

Make no mistake, neither access to the capital markets nor sufficient private investment in Puerto Rico is going to be possible while the board appointed to establish fiscal responsibility on the island supports a fiscal plan that shows little regard for creditors' rights. Additionally, many Puerto Rico bonds are held by individual retail investors in the 50 states and Puerto Rico, either directly or through mutual funds, and treating them unfairly could have broad repercussions in the $3.8 trillion municipal bond market that would raise the cost of all U.S. municipalities' future borrowing. It's important to understand that when municipalities talk about not meeting obligations to bondholders, the people who will be impacted are predominantly U.S. citizens who also are U.S. taxpayers and, as importantly, U.S. voters. Some of our elected officials and their nominees to control boards and other groups seem to ignore this important fact.

The pre-Maria fiscal plan violated PROMESA and thwarted the law's intent by disregarding the lawful priorities and liens set forth in the Puerto Rico constitution, failing to differentiate essential and non-essential services, and elevating virtually all non-debt spending above debt service. Relying on this type of fiscal plan structure is a sure way to eliminate the capital market access that is one of the primary purposes of the Oversight Board under PROMESA.

Puerto Rico and the Oversight Board should take this opportunity to work collaboratively with creditors to reach consensual agreements.

One could argue that, if priorities and liens had been respected and if the PREPA restructuring support agreement had been approved, and an experienced receiver put in to manage PREPA, it would have had access to capital market funds to address some of the emergency recovery efforts and we might not have 70% of the Puerto Rico population still without power.

Keep in mind that our loss mitigation efforts have been highly effective over the years. We helped craft solutions in distressed municipalities that limited our losses while allowing us to assist issuers in returning to the capital markets - and where the outcomes for bondholders were far more favorable than borrowers' initial proposals would indicate. Given our legal and contractual rights, we believe the outcome in Puerto Rico is likely to follow this pattern.

Another credit that has been in the news is Hartford, Connecticut, which has a structural disadvantage because, as the state capital, half of the property in Hartford is tax-exempt. Connecticut recently enacted a budget containing assistance for Hartford, and we are optimistic that the state and city will work together to address the city's long-term financial challenges. We are prepared to work constructively with the city and other stakeholders to help return Hartford to a sustainable financial footing.

We proved the value of our product and the resilience of our enterprise through the most difficult economic decade since the 1930s. Now, with domestic and global conditions improving, interest rates rising and pent-up demand for infrastructure development almost everywhere, we expect steady, long-term performance from our core business. At the same time, we have flexibility to make accretive acquisitions and prudent, profitable investments and to distribute excess capital to our shareholders.

Our success will be based, as always, on our proven, profitable business model and our demonstrated abilities to form a realistic vision of future possibilities, to define strategies for achieving our goals and to execute those strategies effectively. This is how, for three decades, we have built value for our policyholders and shareholders, and it's how we intend to build ever-greater value in the future.

Before I end, I want to acknowledge Jim Michener, who has been our general counsel and secretary of Assured Guaranty Ltd. since our IPO in 2004. Jim has chosen to leave that role at the end of the year, but I'm happy to say that he will continue to serve as my Senior Advisor until the end of next year. Jim has been deeply involved in every important initiative we have undertaken as a public company, and I thank him sincerely for doing so much to help make us the leading financial guarantor during his years as general counsel.

Succession planning is something we take very seriously, and we are fortunate that Ling Chow, who has worked alongside Jim for many years and has superbly led the legal operations of our U.S. subsidiaries as our U.S. General Counsel, is on hand to take on the additional

responsibilities of corporate General Counsel. After 15 years at Assured Guaranty, Ling knows our business and knows the job, and I am proud to recognize Ling in her new role.
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.

Operating income was $156 million for the third quarter of 2017, compared with $497 million for the third quarter of 2016. The results in both periods include significant gains attributable to our strategic initiatives.

This quarter we commuted previously ceded portfolios, resulting in the reassumption of $3.5 billion of par, and $62 million of unearned premium revenue, generating a pretax commutation gain of $255 million, or $165 million after-tax. The third quarter of 2016 included an after-tax gain of $293 million related to the acquisition of CIFG Holdings. Excluding these amounts, the decrease in operating income was attributable to higher loss expense in the U.S. Public Finance sector and lower earned premiums.

