Assured Guaranty Ltd. (AGO)
August 8, 2019
Second Quarter 2019 Earnings Call

Robert Tucker
Senior Managing Director, Investor Relations and Corporate Communications

Thank you operator. And thank you all for joining Assured Guaranty for our second quarter 2019 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 contains 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 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, SEC filings, most current financial filings, and for the risk factors.

The 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., Rob Bailenson, our Chief Financial Officer and Andrew Feldstein, CEO and CIO of BlueMountain. 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 second quarter was very successful for Assured Guaranty with $141 million in non-GAAP operating income, new highs in key shareholder value measures, substantial new business production, and a milestone in our efforts to diversify our revenue base and intelligently deploy our excess insurance company capital through the execution of one of our strategic objectives. I'll let Rob give you the details about our earnings results and our continuing share repurchase program in a few minutes.

I'll start with the news we released yesterday: We have taken a significant step forward in our strategic execution by adding an asset management component to our overall business operations. This will diversify our revenue sources with fee-based income and provide an additional engine for growth of profits and free cash flow.

We accomplished this by investing some of our trapped excess capital in a seasoned alternative asset management company whose core competencies and credit culture are compatible with ours, and where the likelihood for attractive returns is high. We have agreed to acquire BlueMountain, a highly regarded asset management firm with a scale that can provide meaningful returns to Assured Guaranty.

BlueMountain has extensive experience evaluating credit and managing investments, and it is recognized as a top-tier CLO manager. We can leverage its sophisticated infrastructure to facilitate future acquisitions in the asset management sector, and we see credit and capital market synergies with our existing financial guaranty franchise in a number of areas, such as CLOs, asset-backed finance, infrastructure and healthcare.

BlueMountain's top management will join Assured Guaranty not only to continue running BlueMountain, but also to lead Assured Guaranty's alternative investments strategy. BlueMountain's CEO, Andrew Feldstein, who is also a co-founder of BlueMountain and its current Chief Investment Officer, will become Assured Guaranty's Chief Investment Officer and Head of our Asset Management business, bringing his leadership, experience, investment acumen and enthusiasm for building the asset management component of our business strategy, as well as oversee the management of the overall Assured Guaranty investment portfolio. Andrew will join us later in the call and be available in the Q&A.

Under the agreement, we will be purchasing for approximately $160 million all of the outstanding equity interests in BlueMountain Capital Management, LLC and its associated entities, subject to certain customary closing conditions and regulatory approval. We will also contribute $60 million in working capital to BlueMountain at closing, and we expect to provide an additional $30 million of working capital within a year after that. Additionally, we expect to invest $500 million in BlueMountain funds, CLOs and separately managed accounts over a three-year period. We anticipate a fourth quarter closing.

We intend to fund the acquisition with loans from AGM, MAC and AGC, subject to regulatory approval. This approach allows us to put capital in our insurance companies to work supporting the asset management business, without using our dividend capacity or a special dividend.

And we expect that having BlueMountain manage $500 million of our investment portfolio will result in higher investment income, which should lead to higher dividend capacity for our insurance subsidiaries in the future. I should note that S&P recently updated the bond insurers' investment portfolio capital charges to the same charges it applies to property and casualty, life and other insurance companies. This opens up a broader range of investment options for us, with more favorable capital treatment from S&P. Remember, previously under S&P rules any investment rated below A incurred a 100% capital charge. As structured, we expect the transaction to have no impact on our financial strength ratings. And as I mentioned, we plan to continue our current share repurchase program, and yesterday our board approved an incremental $300 million in share repurchases.

Turning to second quarter production, both the municipal bond [insurance] industry as a whole, and Assured Guaranty in particular, performed well in comparison with last year's second quarter, even though overall conditions in U.S. public finance were extremely challenging. The total par volume of second quarter municipal bond issuance declined approximately 5%, and the increased demand for tax-exempt bonds caused by tax reform has actually driven rates down in our principal market, as investors reportedly poured a record $47 billion into municipal bond funds during the first half of this year.