Economic loss development during the third quarter of 2017 was a loss of $204 million, primarily due to Puerto Rico. This was offset in part by a benefit in US RMBS resulting from improvements in the performance of the underlying collateral. Increases in risk free rates used to discount losses resulted in a benefit of $6 million, which is also included in economic loss development.

Net earned premiums and credit derivative revenues were $194 million in the third quarter of 2017, compared with $249 million in the third quarter of 2016. The decrease was due primarily to lower refundings and terminations, which were $87 million in the third quarter of 2017, compared with $126 million in the third quarter of 2016.

The third quarter of 2017 had an effective tax rate of 34 percent, compared with 3 percent for the third quarter of 2016. The relatively high rate in 2017 was due to commutation gains in the U.S., and loss expense in the Bermuda companies. The 2016 tax rate was relatively low due primarily to the non-taxable bargain purchase gain from the CIFG Acquisition.

During the third quarter of 2017, we repurchased 1.8 million shares for $80 million, at an average price of $43.29 per share. This brings our total share repurchases to over 79 million shares since the beginning of 2013, or 41% of our outstanding shares. The cumulative impact of these repurchases has contributed approximately $11.48 per share to operating shareholders' equity, and over $19 to adjusted book value per share.

And as Dominic mentioned, the Board of Directors authorized an additional $300 million in common share repurchases, bringing our current remaining authorization to $398 million.

As of October 31, 2017, we had cash and investments available for liquidity needs and capital management activities of $47 million at the Bermuda holding company, and we also had $114 million at the U.S. holding companies.

The successful execution of commutations and continued share repurchases has led to new records for non-GAAP operating shareholders' equity per share and adjusted book value per share of $55.87 and $74.78, respectively.

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

Question-and-Answer Session

Operator
(Operator Instructions) And today's first question comes from Josh Sterling of Off Wall Street.

Josh Sterling – Off Wall Street
So look, I would love to -- obviously, a lot of us are looking at the storm in Puerto Rico, thinking about it as a tragic event both for the folks on the ground and obviously, a sort of challenging event for folks like you and all of the bondholders. You mentioned I think one of the critical moving pieces, and I'd love to get your further thoughts on it, which was the new fiscal plan being put out by the FOMB. There's lots of moving pieces and the first one, and I know one the creditor community was very unhappy about, lower revenue expectations and things like that, as well as the liens and sort of lack of preference that was given to you, with essential services and everything else. What are the big moving pieces that you guys are looking for them to potentially change that you're going to hopefully ask that you make when you go to their public statements? And then from our perspective, what are the big moving pieces of things that you're hoping that will be included in this budget that we should be watching for as we're trying to keep track of this evolving story?

Dominic Frederico – Assured Guaranty Ltd. - Chairman, CEO and President
Thanks for a great question. So, with moving pieces what we're looking for, obviously we've had a problem with the fiscal plan from the first go around of the draft, and then the approval by the control board. We believe that violates PROMESA because it fails to respect the constitutional priorities and contractual liens. So, obviously, first and foremost, we expect to see something that corrects and values those issues specifically in the new plan. Number two, as you're well aware, the constitution provides that the first dollar of government funds goes to the GO bondholders. Once again, that's been a violation. And although there's going to be an argument as to whether essential services have priority or not (it's not clear within the Constitution), there's been no segregation of essential and nonessential services within the fiscal plan as well. So first and foremost, they're going to have to correct that or, if not, we're going to be bogged down in litigation that I believe in the long term really does not assist Puerto Rico whatsoever in its goal of getting financial stability, growing its economy, establishing a fine fiscal base, and to be able to continue with its development and advancement. So that's number one.

Number two, what do we expect? Well, as we understand Puerto Rico pretty well, Puerto Rico requires a significant amount of investment, if it is going to provide an environment to grow an economy and to correct its fiscal policies and procedures. Because a lot of that infrastructure has been damaged significantly, we think it is a unique opportunity that the infrastructure now can drive its growth, and reconstruction will be supported by not only internal funds but now external funds, and specifically through the proceeds of normal insurance, commercial insurance, as well as aid provided by the U.S. government. So although we think in the short term, the fiscal plan should and will be challenged on a revenue basis, we think the growth trajectory coming out of the recovery and restoration should be significantly better than what it would have been with a plan that would rely on specifically internal funding only, to allow for that improvement in development of both infrastructure and economy. So in the short term, we think that the fiscal plan will be challenged. In the longer term, we think it's better. However, in any case, there has to be a recognition of our legal rights or we're right back to court, and we believe strongly in our legal rights and if Puerto Rico wants to continue to pursue basically an illegal path, then they will have that problem to deal with for a very long period of time, which we don't think is beneficial to them.

Josh Sterling
That's helpful. If I could just ask one other question that just a sort of...

Dominic Frederico
You pay for the second question. We only give you one for free.

Josh Sterling
[Laughs] Oh there you go, that's fine. I'm just wondering if you guys can take a moment to walk us through sort of from a layman's perspective, an outsider's perspective, how we should think about your loss accounting? Take Puerto Rico, for example, we -- obviously, financial guaranty accounting is not mark-to-market, and so there's big market implied losses in the bond market. Your guys approach is, as I understand, is you use scenarios to figure out ultimately, what the amount is that you then put into your expected losses in the future, which then roll through your accounting. I'm not hoping to – in respect of everybody on the call, I don't want to go through the details, the weeds of it, but I do think it will be super helpful if you guys would will be willing to help us understand the range of the scenarios you're looking at and how we should think about conceptually your current reserves as they relate to sort of the things that are actually evolving on the island.

Dominic Frederico
Okay. We'll try to keep everyone awake on the call without having to do deep dive through accounting policy, which I will tell you is incredibly complex and quite boring. However, let's address your first concern, which it appears there's always been this issue relative to what is the economic ultimate underlying circumstance, including potential losses versus what is the spot price in the market, and the easiest example I can give you is through the Great Recession, as we had significant exposure to residential mortgage-backed securities, those securities sold in the market for anywhere between $0.25 and $0.35 to the dollar. And the true economic value was substantially ahead of that. We took huge advantage of that by buying back those securities, understanding what the true economic valuation was, which was kind of how we try to get to our reserve. I will let our fine CFO, who is the reserve wizard of all time, give you a little bit more detailed explanation, but you can't look at a spot price against what is an economic impairment because obviously, it ignores a whole lot of other things. There's liquidity demand, there's the stock price, there's market emotion, there's balancing of positions. For every seller, there is a buyer. At the end of the day, we have to evaluate what it is that we're looking at, including our rights, the timing of any potential claim payments, legal ramifications, other what I'll call ancillary impacts of what that specific asset or exposure does for the company. And so Rob, why don't you give a view?

Robert Bailenson - Assured Guaranty Ltd. - CFO
I'm just going to -- Dominic explained the difference between market price versus expected loss under the accounting guidance under FASB 163. And we're required under that FASB to actually look at all possible scenarios and probability-weight those scenarios, and we look at events that occur within the quarter and adjust those scenarios based upon those events. So, if there's some negative event that could affect timing of certain cash flows or there's a negative event that could affect a haircut on certain credits, then we will adjust accordingly and increase reserves. If we see an event in the quarter that is – that actually is a positive event, then you'll see a benefit coming through. And we've stuck to this guidance – that's exactly what we're supposed to do. All of that has been discounted back at the risk-free rate. That's required under GAAP. So that's in a nutshell what we do, and we've been sticking to that. And obviously, if there was no event and no change, you would see no change and loss.

Operator
And our next question today comes from Michael Temple, a private investor.

Michael Temple – Private Investor
A handful of questions but I'll keep them on point. Can you explain to us the current situation as regards the rating agencies and what if any dialogues you have had either proactively or in response to them about any potential for credit review? Again, not implying that they will necessarily take a dim view. But in light of the extraordinary change in circumstances, how they view Assured Guaranty at this time?

Dominic Frederico
Well, two things. One, when you talk about extraordinary change, I'm going to tell you it's not an extraordinary change. If you look at the fiscal plan and what's been the behavior of the Puerto Rican government, illegal as it is, they were paying us absolutely no current debt service. So the fact that there is a hurricane that is causing a tremendous amount of reconstruction and recovery efforts clearly doesn't change very much, in our view, of what is the expected outcome of Puerto Rico over the next 6 to 12 months. And, as I said, I look at it positively that you're going to have a better distribution network for the electric utilities than you have had in the past. You're going to have certain parts of the infrastructure being rebuilt and that should aid in further development of economic opportunities or other asset investments within the country. So I don't look at it as some horrific situation that we're now faced with.