The second quarter also saw 30-year AAA tax-exempt yields decline from 2.60% to 2.31% and the spread between the 30-year single-A and triple-A GOs shrink as low as 37 basis points at quarter-end. That spread was never above 43 basis points during the quarter, compared with an average of 53 basis points during 2017 and 2018. The second quarter saw the tightest credit spread environment since the financial crisis, which eliminated some transactions that might have benefited from insurance if interest rates were higher and spreads had been wider.

In spite of this challenging environment, municipal bond insurance was still used on 6.9% of total par and 17.9% of the new issues sold in the second quarter. Compared with last year's second quarter, the use of insurance increased, with the total par volume of new issues sold with insurance rising 13% and the number of insured transactions up 38%. Those increases were driven mainly by Assured Guaranty's performance, with our par volume up 27% to $3.7 billion, representing a 60% share of the insured par volume and our deal count rising 59% to 260 new issues.

Our performance looks even better when you consider the 186% increase in the par we insured in the secondary market, where we capitalized on attractively priced opportunities. When you include our secondary market business, our total U.S. public finance par volume exceeded $4 billion in the quarter.

And yesterday, by the way, we guaranteed a $700 million portion of an issue by CommonSpirit Health, our largest public finance transaction so far this year.

In the international infrastructure market, we continue to see growing interest in our product. In the United Kingdom, we executed a £50 million pound Scottish housing association transaction during the second quarter. And last week, we announced our guaranty of a £124 million pound student accommodation financing for the University of Leicester. We expect the UK market to continue providing opportunities, including both new-money issues and refinancings and our international strategy also continues to emphasize diversification into a variety of national markets.

During the second quarter, we wrapped the first guaranteed solar energy transaction in Spain, a €207 million refinancing of nine solar energy plants. This is the largest renewable energy transaction that we have guaranteed anywhere and we are optimistic about additional transactions in the solar sector. The transaction was privately placed with both European and South Korean investors.

In the Australia/New Zealand market, we have signed an exclusive co-operation agreement with DTW Capital Solutions, the Sydney-based independent arranger and advisor which we developed a strong working relationship with collaborating on last year's Port of Brisbane transaction. We believe DTW's experience and relationships in its home market will help us expand the use of our guarantees in a market where there is a significant need for long-term financial solutions.

In global structured finance, the highlight of the quarter was a secondary market guaranty of a $208 million middle market collateralized bond obligation, which was purchased by a European asset manager. We have been fielding numerous inquiries regarding CLOs and are focusing on educating potential investors about the benefits of holding investments we guarantee. We believe we have tapped only a fraction of the potential business where we help financial institutions and insurance companies manage their capital efficiently. We also anticipate more opportunities in the life insurance and aviation sectors. During the third quarter, we closed a significant insurance reserve transaction.

Across all three financial guaranty product lines for the first half, we generated $96 million of PVP, and in the third quarter so far, we have added another $65 million of PVP, with significant contributions from each of the product lines. A strong start to our third quarter.

Central to all of our financial guaranty businesses is our financial strength, and the rating agencies recently offered additional confirmation of that strength. In June, S&P affirmed the ratings of all of our insurance units at AA with a stable outlook. S&P does not publish a figure for our excess capital under their AAA depression stress model, but we estimate it was approximately $3.2 billion as of December 31, 2018 under the criteria used in their June report. This is $400 million higher than our December 31, 2017 number of $2.8 billion, despite our capital management program and the continued payment of Puerto Rico debt service claims. S&P has subsequently come out with new bond insurer rating criteria, which includes the more favorable capital charge treatment of our investment portfolio that I mentioned earlier. The new S&P criteria will also improve the capital charge treatment of our hospital transactions. We are confident the updated criteria will not affect our ratings or our outlook at S&P.

And recently, Kroll Bond Rating Agency affirmed its AA+ rating of MAC, our U.S.-only municipal bond insurance platform that primarily provides insurance for small- and medium-sized municipal bond issues. The outlook is stable.

Lastly, A.M. Best last month affirmed its A+ rating of AGRO, the Bermuda-based subsidiary responsible for our aviation residual value insurance business and some of our structured solutions for the insurance industry.

In the quarter, we saw some progress in Puerto Rico. A highlight of the second quarter was the restructuring support agreement for the debt of the electric power utility PREPA, which I discussed on our last call. This can now be the basis for an acceptable plan of adjustment that will allow PREPA to focus on the reforms necessary to develop a 21st century electrical system, one that the people of Puerto Rico can trust. This is an important opportunity for Puerto Rico, and we look forward to the RSA receiving the necessary approvals to go forward.

At the same time, we saw that the economic recovery has been coming faster, and stronger, than the Oversight Board forecasted. Even after multiple more optimistic revisions, the projections the Oversight Board used as a basis for its fiscal plans continue to understate the true strength of the Commonwealth's revenues. That should be seen as good news for everyone.

Anyone who follows the news is aware of the uproar created by the public exposure of the blatant cronyism, cynicism and corruption in Puerto Rico's political arena. In the midst of this political disarray following the governor's resignation, the Title III court has had the good judgment to send a number of bond disputes back into mediation, which has halted the Oversight Board's attempt to steamroll acceptance of an unfair G.O. restructuring agreement negotiated between the board and a small number of G.O. creditors that purchased their bonds at deep discounts. This could be a watershed moment when Puerto Rico's decision-makers, including the Oversight Board, as well as Congress, see that the problem in Puerto Rico is not a lack of funds to pay constitutionally protected creditors, but a lack of recognition that recovery and stability are best, and most quickly achieved, by respecting and following the rule of law. It is time for thoughtful negotiations that put an end to the ongoing, time consuming and expensive legal battles and the return to the rule of law.

Lastly, I want to highlight how we have executed on our four principal strategies so far this year. In new business production, we performed well in one of the worst interest rate environments we have had to deal with, and we demonstrated the wisdom of our strategy to operate in multiple domestic and international markets. In capital management, we continued to increase shareholder value by repurchasing $248 million of common shares through August the 7th. In our acquisition and alternative investment strategy, we came to agreement on our most important alternative investment to date, one that should increase the value of our company and diversify our revenue sources. And we furthered our loss mitigation strategy by continuing to recover structured finance losses and by reaching important restructuring agreements in Puerto Rico while defending principles important to well-functioning financial markets.

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.

First, I would like to say that we are very excited to acquire BlueMountain and welcome Andrew and his team to the Assured family. We have a long history of creating shareholder value by executing our strategic initiatives, and we expect the BlueMountain acquisition will be accretive to earnings per share and ROE beginning in 2020.

In the second quarter of 2019, we posted strong operating results and once again reached record high non-GAAP operating shareholders' equity of $63.48 per share, and adjusted book value of $88.67 per share.

Non-GAAP operating income in the second quarter of 2019 was $141 million, or $1.38 per share, compared with $74 million, or $.66 per share in the second quarter of 2018. Operating income increased compared with the second quarter of 2018, mainly due to lower loss expense and higher net investment income in the second quarter of 2019, as well as a commutation loss from the Syncora transaction in the second quarter of last year. These increases were partially offset by lower net earned premiums and a higher effective tax rate.

Second quarter 2019 loss expense was a benefit of $1 million, compared with an expense of $45 million in the second quarter of 2018. In the second quarter of 2019, we recorded a benefit in U.S. RMBS and an increase in U.S. public finance reserves - mainly on certain Puerto Rico exposures.

As a reminder, loss expense reported in income in any given period differs from economic loss development due to the consideration of unearned premium reserve in the calculation of loss and LAE under GAAP accounting rules as well as the inclusion of economic development related to financial guaranty VIEs in economic development.

Economic loss development was a benefit of $37 million in the second quarter of 2019, principally consisting of a $118 million benefit on U.S. RMBS, and increased losses on U.S. public finance exposures, primarily Puerto Rico. The economic benefit in the first lien RMBS of $19 million was primarily attributable to higher excess spread while the economic benefit in second lien RMBS was $99 million mainly driven by higher projected recoveries for previously charged-off loans, improved performance, and loss mitigation efforts. The effect of changes in discount rates on economic development was a benefit of $1 million in the second quarter of 2019.

Net earned premiums were $112 million in the second quarter of 2019, compared with $136 million in the second quarter of 2018. As expected, after the passage of the 2017 Tax Act and consistent with the reduction in our insured portfolio that is subject to call, accelerations due to refundings and terminations have decreased to $20 million in the second quarter of 2019, compared with $39 million in the second quarter of 2018.