At the end of the day, this control board and this government have dug in their heels and acted illegally, and until we get our absolute day in court, I don't see a real change in their behavior. So, from that point of view, it's not that much of an issue for us and therefore we were fully prepared and, as Rob said, we had scenario analysis that we'd look at these scenarios as possibilities. However, we're still firmly convinced as to what our legal rights are. And, at the end of the day, I believe the court, whether it be the initial court, appellate court or Supreme Court is going to say yes, the Constitution matters of both the United States and of Puerto Rico, and your legal agreements matter, and just like anybody else that has a contract and a legal right supported by a constitution that is due funds, will get those funds repaid under whatever time frame is necessary. Remember, we have a perpetual lien on the net revenues of the electric utility. Okay, let's play. How far is that going to go? So, at the end of the day, I don't see this thing horrifically whatsoever.

Number two, I think the rating agencies have been very public about their view of what the potential impacts are on the monolines, specifically Assured Guaranty, and they all have said they don't believe this will have any impact whatsoever on Assured Guaranty's ratings, financial strength, et cetera, in the market. And if you look at our excess capital position, our liquidity, our earnings stream off of the book of business, for us, this is an issue that we're not happy with. We feel that we've been mistreated, basically illegally and therefore, we’re going to exercise our right. And, thank God, Assured Guaranty is in the financial position that we are, and we have more than the capabilities to be able to manage this throughout the entire process until we get our real day in court.

Michael Temple
Okay. Another follow-up, more operationally. There's been talk in the marketplace again given the low, low prices on many of the bonds of debt for equity solutions. I know we're extremely early in the game, in the process but do you -- is there the possibility that as private capital comes into the marketplace for reconstruction efforts above and beyond P&C funds and FEMA

funds that that's something that you might be involved with? Or just too early in the process to have a meaningful outlook on that specific view?

Dominic Frederico

Well, I think it may be a little too early in the process but more importantly, you have to understand, why wasn't there immediate emergency funds available for the electric utility? Why isn't there other funds being offered? So, the amount of litigation that has been basically filed here is going to tie up every asset, every dollar, every activity of the Government. How do you think you can go out and raise public funds on that basis? Let's say for the sake of argument…you know, I love the conversation around privatize the electric utility. Okay, how does that work? Well with our litigation standing at the ready, whoever is ready to step into that shoe has the real risk that at some point down the road, they're going to lose every revenue of that facility. That what they just privatized is not privatized because we own the right to that revenue, and we don't go away. So, when you talk about those type of things, okay, I'm more than happy to consider anything that moves the ball forward. But, also respects our rights. So, once again, with the litigation that they've now basically brought down upon them, the amount of money, the amount of cases that are going to have to be heard, how long is that going to tie up that government? Before, I used to say a consensual agreement is preferred. Now, I'm going to tell you from a Puerto Rico point of view, it's almost required, because how do they go forward with all the litigation outstanding? Who can possibly expect them to provide anything with any confidence that will have any meaning unless the litigation is ultimately heard and resolved? Number two, who would trust this government to provide any funding whatsoever?

If you're willing to walk away from your Constitution, the laws and the legal agreements that you signed and the promises you made, I'm sorry, I don't go into that kind of environment with an open checkbook.

Michael Temple

Good points. And then kind of the final questions, thoughts I have relating more to financial and capital management. You lay out a very positive outlook despite the gloomy Puerto Rican headlines of how strong your businesses are, especially your international infrastructure, the continued opportunities to regain via commutation and possibly acquisition of portfolios of business that Assured continues to have a very bright future. My question is this. Mr. Market has obviously reacted, we all know why, whether it's an overreaction or a proper reaction neither here nor there. But clearly, the stock is significantly lower. I'm just wondering, would you view, and given your excess capital and positive outlook, would you consider adjusting the method of your buyback? And by that, I simply mean would you love to maybe do a one-off Dutch auction and rather than buying on a kind of daily basis, as you have been throughout the last four years, simply make the determination and say, "you know that we're not necessarily the world's greatest stock pickers, but at less than 50% of adjusted book value, which is where the shares currently trade, you know what, we'd like to try to buy a couple hundred million or more, knowing that on an ongoing basis, we'll be able to replenish a buyback authority"? I just wonder if you could comment on whether that's a possible strategy to take advantage of, with the markets overreaction to the ultimate disposition of what Puerto Rico will be?