Net investment income was $110 million in second quarter of 2019 compared with $98 million in the second quarter of 2018. In the second quarter of 2019, an insured triple-X obligation in our loss mitigation investment portfolio was settled resulting in the acceleration of accretable net investment income.

The effective tax rate on operating income in second quarter of 2019 was 21%, versus 7% in second quarter of 2018. The effective tax rate fluctuates from period to period based on the proportion of income in different tax jurisdictions.

In terms of strategic initiatives, we have continued to repurchase shares in order to efficiently manage our capital. During the second quarter of 2019, we repurchased 2.5 million shares for $111 million, at an average price of $43.89 per share, bringing our cumulative repurchases since the beginning of 2013 and through the end of the second quarter to 99 million shares. This represents more than half of the shares that were outstanding at the start of the program. The cumulative effect of these repurchases was a benefit of approximately $16.86 per share in operating shareholders' equity, and approximately $29.33 in adjusted book value per share.

Since the end of the quarter, we have repurchased an additional 1.3 million shares at an average price of $43.59 for a total of approximately $58 million, bringing the current year-to-date share repurchases to approximately $248 million, or 5.7 million shares.

This week, the board authorized an additional $300 million of share repurchases, which brings our share repurchase authorization up to $450 million. We expect to achieve our goal of $500 million in share repurchases this year. We currently have approximately $235 million in cash and investments at the holding companies.

Looking to the future, the BlueMountain acquisition will diversify our earnings stream into fee-based revenues. In addition, we will transfer $500 million of insurance company funds into BlueMountain funds which we expect will enhance our investment returns.

I'll now turn the call over to Andrew.

Andrew Feldstein
Chief Executive Officer and Chief Investment Officer, BlueMountain

Thanks, Rob. And Dominic. Thank you for the opportunity to introduce BlueMountain to Assured Guaranty's stakeholders. Thank you for the confidence you've shown in BlueMountain, in our people, in our investment processes, and in our long-term prospects. Our companies reinforce and complement each other's strengths. It's exciting to think about the value that we can create together.

BlueMountain has been managing clients' assets for 16 years. We have assembled a superb, experienced team of investment and business professionals. Currently, we manage over $19 billion of assets and we operate in three general investment categories.

- We are especially prominent in CLOs. With $12 billion of CLO assets, we are the 16th largest CLO manager globally. We expect that to grow to $14 billion by mid next year.
- We manage a number of opportunities funds. These long-duration funds invest in corporate credit, asset-backed finance, infrastructure and healthcare.
- And we manage four relative value hedge funds.

Many companies were interested in acquiring or partnering with us. Assured Guaranty stood out as the one with the strategic vision that most aligned with our own. We were attracted by its strong commitment to building a successful alternative asset management platform, by its experience, judgment, and long track record in credit and, most importantly, because the firms are a great cultural fit. Our relationship goes as far back as 2005, when Assured Guaranty wrapped our very first CLO.

Asset management represents a valuable source of fee-based income for the company. It will diversify revenue sources and complement the risk premiums received from financial guaranty insurance policies. I'm also excited by the opportunity to enhance returns on Assured Guaranty's investment portfolios, always within an appropriate level of portfolio risk. We are acutely aware of the importance of protecting the financial strength of the company's insurance subsidiaries. I commit to give all my efforts and energies to add value for Assured Guaranty's shareholders, and I'm excited and proud to be aligned with shareholders through my own significant stake in the stock.

Now I'll turn the call over to the operator for the Q&A.

QUESTION & ANSWER SESSION

Operator
[Operator Instructions] And the first question will come from Bose George with KBW.

Bose George, *Keefe, Bruyette, & Woods*
Good morning. Congratulations on the BlueMountain transaction. I just wanted to ask, you noted it will be accretive in 2020. But can you just talk about how should we think about the accretion from that over time? What's – was there some sort of hurdle rate on the capital? Or just kind of the best way to think about it?

Dominic Frederico

Thanks, Bose. So as we look at the opportunity obviously, we have a range of outcomes for next year contingent on A) how fast we can implement the growth, and further investment strategy in the organization; and two, what we can achieve relative to the integration. We have a BlueMountain proposal, we have an Assured Guaranty proposal and on both cases – ours being the more conservative – it's accretive. And as we expect, we do anticipate growth going forward and a continued expansion of our management fee revenue and therefore, the accretion should only grow. Obviously, we look at this investment in light of other investments and opportunities that we have and believed that this was the best course of action relative to what could can do for the Assured company net bottom line and shareholders.

Bose George
And just in terms of the growth, could there be other acquisitions to bolt on to this? Or is it more organic when you think about them?

Dominic Frederico
Bose, as you know our history has been very acquisitive and we think there's going to be tremendous opportunity in both aspects of both organic growth as we launch new funds and provide additional support by our own invested balances and two, where we think there will be further opportunities to consolidate the industry.

Bose George
Great thanks, and actually one just on the portfolio. Given the tighter spreads in the market, can you just give us an update on when you think it - timing on portfolio stabilization - is there any change there?

Dominic Frederico
Portfolio stabilization in whose…?

Bose George
Just in terms of your guaranteed portfolio in terms of when that runoff kind of stabilizes?

Dominic Frederico
Okay, the total volume of new business. As we said, we actually are optimistic that we kind of bottom out at the end of this year and therefore next year we expect to see par over par growth and obviously further increases in our PVP production recorded. So we're quite expecting because of the severity of the runoff primarily due to accelerated refundings then now most of that is working through the company and remember, our acquisitions created a size of portfolio that was not representative of new business opportunities for a single company versus buying four and a half other companies. So that also had to kind of work its way through the system. So we're reasonably optimistic that 2020 will be year of growth.

Operator
And the next question comes from Geoffrey Dunn with Dowling & Partners.

Geoffrey Dunn, *Dowling & Partners*
Thank you, good morning. Rob, can you get a little bit more detailed in terms of the financing of the deal? You said it's going to be funded by loans out of the 3 subsidiaries, but how exactly is that going to work and ultimately be repaid?

Robert Bailenson
The loans as Dominic said are going to be funded out of AGC, AGM and MAC. There will be an appropriate interest rate associated with that. And then the fee income generated from BlueMountain will generate fee income up to the holding company, repay the debt, and there will be excess funds available after we pay – as we are paying that for note, we expect excess funds available at the holding company and our expectation is that note will be paid off within 10 years.

Dominic Frederico
The holding company he refers to is AGUS Holdings. So AGUS Holdings will make the purchase. It will borrow the funds from the 3 operating companies basically utilizing their trapped capital, so there's no real impact on dividend or dividend capacity, use that balance to buy the company, hold it in US Holdings so that US Holdings, which is going to be an unregulated entity will then receive the future cash flows.

Geoffrey Dunn
Okay, so really the holding company liquidity accretion is going to be the fee income net of the interest payment on the loan. At least in principle.

Robert Bailenson
That's correct.

Geoffrey Dunn
And with respect to the capital of the operating subsidiaries, there is no impact on the assessed surplus from the loan or anything like that is going to affect dividend capacity?

Robert Bailenson
These loans, no, we expect these loans to be admitted assets and we've structured it such that they will be.

Geoffrey Dunn
Okay, and then I know Dominic mentioned that the secondary par, but Rob, what was the secondary par and PVP in the quarter?

Robert Bailenson
Yes, I’ve got that for you. In the quarter, the secondary par was -- hold on, secondary PVP was $25 million and the secondary par was $327 million.

Geoffrey Dunn
Okay, and then lastly, just on the BlueMountain, can you elaborate a little bit more about how you can use their expertise in your insurance wrap business and how your expertise

can be extended into theirs? I want to understand a bit more about the expertise synergies of bringing the 2 operations together.