Dominic Frederico

Well, I think you kind of hit the nail on the head, right? There's this huge contradiction. At the same time, we're having the best growth in production we've had in many, many years, so we're able to basically have the market accept our guarantee across all the various diversified markets that we serve to the highest extent we've had in a number of years.

And number two, even in spite of all the activity on Puerto Rico, we're still able to execute the alternative strategy of acquiring other portfolios, commuting reinsurance that still continues to move up. What is the true measure of our company, by the way? Book value and adjusted book value. In spite of that, it is at the same time we have this kind of contradiction in terms of the stock price. Well, this reminds me very much of the years 2009, 2010, 2011, where we made substantial earnings, continued to build a very strong balance sheet, and yet the market rewarded us with an ever decreasing stock price.

Capital management is a dynamic process that gets evaluated every day, and we will continue to look at all opportunities, and all potential differences or strategies, that we can deploy. But, like I said, let's think of the fundamentals, the business is growing better than it has ever grown. We're being used across all markets that we serve. We continue to execute the alternative strategies. That people are still willing to do these transactions even in spite of the overhang of Puerto Rico. And yes, would I want to see higher stock price? Absolutely. But, much like in 2010 and 2011, I can't by myself, or us as a company, do anything about it other than to continue to execute our strategies, which we believe has been incredibly effective. As we mentioned at the beginning of the call, we've already retired 41% of the outstanding stock in this company. Show me another company that's put the earnings together we've had, maintained the financial strength that we have, has our funds and resources and still managed to retire 41% of its outstanding shares. Either you have faith that you know what you're doing or you don't. But at the end of the day, we have a strategy, we will continue to evaluate that strategy, and we will execute that strategy in what we believe is the best interest of our shareholders.

Operator
(Operator Instructions) Today's next question comes from Peter Troisi of Barclays.

Peter Troisi - Barclays PLC, Research Division - Director and Senior Analyst
As you think about M&A options, where do you see more opportunity? Is it just to further consolidate the monoline space or opportunities more, say, on like the investment management side similar to the Wasmer acquisition that you recently announced?

Dominic Frederico
I think the opportunity is on both sides, and that is a very interesting place for us to be. Obviously, on the monoline space, we continue to make further investments, in that we continue to have success in executing these transactions. Obviously, we've always talked about consolidating the industry's valuable portfolios that are out there. We had seven competitors, we bought in effect three and a half of them. We are now assuming portfolios from some of the others, or at least attempting to. That's been really valuable to us, and we will continue to do that. And as you've seen in the past, they've been incredibly beneficial both on a capital basis and on an earnings basis. However, in the same token, Wasmer really helped to continue to expand our relationships and our presence in the retail market, which has become a bigger buyer of the municipal securities in the past, and it is a market that we are now focused on very specifically. We still want to put a diversification business into the company that exercises our same risk profile, operates among our core competencies and provides, once again, a positive accretion in terms of the benefit of the financial transaction that we're planning. We believe that this also increases value, provides a fee base of income – as opposed to risk capital – and utilizing very little capital creates capital for us down the road. And that is also full of opportunities, as we continue to examine companies in that space, we continue to do due diligence, invest in dialogue and hopefully, we will be able to execute further in both strategies throughout the remainder of this year and next year.

Operator
And our next question today comes from Geoffrey Dunn of Dowling & Partners.

Geoffrey Dunn - Dowling & Partners Securities, LLC - Partner
I know you only have 24 hours, but can you give your initial thoughts on this tax reform proposal? And what it might mean as currently written for your company and the Bermuda platform?

Dominic Frederico
We don't see the…the first thing on the Bermuda platform is really about whether we go to a territorial tax system or not. I have not really seen anything that addresses that, Geoff, other than the reduction of the rate. And remember, if this is done in reconciliation, you have to be concerned as to the permanency of it. And therefore, if you make a decision today that you cannot reverse, and this is reversible, you have to think about it in those terms.

In terms of the current proposals that I've looked at, it really should have a positive effect, if you really think about it, on the municipal business. You'll be losing the alternative minimum tax, you're leaving the upper tax rate at the same level. I think the demand for tax-exempt securities should be as good, if not stronger, going forward. So on the corporate side, we really need to understand the impact of territorial tax, which might be lower than the overall corporate tax. And remember, if you look at our taxable income, we have the ability to repurpose it. Our income is split, right? 50-50, between investment income and underwriting income off the premiums that we write. The investment income can be tax-managed through the investment in municipal securities. So that gives you a little bit of benefit there; that doesn't help us or doesn't make a huge difference. The territorial tax may be a huge difference when we consider the structure of Assured and, as I said, with the top tax rates still maintained at 39.6%, the demand for tax-exempt securities will still be strong.

Robert Bailenson
The other thing that came out, Geoff, is the effect of reinsurance from an affiliate, and that's something that we're looking at closely because obviously, if they're going to limit the deduction from reinsurance that you have from the U.S. company to your affiliate, that would have a negative impact on how much you could cede down to AG Re, and we would evaluate that, but that's what's we've currently been looking at in the plan. But the 20% corporate rate obviously, on a company basis, we have a significant amount of income in the U.S., it would be very beneficial.

Geoffrey Dunn
There's a trade-off. Your U.S. operations would drop and you could have an excise tax and I'm not sure whatever the alternatives are. Okay.

Robert Bailenson
Correct.

Geoffrey Dunn
The other question I have is in terms of the existing process with Title III, I think the Judge offered a delay and the Commonwealth basically said no, no, don't give us that. Only 4 weeks. Where is the process? Is the process just on hold indefinitely right now? Or is there actually a time line that's still in place where the process resumes?

Dominic Frederico

What process are you talking about, Geoff? Mediation? Litigation? Fiscal Plan? Which one?

Geoffrey Dunn
I think it has to do with document submission with respect to the Title III process.

Dominic Frederico
Well, I don't think anything happens. The time frame is now for the fiscal plan to be drafted – at least it gets subject to somebody reviewing it in December, with a final view that it would be voted on and passed by the control board in February. I think everyone is going to step back until then and sort of see what that thing looks likes. In response to the earlier question, if that starts to respect some level of contractual priorities, constitutional priorities, contractual liens, I think that could have a dramatic impact.

Obviously, mediation has not been official, but there's been unofficial meetings going on in terms of trying to get some level of consensus. This is a very complex issue and the hurricane has definitely caused this delay but, as I said, I'm not as pessimistic or concerned about the hurricane delay as to what its impacts on us is and until they start to put some real information out to the public. The other problem we've always had is, they've not really disclosed a lot, and we've been complaining to the judges in the mediation that we still have no transparency about this government, including what's going on today. We know they reported a lot of cash. They're using obviously some of that relative to the recovery efforts, and we understand with the devastation that Puerto Rico has experienced, they really need the time to rebuild and get the poor citizens of that country back with basic services. And I can't imagine what it has to be like to not have power for six or seven weeks. In some cases, not even have water. So that let's get that resolved, first and foremost. Let's support the recovery efforts. We as a company support the recovery efforts. We think that has to be the most important job for them, and then we'll get back to the hemming and hawing and scratching clawing when the time comes. But at this point in time, we're waiting for the fiscal plan.

Operator
And our next question comes from Harry Fong of MKM Partners.

Harry Fong - MKM Partners LLC, Research Division - MD & Senior Analyst
Yes. Just a quick question regarding the share repurchase program. How do you intend to fund the current $400 million? I know there is some liquidity at the holding company right now, and you do have additional asset activities from the opcos. But will you supplement all of that with another special dividend request to the regulator?

Dominic Frederico
Harry, I think we've been pretty clear that the operational cash flows that are available kind of annually to dividend up would create a buyback opportunity of around $300 million. And therefore, for us to maintain our goal on that kind of a rolling 12-month basis – to be able to affect capital by about a $500 million number – we realize and have agreed that we would have to request special dividends annually. As you know, we requested one last year. We got it. We've been clear that we would request, and have requested, one for this year, and we expect that to be a normal part of our process in the capital management program.

Operator
And ladies gentleman, this ends our question-and-answer session. I would like to turn the call back over to the management team for any closing remarks.

Robert Tucker - Assured Guaranty Ltd. - Senior MD of IR & Corporate Communications
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
And thank you sir. This concludes today's conference. We thank you all for attending today's presentation. You may now disconnect your lines. Have a wonderful day.