Dominic Frederico
Well, the synergies are more than just that. So number 1, the first thing is we believe we have a common credit culture. They have a proven track record of performance and so do we. And it touches some very common areas like healthcare, like CLOs, like structured finance. So there's a lot of duplication of that effort and I think there'll be a lot of information shared back and forth. Number 2, they are going to see opportunities in their shop that fit more into an insurance scenario and we'll see opportunities in our shop that fit more into an investment scenario, so I think there is feedback there. And number 3, and the most important thing as we went down this path of diversification of asset management, we believe we touch the same markets or the same customer base. Therefore, what was an Assured Guaranty relationship can become a BlueMountain relationship, what was a BlueMountain relationship can also become an Assured Guaranty relationship. We are predominantly domestic, say 75% which is a guess off of the top of my head, they're predominantly international, 75%. So there's synergies as well in terms of marketplace. So credit culture, commonality of the type of business we look at, them from an investment, us from a credit but both at the same basis is when you look at investment or credit, it's credit at the end of the day. And then as I said, and then we also have the commonality of operations as well in terms of what we can achieve relative to synergies.

Operator
And the next question comes from Giuliano Bologna from BTIG.

Giuliano Bologna, *BTIG*
Good morning and congratulations on the BlueMountain transaction. Just to do a little bit of a follow-up question. Do you intend to..?

Robert Bailenson
Giuliano, we are having trouble hearing you.

Giuliano Bologna
Do you intend to fund both the acquisition price and the working capital from loans or do you intend to separate that over time?

Robert Bailenson
The loans would be funded, the loans that are – there are – there will be loans that come out of the insurance company, but the investments will be admitted, will be assets from the insurance company.

Giuliano Bologna
That makes sense. And from a cost perspective, would that be around the same cost as the investment portfolio yield or potentially higher?

Robert Bailenson

Cost. What do you mean by cost?

Giuliano Bologna
The interest cost on the loans that you would be taking out from the operating subsidiary.

Robert Adam Bailenson
The interest cost on the loan will be a market rate interest cost based upon what an expected tenure would be.

Giuliano Bologna
That makes sense. And just touching on 1 item from the quarter, looks like your investment income jumped up in the quarter. Is there anything that ran through that that was one time?

Dominic Frederico
Yes.

Robert Bailenson
Yes, there was, as I said in my commentary, there was a one-time item with respect to our Triple-X transaction, which was commuted and settled, and we owned it in our loss mitigation portfolio, and once that was settled, cash flow was released and the accretion of income was accelerated.

Operator
And the next question comes from Christian Littlejohn with MarbleRidge Capital.

Christian Littlejohn, *MarbleRidge Capital*
Just curious, Dominic, how do you think about your appetite to participate in the most recent deal proposed in Puerto Rico to deal with the GO and PBA debt?

Dominic Frederico
The deal that was proposed by the control board?

Christian Littlejohn
Yeah, correct.

Dominic Frederico
Yeah, we have no appetite. It doesn't respect rule of law, it doesn't respect constitutional priorities, doesn't respect our contractual obligations on behalf of the Commonwealth, we have no interest whatsoever.

Christian Littlejohn
Got it. Is it, if there were any negotiations ongoing? Or that's completely non-starter for you guys at this point?

Dominic Frederico

Well as you know the judge has now ruled that we have to go into a 4 month mandatory mediation. I believe the Judge obviously looked at the landscape and realized how far apart the given entities are and felt that if you try to move through with a plan, the amount of litigation that would ensue would basically tie it up. So therefore there would be no value to it. I think the judge did a very smart call here by saying it's time to get these legal principles closer, and for us closer means paying attention and actually adhering to the rule of law. So obviously we'll look forward to the mediation. We're more than happy to work collectively to get to a common resolution that we believe is fair and respects our rights and moves the Commonwealth forward to allow to start to take care of the necessary business it's facing.

Christian Littlejohn
Got it, that make sense. And just 1 more for me, Syncora is 1 of the obvious kind of current opportunities in the market. Does this BlueMountain deal take your ability to potentially participate in that process off the table?

Dominic Frederico
No, obviously, we look at the 2 shops kind of separately even though they come from a common pool. When we look at the opportunity to buy legacy monolines obviously, that's typically a net positive capital structure, we typically get the capital at a discount. Obviously, in BlueMountain's case, we actually put capital to work, which we need to do because we are very unlevered relative to the capital we have in the organization and the business opportunities we see strictly in the financial guaranty space. We gave you the excess capital number from S&P that, in spite of all of our efforts to manage it down, continues to increase. So we've got to work harder to put that capital to work.

Operator

And this ends the Q&A session. So I would like to turn the floor to Robert Tucker for any closing comments.

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
Thank you. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines.